

HIGHLAND AND WESTERN ISLES VALUATION JOINT BOARD

29 August 2013

Agenda Item	6
Report No	VAL 10/13

Statement on Internal Control 2012/13

Report by Head of Internal Audit & Risk Management, Highland Council

Summary

The attached report, Statement on Internal Control 2012/13 contains an assessment of the adequacy, reliability and effectiveness of the Board's system of internal financial control and provides information for the annual Statement of Accounts.

1. Statement on Internal Control

- 1.1 In order to comply with the requirements of the CIPFA/ LASSAC Code of Practice on Local Authority Accounting, a Statement on Internal Control must be produced. 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 Board's internal control systems for the year to 31st March 2013.

Recommendation

Members are invited to note the content of the attached report and to raise any relevant points.

Designation: Head of Internal Audit & Risk Management

Date: 7th August 2013

Ref:

Background Papers

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Highlands and Western Isles Valuation Joint Board

Statement on Internal Control 2012/13

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1. INTRODUCTION

- 1.1 The purpose of this report is to provide an assessment of the adequacy, reliability and effectiveness of the internal control systems within the Board. This complies with the requirements of the CIPFA/ LASAAC Code of Practice for Local Authority Accounting in the United Kingdom which recommends that Scottish Authorities voluntarily conduct an annual review of the effectiveness of its system of internal control and include a statement reporting on the review with any Statement of Accounts. In respect of the Highlands and Western Isles Valuation Joint Board a Statement on Internal Control is produced.

2. STATEMENT ON INTERNAL CONTROL

2.1 Responsibilities for 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.

The Head of Internal Audit and Risk Management, Highland Council, provides an annual overall assessment of the robustness of the system of internal control.

2.2 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 Board should seek continual improvement in the effectiveness of its systems of internal control.

2.3 Internal Audit

Internal Audit is an independent appraisal function established for the review of the internal control system as a service to the Board. It objectively examines, evaluates and reports upon the adequacy of internal control as a contribution to the proper, economic, efficient and effective use of resources. Any areas of concern together with the management agreed actions and target dates for implementation are summarised in an Action Plan within the report. It is the responsibility of management to ensure that implementation of these actions takes place as agreed. The Internal Audit Section will undertake periodic follow-up reviews to ensure that the management agreed actions have been satisfactorily implemented.

The Internal Audit Section operates in accordance with the requirements of the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom, 2006. As required by the Code, a risk based tactical audit plan is produced each year, and submitted for information to the Valuation Joint Board.

2.4 Evaluation of Control Environment

Evaluation of the control environment is informed by a number of different sources:

- The audit work undertaken by the Internal Audit Section during the year to 31st March 2013. This includes work undertaken directly for the Board and indirectly where the Highland Council's financial systems are used. For this year, this consisted of:
 - a high level review of the adequacy and effectiveness of the Board's system of internal control,
 - targeted testing of key controls to confirm that the Council's main financial systems are operating as intended, and this included a sample of transactions relating to the Board,
 - assurance provided by individual audits of the Council's main financial systems.
- A systems-based audit of the key controls operating over Council Tax and NDR valuation arrangements.
- Knowledge and audit appraisal of the governance, risk management and performance monitoring arrangements.
- The assessment of risk completed during preparation of the annual tactical plan.
- Any findings reported by the External Auditor and any other inspection agencies.

2.5 Information Security

The Highland Council's information systems are used by the Assessor's staff and these are provided by Fujitsu Services as part of a five year contract which commenced on 01/04/10. With regard to this service, assurance has been obtained in various areas. In particular, Fujitsu have provided an ISO 27001 (information security management) certificate which covers the period 05/05/12 – 04/12/15 and this covers their Data Centre in Stevenage and back up site in London. A visit was also made to the Stevenage Data Centre by Computer Audit staff on 21/05/13 and no areas of concern were identified.

A Customer Authorisation Notice (CAN) from the Public Services Network is in place, allowing use of this Network to 30/09/13. The Council's Computer Audit staff were involved in witnessing aspects of the testing towards achieving the CAN.

With regard to information management, an Information Management Strategy and Information Management Policy are both in place. Although the supporting Information Management Framework and Information Security Framework have not been implemented, the Council has recognised this and has a plan in place to complete these. As users of the Council's systems, these policies apply to the Assessor and his staff.

2.6 Governance, Risk Management and Performance Monitoring

An "Overview of Governance Arrangements" was produced by the Assessor and Electoral Registration Officer in August 2010. This document provides an overview of the purpose of the Assessor's Department and describes aspects of its governance and management arrangements, including risk management.

A Risk Profile Review and Audit Update report was provided to Board on 03/04/12 and an annual update should be provided.

A number of key performance indicators are in place and reporting upon performance is contained within the Assessor's annual report. The 2012/13 report has yet to be produced.

2.7 Review of Internal Controls and Main Financial Systems

As stated at 2.4 above, a high level review of the Board's system of internal control was undertaken and this did not identify any areas of concern.

During the financial year 2012/13 an audit was undertaken of the Debtors system. In addition, the other main financial systems; Creditors, Payroll, General Ledger, Income and Budgetary Control have been subject to a review of the key controls including:

- Financial procedures and guidance issued to staff;
- Segregation of duties;
- User access levels and appropriateness;
- System backups.

A sample of transactions across all organisations which use the Council's financial systems was also selected for detailed testing to verify that the controls were operating as expected. No control issues were identified but there are some minor findings which will be addressed in a separate audit report.

2.8 Internal Audits

The planned audits for 2013/14 consist of an audit of valuation arrangements and work to support the Statement on Internal Control for 2012/13.

The valuation audit examined transactions for the year 2012/13 and reviewed the arrangements for ensuring that relevant properties are identified & included in the valuation roll and are given the correct rateable value. Only valid amendments are made to the valuation roll and the relevant data is promptly and correctly transferred to the assessment roll. The findings from this audit will be addressed in a separate audit report but this does not affect the audit opinion.

2.9 Action Tracking

As part of the audit process, the recommendations are action tracked to ensure that the management agreed actions have been satisfactorily implemented. The results of the action tracking process are reported periodically to the Valuation Joint Board.

2.10 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 the Board's internal control systems for the year to 31st March 2013.