

Internal Audit Directorate

“Providing professional, independent and objective assurance and consulting services.”

*Director of Internal Audit
Deputy Director of Internal Audit*



**The Scottish
Government**
Riaghaltas na h-Alba

Paper no: TSARC16-021
Meeting date: 31st August 2016
Agenda item: 2

Purpose

For Information and Comment

**Title: ANNUAL REPORT ON INTERNAL AUDIT ACTIVITIES
ACROSS TRANSPORT SCOTLAND 2015/16**

Key Messages:

- **Substantial assurance** given on risk management, control and governance arrangements
- **100% of programme completed**
- **100% of recommendations accepted**

Action Required: The Transport Scotland Audit and Risk Committee (TSARC) is invited to:

- note the report and offer comments.

Transport Scotland

Report on Internal Audit Directorate activities in 2015/16 including Annual Assurance

Introduction

1. Members are invited to note and comment on this report, which summarises Internal Audit Directorate (IAD) work relating to Transport Scotland (TS) in 2015/16 and provides an assurance relating to the Agency's risk management, control and governance arrangements during that period. The report will help form the basis of a general report on our work which will be considered, in due course, by the Scottish Government Audit and Risk Committee (SGARC).

Overall Opinion

2. Our work was undertaken in accordance with UK Public Sector Internal Audit Standards (PSIAS) and with the standards set out in the Scottish Public Finance Manual (SPFM). These standards task us to provide an annual internal audit opinion based on an objective assessment of the framework of governance, risk management and control.

3. Our framework for assessing assignment and overall assurance opinions is set out at **Annex 1**. Having carefully considered all of the evidence, we are able to provide **substantial assurance** for 2015/16, which means we assess TS's controls to be "robust and well managed".

Context and Rationale

4. In arriving at our opinion, we focused primarily on the results of five main internal audit reviews during 2015/16, their significance to the risk environment and their significance relative to each other. We also relied on the findings of our four follow-up reviews to confirm implementation of recommendations from previous audits. **Annex 2** provides a summary of the outcomes and findings of the main reviews, whilst **Annex 3** summarises the position regarding the four follow-up reviews

5. In addition to our direct work, we took account of other sources of evidence in arriving at our overall assurance opinion. Key amongst these were:

- the 2015/16 "reasonable" assurance regarding our reviews of key SG corporate systems, and its significance to TS (**Annex 4**);
- outcomes from other external assurance reviews, including Audit Scotland's reports, and management's approach to recommendations;
- approach to and participation in other forms of assurance e.g. Gateway Reviews;
- competency, skill set and general approach of the TSARC in conducting its corporate governance role;
- approach to prevention, detection and management of fraud;
- attitude and engagement of senior management in control and risk related issues (including engagement with ARC and related work).

Advisory Work

6. In the course of the year we undertook advisory work in respect of the Bus Service Operators Grant for demand response travel providing advice in respect of appropriate controls for grant payments.

Internal Fraud

7. Internal Audit Directorate is a permanent member of the SG Counter Fraud Group (CFG), whose primary purpose is to lead on the implementation of effective counter fraud policy across SG. The CFG also monitors relevant cases of suspected internal and external fraud that are reported to the SG Fraud Response Team (FRT) through formal reporting lines. We are therefore party to information regarding instances of reported fraud and we are sometimes commissioned to carry out work on the CFG's behalf. We are also a standing member of TS's Fraud Response Group, which did not require to be convened during 2015/16.

Audit Performance

8. Our own performance is subject to monitoring in various ways. At a strategic level, the ARC shapes the audit service through reviewing audit plans, strategies and reports. At an operational level, we formally oversee the audit effort through internal quality control processes, the application of specific performance targets and by evaluating the results of Customer Satisfaction Questionnaires issued to client areas. The standard of our work is subject to independent validation through an annual review by Audit Scotland. The 2015/16 review found that we had once again complied with the PSIAS in adopting a risk-based audit approach in planning and undertaking internal audit work. In addition, and in line with PSIAS requirements, an External Quality Assessment carried out in 2013/14 concluded that we were complying with PSIAS.

9. We completed 100% of TS's programme for 2015/16. In addition, to ensure that our recommendations are practical, we have a target of having 95% of these being accepted. For 2015/16, all our recommendations within TS were accepted. We met our standard of issuing draft reports within five weeks of completing fieldwork for all five reviews, although we are seeking to introduce a tighter standard going forward.

Conclusion

10. Members are invited to:
- **consider the report and its contents;**
 - **note the level of overall assurance; and**
 - **offer any comments.**

Senior Audit Manager
August 2016

DEFINITION OF ASSURANCE CATEGORIES AND RECOMMENDATION PRIORITIES

CATEGORIES OF ASSURANCE

Substantial Assurance	Risk, governance and control procedures are effective in supporting the delivery of any related objectives. Any exposure to potential weakness is low and the materiality of any consequent risk is negligible.
Reasonable Assurance	Some improvements are required to enhance the adequacy and effectiveness of procedures. There are weaknesses in the risk, governance and/or control procedures in place but not of a significant nature.
Limited Assurance	There are weaknesses in the current risk, governance and/or control procedures that either do, or could, affect the delivery of any related objectives. Exposure to the weaknesses identified is moderate and being mitigated.
Insufficient	There are significant weaknesses in the current risk, governance and/or control procedures, to the extent that the delivery of objectives is at risk. Exposure to the weaknesses identified is sizeable and requires urgent mitigating action.

RECOMMENDATION PRIORITY CATEGORIES

High	Serious risk exposure or weakness requiring urgent consideration
Medium	Moderate risk exposure or weakness with need to improve related controls
Low	Relatively minor or housekeeping issue

AUDIT PROGRAMME 2015/16

AUDIT AREA	OUTCOME
<p>Audit Title: Scottish Road Works Commissioner</p> <p>Responsible Director Scottish Road Works Commissioner</p> <p>Terms of Reference issued 17/12/2015 Fieldwork started 17/12/2015 Fieldwork ended: 09/03/2016 Draft Report issued: 10/03/2016 Final Report Issued: 17/03/2016 Planned days: 50 Outturn days: 51</p> <p>No. of Recommendations: 7 (4 medium, 3 low)</p>	<p>Assurance Level – Reasonable</p> <p>We found that good progress had been made with the implementation of a Governance Framework which demonstrates clear linkages between SRWC Corporate documents and National Indicators. We were also impressed with the positive approach of SRWC staff to their work in light of a recent number of significant organisational changes. Recommendations made include the regular publication of the results of the OSRWC quarterly review of progress against targets within the OSRWC website, the development and implementation of written financial policy and procedures for the OSRWC and the appropriate testing of the Scottish Road Works Register in order to provide an assurance on its resilience.</p>

AUDIT PROGRAMME 2015/16

AUDIT AREA	OUTCOME
<p>Audit Title: Project Bank Accounts</p> <p>Terms of Reference issued 14/04/2015 Fieldwork started 20/04/2015 Fieldwork ended 21/03/2016 Draft Report issued 31/03/2016 Final Report Issued 05/04/2016 Planned days 40 Outturn days 34</p> <p>No. of Recommendations – 2 (1 medium, 1 Low)</p>	<p>Assurance Level – Substantial</p> <p>In general, controls were found to be good, with our recommendations being intended to strengthen the existing controls. In particular, we were impressed with the early engagement of legal colleagues for the establishment of the Project Bank Account which became protracted due to the pilot nature of the bank account and also with the implementation of clear and effective payment controls for bank account project. Recommendations focus upon an effective evaluation of the project to ensure that the views of the key stakeholders of the PBA are obtained in order to provide a more complete evaluation of the project</p>
<p>Audit Title: Accounts Payable and Accounts Receivable</p> <p>Terms of Reference issued: 01/10/2015 Fieldwork start: 20/10/2015 Fieldwork ended: 24/03/2016 Draft Report issued: 31/03/2016 Final Report Issued: 06/04/2016 Planned days: 40 Outturn days: 39</p> <p>No. of Recommendations – 2 (2 low)</p>	<p>Assurance Level – Substantial</p> <p>We found that there are knowledgeable and experienced staff within the TS Finance function contributing to a sound Accounts Payable control environment through the active policing and challenge over an annual throughput of some 10,000 invoices and a value of approximately £1,500,000m. There are no design weaknesses in the Accounts Payable function with only minor low level non-compliance issues being identified. Recommendations focus upon clarifying roles and responsibilities within the Accounts Payable user manual and consideration of a separation of duties in future between invoice request and credit control, wherever possible.</p>

AUDIT PROGRAMME 2015/16

<p>Audit Title: Clyde and Hebrides Ferry Services (CHFS) Contract Procurement</p> <p>Terms of Reference issued: 09/03/2016 Fieldwork start: 21/03/2016 Fieldwork ended: 08/06/2016 Draft Report issued: 10/06/2016 Final Report Issued: 30/06/2016 Planned days: 50 Outturn days: 49</p> <p>No. of Recommendations – 4 (1 medium, 3 low)</p>	<p>Assurance Level – Substantial</p> <p>We found that: an effective project governance structure had been implemented for the procurement of the CHFS contract. Risk Management processes were also found to be robust and reliable with project-led enhancements introduced which helped the focus of risk management for the procurement. Recommendations focus upon the completion of a lessons learned exercise for the procurement and the progression of benefits realisation. There are also minor recommendations in respect of improving the content of project highlight reports, the updating of the full business case and documenting whether there are any staff conflicts of interest.</p>
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AUDIT PROGRAMME 2015/16

<p>Audit Title: Management and Operation of PFI-PPP Projects</p> <p>Terms of Reference issued: 19/05/2016 Fieldwork start: 19/05/2016 Fieldwork ended: 25/07/2016 Draft Report issued: 10/08/2016 Final Report Issued: 15/08/2016 Planned days: 50 Outturn days: 49</p> <p>No. of Recommendations – 4 (2 medium, 2 low)</p>	<p>Assurance Level – Substantial</p> <p>We found that there are effective governance and monitoring arrangements regarding the M80 project, with roles and responsibilities clearly defined. There are also effective working relationships with the company who provide contract specific performance and financial assurance services for the project and there was also a good understanding of costs and variations within the project team. Recommendations focus upon the issuing of guidance in respect of the retention of project handover documentation and also for a review of the sharing of data and the requirements of the Data Protection Act 1998. There are also minor recommendations in respect of introducing a standing agenda item for risk management at the monthly Operations and Management meetings and also for the consideration of reconvening the DBFO contractor forums.</p>
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**MONITORING IMPLEMENTATION OF AGREED HIGH/MEDIUM RECOMMENDATIONS
FOLLOW-UP WORK COMPLETED IN 2015/2016**

Audit Title	High/Medium Recommendations					Comments
	Total No.	No. Superseded	No. Implemented	No. Partially Implemented	No. Not Implemented	
Concessionary Travel and Integrated Ticketing	2	0	0	2	0	Both of the partially implemented recommendations are of a longer term nature and require the engagement of a number of external stakeholders. At the time of follow up (July 2016), good progress has been made in gaining bus operators' agreement for implementation of appropriate ticketing machines with sufficient capacity to accommodate the increasing number of hotlisted cards. Also, progress has been made with the procurement of a TABO replacement whilst in the meantime improved hardware/server for the existing system has been put in place to address system performance.
Air Services	2	0	2	0	0	
Land Acquisition and Disposal	1	0	1	0	0	
Sustainable and Active Travel	2	0	2	0	0	
TOTAL	7	0	5	2	0	
%	100	0	71	29	0	

Annex 4

Internal Audit Directorate

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INTERNAL AUDIT ASSURANCE ON KEY CORPORATE SYSTEMS: 2015/16

Overall, we can provide **Reasonable Assurance** on the arrangements for risk management, control and governance over the Scottish Government's Corporate Systems.

1. This assurance is based primarily on the results of the work carried out on the main reviews and our programme of follow up activities listed in the tables below. The assurance is also shaped from our involvement in an advisory capacity across corporate systems and on our wider awareness of the current risk management and internal control environment.

SG CORPORATE AREAS REVIEWED IN 2015/16:

Main Audit Review
DG Finance: SPCD: Advisory on Procurement Reform Programme
DG Finance: SPCD: National Contracts Processes (Draft Report)
DG Finance: Financial Services Division: SEAS Transaction Testing (Draft Report)
DG Finance: Financial Services Division: Payments from Revenue Scotland to the SG
DG Strategy and External Affairs: HR Shared Services: Pension Arrangements
DG Strategy and External Affairs: People Directorate: HR Shared Services: Payroll
DG Strategy and External Affairs: People Directorate: FS Environmental Management: Carbon Reduction Commitment Review
Follow Up Reviews
DG Communities: ISIS: ICT Assurance Framework
DG Finance: Financial Services Division: Trade Receivables (In Progress)

DG Finance: SPCD: Government Procurement Card (In Progress)
DG Strategy and External Affairs: People Directorate: HR Shared Services: E HR
DG Finance and DG Strategy: Cabinet and Corporate Governance and Risk

2. Where relevant we make use of third party assurances in order to gauge a wider opinion across corporate areas.

Finance, Communities and Strategy

Internal Audit Directorate

Scottish Government

24 May 2016