



**INFRASTRUCTURE, GOVERNMENT &  
HEALTHCARE**

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

Annual audit report to the  
members and the Controller of  
Audit

2006-07

30 October 2007

AUDIT



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#### **Notice: About this report**

This report has been prepared in accordance with the responsibilities set out within the Audit Scotland's *Code of Audit Practice* ('the Code'). It is for the benefit of only Strathclyde Partnership for Transport and Strathclyde Concessionary Travel Scheme Joint Committee and is made available to the Accounts Commission (together the beneficiaries), and has been released to the beneficiaries on the basis that wider disclosure is permitted for information purposes but that we have not taken account of the wider requirements or circumstances of anyone other than the beneficiaries.

Nothing in this report constitutes an opinion on a valuation or legal advice.

We have not verified the reliability or accuracy of any information obtained in the course of our work, other than in the limited circumstances set out in the introductory section of this report.

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#### **Complaints**

If at any time you would like to discuss with us how our services can be improved or if you have a complaint about them, you are invited to contact Grant Macrae, who is the engagement leader for our services to Strathclyde Partnership for Transport and Strathclyde Concessionary Travel Scheme Joint Committee, telephone 0131 527 6611, email grant.macrae@kpmg.co.uk who will try to resolve your complaint. If your problem is not resolved, you should contact Lorraine Bennett, our Head of Audit in Scotland, either by writing to her at Saltire Court, 20 Castle Terrace, Edinburgh, EH1 2EG or by telephoning 0131 222 2000 or email to lorraine.bennett@kpmg.co.uk. We will investigate any complaint promptly and do what we can to resolve the difficulties. After this, if you are still dissatisfied with how your complaint has been handled you can refer the matter to Russell Frith, Director of Audit Strategy, Audit Scotland, 110 George Street, Edinburgh, EH2 4LH.

# Executive summary

This report summarises our work for the 2006-07 year and our findings in relation to our audit of the accounts, corporate governance and performance management arrangements of Strathclyde Partnership for Transport ("the Partnership") and the Strathclyde Concessionary Travel Scheme Joint Committee ("SCTSJC")

## **Financial statements**

On 28 September we issued audit reports giving our unqualified opinion on the financial statements of the Partnership and SCTSJC for the year ended 31 March 2007. A number of matters were discussed and resolved with management during the normal course of the audit process.

In order to ensure the Partnership's compliance with the 2006 SORP, a valuation exercise was initiated by management during the audit process. This exercise was conducted by an independent external valuer and focused on those fixed assets assessed by management as likely to result in the most material changes. As a result of this exercise the net book value of operational land and buildings increased by £5.75 million and non-operational assets by £690,000. A full valuation of all fixed assets is planned for 31 March 2008.

In respect of the Scottish Executive's and Audit Scotland's interpretation of section 3 of the Transport (Scotland) Act 2006 the Partnership, having taken legal advice, does not agree with their interpretation of the Act, but has prepared the financial statements in accordance with these requirements. Accordingly, income for the year was reduced by £446,000 to achieve a breakeven position for the year. We understand that management intend to continue discussions with Audit Scotland and the Scottish Executive to address this issue in advance of the preparation of the 2007-08 financial statements.

## **Financial position**

The Partnership reported a breakeven position for 2006-07 in accordance with the requirements of the Transport (Scotland) Act 2006 for Regional Transport Partnerships, with reserves as at 31 March 2007 of £18.797 million. During 2006-07, the Partnership spent £30.806 million on capital projects. Expenditure for the year was broadly in line with budget with significant slippage in a few projects being utilised to bring forward other projects. Significant underspends against budget at 31 March 2007 were experienced in relation to the work at Partick station and the Glasgow Airport Rail Link.

SCTSJC generated a deficit of £1,082,000 for the year ended 31 March 2007. The general reserves were reduced from £11,070,000 to £9,988,000. SCTSJC intends to further reduce these reserves through reducing requisitions from the constituent authorities in future years.

## **Corporate governance**

A major review of the Partnership's activities was commission in May 2006. This identified a need for significant change including structural reorganisation, some of which has already taken place, with more planned for 2007-08.

The Partnership's and SCTSJC's Statement of System of Internal Financial Controls reflects, in accordance with the 2006 SORP, the systems and controls in place. The Partnership has established operational risk registers and has recently established a strategic level risks register which will be reviewed on a periodic basis. Management are continuing to work to ensure that risk is fully embedded within the organisations and that the risk registers remain 'live' documents.

We have reviewed the internal audit function and have identified that we are able to place formal reliance on the work of internal audit. We have, however, identified some performance improvement recommendations which will enhance compliance with the CIPFA Code of Practice. Internal audit has concluded that "reasonable assurance can be placed upon the adequacy and effectiveness of the Partnership's internal control systems in the year to 31 March 2007."

The 2006-07 NFI exercise identified a total of 18 data matches for the Partnership, all of which were payroll related. The Partnership was committed to the exercise, with reporting to the audit and standards committee and an effective approach to the follow up of its matches. The Partnership found no instances of fraud when investigating the matches.

# Introduction

## Audit framework

This was the first year of our five-year appointment as external auditors of Strathclyde Partnership for Transport ("the Partnership") and Strathclyde Concessionary Travel Scheme Joint Committee ("SCTSJC"). This report to the members and the Controller of Audit outlines our opinion and conclusions and highlights significant issues arising from our work.

In accordance with Audit Scotland's *Code of Audit Practice* ("the Code"), the scope of the audit was to:

- provide an opinion on the financial statements; and
- review and report on corporate governance arrangements as they relate to: review of systems of internal control; the prevention and detection of fraud and irregularity; standards of conduct, prevention and detection of corruption; and the financial position.

The framework under which we operate under appointment by Audit Scotland was outlined in the audit plan for the year discussed with the audit committee.

To assist in the development of a consistent approach to the audit across bodies, Audit Scotland publishes *Priorities and Risks Framework* guidance, setting out a number of areas for consideration during the audit process. We used the material developed by Audit Scotland in 2006-07 in our assessment of the processes and management arrangements. Our own planning process also identified a number of other areas for specific attention.

## Basis of information

External auditors do not act as a substitute for the entities' own responsibilities for putting in place proper arrangements to account for the stewardship of resources made available to them and their financial performance in the use of those resources, to ensure the proper conduct of their affairs, including compliance with relevant guidance, the legality of activities and transactions, and for monitoring the effectiveness of those arrangements and, through the accountable officer, to make arrangements to secure Best Value.

## Acknowledgement

We wish to place on record our appreciation of the co-operation and assistance extended to us by staff during the first year of our work in the discharge of our responsibilities.

# Financial statements audit

## Audit opinion

On 28 September 2007 we issued an audit report expressing an unqualified opinion on the financial statements of the Partnership and SCTSJC for the year ended 31 March 2007.

We wish to bring the following issues to your attention.

## Transport (Scotland) Act 2006

Section 3 of the Act requires that, similar to other Regional Transport Authorities, constituent local authorities meet only the Partnership's net expenses (ie. the expenses for the year not met by grant or other income) for each financial year. Following discussions with the Scottish Executive, Audit Scotland issued guidance in late June clarifying this position. The Partnership, having taken legal advice, does not agree with this interpretation of the Act, but has prepared the financial statements in accordance with these requirements. Accordingly, income for the year was reduced by £446,000 to achieve a breakeven position for the year. We understand that management intend to continue discussions with Audit Scotland and the Scottish Executive to address this issue in advance of the preparation of the 2007-08 financial statements.

## Fixed assets

### Revaluation

In order to ensure the Partnership's compliance with the 2006 SORP, a valuation exercise was initiated by management during the audit process. This exercise was conducted by an independent external valuer and focused on those fixed assets assessed by management as likely to result in the most material changes. As a result of this exercise the net book value of operational land and buildings increased by £5.75 million and non-operational assets by £690,000. A full valuation of all fixed assets is planned for 31 March 2008.

### Intangible fixed assets

The Partnership's prior year and 2006-07 unaudited financial statements included over £30 million of intangible assets. The carrying value of these related primarily to rolling stock used by First Scotrail in the operation of rail services. As the Partnership owns and has the power to direct the rolling stock these assets have been capitalised. In the 2006-07 audited financial statements these assets were reclassified as "3rd party rolling stock".

Also included within intangible fixed assets for 2006-07 were additions and corresponding disposals of £15.157 million relating to capital expenditure on behalf of the constituent authorities. As this expenditure resulted in the creation of tangible fixed assets, the ownership and resulting benefits of which were transferred to the Partnership's constituent local authorities, a new category of tangible fixed assets, "3rd party assets" has been created in the 2006-07 financial statements to disclose these transactions.

Whilst recognising that the conditions of capital grant funding require this expenditure to be capitalised, as no asset is created for the Partnership the current treatment is not in line with the SORP or FRS 15,

*Tangible Fixed Assets.* While in 2006-07 there is a nil impact to the financial statements, the Partnership should review the accounting treatment going forward to ensure full compliance with accounting and reporting requirements.

#### Infrastructure assets

The 2006 SORP requires that infrastructure assets are held at historic cost. The Partnership has complied with this requirement in the financial statements for 2006-07. Currently a CIPFA/LASAAC working group on infrastructure accounting is discussing the future accounting treatment of infrastructure assets, the outcome of which is likely to have a significant impact on the Partnership. The Partnership should ensure that it monitors the progress of these discussions and adopts any changes to the required accounting treatment accordingly.

#### **Compliance with the SORP 2006**

A number of presentational changes were required to the financial statements of both the Partnership and SCTSJC during the audit process to enhance compliance with the requirements of the 2006 SORP. Due to difficulties in typesetting a number of presentational requirements do not fully meet the requirements of the 2006 SORP. We have brought these to the attention of management and recommend that these areas are addressed in 2007-08.

# Financial position

## General fund

The Partnership reported a nil movement on the general fund balance for 2006-07 in accordance with legislative requirements.

	Actual £000
<b>Income and expenditure result</b>	
Net operating expenditure	30,872
Income: revenue support grant, council tax and non-domestic rates	(44,416)
<b>(Surplus) / deficit to be met from balances b/forward</b>	<b>(13,544)</b>
Net additional amount required by statute and non-statutory proper practices to be debited or credited to the General Fund Balance for the year	13,544
<b>Result for the year: Increase / decrease in general fund balance</b>	<b>0</b>
General fund balance brought forward	18,797
<b>General fund balance carried forward</b>	<b>18,797</b>

SCTSJC reported a deficit in 2006-07 of £1,082,000 against a budgeted breakeven position for the year.

	Actual £000
<b>Income and expenditure result</b>	
Net operating expenditure	4,496
Income: revenue support grant, council tax and non-domestic rates	(3,414)
<b>(Surplus) / deficit to be met from balances b/forward</b>	<b>1,082</b>
Net additional amount required by statute and non-statutory proper practices to be debited or credited to the General Fund Balance for the year	0
<b>Result for the year: Increase / decrease in general fund balance</b>	<b>1,082</b>
General fund balance brought forward	11,070
<b>General fund balance carried forward</b>	<b>9,988</b>

The deficit is primarily due to operating costs for the year being £459,000 above budget and income from the Scottish Executive being £535,000 less than previously accrued.

### **Reserves and balances**

The Partnership holds a number of reserves and balances related to fixed asset accounting or accounting for pension liabilities under FRS 17. All the reserves reported are in accordance with the 2006 SORP.

SCTSJC has a general fund balance of almost £10 million which has accumulated over a number of years. SCTSJC intends to return the excess reserves to the constituent councils through reducing requisitions in future years and utilising these reserves to fund the annual shortfall against expenditure.

### **Capital investment programme and prudential borrowing**

During 2006-07, the Partnership spent £30.806 million on capital projects. Expenditure for the year was broadly in line with budget with significant slippage in a few projects being utilised to bring forward other projects. Significant underspends against budget at 31 March 2007 were experienced in relation to the work at Partick station and the Glasgow Airport Rail Link.

Previously the Partnership utilised the services of Glasgow City Council for short term treasury management. During 2006-07 the Partnership assumed full responsibility for its own treasury management function. Our interim management report noted no significant weaknesses in the treasury management process but made a number of recommendations to ensure best practice. The Partnership has complied with the prudential indicators set for the year.

At the 31 March 2007, the Partnership had short term investments of £14.385 million. This represented an increase of £2.216 million from the prior year. The majority of the balance has been earmarked for capital projects currently underway. At 31 March 2007, capital commitments in excess of £9 million were disclosed.

### **Future financial plans**

A significant proportion of the funding for the Partnership is requested from constituent local authorities. The budgeting process for 2008-09 is currently underway both within the Partnership and between the constituent authorities and the Scottish Executive. The final budget for 2008-09 will be set after these negotiations have been concluded.

The Partnership also receives funding directly from the Scottish Executive. A ten year agreement is in place ensuring core funding will be available in future years. The Scottish Executive may also make additional funding available for specific projects. The latest budgetary information for 2007-08 currently indicates a modest underspend for the year on revenue activities and a capital underspend in the region of £2 million. In addition, management are continuing to have discussions with the Scottish Executive regarding amounts due to SCTSJC which has been built up over a number of years. As this may have cash flow implications it is recommended that this matter is prioritised for resolution in 2007-08.

# Corporate governance

## Introduction

Corporate governance is concerned with structures and processes for decision-making, accountability, control and behaviour. The three fundamental principles of corporate governance – openness, integrity and accountability – apply to all bodies.

Entities are responsible for establishing arrangements for ensuring the proper conduct of their affairs, including compliance with relevant guidance, the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. The Code requires auditors to review and report on corporate governance arrangements as they relate to:

- reviews of its systems of internal control, including its reporting arrangements;
- the prevention and detection of fraud and irregularity; and
- standards of conduct and arrangements for the prevention and detection of corruption.

## Structural reorganisation

A major review of the Partnership's activities was commissioned in May 2006. This identified a need for significant change including structural reorganisation, some of which has already taken place, with more planned for 2007-08.

## Systems of internal control

### Statement on internal financial control ("SIFC")

SCTSJC utilises the systems and controls of the Partnership in carrying out its business. SCTSJC has therefore included a Statement of System of Internal Financial Control which makes reference to this fact and reproduces the content of the Partnership's statement. The Statement of System of Internal Financial Control prepared by the Partnership reflects, in accordance with the 2006 SORP, the systems and controls in place. In addition to this statement, Corporate Governance Statements have been prepared providing further information on the Partnership and SCTSJC's control environment.

The Partnership has established operational risk registers and has recently established a strategic level risks register which will be reviewed on a periodic basis. Management are continuing to work to ensure that risk is fully embedded within the organisations and that the risk registers remain 'live' documents.

## Internal audit

In our Audit Planning Memorandum, we outlined our planned audit approach, which seeks, wherever possible, to place reliance on the work completed by internal audit to minimise duplication of effort and ensure maximum benefit from the combined audit resource. In accordance with our Audit Planning Memorandum and International Standard on Auditing 610, we have therefore completed a formal evaluation of the Council's internal audit function.

The CIPFA *Code of Practice for Internal Audit in Local Government in the United Kingdom* ("the CIPFA Code") was issued in November 2006. The CIPFA Code establishes eleven key areas of good practice. We have assessed the internal audit function against each of these areas and made a number of

observations which are outlined in appendix 1. While we were able to place formal reliance on the work of internal audit, we have made eight performance improvement recommendations. Implementation of these recommendations will enhance full compliance with the 2006 CIPFA Code of Practice.

Although internal audit did not complete all of their initially planned audits for 2006-07, they were still able to conclude in their annual assurance statement that "reasonable assurance can be placed upon the adequacy and effectiveness of the Partnership's internal control systems in the year to 31 March 2007."

#### **Internal controls**

Drawing on the work of internal audit, in accordance with our plan, we completed detailed testing in relation to both entity-level and key financial controls. Our work in these areas included consideration of the principal accounting systems to assess whether the related controls were designed appropriately and operating effectively to prevent or detect a material misstatement of the financial statements, consideration of management's reporting arrangements and review of the IT control environment. The findings of this work were reported in the interim management report on 22 March 2007.

In respect of corporate governance arrangements while we found that the overall arrangements provide an effective framework for the governance of the Partnership, we made some recommendations aimed at improving the existing corporate governance arrangements. Our review of the IT control environment identified one significant (grade one) risk in respect of business continuity due to the lack of a disaster recovery plan. In addition, we found 14 areas where implementation of our recommendations in relation to more minor weaknesses would enhance the strength of the general IT control environment. Our work over the key financial systems found one significant issue in relation to obtaining assurance over the figures submitted by operators within the Concessionary Travel Scheme. We also identified 11 grade two (material) recommendations and a further 12 grade three (minor) recommendations.

#### **Prevention and detection of fraud and irregularity**

There is a formal whistle-blowing policy governing the procedures to be followed in the event of a fraud or suspected fraud. Where management are made aware of a suspected fraud, procedures are in place to co-ordinate an investigation. While as part of interim audit visit we noted that these procedures required to be updated following the creation of the Partnership, management have advised that they have now been updated and fully publicised to all staff. There were no material instances of fraud or irregularity reported during 2006-07.

#### **National Fraud Initiative**

In 2006-07 the Partnership again took part in the National Fraud Initiative ("NFI") in Scotland. The exercise is undertaken as part of the audits of the participating bodies. NFI brings together data from councils, police and fire and rescue boards, health bodies and other agencies, to help identify and prevent a wide range of frauds against the public sector. These include housing benefit fraud, occupational pension fraud and payroll fraud. For 2006-07 the exercise was extended to include information about tenants and councils were asked to submit further specified datasets where the risks merited their inclusion. The NFI has generated significant savings for Scottish public bodies (£27 million to 2005) but, if fraud or overpayments are not identified in a body, assurances may be taken about internal arrangements for preventing and detecting fraud.

The NFI 2006-07 results (data matches) were made available to audited bodies on 29 January 2007 via a new secure web-based application. Participating bodies follow up the matches, as appropriate, and

record the outcomes of their investigations in the application. We monitored the Partnership's involvement in NFI 2006-07 during the course of our audit.

The 2006-07 exercise identified a total of 18 data matches for the Partnership, all of which were payroll related. Of the 18 payroll matches, none were classified as high priority, 6 were medium priority and 12 low priority. The Partnership nominated the chief internal auditor to lead and coordinate the exercise. The chief internal auditor completed the appropriate training provided by Audit Scotland. The Partnership was committed to the exercise, with reporting to the audit and standards committee and an effective approach to the follow up of its matches.

### **Standards of conduct**

There exists a Code of Conduct for members and staff which is provided to all new employees and is available on the intranet. Also available on the intranet are comprehensive human resources policies and procedures providing additional guidance to staff.

There is a formal register of interests for recording board members and senior managers' interests. This is regarded as best practice and assists in demonstrating consideration of independence in decision-making and the awarding of contracts. However, as noted in our interim report, this requires to be updated for the new members subsequent to the local government elections in May.

### **Impact of May 2007 elections**

As a result of the local government elections in May 2007, a number of new members have been appointed to the Partnership and SCTSJC by the constituent authorities. Arrangements are in place to ensure that appropriate training is provided to all members to ensure they effectively conduct their duties. The committee structures and scrutiny arrangements in place have not been significantly revised in light of the new membership.

# Appendix 1 – evaluation of internal audit

Scope	The scope of internal audit's remit is included in both the financial regulations and the internal audit strategic plan and provides for the audit of, and access to, all areas of the Partnership and SCTSJC.
Independence	The internal audit department has no operational responsibilities or duties. The independence of the internal audit function and the right of the chief internal auditor to report directly to the chief executive or the chair of the audit and standards committee is included within the financial regulations.
Minimum standards	As members of professional accountancy bodies, the internal audit team are expected to comply with the professional standards and the human resource policies of the Partnership. Staff are required to declare interests and any gifts / hospitality received.
Audit committee	An audit and standards committee was created during 2006-07. The committee consists of seven elected members and two appointed members. Internal audit report at each meeting. Training was provided to members in order to enhance their understanding of their responsibilities. Following the May 2007 council elections membership of the committee has changed and the committee is yet to meet.
Relationships	The formal relationship between internal audit and management is defined in the financial regulations. Discussions with internal audit staff and management found that good working relationships exist. Good relationships with us, as external auditors of the Partnership and SCTSJC, have been established.
Staff training and development	Staff training records are maintained with resources provided for training. It was noted that none of the internal audit team have particular IT experience, however, resources are available to access more specialist audit skills, where required.
Audit strategy	The strategic plan for 2006–09 has been prepared using appropriate guidance. Going forward, the internal audit function should ensure that its audit plans are appropriately aligned with organisational risk registers.
Undertaking audit work	The strategic audit plan informs the annual audit plan. From the annual audit plan audit briefs are prepared for each assignment outlining the scope and objectives of the work. These briefs are discussed with the appropriate line manager and agreed, but not always signed to evidence agreement. Review of internal audit files found them to be cross-referenced, include clear planning, sufficient audit evidence and appropriate conclusions. The work is informed by guidance and checklists. However, consideration should be given to preparing an internal audit manual to support staff, including outlining the roles and responsibilities of audit staff, expected report and file contents and guidance on sampling.
Reporting	The internal audit department prepares reports based on a standard template which is adapted as appropriate. However, there is no guidance on standard wordings or formats to ensure that all reports comply with guidance. The respective role of management and internal audit is not specified in reports to management. Also while the scope and objectives were outlined in reports, these were not clearly linked to the agreed scope of the respective audit brief. Action plans accompany all reports and are used to document recommendations, which are graded high, medium or low to enable management to prioritise their response. Internal audit monitor management's progress on implementing agreed internal audit recommendations as part of the follow-up process incorporated into the annual audit plan.
Performance, quality and effectiveness	At present the chief internal auditor collates a number of performance indicators for internal use only. Consideration should be given to reporting these to the audit committee as part of the annual reporting process to ensure oversight of the performance of internal audit.

## Appendix 2 – action plan

Priority rating for performance improvement observations raised		
<p><b>Grade one:</b> Issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.</p>	<p><b>Grade two:</b> Issues that have an important effect on internal controls, but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately, but the weakness remains in the system.</p>	<p><b>Grade three:</b> Issues that would, if corrected, improve the internal control in general, but are not vital to the overall system. These are generally issues of best practice that we feel would be of benefit to you if introduced.</p>

No.	Issue and performance improvement observation	Management response	Officer and due date
1	<p>Included within intangible fixed assets for 2006-07 were additions and corresponding disposals of £15.157 million relating to capital expenditure on behalf of the constituent authorities. As this expenditure resulted in the creation of tangible fixed assets, the ownership and resulting benefits of which were transferred to the Partnership's constituent local authorities, a new category of tangible fixed assets, "3rd party assets" was created to disclose these transactions.</p> <p>Whilst recognising that the conditions of capital grant funding required this expenditure to be capitalised, as no asset is created for the Partnership the current treatment is not in line with the 2006 SORP or FRS 15, <i>Tangible Fixed Assets</i>. While in 2006-07 there is a nil impact to the financial statements, the Partnership should review the accounting treatment going forward to ensure full compliance with accounting and reporting requirements.</p> <p>(Grade two)</p>	Agreed.	<p>Director of Finance 31 March 2008</p>
2	<p>While the Partnership has accounted for infrastructure assets for 2006-07 in accordance with the 2006 SORP, the Partnership should ensure that it remains abreast of current developments with regard to future accounting treatment for infrastructure assets.</p> <p>(Grade two)</p>	Agreed.	<p>Director of Finance Ongoing</p>

No.	Issue and performance improvement observation	Management response	Officer and due date
3	A number of presentational changes were required to the financial statements of both the Partnership and SCTSJC during the audit process to enhance compliance with the requirements of the 2006 SORP. Due to difficulties in typesetting a number of presentational requirements do not fully meet the requirements of the 2006 SORP. We have brought these to the attention of management and recommend that these areas are addressed in 2007-08.  (Grade two)	Agreed.	Director of Finance  30 April 2008
4	Management are continuing to have discussions with the Scottish Executive regarding amounts due to SCTSJC which has been built up over a number of years. As this may have cash flow implications it is recommended that this matter is prioritised for resolution in 2007-08.  (Grade two)	This is a priority and will be pursued as such.	Assistant Chief Executive (Business Support)  30 November 2007
<b>Internal audit review</b>			
5	Due to the risk registers of the Partnership being incomplete at the time of internal audit drafting their strategic audit plan for 2006-09, the alignment of audit work to the key risk areas identified through this process was not completed. Consideration should be given to ensuring that the strategic and annual internal audit plans are appropriately aligned to the organisational risk registers.  (Grade two)	Agreed.  To be implemented in next annual audit cycle.	Chief Internal Auditor  30 April 2008
6	Our review of internal audit files found that one audit brief was not signed as agreed before audit work commenced. Staff should be reminded to ensure that the audit briefs are discussed and agreed prior to the start of any audit work.  (Grade three)	Agreed.	Chief Internal Auditor  Immediate

No.	Issue and performance improvement observation	Management response	Officer and due date
7	<p>The internal audit function do not have a central audit manual providing guidance on the activities of the section. The CIPFA audit manual, used by the internal audit team, should be supplemented with a standing file of local guidance and documentation outlining the roles and responsibilities of internal audit, the audit team and management. The manual should also provide guidance on sample sizes, the contents of audit files, working papers and reporting arrangements.</p> <p><i>(Grade three)</i></p>	Agreed.	Chief Internal Auditor 31 Dec 2007
8	<p>Internal audit reports do not specify the respective roles and responsibilities of internal audit and management. A standard paragraph should be inserted into all reports to ensure good practice.</p> <p><i>(Grade three)</i></p>	To be reviewed for next annual audit cycle.	Chief Internal Auditor 30 April 2008
9	<p>In reviewing internal audit reports it was noted that the scope and objectives did not match those agreed through the audit briefs. These should be the same in order to ensure that the key deliverable matches the agreed specification of the audit work.</p> <p><i>(Grade three)</i></p>	Format of audit briefs and reports to be reviewed for next annual audit cycle.	Chief Internal Auditor 30 April 2008
10	<p>The internal audit department should provide performance indicators to the audit committee as part of the annual reporting process to ensure that the performance of the section is subject to robust monitoring and review.</p> <p><i>(Grade three)</i></p>	Agreed.	Chief Internal Auditor 31 Jan 2008
11	<p>The 2006-07 internal audit plan was not completed by the conclusion of our interim audit work. In order to ensure an efficient audit process and to allow maximum possible reliance to be placed on the work of internal audit, it should be ensured that the audit plan is delivered on a timely basis.</p> <p><i>(Grade three)</i></p>	Agreed.	Chief Internal Auditor 30 April 2008

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