

Item:

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Report to Partnership Meeting of 11 November 2022

FINANCE

Statement on Internal Control 2021/22

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 year to 31 March 2022.

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: Carolyn Moir
Designation: Partnership Treasurer
Date: 3rd November 2022



HITRANS

Internal Audit Annual Report 2021/22

1. INTRODUCTION

- 1.1 The purpose of this report is to provide an annual Internal Audit opinion for the period 1st April 2021 to 31st March 2022, 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 1st 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 (CIA).
- 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 2022 consisted of:

- A review of the adequacy and effectiveness of the systems of internal control for the financial year 2021/22.

- Review of a random sample of expenditure financial transactions during the year to verify that that the expected controls had been complied with. 1 transaction totalling £230,000 was a contribution to a project where the lead organisation was responsible for procurement. The other transaction was in respect of the purchase of electronic bikes and solar docks totalling £170,661. It was evidenced that there was only one supplier of these goods and so was exempt from competition under Contract Standing Orders. However, contrary to Financial Regulations, no official purchase order had been raised and there was no goods received record. Instead with payment was solely on the supplier's invoice. Both transactions had been properly accounted for within the financial ledger.
- An overview was also undertaken to ensure that the budgeted income had been received and is properly accounted for. No areas of concern were noted

Commented [DS(AaP1)]: Awaiting explanation as to why no PO raised – appears to be no valid reason for this unless notified otherwise.

2.3 Governance arrangements

HITRANS recognises that good governance is essential to any public body and their arrangements are set out in their 2021/22 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 12/11/21.

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 26/05/21.

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 31st March 2022.

