

22 September 2023

Agenda Item	9a
Report No	VAL/23/23

Internal Audit Annual Report 2022/23

Report by Strategic Lead (Corporate Audit & Performance), Highland Council

Summary

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.

Annual Report 2022/23

The Public Sector Internal Audit Standards requires that the Chief Audit Executive (the Strategic Lead (Corporate Audit & Performance)):

“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.

Recommendation

The Board is asked to note the content of the report, the audit opinion provided and to raise any relevant points with the Council's Strategic Lead.

Designation: Strategic Lead (Corporate Audit & Performance)

Date: 5th September 2023

Author: Donna Sutherland, Strategic Lead (Corporate Audit & Performance), Highland Council



Highlands and Western Isles Valuation Joint Board

Annual report 2022/23

1. INTRODUCTION

- 1.1 The purpose of this report is to provide an annual Internal Audit opinion for the period 1st April 2022 to 31st March 2023, 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 1st 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.

2.3 Internal Audit work

The work undertaken by the Internal Audit Section during the year to 31 March 2023 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. This also included review of a random sample of financial transactions during the year to verify that the expected controls had been complied with. A sample of 6 expenditure transactions were checked to ensure these were procured and paid correctly in accordance with the Assessor's Financial Regulations and Contract Standing Orders, and this was accurately recorded in the financial ledger. These were found to be satisfactory.

As staff costs are the most significant area of expenditure, an overview of payroll controls was also undertaken to ensure that there are appropriate arrangements to ensure the completeness and accuracy of payroll. This identified that there are appropriate checks over payroll starters and leavers, and for review of the monthly payroll ledger costs. In addition, a full audit was undertaken in 2022 and any discrepancies were raised with Payroll staff at that time.

- The 2022/23 audit plan included the review of the Individual Electoral Registration (IER) process which has been outstanding for some time due to the continuation of the Covid-19 restrictions. Whilst the Terms of Reference was issued, the audit was not undertaken due to staff absence. The fieldwork for this audit is now in progress and the results will be reported to the Board in due course.

2.4 Governance arrangements

The Assessor has a Local Code of Corporate Governance which follows the format set out in the CIPFA/ SOLACE Guidance Note for Scottish Authorities – Delivering Good Governance in Local Government (2016). This guidance sets out the seven core principles and their associated sub-principles designed to demonstrate good governance. This has been adapted to reflect the Board's duties which are less wide-ranging than local authorities.

The Code of Corporate Governance 2022/23 Code was approved by the Board on 23/09/22 and contains a number of actions in place to ensure compliance with the above principles.

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 25/11/22.

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 31st March 2023.