

Item:

**6**



## **Report to Partnership Meeting of 12 November 2021**

### **FINANCE**

#### **Statement on Internal Control 2019/20 and 2020/21**

#### **SUMMARY**

This report includes an assessment of the adequacy, reliability and effectiveness of the Partnership's system of internal control and provides information for the Partnership's Governance Assurance Statement. This is contained within the Statement of Internal Control.

#### **1. Statement of Internal Control**

- 1.1 In order to comply with the requirements of the Public Sector Internal Audit Standards (the Standards), which came into effect from 1 April 2013 and apply to all internal audit service providers, a Statement on Internal Control must be produced. These Standards were developed in collaboration between the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Chartered Institute of Internal Auditors (CIIA). Section 2 of the attached report gives details relating to the Statement on Internal Control and the sources of information which inform the Statement.
- 1.2 On the basis of the work undertaken during the year, it is considered that the key systems operate in a sound manner and that there has been no fundamental breakdown in control resulting in material discrepancy. However, as no system of control can provide absolute assurance against material loss, nor can Internal Audit give that assurance, it is the audit opinion that reasonable assurance can be placed upon the adequacy and effectiveness of the Partnership's framework of governance, risk management and control for the years to 31 March 2020 and 31 March 2021.

#### **2. Recommendation**

- 2.1 Board Members are asked to note the content of the Statement of Internal Control and the audit opinion provided for both financial years, and to raise or comment on any relevant points.

**Report by:** Mike Mitchell  
**Designation:** Partnership Treasurer  
**Date:** 4<sup>th</sup> November 2021



## HITRANS

Internal Audit Annual Report 2019/20

## **1. INTRODUCTION**

- 1.1 The purpose of this report is to provide an annual Internal Audit opinion for the period 1<sup>st</sup> April 2019 to 31<sup>st</sup> March 2020, and a report that can be used by the Highlands and Islands Transport Partnership (HITRANS) to inform its Annual Governance Statement. HITRANS is the statutory regional transport partnership covering Comhairle nan Eilean Siar, Orkney, Highland, Moray and most of the Argyll and Bute area.
- 1.2 This report has been produced in accordance with the requirements of the Public Sector Internal Audit Standards (the Standards) which came into effect from 1<sup>st</sup> April 2013 and apply to all internal audit service providers. These Standards were developed in collaboration between the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Chartered Institute of Internal Auditors (CIIA).
- 1.3 Section 2450 of the Standards states that *“the annual Internal Audit opinion must conclude on the overall adequacy and effectiveness of the organisation’s framework of governance, risk management and control. In addition, the annual report must incorporate:*
- *The opinion;*
  - *The summary of work that supports that opinion; and*
  - *A statement on conformance with the Standards and the results of the quality assurance and improvement programme.”* As the Internal Audit service is provided by the Highland Council, this statement is provided within the Council’s annual report.

## **2. ANNUAL GOVERNANCE statement**

### **2.1 Internal Control**

Internal control is defined as *“the whole system of checks and controls, financial or otherwise, established by management in order to provide reasonable assurance”* regarding the achievement of one or more of the following objectives:

- The reliability and integrity of information.
- Compliance with policies, plans, procedures, laws, regulations and contracts.
- The safeguarding of assets.
- The economical and efficient use of resources.
- The accomplishment of established objectives and goals for operations or plans.

Any system of control can only provide reasonable, and not absolute assurance that control weaknesses or irregularities do not exist, or that there is no risk of material errors, losses, fraud or breaches of laws and regulations. Accordingly the partnership should seek continual improvement in the effectiveness of its systems of internal control.

It is the responsibility of senior management to establish an appropriate and sound system of internal control, and to monitor the continuing effectiveness of that system.

### **2.2 Internal Audit**

The Standards define internal auditing as *“an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes”*.

The work undertaken by the Internal Audit Section during the year to 31st March 2020 consisted of:

- A review of the adequacy and effectiveness of the systems of internal control for the financial year 2019/20.

- Review and certification of the EU project grant claims in respect of the Smart Peripheral and Remote Airports (SPARA) 2020.

### **2.3 Governance arrangements**

HITRANS recognises that good governance is essential to any public body and their arrangements are set out in their 2019/20 business plan. This details the various policies and procedures within the partnership including their Scheme of Delegation, Contract Standing Orders, Financial Regulations, through to their arrangements for interaction with stakeholders and HITRANS' powers and functions.

### **2.4 Risk Management**

A Risk Management Strategy, which sets out the aims and objectives of HITRANS and the management of its risks in the short to medium term, was approved by the HITRANS Board in November 2016. Annual updates on the Risk Register are provided to the Board with the most recent information provided on 15/11/19.

### **2.5 Assurance from the Partnership Director**

As part of the Annual Accounts process, the Partnership Director of HITRANS was asked to provide assurance that the following statements are valid:

- That Financial Monitoring Statements are regularly reviewed at management meetings.
- That Staff have been made aware of the Partnership's Financial Regulations and Contract Standing Orders.
- That Staff have been made aware of the Partnership's Code of Conduct, Information Systems Security, Fraud and Corruption and Whistle Blowing policies.
- That HITRANS has a robust Scheme of Delegation and that Staff have been informed of their supervisory and accountability responsibilities and that their responsibilities are documented in a Job Description.
- That Segregation of Duties is an important control mechanism operation within HITRANS and where it has not been possible to operate such a control a suitable alternative is in place.
- That appropriate targets have been established within HITRANS to measure financial and other performance.
- That a formal system of project management, including project governance operates within HITRANS.

This assurance was provided by the Partnership Director on 27/04/20.

### **2.6 Audit Opinion**

On the basis of the work undertaken during the year, it is considered that the key systems operate in a sound manner and that there has been no fundamental breakdown in control resulting in material discrepancy. However, as no system of control can provide absolute assurance against material loss, nor can Internal Audit give that assurance, it is the audit opinion that reasonable assurance can be placed upon the adequacy and effectiveness of HITRANS' framework of governance, risk management and control for the year to 31<sup>st</sup> March 2020.



## HITRANS

Internal Audit Annual Report 2020/21

## 1. INTRODUCTION

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The work undertaken by the Internal Audit Section during the year to 31<sup>st</sup> March 2021 consisted of:

- A review of the adequacy and effectiveness of the systems of internal control for the financial year 2020/21.
- Review of a random sample of financial transactions during the year to verify that that the expected controls had been complied with. This comprised of both income and expenditure transactions. The income transaction was received in full and promptly recorded in the ledger. For the expenditure transactions these were procured and paid correctly, with the correct information recorded in the financial ledger.

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- That a formal system of project management, including project governance operates within HITRANS.

This assurance was provided by the Partnership Director on 16/04/21.

#### **2.6 Audit Opinion**

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