HIGHLAND AND WESTERN ISLES VALUATION JOINT BOARD	Agenda Item	6
DATE: 17th September 2015	Report No	VAL/18/ 15

Statement on Internal Control 2014/15

Report by Head of Audit & Risk Management, 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 2014/15 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 31st March 2015.

Recommendation

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

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Date:	1st September 2015
Ref:	
Background Papers	
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Highlands and Western Isles Valuation Joint Board

Statement on Internal Control 2014/15

1. INTRODUCTION

1.1 The purpose of this report is to provide an annual Internal Audit opinion for the period 1st April 2014 to 31st March 2015, and a report that can be used by the Highlands and Western Isles Valuation Joint Board to inform its 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 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. 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 2015 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 2014/15 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 Assessor's payroll. The payroll is processed by Highland Council staff using their system, with a separate payroll used for the Assessor.

Assurance is also provided by individual audits of the Council's main financial systems. For this year this consisted of the general ledger, income and central aspects of the payroll system.

No 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) 2012/13 report still has outstanding actions. Furthermore, these were actions from the previous year's report that should have been implemented but when these were followed-up, this had not been done. In response, a further agreed action was put in place that the Assessor's policies would be updated by 30/09/14. However, the two policies detailed below have not been revised and as a result:

- The local Code of Corporate Governance has not been updated since 2010. In particular it has not been prepared in accordance with the CIPFA/SOLACE guidance 'Delivering Good Governance in Local Government' which sets out a framework to assist organisations in reviewing their governance arrangements and how they can demonstrate compliance with the principles of good governance.
- Contract Standing Orders were last updated in 2010. This version does not reflect subsequent changes to the EU tendering thresholds and the revisions made to the Public Contracts (Scotland) Regulations 2012.

2.4   Governance arrangements

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.

In their 2013/14 audit plan, Audit Scotland referred to this document and the need to update it. This issue has also been raised in two Internal Audit reports. Despite this, as detailed in section 2.3 above, this action remains outstanding.

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 01/05/14.

The SIC report 2013/14 stated that whilst the risks were identified within the risk profile reports, there were no actions recorded. Whilst the Assessor stated that some risks had been addressed, he was unable to confirm that full action plans were in place. It was agreed that this would be taken forward in 2014/15 to ensure that appropriate action plans were in place to support the risk register where required. However, this has not been done and so the risk management framework is not a robust as would be expected.

2.6   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 and has been partially extended for a further 18 months. 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. In addition an Internal Audit review on physical and environmental security for other Inverness data sites, not included in the Fujitsu certificate of assurance, was carried out. This review reported substantial assurance for the areas covered.

A Customer Authorisation Notice (CAN) from the Public Services Network has recently been extended, allowing use of this Network to 30/04/15. A member of the Council's Computer Audit Team was involved in witnessing aspects of the testing towards achieving the CAN.

An Information Management Governance Board oversees the implementation of information management. In addition both an Information Management Strategy and Information Management Policy are in place and an annual review of both the Strategy and the Policy was approved by the Council's Resources Committee in February 2015. An Information Management Strategy Implementation Plan has also been produced. This Information Management Government Board also oversees the implementation of the Council's Records Management Policy which also underwent an annual review in February 2015.

The Council has an approved Information Security Management System in place as required by ISO 27001. In addition it has an Information Security Policy and Acceptable Use Policy. Operational Information Security management is managed by ICT Services. An ICT Security Group exists to support this through the review of security incidents and identifying and evaluating security risks. A formal review of the Council's own compliance with ISO 27001 was carried out in June 2014 as part of the Fujitsu ICT Contract Security Plan and demonstrated a positive outcome.

As users of the Council's systems, the above governance and policies apply to the Assessor and his staff.

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 31st March 2015.