



Scott-Moncrieff  
business advisers and accountants

# Strathclyde Partnership for Transport and Strathclyde Concessionary Travel Scheme Joint Committee

Interim audit report

For the year ended 31 March 2018

January 2018

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**1**

# Introduction

# Introduction

1. This report concludes our 2017/18 interim audit and summarises the results of our review of the key financial systems.

## Scope of our interim audit

2. Auditors are required to carry out the audit of financial statements in accordance with International Standards on Auditing (UK) (ISAs (UK)). To comply with the requirements of the ISAs (UK) we consider the key accounting systems and internal financial controls and determine whether these are adequate to prevent material misstatements in the financial statements.
3. Our approach includes documenting the processes and key internal financial controls within the key financial systems and performing walkthrough testing to confirm our understanding of those systems.

## Reporting to those charged with governance

4. This report has been prepared to communicate the findings of our interim audit to those charged with governance. We have agreed with SPT that these communications will be through the Audit and Standards Committee.
5. Audited bodies are responsible for developing and implementing effective systems of internal control as well as financial, operational and compliance controls.
6. International Standards on Auditing (UK) (ISAs (UK)) require us to report promptly any material weaknesses in the design or operation of internal financial controls which have come to our attention.
7. A material weakness in internal control is a deficiency which could adversely affect SPT'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.
8. Any weaknesses or risks identified are only those that have come to our attention during our normal audit work, and may not be all that exist. Communication in this report of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve

SPT or SCTS of their responsibility to address the issues raised and to maintain an adequate system of control.

9. As required under the Code of Audit Practice, this report will be published on Audit Scotland's website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

## Adding value through the audit

10. All of our clients quite rightly demand of us a positive contribution to meeting their ever-changing business needs. Our aim is to add value to SPT and SCTS through our external audit work by being constructive and forward looking, by identifying areas of improvement and by recommending and encouraging good practice. In this way we aim to help SPT and SCTS promote improved standards of governance, better management and decision making and more effective use of resources.

## Feedback

11. We always welcome feedback on the quality of our audit work and associated outputs. Please access the following link to provide comments: <https://www.surveymonkey.co.uk/r/S2SPZBX>
12. We would like to thank management and staff who have been involved in our work for their co-operation and assistance during our audit visits.



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## Summary of findings

# Summary of findings

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 consider these systems to be well designed. However, we identified one area with scope for improvement which, if addressed, would further strengthen the system of internal financial control. Our findings and recommendations are included in section 3 (Action plan).

## Follow up of prior year audit recommendations

14. As part of our audit, we have followed up on the recommendations we raised in the prior year. Our findings are included in section 3 (Action plan).

## Preparatory final accounts audit work

15. During our interim audit we undertook preparatory work for our final accounts audit. This included the following audit work:
- Discussions with management;
  - Review of Partnership and Joint Committee members' registers of interests; and
  - Review of the Partnership and committee minutes.
16. We identified one issue regarding registers of interests. This issue has been detailed in the section 3 (Action plan).

### *Action Plan Point 1*

17. 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.

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# Action plan

# Action Plan

Our action plan details the key weaknesses and opportunities for improvement that we have identified during this review and an update on recommendations from the 2016/17 external audit. 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	Explanation
Grade 5	Very high risk exposure - Major concerns requiring immediate attention.
Grade 4	High risk exposure - Material observations requiring management attention.
Grade 3	Moderate risk exposure - Significant observations requiring management attention.
Grade 2	Limited risk exposure - Minor observations requiring management attention
Grade 1	Efficiency / housekeeping point.



Action plan point	Issue & Recommendation	Management Comments
<b>1. Register of interests</b>	<p><b>Issue identified</b></p> <p>Although these have been requested, registers are not in place for three Partnership members and two Joint Committee members, including the Chair of the Audit Committee. Hence those members are not complying with SPT's Code of Conduct.</p> <p>SPT and SCTS disclose within their annual accounts material transactions with related parties. These can be defined as bodies or individuals that have the potential to control or influence SPT or SCTS or to be controlled or influenced by SPT or SCTS.</p> <p>The register of interests is one way that SPT can identify its related parties.</p> <p>There is a risk, should the registers not be kept up to date, that SPT and SCTS do not identify and report all related party transactions in their annual accounts.</p> <p><b>Recommendation</b></p> <p>Members should be reminded of the importance of ensuring the register of interests is updated regularly and completely</p> <p>Outstanding registers of interest should be requested in a timely manner to inform the preparation of the annual governance statement and the related parties disclosure within the annual accounts.</p>	<p>Register of interest reminders are sent annually. In addition, upon the formation of the new Partnership in June 2017, all members were issued with the required form to be completed and returned. Reminders were also issued to members where a return was outstanding.</p> <p>Two further returns have been received since the matter was identified and the outstanding Partnership member has also been reminded</p> <p><b>Responsible officer:</b> Assistant Chief Executive (Business Support)</p> <p><b>Implementation date:</b> Immediate</p>
<b>Rating</b>		
<b>Grade 3</b>		

## Update on recommendations from our 2016/17 interim report

Action plan point	Issue & Recommendation	Management Comments	2017/18 update
<b>Finance policies and procedures</b>	<p><b>Issue identified</b></p> <p>Finance 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>Clear policies and procedures are key to supporting business continuity and ensuring controls are implemented and processes are completed efficiently.</p> <p><b>Recommendation</b></p> <p>Finance policies and procedures should cover all SPT and SCTS 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>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 style="list-style-type: none"> <li>• who has responsibility for the documents;</li> <li>• when they were last updated;</li> <li>• when they are next due to for review; and</li> <li>• what version the procedures are.</li> </ul>	<p>Finance 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><b>Responsible Officer:</b></p> <p>Chief Accountant.</p> <p><b>Completion date:</b></p> <p>30/06/2017.</p>	<p><b>External audit update</b></p> <p>We reviewed the finance policies and procedures covering income and expenditure processes, and confirmed that these have all been subject to review during 2017/18. A cover sheet has been added to clearly record the document owner and the date of last review. The Chief Accountant confirmed that these will now be reviewed annually as part of the year-end tasks.</p> <p>Policies and procedures now summarise the level of available cover within the team.</p>
<b>Rating</b>			
<b>Grade 2</b>			

Action plan point	Issue & Recommendation	Management Comments	2017/18 update
<p><b>Approval of sales invoices &gt;£10,000</b></p>	<p><b>Issue identified</b></p> <p>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>Workflow rules have been amended in the TechnologyOne system to enforce the approval of sales invoices over £10,000 by an Accountant.</p>	<p><b>External audit update</b></p> <p>Evidence was provided to confirm that workflow rules have been amended within TechnologyOne to enforce this control. Further testing will be performed during final audit to confirm this control is operating as expected.</p>
<p><b>Rating</b></p>			
<p><b>Grade 3</b></p>	<p>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><b>Responsible Officer:</b></p> <p>Chief Accountant.</p>	
	<p><b>Recommendation</b></p> <p>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>Since the interim audit has ended, we understand that this recommendation has been actioned by management.</p>	<p><b>Completion date:</b></p> <p>Complete.</p>	

Action plan point	Issue & Recommendation	Management Comments	2017/18 update
<b>Access rights to Technology One</b>	<p><b>Issue identified</b></p> <p>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>A review of current Technology One user accounts identified the following;</p> <ul style="list-style-type: none"> <li>• 22 user accounts had not logged in to TechnologyOne since July 2016; 17 of these had not logged in since August 2015;</li> <li>• User accounts were still active for three employees who left the organisation over two years ago; and</li> <li>• Two user accounts that had never logged into the system.</li> </ul> <p>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.</p> <p>There is a risk of unauthorised, inappropriate or fraudulent activity through TechnologyOne with users acting outwith their current role.</p> <p><b>Recommendation</b></p> <p>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>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><b>Responsible Officer:</b> Chief Accountant.</p> <p><b>Completion date:</b> 30/06/2017.</p>	<p><b>External audit update</b></p> <p>SPT performed a review of TechnologyOne users in November 2017 and approximately six users were removed as their access rights are no longer appropriate. An annual review of users will be performed as part of the year-end process.</p> <p>We confirmed that the user amendment process has been updated to include forms and secondary review of all changes within the system by an Accountant or above.</p> <p>SPT have confirmed with TechnologyOne that access right to the FAR have been restricted to read-only for the majority of Finance staff.</p> <p>Additional testing will be performed during final audit with regard to user access to the fixed asset register.</p>
<b>Rating</b>			
<b>Grade 3</b>			

Action plan point	Issue & Recommendation	Management Comments	2017/18 update
	<p>To prevent unauthorised or inappropriate requests to change a user's access level, formal amendment forms should be implemented and retained.</p> <p>Secondary checks should be performed to confirm accounts have been amended or disabled appropriately and in a timely manner.</p>		

## Update on recommendations from our 2016/17 annual audit report

Action plan point	Issue & Recommendation	Management Comments	2017/18 update
<b>Property, plant and equipment</b>	<p><b>Issue identified</b></p> <p>It is SPT's policy to fully depreciate capitalised internal staff costs in the year incurred (or whenever transferred out of assets under construction). In 2016/17, approximately £4.75 million was capitalised and fully depreciated in the same year. While we concluded that the capitalisation of these costs was in accordance with accounting standards, we would expect these to be aligned to the appropriate asset and depreciated over the life of the asset or component of the asset.</p> <p><b>Recommendation</b></p> <p>We understand management are reviewing this policy for 2017/18.</p>	<p>A review of capitalisation and associated balance sheet treatment of capitalised salaries and related costs is already underway with Scott-Moncrieff.</p> <p>Further discussion will take place prior to amending our practice if required.</p> <p><b>Responsible Officer:</b></p> <p>Chief Accountant.</p> <p><b>Completion date:</b></p> <p>30/11/2017.</p>	<p><b>External audit update</b></p> <p>The review of capitalised staff costs is now complete and the decision has been taken to amend the accounting policy regarding depreciation.</p> <p>The accounting policy will be updated as part of the year-end annual accounts process.</p> <p>We will perform a detailed review of depreciation charges and accounting policies as part of our audit of the annual accounts to assess whether this has been appropriately updated and implemented.</p>
<b>Rating</b>			
<b>Grade 3</b>			



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