



Strathclyde Partnership for Transport and Strathclyde Concessionary Travel Scheme Joint Committee

Interim audit report

For the year ended 31 March 2017

March 2017

Contents

- Introduction..... 1
- Summary of findings..... 3
- Action Plan..... 5

1

Introduction

Introduction

1. Our External Audit Plan 2016/17 summarises the work we will carry out as part of our 2016/17 external audit of Strathclyde Partnership for Transport (“SPT”) and Strathclyde Concessionary Travel Scheme Joint Committee (“SCTSJC”). The core elements of our work include:
 - an audit of 2016/17 financial statements and related matters;
 - an interim audit, taking into consideration the work of internal audit, on key financial systems;
 - a review of the arrangements as they relate to the following four dimensions of wider-scope public audit; governance and transparency, financial management, financial sustainability, and value for money; and
 - any other work requested by Audit Scotland, for example, local performance audit work.
2. This report concludes our 2016/17 interim audit and summarises the results of our review of the key financial systems.
3. The report has been discussed and agreed with the Director of Finance and HR.
4. While this report is addressed to SPT and SCTSJC, it will be published on Audit Scotland’s website www.audit-scotland.gov.uk.

Reporting to those charged with governance

5. International Standard on Auditing (UK and Ireland) (ISA) 260 (Communication of audit matters with those charged with governance) requires the auditor to make those charged with governance or management aware, as soon as practicable, and at an appropriate level of responsibility, of material weaknesses in the design or implementation of internal financial controls which have come to the auditor's attention.
6. A material weakness in an internal financial control is a deficiency in design or operation which could adversely affect the entity's ability to record, process, summarise and report financial and other relevant data so as to result

in a material misstatement in the financial statements.

7. The results of our audit of the internal financial control framework at SPT and SCTSJC are included in management reports submitted following our audit visits and should therefore be seen as meeting the requirements of ISA 260.

Conclusion

8. Our audit work did not identify any significant deficiencies in the adequacy or design of internal financial controls over the key financial systems. We consider these systems to be well designed; however we did identify a number of areas with scope for improvement which, if addressed, would further strengthen internal financial controls.
9. We have performed our audit in accordance with International Standards on Auditing (UK and Ireland) (ISAs).
10. We would like to thank all members of SPT’s management and staff who have been involved in our work for their co-operation and assistance during our interim audit visit.



2

Summary of findings

Summary of findings

Review of key financial systems

11. Auditors are required to carry out the audit of financial statements in accordance with ISAs. To comply with the requirements of the ISAs we consider an organisation's key financial systems and internal financial controls and determine whether these are adequate to prevent material misstatements in the financial statements.
12. During our interim audit we have reviewed SPT and SCTSJC's key financial systems and tested a sample of internal financial controls to establish whether they provide adequate assurance to support the preparation of the financial statements. Our IT auditors reviewed the security and robustness of key IT systems.
13. We are pleased to report that our audit work did not identify any significant deficiencies in the adequacy or design of internal financial controls over the key financial systems. We did however identify a number of areas with scope for improvement which, if addressed, would further strengthen the internal financial control regime. Any areas of weakness, or where performance could improve, are detailed in our action plan at the end of this report along with recommendations to address these weaknesses.
16. We have also considered SPT's self-evaluation arrangements as they relate to the wider scope audit areas; financial management; financial sustainability; governance and transparency; and value for money. We have not identified any further risks at this stage other than those identified within our External Audit Plan. We will however review and update our assessment if we identify any issues during our audit.

Action Plan Points 1-3

Preparatory final accounts audit work

14. During our interim audit we undertook preparatory work for our final accounts audit. This included the following audit work:
 - Ledger opening balances testing;
 - Review of Transport (Scotland) 2005 Act under which SPT was established;
 - Review of the Partnership and committee minutes; and
 - Review of internal audit reports.
15. We identified no issues from this work. We will complete our testing on these areas as part of our final audit and will report our findings from this work within our Annual Report on the audit.

3

Action plan

Action Plan

17. Our action plan details the key weaknesses and opportunities for improvement that we have identified during this review. To assist management in assessing the significance of the issues raised and prioritising the action required to address them, the recommendations have been rated. It should be noted that the weaknesses identified in this report are only those which have come to our attention during the course of our normal audit work. The audit cannot be expected to detect all errors, weaknesses or opportunities for improvements in management arrangements which may exist.

Grade	Definition
5	Very high risk exposure - Major concerns requiring immediate attention
4	High risk exposure - Absence / failure of significant key controls
3	Moderate risk exposure - Not all key control procedures are working effectively
2	Limited risk exposure - Minor control procedures are not in place / not working effectively
1	Efficiency / housekeeping point

Title	Issue identified & Recommendation	Management Comments
<p data-bbox="185 309 341 405">1. Finance policies and procedures</p> <p data-bbox="185 454 341 521">Risk scoring (para 17)</p> <p data-bbox="185 589 292 618">Grade: 2</p>	<p data-bbox="367 297 552 327">Issue identified</p> <p data-bbox="367 349 930 461">Financial policies and procedures are in place and made available to officers. Our audit work identified that these are not subject to periodic regular review.</p> <p data-bbox="367 479 951 591">Clear policies and procedures are key to supporting business continuity and ensuring controls are implemented and processes are completed efficiently.</p> <p data-bbox="367 607 576 636">Recommendation</p> <p data-bbox="367 656 951 882">Finance policies and procedures should cover all SPT and SCTSJC activity and processes and highlight key controls to be implemented, in particular manual key controls. Procedures should also clearly allocate secondary responsibility of key tasks to additional officers to ensure business continuity.</p> <p data-bbox="367 900 930 1050">The policies and procedures should be subject to regular review to ensure completeness and remain relevant. The documents should be accessible to all officers and clearly state:</p> <ul data-bbox="419 1068 914 1218" style="list-style-type: none"> • who has responsibility for the documents; • when they were last updated; • when they are next due to for review; and • what version the procedures are. 	<p data-bbox="999 309 1406 936">Financial policies and procedures will now be subject to an annual review and the core documentation will be updated to include the information detailed within the recommendation. With regard to secondary responsibility of tasks, SPT takes a risk based approach and therefore it is not always appropriate to identify a specific person to cover tasks. Due to the size of the department if someone is absent for a prolonged period of time it may result in the reallocation of many tasks to ensure the tasks of the absentee are covered.</p> <p data-bbox="999 954 1238 983">Responsible Officer:</p> <p data-bbox="999 1003 1193 1032">Chief Accountant.</p> <p data-bbox="999 1050 1201 1079">Completion date:</p> <p data-bbox="999 1099 1129 1128">30/06/2017.</p>

Title	Issue identified & Recommendation	Management Comments
<p data-bbox="183 320 344 450">2. Approval of sales invoices >£10,000</p> <p data-bbox="183 510 344 584">Risk scoring (para 17)</p> <p data-bbox="183 645 344 674">Grade: 3</p>	<p data-bbox="367 297 550 327">Issue identified</p> <p data-bbox="367 349 965 539">Sales invoices which exceed £10,000 should be approved by an Accountant prior to the invoice being sent to the customer and posted to the nominal ledger. However, the TechnologyOne system does not enforce this control.</p> <p data-bbox="367 562 965 752">Our walkthrough identified a sales invoice (value £13,636) which had not been approved by an Accountant, indicating that this control is not operating effectively. Subsequently, there is a risk that higher value invoices are being raised and issued incorrectly.</p> <p data-bbox="367 768 576 797">Recommendation</p> <p data-bbox="367 819 965 1010">The TechnologyOne system should be updated to enforce the approval of all sales invoices over £10,000 by an Accountant, before the invoice can be posted to the nominal ledger and subsequently issued to customers.</p> <p data-bbox="367 1032 965 1133">Since the interim audit has ended, we understand that this recommendation has been actioned by management.</p>	<p data-bbox="997 309 1414 461">Workflow rules have been amended in the TechnologyOne system to enforce the approval of sales invoices over £10,000 by an Accountant.</p> <p data-bbox="997 477 1238 506">Responsible Officer:</p> <p data-bbox="997 528 1190 557">Chief Accountant.</p> <p data-bbox="997 573 1198 602">Completion date:</p> <p data-bbox="997 624 1110 654">Complete.</p>

Title	Issue identified & Recommendation	Management Comments
<p data-bbox="185 338 370 432">3. Access rights to TechnologyOne</p> <p data-bbox="185 512 336 577">Risk scoring (para 17)</p> <p data-bbox="185 647 288 674">Grade: 3</p>	<p data-bbox="397 311 576 338">Issue identified</p> <p data-bbox="397 360 979 589">There is no regular review of current user access rights to TechnologyOne to confirm these are appropriate and up-to-date. In addition, where changes have been requested, there is no secondary review to ensure these have been processed by the system administrator correctly and in a timely manner.</p> <p data-bbox="397 607 943 674">A review of current Technology One user accounts identified the following;</p> <ul data-bbox="453 696 987 1003" style="list-style-type: none"> <li data-bbox="453 696 987 801">• 22 user accounts had not logged in to TechnologyOne since July 2016; 17 of these had not logged in since August 2015; <li data-bbox="453 815 987 920">• User accounts were still active for three employees who left the organisation over two years ago; and <li data-bbox="453 934 987 1003">• Two user accounts that had never logged into the system. <p data-bbox="397 1014 987 1283">Our audit work also identified that all members of the finance team have access to view and amend the fixed asset register on TechnologyOne; however, only certain officers have responsibility for its maintenance. There is a risk of unauthorised, inappropriate or fraudulent activity through TechnologyOne with users acting outwith their current role.</p> <p data-bbox="397 1301 603 1328">Recommendation</p> <p data-bbox="397 1350 971 1579">Management should review user access rights to TechnologyOne at least annually to ensure access rights remain appropriate for their current role; evidence of the review should be retained and all inactive or inappropriate accounts should be disabled or modified.</p> <p data-bbox="397 1597 967 1702">To prevent unauthorised or inappropriate requests to change a user's access level, formal amendment forms should be implemented and retained.</p> <p data-bbox="397 1715 940 1823">Secondary checks should be performed to confirm accounts have been amended or disabled appropriately and in a timely manner.</p>	<p data-bbox="1013 311 1410 819">The user amendments process in TechnologyOne will be reviewed, documented and specific user amendment forms created. All additions / amendments to users within the system will be verified by an Accountant or above. An annual review of user access will be incorporated into SPT's year-end tasks. With regard to the fixed asset module access will be restricted to appropriate members of Finance staff only.</p> <p data-bbox="1013 837 1254 864">Responsible Officer:</p> <p data-bbox="1013 887 1206 913">Chief Accountant.</p> <p data-bbox="1013 931 1214 958">Completion date:</p> <p data-bbox="1013 981 1142 1008">30/06/2017.</p>



Scott-Moncrieff
business advisers and accountants