

# Strathclyde Partnership for Transport

Independent Examination of Internal  
Audit

February 2017





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## **About this report**

This report has been prepared in accordance with Terms of our Engagement Letter with you dated 7 October 2016. We undertake our assessment in accordance with the terms of this engagement to undertake an independent examination of the self-assessment performed by the Strathclyde Partnership for Transport Audit and Assurance Manager in line with the Public Sector Internal Audit Standards (PSIAS).

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In October 2016, Strathclyde Partnership for Transport (SPT) commissioned EY to undertake an independent examination of SPT's self-assessment of the Internal Audit function against the Public Sector Internal Audit Standards (PSIAS).

This report summarises the findings from our review. It provides details of the self-assessment performed; our independent examination and corroboration of management's self-assessment; and identifies areas of recommended good practice.

Our independent examination found that Managements' self-assessment was complete and accurate. We did not identify any areas of non-conformance with the PSIAS. We identified areas of good practice including: risk based audit planning and segregated consultancy activities to support Management, reflecting the evolving role of internal audit.

## Background

Strathclyde Partnership for Transport is the largest of Scotland's seven regional transport partnerships covering 12 council areas across the west of Scotland. SPT provides a range of services including the operation of the Subway in Glasgow, as well as providing specialist bus services including subsidised services and transportation ticketing services. This is delivered through a net revenue budget of over £38 million funded through local authority partners and Scottish Government grants.

'A Catalyst for Change', the Regional Transport Strategy for the west of Scotland 2008 – 2021 sets out SPT's vision and high-level strategy for improving transport across the west of Scotland. SPT has a range of initiatives in-flight, including subway modernisation activity, integrated ticketing and projects covering improving service delivery, connectivity and performance. In addition to strategic and operational changes, SPT like many organisations, faces an evolving risk landscape with new and emerging risks such as cybercrime, environmental and economical changes with potential impacts on the business.

Internal Audit play a key role in supporting management in effectively managing these risks. They also support in the delivery of the strategic objectives through providing an independent and objective evaluation of the effectiveness of risk management, control and governance processes. This work is undertaken in accordance with the Public Sector Internal Audit Standards.

The PSIAS requires an independent external assessment of the Internal Audit function to be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. SPT's Audit and Assurance Manager has undertaken a self-assessment against the PSIAS. We have undertaken an independent examination of this assessment.

## Scope of our independent examination

The purpose of our assessment was to provide an independent examination of the self-assessment performed by the Audit and Assurance Manager in accordance with the PSIAS. This included:

Self-assessment examination	Examining the self-assessment for completeness and accuracy and that an action plan is in place to address any areas of non-conformance.
Evaluating the scope, independence and performance of the Internal Audit function	Obtaining and scrutinising supporting evidence to substantiate conclusions reached by management through testing a sample of responses against PSIAS requirements.
Validating managements conclusions	Through engagement with SPT management and key stakeholders obtaining an understanding of their view of the scope, independence, quality, proficiency and performance to confirm consistency with self-assessment conclusions.

Our corroboration considered the requirements of the PSIAS, as well as relevant guidance and best practice from the Institute of Internal Auditors (IIA). We overlay this through consideration of good internal audit practice across the key audit themes, such as: skills and resources; audit planning and performance; communication and stakeholder management.

# **1. Public Sector Internal Audit Standards**

The PSIAS were adopted from 1 April 2013 by the Relevant Internal Audit Standard Setters<sup>1</sup>. The PSIAS encompass the mandatory elements of the Institute of Internal Auditors International Professional Practices Framework (IPPF) and define the nature of internal auditing within the UK public sector and the principles and framework for performing internal audit services. This includes establishing the basis for the evaluation of internal audit performance and driving improvement planning.

## The purpose and role of the PSIAS

Internal audit plays a vital role in supporting management's governance and internal control arrangements by providing independent and objective assurance, advice and insight. The PSIAS apply to all public sector internal audit service providers. The standards:

- define the nature of internal auditing within the UK public sector;
- set basic principles for carrying out internal audit in the UK public sector;
- establish a framework for providing internal audit services, which add value to the organisation, leading to improved organisational processes and operations; and
- establish the basis for the evaluation of internal audit performance and to drive improvement planning.

Chief audit executives are expected to report conformance on the PSIAS in their annual report. SPT's Audit and Assurance Manager undertakes an annual self-assessment against the standards to confirm conformance. The latest self-assessment was presented to the Audit & Standards Committee in November 2016 and has been subject to our review.

## Context for SPT

With increasing demands placed on public services, as well as budget constraints, public bodies face significant challenges in providing efficient and effective services to the public. This requires innovative ways of providing services, while continuing to ensure robust internal control and governance arrangements. Likewise, public bodies face new and emerging risks and threats including cybercrime, data loss and fraud.

The role of internal audit within public bodies needs to respond to these changing demands and ways of working. Internal audit plays a key role in providing independent assurance around the adequacy and effectiveness of internal control and governance arrangements. They increasingly need to apply their assurance skills to a wide range of 'big picture' questions that help the public and policymakers determine whether taxpayers' money is being wisely and prudently used.

Within SPT the delivery of 'a catalyst for change' includes changes to front line customer services, technological developments, and enhancements to back office processes. This all requires a robust Internal Audit function to provide management and those charged with governance with assurance that internal controls and governance arrangements are fit for purpose in an evolving operational landscape.

## Areas covered by the PSIAS

The PSIAS covers the following areas: definition of internal audit, code of ethics and performance standards. These focus on not only the role and position of internal audit within an organisation but the approach and methodology applied to internal audit. These are considered in more detail within Section 2 of this report.

1: The Relevant Internal Audit Standard Setters are: HM Treasury in respect of central government; the Scottish Government, the Department of Finance and Personnel Northern Ireland and the Welsh Government in respect of central government and the health sector in their administrations; the Department of Health in respect of the health sector in England (excluding Foundation Trusts); and the Chartered Institute of Public Finance and Accountancy in respect of local government across the UK.

## **2. Independent examination of SPT self-assessment**

# 2. Independent examination of SPT self-assessment



In accordance with the PSIAS, SPT's Audit and Assurance Manager undertakes an annual self-assessment to ensure conformance with the standards.

Management did not identify any specific areas of non-conformance with the PSIAS, but have identified three areas for improvement. These have been included within management's Quality Assurance and Improvement Plan for 2016/17 and are detailed in Appendix A.

Our examination of the self-assessment, including sample testing of management's evaluation did not identify any areas of non-conformance. We found that the checklist was complete and accurate and substantiated with appropriate collaborating evidence to demonstrate compliance with the PSIAS.

### SPT self-assessment

SPT's Audit and Assurance Manager undertook a self-assessment of the Internal Audit function against the PSIAS in October 2016. This was presented to the Audit & Standards Committee in November 2016. While management did not identify any areas of non-conformance, three areas were identified during the review process where Internal Audit arrangements could be improved. These have been included in management's Quality Assurance and Improvement Plan (Appendix A).

### Independent Examination of the PSIAS

We have examined SPT's self-assessment and confirmed that it is complete and that an action plan is in place to address the areas of improvement identified by management. We have obtained supporting evidence to corroborate conclusions reached by management through testing a sample of responses against PSIAS requirements. We have also further validated these responses from review of Audit & Standards Committee papers and discussions with management.

Below we summarise the findings from the work performed by management, as well as our independent examination of the self-assessment. Our testing included sample testing across all the core areas identified in the PSIAS checklist to validate that management's response was complete and accurate.

Standard	SPT self-assessment confirmed conformance	EY independent examination confirmed no areas of non-conformance
Definition of internal auditing	✓	✓
Code of Ethics	✓	✓
Code of Ethics: Purpose, authority and Responsibility	✓	✓
Code of Ethics: Independence and objectivity	✓	✓
Code of Ethics: Proficiency and due professional care	✓	✓
Code of Ethics: Quality Assurance and improvement programme	✓	✓
Performance Standards: Managing the Internal audit activity	✓	✓
Performance Standards: Nature of work	✓	✓
Performance Standards: Engagement Planning	✓	✓
Performance Standards: Performing the engagement	✓	✓
Performance Standards: Communicating results	✓	✓
Performance Standards: Monitoring progress	✓	✓
Performance Standards: Communicating the acceptance of risks	✓	✓



### **3. Validating management's conclusions and adding value**

# 3. Validating managements conclusions and adding value



In order to further support our independent testing of the PSIAS and further corroborate the conclusions reached by management, we conducted a series of interviews with officers and members. This developed our understanding of the role and standing of Internal Audit and the extent to which it provides valued independent assurance.

This assessment included consideration of observed good practice from Internal Audit functions from both across the public and private sector in the context of SPT. While not necessarily indicative of non-conformance of PSIAS, we have provided suggested areas for further developing the function.

## **Corroborating management's conclusions**

As part of the scope of our review we met with senior members of the management team and members, including the chief executive, and the chair of the Audit & Standards Committee. We also attended the November Audit & Standards Committee to observe the interaction between Internal Audit and the committee.

We are satisfied from the work performed that the conclusions reached by management through the self-assessment are appropriate. We did not identify any further areas of non-compliance. Our discussions indicate that Internal Audit is highly regarded and valued function within SPT. This is evident through the scope of the function not only providing senior management and those charged with governance with core assurance activity over the internal control environment, but also the additional consultancy based services provided.

## **Adding value through sharing good practice**

During the course of our review we identified areas of good practice including: a risk based audit planning approach with flexibility to support changing business needs; a visible and clearly valued Internal Audit function; and a clearly defined processes over consultancy activity, reflecting the continuously evolving role of internal audit within an organisation. We have identified areas of potentially enhancing and developing the Internal Audit function. These do not represent areas of non-compliance with PSIAS but provide opportunities for further enhancement.

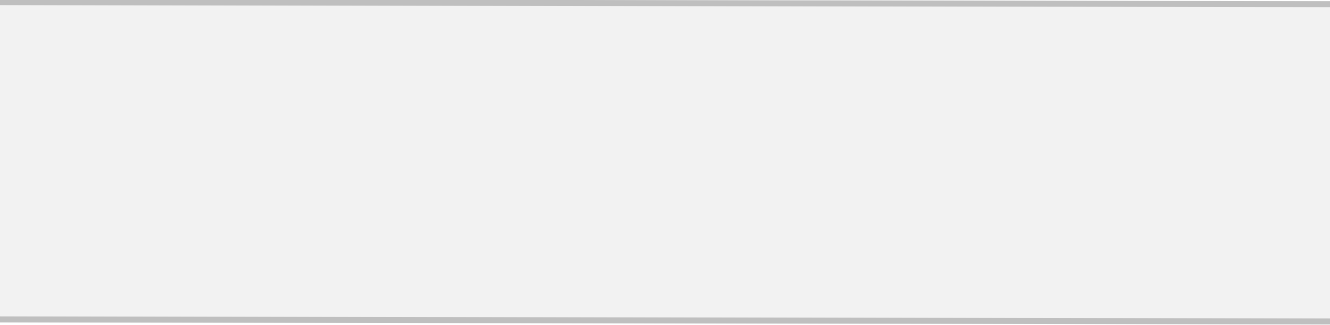
## **Skills, experience and expertise**

The scope of internal auditing within an organisation is broad covering governance, risk management and management controls. This includes the efficiency/effectiveness of operations (including safeguarding of assets), the reliability of financial and management reporting, and compliance with applicable laws and regulation. With technological advances, as well as an evolving operating environment, audit functions are required to possess a broad set of skills and specialisms to ensure a quality audit service and insights that management and members value. The Internal Audit plan demonstrates this with the diverse areas covered including: contracts; IT controls (including change and back-up); health and safety; and regularity audits. Given the evolving challenges and opportunities for internal audit, it is important that the function has access to a diverse range of skills and experience.

SPT's Internal Audit team is comprised of three experienced internal audit professionals. A continued professional development and training programme is in place and the team regularly attend training events to ensure they continue to have the skills and competencies required for the role. However, given the ongoing changes through delivery of SPT's strategy, and the increasingly challenging and complex risk environment, we recommend that SPT consider accessing specialist support. This will allow the Internal Audit function to continue to provide high quality challenge and insight to the business in often technically complex areas. Areas for consideration include:

- accessing specialist resources from other organisations;
- seconding internal specialists to support audit engagements, managing threat of self review;
- engaging external specialists to support or conduct technical areas of audit engagements; and
- specialist training in areas such as IT audit, cybersecurity, change and operational resilience.

# 3. Validating managements conclusions and adding value (continued)



## ***Internal Audit assurance feeding into residual corporate risk assessment***

Internal Audit has a risk based audit approach with the audit plan and areas of focus closely aligned to the risk register. From discussions with management and from observation at the November 2016 Audit & Standards Committee, we observed that assurance was gained from the work performed by Internal Audit over key areas of risk. We noted, however, that this did not necessarily directly feed into the residual risk assessment. This was also confirmed through discussion with management.

While we understand that areas of review often focus on specific elements of a corporate risk and therefore any assurance provided by Internal Audit's work would need to be cognisant of the potential wider risks, there is scope for enhancing the assessment of residual risk to ensure that there is a clear alignment between Internal Audit's conclusions and the overall residual risk assessment.

## ***Enhancing internal audit activity through the use of data analytics***

The Audit and Assurance Manager has recognised the opportunity for enhancing Internal Audit's planning processes through greater use of data analytics. This is contained within the Quality Assurance Improvement Plan (Appendix A). From discussions with management, we understand that data analytics are used in areas such as the National Fraud Initiative work, as well as on specific reviews. However, this is primarily review specific and gathered and assessed as part of planning or undertaking a specific review.

Data analytics can be a powerful tool not only to inform the scope of individual assignments, but to also support wider audit planning by identifying potential trends or anomalies that may merit audit focus. For example, areas of underperformance, inefficiency or potential areas where the analysis is inconsistent with expectation and may merit an independent review.

We recommend that management continue to develop and enhance incorporating data analytics into individual assignment planning and delivery as well as overall audit planning activity. This can utilise existing data analysis used across the business as long as the Internal Audit function has sufficient assurance over the integrity of the data.

# Appendices

# A. Self-assessment summary



The Audit and Assurance Manager's self-assessment against the PSIAS identified three areas where there is scope for improving the Internal Audit function's processes or procedures. These are not considered as areas of non-conformance with the standards. We support this conclusion.

The identified areas for improvement are detailed below. These are included within the Quality Assurance and Improvement Plan 2016/17.

PSIAS Reference	Area for improvement identified by Management	Action / Timescales
<p><b>1210 Proficiency:</b></p> <ul style="list-style-type: none"> <li>▶ Does the internal audit activity collectively possess or obtain the skills, knowledge and other competencies required to perform its responsibilities?</li> <li>▶ Where the internal audit activity does not possess the skills, knowledge and other competencies required to perform its responsibilities; does the CAE obtain competent advice and assistance?</li> </ul> <p><b>1230 Continuing Professional Development:</b></p> <ul style="list-style-type: none"> <li>▶ Do internal auditors undertake a programme of continuing professional development</li> </ul>	<ul style="list-style-type: none"> <li>▶ Skills, knowledge and continuous professional development of Audit and Assurance Team</li> </ul>	<ul style="list-style-type: none"> <li>▶ Implementing training plan for 2016/17. (ongoing)</li> <li>▶ Continue to identify areas to enhance service delivery (March 2017)</li> </ul>
<p><b>2010: Planning:</b></p> <ul style="list-style-type: none"> <li>▶ In developing the risk-based plan, has the CAE also considered the following:               <ol style="list-style-type: none"> <li>a) Any declarations of interest (for the avoidance for conflicts of interest)?</li> <li>b) The requirement to use specialists, e.g. IT or contract and procurement auditors</li> <li>c) Allowing contingency time to undertake ad hoc reviews or fraud investigations as necessary?</li> <li>d) The time required to carry out the audit planning process effectively as well as regular reporting to and attendance of the board, the development of the annual report and the CAE opinion?</li> </ol> </li> </ul>	<ul style="list-style-type: none"> <li>▶ Review and where appropriate enhance current data analytics arrangements</li> </ul>	<ul style="list-style-type: none"> <li>▶ Data analytics currently used (e.g. NFI, system reports etc) (ongoing)</li> <li>▶ Review cost/benefit of additional IT software and option appraisal (March 2017)</li> </ul>
<p><b>2330: Documenting information:</b></p> <ul style="list-style-type: none"> <li>▶ Are the retention requirements for engagement records consistent with the organisation's own guidelines as well as any relevant regulatory or other requirements?</li> </ul>	<ul style="list-style-type: none"> <li>▶ In accordance with SPTs transition to paperless offices, review the retention of file/records.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Continue to review engagement files in line with SPT policy (March 2017)</li> </ul>

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