

External Audit – Interim Management Report for 2009/10

Committee Strathclyde Concessionary Travel Scheme Joint Committee

Date of meeting 25 June 2010

Date of report 14 June 2010

Report by Treasurer

1. Object of report

To ask the committee to note the attached external audit interim management report for 2009/10 for Strathclyde Partnership for Transport which has been consolidated with the interim report for Strathclyde Concessionary Travel Scheme Joint Committee. This report covers the fourth year of a five year appointment for KPMG.

2. Background

The external audit interim report is primarily designed to direct attention to matters of significance that have arisen out of the 2009/10 audit process and to confirm what action is planned by management to address the more significant matters identified for improvement.

3. Findings

Overall the conclusion of the report are satisfactory, subject to management implementation of audit recommendations. One recommendation in the report is ranked as significant, this relates to SPT's expenses policy.

4. Conclusion

The report is satisfactory, subject to the implementation of the agreed action plan.

5. Committee action

The committee is asked to note the attached interim management report.

6. Consequences

Policy consequences	<i>None.</i>
Legal consequences	<i>None.</i>
Financial consequences	<i>None.</i>
Personnel consequences	<i>None.</i>
Social inclusion consequences	<i>None.</i>
Risk consequences	<i>Detailed in the report.</i>

Name Valerie Davidson

Title Treasurer

For further information, please contact Neil Wylie, Director of Finance, on 0141 333 3380.



INFRASTRUCTURE, GOVERNMENT AND HEALTHCARE

Strathclyde Partnership for Transport and Strathclyde Concessionary Travel Scheme Joint Committee

Interim management report

Audit: Year ended 31 March 2010

16 May 2010

AUDIT

Contents

This interim management report is presented under the terms of our appointment by the Accounts Commission.

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- Executive summary
- Introduction
- Audit methodology
- Key risk areas
- Organisation wide controls
- Key financial controls
- Performance management

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").

This report is for the benefit of Strathclyde Partnership for Transport and Strathclyde Concessionary Travel Scheme Joint Committee and is made available to the Accounts Commission and Audit Scotland (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 scope and objectives section of this report.

This report is not suitable to be relied on by any party wishing to acquire rights against KPMG LLP (other than the beneficiaries) for any purpose or in any context. Any party other than the beneficiaries that obtains access to this report or a copy and chooses to rely on this report (or any part of it) does so at its own risk. To the fullest extent permitted by law, KPMG LLP does not assume any responsibility and will not accept any liability in respect of this report to any party other than the beneficiaries.

Key risk areas

We identified key risk areas in our audit plan overview in respect of the financial position, accounting for fixed assets, application of SORP 2009, reserves and assets under construction. We have discussed these key risk areas with management and reviewed minutes of key committees to update our understanding during our interim audit visit.

Organisation-wide controls

A sound system of internal control is an essential part of robust corporate governance arrangements. Our work on organisation-wide controls has included the review of relevant policies and procedures and consideration of the adequacy and appropriateness of the content. In addition, we reviewed evidence of processes such as risk monitoring and financial reporting, to confirm these are operating as intended. The majority of policies and procedures are available to staff on the intranet. This ensures that relevant personnel have access to the current version of key documents at all times.

We visited a travel centre and subway station with internal audit to understand their inspection role. We travelled on the cash collection train and observed the cash counting and banking procedures at the Broomloan Depot during our interim visit to enhance our understanding. We have also reviewed a number of internal audit files on which we intend to place reliance.

Information systems are an integral part of a sound system of internal control. We have performed an audit of systems relevant to financial reporting. The approach to audit work performed was to enhance and add to work performed in prior years. Since 1 April 2009, the Partnership has phased in the T1 system to replace the old Great Plains system as their main financial ledger system.

Internal audit completed a detailed review of the new ledger system during 2009-10 and we have reviewed their draft report. In addition to internal audit's detailed recommendations in respect of FMS, we have made a number of recommendations in respect of IT general controls.

We completed a questionnaire for submission to Audit Scotland detailing the Partnership's participation in the National Fraud Initiative. We made positive comments about the Partnership's arrangements and progress, but noted that the results of matches had not been updated on the web-based application.

In February 2010 we commenced a review following a number of complaints received by Audit Scotland concerning business practices at the Partnership. A full report of our findings will be submitted to management and Audit Scotland during May 2010.

Financial controls

Testing, combined with that of internal audit, of the design and operation of controls over significant risk points confirms that, with the exception of some minor weaknesses, controls are designed appropriately and operating effectively.

Our audit work is undertaken in accordance with Audit Scotland's *Code of Audit Practice*. The *Code* specifies a number of objectives for our audit.

A key element of robust corporate governance arrangements is a sound system of internal control. Over the period of our appointment as the external auditors of Strathclyde Partnership for Transport and Strathclyde Concessionary Travel Scheme Joint Committee we review not only those systems of internal control that may be considered to be material in relation to the opinion on the financial statements, but also those which require to be considered as part of the wider dimension of public sector audit.

Our approach to the audit is based on understanding and assessing Strathclyde Partnership for Transport and Strathclyde Concessionary Travel Scheme Joint Committee's structures and processes for decision-making, accountability, control and behaviours and what risks can affect the financial statements. We then consider the audit procedures to address any identified weaknesses and identified risks. We assess areas with the greatest risk for misstatement and the effectiveness of internal controls at mitigating those risks.

Our audit is carried out in accordance with our responsibilities embodied in Audit Scotland's *Code of Audit Practice* ("the *Code*") and through the application of International Standards on Auditing (UK and Ireland).

Our recent audit fieldwork and this report meets the following objective under the *Code* applicable to 2009-10:

- review and report on (as required by relevant legislation, the *Code* and any guidance issued by Audit Scotland):
 - the Partnership's corporate governance arrangements as they relate to: its review of systems of internal control; the prevention and detection of fraud and irregularity; standards of conduct; prevention and detection of corruption; and its financial position;
 - the Partnership's arrangements to achieve Best Value; and
 - other aspects of the Partnership's arrangements to manage its performance, as they relate to economy, efficiency and effectiveness in the use of resources.

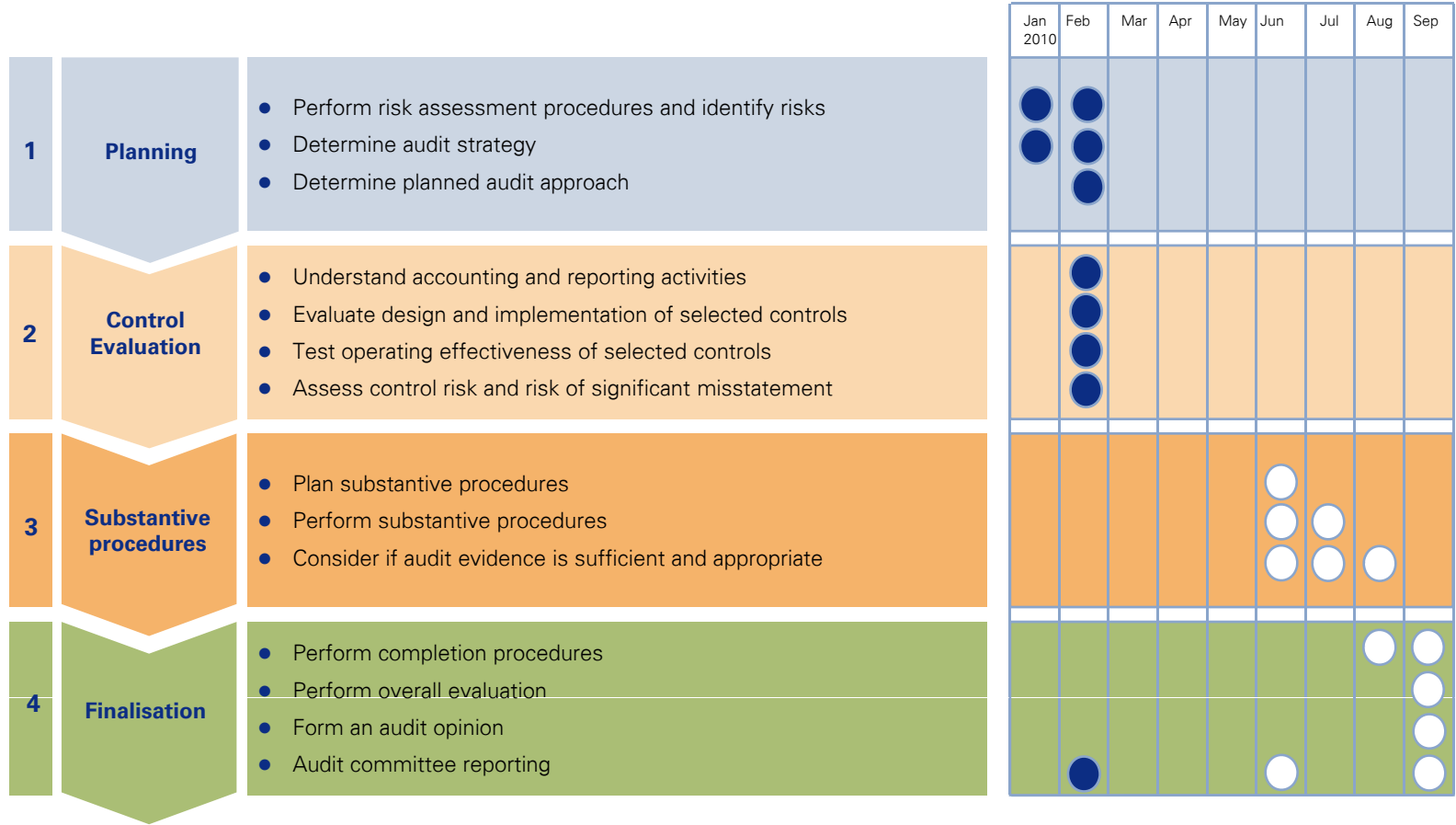
In line with our audit plan overview presented to the audit committee on 26 February 2010, we have completed the 'understanding' and 'evaluating' phases of our audit. We will use the information obtained and the results of our testing to tailor our planned approach to our audit of your financial statements in June 2010.

The purpose of this report is to report our findings as they relate to:

- developing our approach to key risk areas identified during our planning and understanding phases;
- review of organisational-wide controls, including internal audit arrangements, arrangements to manage receipt and response to legislation and other circulars; and
- review of principal accounting systems to assess whether the related controls are designed appropriately and operating effectively to prevent or detect a material misstatement of the financial statements.

Audit methodology

We undertake our work on your financial statements in four key stages.



Key



complete



to be completed

Key risk areas

During the planning process we identify key risks for specific consideration during the audit.

Our audit plan overview identified key risks in relation to: the financial position, fixed assets, changes to 2009 SORP, accounting for reserves and assets under construction. An update of our findings is detailed below.

Risk area	KPMG observations
<p>Financial position</p>	<p>Financial stability proposals were presented to a meeting of the Partnership on 12 December 2008 which addressed the forecast budget deficit of £500,000 for 2009-10 and £2.5 million in 2010-11. A subsequent report by the chief executive was presented to the Partnership on 12 June 2009. This provided an update on the status of these recommendations. The report made further proposals for operational sustainability and financial stability in the context of the economic climate.</p> <p>These have been implemented and the most recent outturn forecast by management, at February 2010, shows a forecast underspend as at 31 March 2010 of £185,000. The increase of £115,000 in the forecast underspend is primarily as a result of reductions in electricity costs.</p> <p>Management anticipate that there will be further significant financial pressure on the Partnership in coming years and have, in response, identified a range of further efficiency measures. These will require to be implemented in 2010-11 to ensure a balanced budget. We will continue to consider the action being taken by the Partnership to achieve financial sustainability.</p> <p>Our audit work at year end will also consider areas of management judgement in the financial statements, including review of accruals, accrued income and deferred income, impairments, fixed asset additions and the bad debt provision.</p>
<p>Fixed assets</p>	<p>The Partnership's accounting policies include full revaluations of property every five years with interim valuations in year three, in line with FRS 15 <i>Tangible Fixed Assets</i> and the requirements of SORP 2009. As the last full valuation was carried out as at 31 March 2008, an interim valuation will be required at 31 March 2011.</p> <p>In addition, the Partnership has a significant number of investment properties which are subject to annual valuation. Given the recent economic downturn there is an increased likelihood that these properties have decreased in value. We intend to meet with the Partnership's internal valuer and obtain and consider the valuation reports as part of our audit work.</p>

Corporate governance
Key risk areas (continued)

Risk area	KPMG observations
<p>Changes to the 2009 SORP</p>	<p>There have been changes to the 2009 SORP that could impact the preparation of the 2009-10 financial statements.</p> <p>The key change to be implemented in 2009-10 is the accounting requirements for private financing initiatives and similar contracts, which are no longer based on Financial Reporting Standard 5 but on an interpretation of International Financial Reporting Interpretation Council 12: <i>Service concession arrangements</i> contained in the Government Financial Reporting Manual. However, as the Partnership has no PFI contracts this will not have an impact on the financial statements.</p> <p>A number of less significant changes to the 2009 SORP have also been made which may impact on the financial statements and these will be discussed with management during the audit cycle.</p> <p>We will complete a full SORP checklist at year end to ensure compliance with the 2009 SORP.</p>
<p>Accounting for reserves</p>	<p>In 2008-09 the Partnership reported a reduction in its general reserve. The Partnership at their meeting on 13 February 2009 reported that the savings of £20 million planned over the next six years would be diverted to an earmarked subway modernisation fund.</p> <p>Section 3 of the Transport Scotland (Act) 2006 requires that, similar to other Regional Transport Authorities, constituent local authorities meet only the Partnership's net expenses (i.e. the expenses for the year not met by grant or other income) for each financial year. Following discussions with the Scottish Government, Audit Scotland issued guidance in late June 2007 clarifying this position. The Partnership, having taken legal advice, did not agree with this interpretation of the Act and has continued to press for a change to the legislation with the Scottish Government during 2009-10.</p> <p>We will consider the position at the year end and review management's treatment of any increases in reserves as part of our audit work.</p>

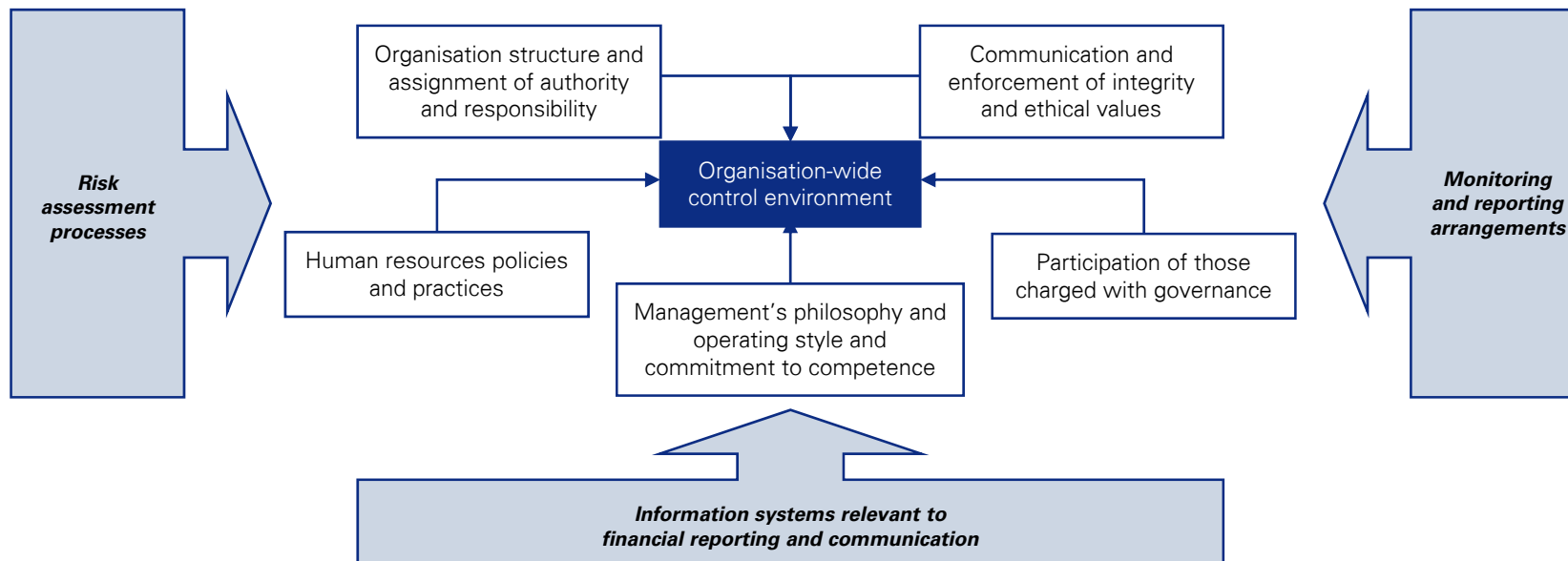
Key risk areas (continued)

Risk area	KPMG observations
<p>Assets under construction</p>	<p>At 31 March 2009 the Partnership financial statements disclosed a balance of £3.4 million in relation to assets under construction. The capital programme for 2009-10 forecast capital expenditure of £34.5 million, though this has since been revised to £27.9 million as reported to the strategy and programmes committee on 26 March 2010. This represents an underspend of £1 million (3.6%), against available funding of £28.9 million, which will be carried forward to 2010-11 within the 10% allowable amount.</p> <p>The largest individual capital project in the year is likely to be the surface level car park at Croy. The strategy and programmes committee received an update at their meeting of 26 March 2010 which noted that the tender awarded was no longer valid as the supplier had indicated they were unable to stand by their price. Approval was sought to contract with the next preferred supplier. This has increased the cost of the project, however it remains within budget. In addition, the Partnership has obtained approval from the Scottish Government and has entered into a lease agreement with North Lanarkshire Council, below market rates, for the operation of the facility.</p> <p>We will review the works capitalised in the year and consider the assets under construction at the start of the year to ensure they are accounted for in accordance with FRS 15 and the SORP 2009. We will also seek to understand the terms and conditions of any lease entered into to ensure that it is accounted for in accordance with the SORP 2009.</p>

We identified key risk areas in our audit plan overview as above and have updated our understanding during the interim phase of our audit by discussing them with management and reviewing the meeting minutes of key committees.

Organisation-wide controls

Entity level controls often have a pervasive impact on control activities over classes of transactions, account balances derived from management estimates, other account balances and disclosures and therefore on our assessment of the risk of significant misstatement. Audit procedures performed to gain an understanding about the design and implementation of relevant controls include inquiring of Partnership personnel, observing the application of specific controls and inspecting documents and reports.



Our work has included assessment of budget setting and reporting arrangements, financial management, risk management, communication strategies, committee structures, and arrangements for prevention and detection of fraud and irregularity.

Our work on organisation-wide controls has included the review of relevant policies and procedures and consideration of the adequacy and appropriateness of the content. In addition, we reviewed evidence of processes such as risk monitoring and financial reporting, to confirm these are operating as intended. The majority of policies and procedures are available to staff on the intranet. This ensures that relevant personnel have access to the current version of key documents at all times.

In February 2010 we commenced a review following requests from both SPT management and Audit Scotland after a number of complaints were received by Audit Scotland concerning business practices at the Partnership. A full report of our findings will be submitted to management and Audit Scotland during May. As a result of this work we have identified a number of controls weaknesses and make a number of recommendations. In addition, there have been a number of changes of senior management at the Partnership recently, including at chief executive level. Changes at a senior level may result in increased risk to the organisation during the transition phase.

Organisation-wide controls (continued)

During the planning process we identify key risks for specific consideration during the audit.

Internal audit

Our audit planning process identified the specific areas where we planned to rely on the work of internal audit to minimise duplication of effort. We have continued our liaison with internal audit and updated our understanding of their approach. Our consideration and assessment of the internal audit function confirmed that we are able to continue to place reliance on their work, subject to detailed reviews of the individual assignments undertaken.

We have reviewed the following reports and concluded that we will place reliance on this work:

- main accounting system;
- procurement;
- banking procedures;
- subway station visits;
- travel centre visits;
- budgetary control;
- subway income;
- payment procedures;
- income collection; and
- regularity audits.

From our reviews of internal audit work, we have noted that a rationale for sample sizes used in testing is not held on file. While we appreciate that internal audit have a sound basis for selecting their sample sizes, we recommend that a sample size rationale document is developed and placed on retained on internal audit files.

Recommendation 1

We have concluded that we are able to continue to place formal reliance upon the findings of internal audit.

Organisation-wide controls (continued)

IT general controls

Information systems are an integral part of a sound system of internal control. We have performed a detailed audit of systems relevant to financial reporting. The approach to audit work performed was to enhance and add to work performed in prior years. Since 1 April 2009, the Partnership has phased in the T1 system to replace the Great Planes system as their main financial ledger system.

Internal audit completed a detailed review of the new ledger system during 2009-10 and we have reviewed the draft report. In addition to the detailed recommendations in respect of FMS we have identified the following recommendations surrounding IT general controls.

ICT security policy

There is an updated ICT security policy which has been drafted in line with ISO27001. However, it has not yet been ratified and implemented. The Partnership's internet and email policies were also updated in May 2009, but have yet to be reissued and publicised to staff. Staff should be required to confirm acceptance of all policies on revision and on commencement of employment.

Recommendation 2

Staff 'in-post' checks

Following audit recommendations in 2007-08 two specific procedures were developed: network user audit procedure and a server based systems user audit procedure. These were never implemented and both procedure documents are now out of date and refer to members of staff who have left the organisation. It is recommended that the procedures are revised and implemented to ensure an annual staff 'in-post' check is carried out in which departments confirm that staff with access to systems continue to be employed and require the specific level of access they hold. Since the new FMS ledger system incorporates a number of automated controls based on user access levels this control is of particular importance.

Recommendation 3

Super-users

The new FMS system has been implemented this year, which was provided by TechnologyOne. TechnologyOne still have two super-user accounts in FMS. It is recommended that the two super-user accounts should be disabled on sign-off of the project.

Recommendation 4

Passwords

We continue to recommend that all operating system and application level passwords are increased to a minimum length of eight characters where systems permit. We understand that Technology Solutions have an outstanding action to migrate FMS and network passwords to eight characters by April 2010.

Recommendation 5

Information systems are an integral part of a sound system of internal control. We have performed a detailed audit of systems relevant to financial reporting. The approach to audit work performed was to enhance and add to work performed in prior years. Since 1 April 2009, the Partnership has phased in the the T1 system to replace the Great Plains system as their main financial ledger system.

Internal audit completed a detailed review of the new ledger system during 2009-10 and we have reviewed their draft report. In addition to their detailed recommendations in respect of FMS we have identified further recommendations surrounding IT general controls.

Organisation-wide controls (continued)

National Fraud Initiative

We submitted a completed questionnaire to Audit Scotland on 28 February 2010 to inform their national report on local authority bodies participation in the National Fraud Initiative. This included consideration of the Partnership's arrangements for responding to matches identified, arrangements for reporting results internally and compliance with Audit Scotland guidance.

We made positive comments about the record keeping and standard audit programs used by internal audit when reviewing matches, but noted that the results of a number of reviews of creditor matches had not been uploaded into the NFI application. We will continue to monitor the Partnership's involvement in NFI during the course of 2009-10 and update our understanding of the status of investigations into data matches as part of our final audit visit.

Risk management

The Partnership has a corporate risk register. It is reviewed and approved by the executive team and is subject to continuous review by the risk management group, no less than quarterly. A column detailing the date of last change has been added to the risk register and all risks are assessed for likelihood and impact. The register is regularly presented to the audit and standards committee. Key risks currently include security, absenteeism and the impact of financial pressures on local authority budgets on the Partnership's budget.

We completed a questionnaire for submission to Audit Scotland detailing the Partnership's participation in the National Fraud Initiative. We made positive comments about the Partnership's arrangements and progress, but noted that the results of matches had not been updated on the web based application.

Expenses policy

During the prior year internal audit performed a review of the expenses policy in place at SPT and made a number of recommendations in order to strengthen this. A follow up review was undertaken in 2009-10 to determine the progress in implementing these recommendations. This found that these were at various stages, i.e. some of the recommendations had been implemented, though some were still outstanding. We have considered the expenses policy whilst performing our interim audit work and investigation review and we believe that management should perform a further detailed review of the expenses policy to ensure it is in line with current best practice across the public sector.

Recommendation 6

Key financial controls

During the interim audit we evaluate the design and operation of key financial controls and test their operating effectiveness.

Key financial controls

Our audit plan overview identified the classes of transactions, disclosures and account balances that are significant to the financial statements. We developed audit objectives for each identified financial statement assertion. Where we adopt a controls approach to an audit objective, in accordance with *the Code*, we have updated our understanding of accounting and reporting activities over each significant account and identified and tested key financial controls. We have evaluated the design and implementation of these controls and, where appropriate, tested the operating effectiveness. The aim of this work was to ensure that the controls operating over the principal accounting systems were designed appropriately and operating effectively to prevent or detect a material misstatement of the financial statements.

As indicated in our audit plan overview, and based on our evaluation of internal audit, we have placed reliance on this work. From the reports that we have reviewed, a number of recommendations have been made, but these were largely minor in nature and will not have an impact on our approach to the audit.

As part of our interim audit procedures we perform testing around the general control environment in addition to those controls that could have a direct impact on the financial statements. In planning this work, we take account of the particular circumstances and where we perceive there to be risks, based on our knowledge of the Partnership. In 2009-10, this included consideration of the internal processes concerning the use of consultants.

Bank reconciliations

The Partnership moved to the new FMS ledger system in 2009-10 and bank reconciliations for the main bank account are now produced by the system. Reconciling amounts recorded on the system reconciliation are cleared frequently by staff however there are a number of high value reconciling items relating to the migration to the new ledger system from April 2009 which management are still clearing. The reconciliations are not evidenced as subject to review.

Recommendation 7

Single source forms

For new contracts being entered into, specific levels of approval and authorisation are needed depending on the price of the contract. There are various reasons why a single source form may be used instead of the contract being put through the tendering process; these include absence of tenderers, protection of exclusive rights, design contest, extreme urgency, repetition of services / works and purchases of stock. Where a single source form is used, it must be countersigned by someone with the appropriate authority depending on the value.

From our sample of five contracts tested, we noted one single source form which had not been countersigned when it should have been authorised by the chief executive or an assistant chief executive as it was over £60,000.

Recommendation 8

Key financial controls (Continued)

Exception reports

For each monthly pay-run, the payroll system, Chris 21, produces exceptions reports for different circumstances, including no pay generated for staff members, payment above maximum set on “warning limits” and payments to leavers. The cases listed on this report are investigated and the report is passed to the financial controller for review. From a sample of two monthly exception reports, neither report had been reviewed by the financial controller.

Recommendation 9

Consultancy costs

The Partnership’s processes require that all consultancy expenditure should follow the same procedures as other items of expenditure and comply with the Partnership’s contract standing orders. In certain circumstances a request for single source supply may be completed. This request should detail the justification and authorisation for not undertaking a wider tender or quotation request process. Our review of the processes and procedures in respect of the management and authorisation of consultancy expenditure identified some opportunities for improvement.

Requests for the use of a single source supplier which are rejected, should be maintained in a log to allow evidence and review of the operation of the authorisation control.

Recommendation 10

It is recommended that the Partnership implements a control in which consultancy and fees cost centres are reviewed on a periodic basis, by the procurement team, to identify expenditure with individual suppliers which exceeds tender thresholds to ensure the appropriate procurement route has been followed.

Recommendation 11

Our testing, combined with that of internal audit, over the design and operation of controls over significant risk points has identified a number of areas of weakness and potential improvement. However, subject to these areas being addressed, controls are designed appropriately and operating effectively.

Appendix one – action plan

Priority rating for recommendations

Grade one (significant) observations are those relating to business issues, high level or other important internal controls. These are significant matters relating to factors critical to the success of the Partnership or systems under consideration. The weakness may therefore give rise to loss or error.

Grade two (material) observations are those on less important control systems, one-off items subsequently corrected, improvements to the efficiency and effectiveness of controls and items which may be significant in the future. The weakness is not necessarily great, but the risk of error would be significantly reduced if it were rectified.

Grade three (minor) observations are those recommendations to improve the efficiency and effectiveness of controls and recommendations which would assist us as auditors. The weakness does not appear to affect the availability of the controls to meet their objectives in any significant way. These are less significant observations than grades one and two, but we still consider they merit attention.

No.	Issue and recommendation	Management response	Officer and due date
1	<p>Internal audit sample sizes</p> <p>From our reviews of Internal Audit work, we have noted that a rationale for sample sizes used in testing is not held on file. While we appreciate that internal audit have a sound basis for selecting their sample sizes, we recommend that a sample size rationale sheet is produced and placed on all internal audit files.</p> <p>It is recommended that a sample size rationale sheet is produced on placed on all internal audit files.</p> <p><i>(Grade three)</i></p>	Agreed.	Chief Internal Auditor 31 May 2010
2	<p>ICT security policy</p> <p>There is an updated ICT security policy which has been drafted in line with ISO27001. However it has not been ratified and implemented. The Partnership's internet and email policies were also updated in May 2009, but have yet to be reissued and publicised to staff. Staff should be required to confirm acceptance of all policies on revision and on commencement of employment.</p> <p>It is recommended that the ICT security policy is ratified and implemented.</p> <p><i>(Grade two)</i></p>	<p>Agreed.</p> <p>The policies have now been authorised by the Partnership. Between 10 May and 30 June 2010, the policies will be disseminated and all employees, contractors and agency staff will be required to sign as having read and understood them. Additionally, there is a text box in the log-on process, stating that the user agrees to comply with all IT policies.</p>	Senior Technology Solutions Advisor 30 June 2010

Appendix one – action plan (Continued)

No.	Issue and recommendation	Management response	Officer and due date
3	<p>Staff inpost checks</p> <p>Following audit recommendations in 2007-08 two specific procedures were developed, network user audit procedure and the server based systems user audit procedure. These were never implemented and both procedure documents are now out of date and refer to members of staff who have left the Partnership.</p> <p>It is recommended that the procedures are revised and implemented to ensure an annual staff in post check is carried out in which departments confirm that staff with access to systems continue to be employed and require the specific level of access they hold. Since the new FMS ledger system incorporates a number of automated controls based on user access levels this control is of particular importance.</p> <p><i>(Grade two)</i></p>	<p>Agreed.</p> <p>The User Audit process is now being implemented for the Finance Directorate and will be extended to other departments on a staged basis.</p>	<p>Senior Technology Solutions Advisor 31 July 2010</p>
4	<p>Super-users</p> <p>The new FMS system has been implemented this year, which was provided by TechnologyOne. TechnologyOne still have two super-user accounts in FMS.</p> <p>It is recommended that the two super-user accounts should be disabled on sign-off of the project.</p> <p><i>(Grade three)</i></p>	<p>Agreed.</p>	<p>Chief Accountant 30 June 2010</p>
5	<p>Passwords</p> <p>We continue to recommend that all operating system and application level passwords are increased to a minimum length of eight characters were systems permit. We understand that TS have an outstanding action to migrate FMS and network passwords to eight characters by April 2010.</p> <p>It is recommended that this is progressed.</p> <p><i>(Grade three)</i></p>	<p>Agreed.</p> <p>From 1 May 2010, all user log-in passwords must be a minimum of 8 characters.</p>	<p>Senior Technology Solutions Advisor 1 May 2010</p>

Appendix one – action plan (Continued)

No.	Issue and recommendation	Management response	Officer and due date
6	<p>Expenses policy</p> <p>We have identified a number of areas in the current expenses policy which could be improved. It is recommended that management perform a detailed review of the policy and make amendments where necessary to ensure it is in line with best practice across the public sector.</p> <p><i>(Grade one)</i></p>	<p>Agreed.</p> <p>On conclusion of the current audit review being undertaken by KPMG, SPT will instigate a best practice review.</p>	<p>Director of Finance 30 June 2010</p>
7	<p>Bank Reconciliations</p> <p>We have identified that manual bank reconciliations are not being prepared for any of the Partnership's bank accounts. An electronic bank reconciliation is generated instead in the new FMS ledger system but is not evidenced as reviewed or actioned to ensure unreconciled items are cleared. We also noted that staff were not proficient in the preparation, use or structure of this report.</p> <p>It is recommended that manual bank reconciliations are performed on a monthly basis for every bank account. This should be signed and dated as prepared and evidenced as reviewed and demonstrate that there are no old unreconciled items.</p> <p><i>(Grade two)</i></p>	<p>All SPT's bank accounts are reconciled on a weekly basis and the current account reconciled & finalised through the FMS system on a four weekly basis. Paper copies of this semi automated process have not been printed, signed and retained. This will now happen.</p>	<p>Chief Accountant 31 May 2010</p>
8	<p>Single source forms</p> <p>For new contracts being entered into, specific levels of approval and authorisation are needed depending on the price of the contract. There are various reasons why a single source form may be used instead of the contract being put through the full tendering process. These include absence of tenders, protection of exclusive rights, design contest, extreme urgency, repetition of services / works and partial replacement of addition of supplies. Where a single source form is used, it must be countersigned by someone with the appropriate authority depending on the price.</p> <p>From our sample of five contracts tested, we noted one single source form which had not been countersigned when it should have been authorised by an assistant chief executive or the chief executive as it was over £60,000. Staff should be reminded of the extant procedures and the importance of adhering to these at all times.</p> <p><i>(Grade two)</i></p>	<p>Agreed.</p> <p>An email was sent to all Procurement staff on 26 April 2010 reminding everyone of the need to ensure that all single source forms are signed and countersigned before processing. In addition, finalised single source forms will be reviewed by the Chief Procurement Officer.</p>	<p>Chief Procurement Officer 26 April 2010</p>

Appendix one – action plan (Continued)

No.	Issue and recommendation	Management response	Officer and due date
9	<p>Exception reports</p> <p>For each monthly pay-run, the payroll system Chris 21 produces exceptions reports for different circumstances, including no pay generated for staff member, payment above maximum set on “warning limits” and payment to leaver. The cases listed on this report are investigated and then the report is passed to the financial controller for review. From a sample of two monthly exception reports, neither report had been reviewed by the financial controller.</p> <p>It is recommended that all payroll exception reports are evidenced as reviewed by an officer independent of that performing the initial review.</p> <p><i>(Grade three)</i></p>	<p>Agreed.</p> <p>The exception reports will be reviewed and approved by an Accountant or Chief Accountant.</p>	<p>Chief Accountant 1 May 2010</p>
10	<p>Consultancy costs</p> <p>The process for the use of consultants is inconsistent and often not formally documented. It is recommended that the process is updated to ensure that all requests for tender forms include</p> <ul style="list-style-type: none"> • details of the consideration and justification for the use of a consultant in place of in-house staff; and • proposals for the monitoring and evaluation of the work of consultants. <p>In addition, requests for the use of a single source suppliers which are rejected, should be maintained in a log to allow evidence and review of the operation of the authorisation control.</p> <p><i>(Grade two)</i></p>	<p>Agreed that the engagement process requires further documentation for all engagements outwith the single source process and that rejected single source applications are retained on file.</p>	<p>Director of Finance 30 June 2010</p>
11	<p>Consultancy costs</p> <p>It is recommended that the Partnership implements a control in which consultancy and fees cost centres are reviewed on a periodic basis, by the procurement team, to identify expenditure with individual suppliers which exceeds tender thresholds to ensure the appropriate procurement route has been followed.</p> <p><i>(Grade two)</i></p>	<p>Agreed. Current review process requires to be diarised for implementation on a more frequent basis.</p>	<p>Chief Procurement Officer 30 June 2010</p>