

**HIGHLAND AND WESTERN ISLES VALUATION JOINT BOARD**

**Date:** 21<sup>st</sup> June 2018

**Report Title:** Internal Audit Annual Report 2017/18

**Report By:** Corporate Audit Manager, The Highland Council

**1. Purpose/Executive Summary**

- 1.1 The attached report includes an assessment of the Board's framework of governance, risk management and control, and the associated opinion which provides information for the Board's Annual Governance Statement.

**2. Recommendations**

- 2.1 The Board is invited to note the content of the report, the audit opinion provided and to raise any relevant points with the Corporate Audit Manager.

### 3. Annual Report 2017/18

- 3.1 The Public Sector Internal Audit Standards requires that the Chief Audit Executive (the Corporate Audit Manager):

*“Delivers an annual internal audit opinion and report that can be used by the organisation to inform its governance statement.*

*The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation’s framework of governance, risk management and control.*

*The annual report must also include a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme.”*

These requirements have been met by the report provided at **Appendix 1** with section 2 of the report used to inform the Board’s Annual Governance Statement.

Designation: Corporate Audit Manager

Date: 12<sup>th</sup> June 2018

Author: Donna Sutherland

Background Papers:

**Appendix 1**



# Highlands and Western Isles Valuation Joint Board

Annual report 2017/18

## **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 2017 to 31<sup>st</sup> March 2018, and a report that can be used by the Highlands and Western Isles Valuation Joint Board to inform its Annual Governance Statement (see section 2).
- 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. ANNUAL GOVERNANCE STATEMENT**

### **2.1 Internal Control**

Internal control is defined as *"the whole system of checks and controls, financial or otherwise, established by management in order to provide reasonable assurance"* regarding the achievement of one or more of the following objectives:

- The reliability and integrity of information.
- Compliance with policies, plans, procedures, laws, regulations and contracts.
- The safeguarding of assets.
- The economical and efficient use of resources.
- The accomplishment of established objectives and goals for operations or plans.

Any system of control can only provide reasonable, and not absolute assurance that control weaknesses or irregularities do not exist, or that there is no risk of material errors, losses, fraud or breaches of laws and regulations. Accordingly the 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 31 March 2018 consists of that undertaken directly for the Board and indirectly where the Highland Council's financial systems are used. For this year, the work included:

- A review of the systems of internal control to inform the Board's Annual Governance Statement and the Internal Audit Annual Report. The audit opinion concluded that reasonable assurance could be placed upon the Board's framework of governance, risk management and control for the year.
- Review of the valuation arrangements for Council Tax and Non-Domestic Rates establishments. This audit had the opinion of "Substantial Assurance" and 1 medium grade recommendation was made.

In addition, a programme of continuous auditing has been undertaken where a sample of Integra income and expenditure transactions were selected for audit testing during the year 2017/18 to ensure that the controls are operating as expected. This has not highlighted any weaknesses in the systems of internal control.

Audit recommendations are action tracked to ensure that the management agreed actions have been satisfactorily implemented. This process also allows for revision of the agreed action target dates and where these cannot be met, the Corporate Audit Manager should be contacted to agree a revised target date. Despite the planned action reported last year, there have still been delays in receiving responses to action tracking requests and this issue will be addressed with the Assessor.

Despite the above issues, on the basis of the work undertaken during the year, it was 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 March 2018.

### **2.4 Governance arrangements**

The Assessor has a Local Code of Corporate Governance, which is consistent with the principles and reflects the requirements of the CIPFA/SOLACE guidance 'Delivering Good Governance in Local Government'. This has been adapted to reflect the Board's duties which are less wide-ranging than local authorities.

The 2017/18 Code was approved by the Board on 24/11/17.

### **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 27/06/17.

### **2.6 Audit Opinion**

On the basis of the work undertaken during the year, it is considered that the key systems operate in a sound manner and that there has been no fundamental breakdown in control resulting in material discrepancy. However as no system of control can provide absolute assurance against material loss, nor can Internal Audit give that assurance, it is the audit opinion that reasonable assurance can be

placed upon the adequacy and effectiveness of the Board's framework of governance, risk management and control for the year to 31<sup>st</sup> March 2018.