

# HIGHLAND AND WESTERN ISLES VALUATION JOINT BOARD

DATE: 10<sup>th</sup> June 2016

Agenda Item	6
Report No	VAL/9/16

## Statement on Internal Control 2015/16

### Report by Audit & Risk Manager, Highland Council

#### Summary

The attached report includes an assessment of the adequacy, reliability and effectiveness of the Board's system of internal control and provides information for its Annual Governance Statement contained within the 2015/16 Statement of Accounts.

#### 1. Statement on Internal Control

- 1.1 In order to comply with the requirements of the Public Sector Internal Audit Standards, 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 31<sup>st</sup> March 2016.

#### Recommendation

The Board is invited to note the content of the attached report and to raise any relevant points.

Designation: Audit & Risk Manager

Date: 30<sup>th</sup> May 2016

Ref:

Background Papers

Author: Donna Sutherland, Audit & Risk Manager, Highland Council

Author's Telephone No.: (01463) 702304



## Highlands and Western Isles Valuation Joint Board

Statement on Internal Control 2015/16

## **1. INTRODUCTION**

- 1.1 The purpose of this report is to provide an annual Internal Audit opinion for the period 1<sup>st</sup> April 2015 to 31<sup>st</sup> March 2016, and a report that can be used by the Highlands and Western Isles Valuation Joint Board to inform its Annual Governance Statement.
- 1.2 This report has been produced in accordance with the requirements of the Public Sector Internal Audit Standards (the Standards) which came into effect from 1<sup>st</sup> April 2013 and apply to all internal audit service providers. These Standards were developed in collaboration between the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Chartered Institute of Internal Auditors (CIIA).
- 1.3 Section 2450 of the Standards states that *"the annual Internal Audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. In addition, the annual report must incorporate:*
- *The opinion;*
  - *The summary of work that supports that opinion; and*
  - *A statement on conformance with the Standards and the results of the quality assurance and improvement programme."* As the Internal Audit service is provided by the Highland Council, this statement is provided within the Council's annual report.

## **2. STATEMENT ON INTERNAL CONTROL**

### **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 Board 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 Internal Audit is documented in an audit report and issued to management. 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 and the results of this will be reported to the Valuation Joint Board.

The Internal Audit Section operates in accordance with the Standards and as required, a risk based tactical audit plan is produced each year, and submitted for approval to the Valuation Joint Board.

### **2.3 Internal Audit work**

The work undertaken by the Internal Audit Section during the year to 31st March 2016 consists of that undertaken directly for the Board and indirectly where the Highland Council's financial systems are used. For this year, the planned work included:

- A review of the systems of internal control for the financial year 2015/16 consisting of a high level review of the adequacy and effectiveness of the Board's system of internal control and targeted testing of key controls. These key controls, summarised below are examined to confirm that the main financial systems are operating as intended.
  - Financial procedures and guidance issued to staff;
  - Segregation of duties;
  - User access levels and appropriateness;
  - System backups.
- An audit of the Valuation Roll and Council Tax List.

No major control issues have been identified from the Internal Audit work undertaken and the audit findings will be addressed in the relevant audit reports.

Audit recommendations are action tracked to ensure that the management agreed actions have been satisfactorily implemented. The matters arising from the Statement of Internal Control (SIC) 2014/15 report contained 3 recommendations which were graded as high, medium and low. The action plan contained a number of agreed actions with the last one to be completed by 31/05/16. Table 1 overleaf shows that each action has only been partially completed. Furthermore, there has been no contact to agree revised target dates.

*Table 1*

Grade	Finding	Recommendation	Management Action/ Target Date	Agreed Status
High	<p>Financial Regulations have not been reviewed since 2012. These are based upon the Highland Council's document, however, this has been subject to several revisions since 2012.</p> <p>The risk management process is insufficient and concentrates upon the identification rather than the management of risk. In particular:</p> <p>No risk appetite has been set and risks have not been categorised into those above the line (above the risk appetite) and require to be managed, and those below this line.</p> <p>No target risk scores have been set to identify where the managed risk would be.</p> <p>No action plans are in place to manage any above the line risks identified.</p>	<p>Financial Regulations should be reviewed and updated.</p> <p>The Assessor's risk management framework should be reviewed and changes made to ensure that this is robust and accords with best practice. This should include the following:</p> <ul style="list-style-type: none"> <li>• Agreeing the Board's risk appetite and then recording this on the risk profile;</li> <li>• Identifying which risks are above and below the risk appetite;</li> <li>• Identifying target risk scores for all above the line risks;</li> <li>• Producing action plans to manage all above the line risks which contain details of the required actions, officers responsible and target dates. Progress should then be monitored and corrective action taken where necessary.</li> </ul>	<p>Agreed (26/11/15).</p> <p>Report to Board (26/11/15).</p> <p>Agreed (31/12/15).</p> <p>Agreed (31/12/15).</p> <p>Agreed (31/05/16).</p>	<p>Completed.</p> <p>The final action is not due for completion until 31/05/16. However, the other actions were not completed by the agreed target date. A report will be provided to the Board on 10/06/16 with the updated risk profile but this does not address the audit recommendations and so this remains outstanding.</p>

Grade	Finding	Recommendation	Management Action/ Target Date	Agreed Status
Low	<p>(1) The date of supply was not recorded on the debtor invoice examined, therefore, it could not be established if this was raised within the timeframe (fourteen days from the date of supply) set out in Financial Regulations.</p> <p>(2) One budget monitoring report to the Joint Valuation Board was incomplete as it did not contain any explanation for a significant variance included in the report. Also a budget underspend was wrongly referred to as an overspend in the supporting appendix.</p>	<p>(1) All invoices should be dated to demonstrate that invoices are raised in accordance with the timelines specified in Financial Regulations.</p> <p>(2) Budget monitoring reports should contain appropriate explanations for all significant variances. In addition, it should be ensured that any supporting information provided to the Board is complete and accurate.</p>	<p>Remind staff of this requirement (30/09/15).</p> <p>Monitor (ongoing).</p> <p>There are ongoing discussions with the Treasurers staff in relation to improvements to budget coding.</p> <p>We shall seek to develop these discussions to consider the broader subject of financial reporting and monitoring and report to the Board in November.</p>	<p>Not completed – review of issued invoices showed that supply date is not always recorded.</p> <p>Completed.</p>
Medium	<p>Previous management agreed actions have not been implemented as agreed and some from the 2012/13 report remain outstanding. In particular:</p> <ul style="list-style-type: none"> <li>• The local Code of Corporate Governance has not been updated and the present format does not accord with best practice.</li> <li>• Contract Standing Orders have not been reviewed since 2010.</li> </ul>	<p>(1) These documents should be reviewed and updated to reflect best practice and legislative changes that have occurred.</p> <p>(2) The Assessor should ensure that all management agreed actions from Internal Audit reports are implemented within the agreed target dates. Where these cannot be met then the Head of Audit &amp; Risk Management should be contacted to agree a revised target date.</p>	<p>Agreed (31/03/16).</p> <p>Noted. Delay is due to necessary prioritisation of available resources. Progress shall be reported to the Board in November and January.</p>	<p>(1) Action completed - both of these documents have been amended and should be approved by the Board on 10/06/16.</p> <p>(2) This has not been implemented as there are still outstanding agreed actions and no revised target dates have been agreed.</p>

## **2.4 Governance arrangements**

The document an "Overview of Governance Arrangements" was produced by the Assessor and Electoral Registration Officer in August 2010. This provided an overview of the purpose of the Assessor's Department and described aspects of its governance and management arrangements, including risk management. The 2014/15 SIC report referred to the need to update this document, particularly as it had not been prepared in accordance with the CIPFA/SOLACE guidance 'Delivering Good Governance in Local Government'. The audit recommendation was agreed and a local Code of Corporate Governance for 2016/17, which accords with the CIPFA/ SOLACE guidance, has now been drafted. It is intended that the final version of the local Code will be presented for approval by the Board on 10/06/16.

## **2.5 Risk Management**

A Risk Profile review report is provided annually to the Board or more frequently if there is a significant change to the risk profile. This report was provided to the Board on 12/05/15 and the next report will be provided on 10/06/16.

However, the previous concerns which were reported in the 2013/14 and 2014/15 SIC reports with regard to the risk management framework still remain in that the process concentrates upon the identification rather than the management of risk. Further details are provided in Table 1 of section 2.3.

## **2.6 Information Management and Security**

The Highland Council's information systems are used by the Assessor's staff and the majority of these are currently provided by Fujitsu Services as part of a five year contract which commenced on 01/04/10 and was partially extended for a further 18 months up to 30/09/16. This extension covered all elements of the contract with the exception of network support services relating to Telephony and the Local Area Network (LAN). It also contains an agreed exit provision termination agreement to give the Council contractual cover until 31/03/17 in line with the ICT re-provision requirements.

With regard to Telephony, the staffing element was removed from the contract and the officers transferred over to the Council on 01/04/15. The fixed telephony service ceased with BT in December 2015 and this is now provided by Vodafone. Transition from BT to Vodafone is progressing, with 8 Assessors' sites live with Vodafone and 3 sites with BT lines/ services still to transition as at 29/04/16.

On 01/03/16, a contract commenced with Capita (SWAN Value Added Service contract) for the LAN service.

The Council's contract with its other main ICT supplier, Vodafone, for managed data network services to Schools, Libraries and Council administration locations ended on 31/03/16. During March, the Wide Area Network (WAN) provision was transitioned from Vodafone to a new Capita Scottish Wide Area Network (SWAN) contract on a site by site basis. As at 31/03/16, two primary sites were connected to SWAN; Council Headquarters and an office in the Beechwood business park in Inverness. The first edge site transferred in the following month and transition will continue up to March 2017 for the remaining sites.

A new financial management information web-based system, Integra, supplied by Capita Integrated Business Solutions (Capita IBS) went live on 01/04/15.

The Council is authorised to use the Cabinet Office's Public Sector Network (PSN) for secure email communications between it and its government partners and applications such as DWP and Blue Badge. The Council has been re-accredited and this will cover the period 30/04/15 to 09/05/17.

The Council has an approved Information Security Management System in place as required by ISO 27001. The Council's Information Management Strategy which

covers the period 2013-2017 and this was last reviewed on 25/02/15. The Information Management Governance Board (IMGB) oversees and governs the delivery of the Strategy which is supported by a range of policies that make up the Information Management Policy Framework. The Framework includes the following policies: Information Management, Records Management, Records Retention & Disposal, Information Security and Data Protection which should be reviewed annually to ensure that these remain fit for purpose. The Assessor uses the majority of Council's ICT policies and procedures and the same governance arrangements apply. The exceptions are in respect of the Records Management Policy, which was approved by the Board on 26/11/15, and a new Data Protection Policy, which has been prepared for approval by the Board on 10/06/16.

Operational Information Security management is managed by ICT Services and an ICT Security Group exists to support this through the review of security incidents and identifying and evaluating security risks. The IMGB reviews high level information security risks referred from the ICT Security Group and other information security risks that relate to non-ICT issues.

The following third party assurances have been received:

- Fujitsu has ISO 27001 information security management certification for their Data Centre in Stevenage and their back up site in London until 04/12/18.
- For the SWAN contract Capita Business Services has ISO27001:2013 information security management certification for the period 26/01/15 to 26/01/18. Their Direct Network Service Provider (DNSP), Udata Infrastructure UK Ltd, has been assured as compliant with requirements to connect to the PSN as a DNSP. The Capita Udata connectivity and network framework has been assessed under CESG Assured Service and approved against Telecommunications from 23/03/15 to 22/03/18.
- In respect of Integra, Capita IBS has accreditations including ISO 9001:2008 – Quality Management System certification to 31/10/18 and ISO 27001:2013 – Information Security Management Systems Requirement certification to 15/06/18. The hosted system is managed in a UK data centre by Ark Data Centres Limited. Ark has certifications including ISO 27001:2013 – Information Security Management Systems Requirement for the provision of a distributed data centre environment valid from 28/07/13 to 27/07/16; ISO 9001:2008 – Quality Management System certification from 17/05/13 to 16/05/16 and certification for operating a Business Continuity Management System complying to the requirements of ISO22301:2012 from 18/05/13 to 17/05/16. To ensure the safety of the Council's network and comply with PSN requirements, penetration (PEN) testing was carried out in April 2016 and a report of findings followed in May 2016. This has highlighted a number of areas for improvement which have been classified in terms of the timescale in which these should be addressed as 1 critical, 10 high, 9 medium and 10 low. These are to be discussed with the contractor in order to agree the necessary actions required.

## **2.7 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 31<sup>st</sup> March 2016.