

HIGHLAND AND WESTERN ISLES VALUATION JOINT BOARD

DATE: 17th September 2015

Agenda Item	7
Report No	VAL/19/15

Internal Audit Report – Matters Arising from the Statement on Internal Control 2014/15 and Internal Audit Plan 2015/16

Report by Head of Audit & Risk Management, Highland Council

Summary

This report refers to the audit work undertaken since the last report to the Board on 28th January 2015.

In addition, details are provided of the audits being undertaken as part of the 2015/16 Audit Plan which Members are asked to approve.

1. Internal Audit Report – Matters Arising from the Statement of Internal Control 2014/15

- 1.1 There has been one audit report issued which relates to the Statement on Internal Control 2014/15. The Statement has been provided in the previous agenda item and the audit opinion stated 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. In order to provide this opinion, an audit was undertaken of the Assessor's systems of internal control and the attached report contains details of the matters arising from this work.

This report has an audit opinion of Reasonable Assurance and contains a total of 3 recommendations comprising of 1 each at high, medium and low priority grades. All recommendations have been accepted by management with the last agreed action due to be completed by 31/05/16.

- 1.2 Each Internal Audit report contains an audit opinion based upon the work performed in respect of the subject under review. There are five audit opinions which can be provided:

- (i) **Full Assurance:** There is a sound system of control designed to achieve the system objectives and the controls are being consistently applied.
- (ii) **Substantial Assurance:** While there is a generally a sound system, there are minor areas of weakness which put some of the system objectives at risk, and/ or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.
- (iii) **Reasonable Assurance:** Whilst the system is broadly reliable, areas of weakness have been identified which put some of the system objectives at risk, and/ or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk
- (iv) **Limited Assurance:** Weaknesses in the system of controls are such as to put the system objectives at risk, and/ or the level of non-compliance puts the

system objectives at risk.

- (v) **No Assurance:** Control is generally weak, leaving the system open to significant error or abuse, and/ or significant non-compliance with basic controls leaves the system open to error or abuse.

1.3 There is one audit to be completed as part of the 2014/15 plan of work which relates to a review of the Assessor's Payroll. The draft report has been issued and it is expected that the final report will be provided to the next Board meeting.

2. Audit Plan 2015/16

2.1 The following work is being undertaken as part of the Assessor's 2015/16 Audit Plan:

- (i) Review of the systems for the maintenance of the Valuation Roll and Council Tax List information to ensure that this is complete and accurate;
- (ii) Review of the systems for the identification and collection of income, including debtor invoices;
- (iii) Work to support the Statement on Internal Control for 2014/15 and this audit report is provided.

Audit Scotland has stated that they intend to place reliance upon the work undertaken by Internal Audit with regard to (ii) and (iii) above.

Recommendation

Members are invited to:

- (i) Consider the content of the attached report and the audit opinion provided, and to raise any relevant points with the Head of Audit & Risk Management.
- (ii) Note the status of this year's planned audits and to formally approve the 2015/16 Audit Plan.

Designation: Head of Audit & Risk Management

Date: 3rd September 2015

Ref:

Background Papers

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

Author's Telephone No.: (01463) 702304

CONFIDENTIAL

**INTERNAL AUDIT
FINAL REPORT**

ASSESSOR'S DEPARTMENT

MATTERS ARISING FROM THE STATEMENT
OF INTERNAL CONTROL 2014/15

AUTHOR

Sharon Calder
Internal Audit
Finance Service

DISTRIBUTION

Assessor & ERO
Audit Scotland (for information only)

REF: ASS09/001

DRAFT DATE:
FINAL DATE:

17/08/15
07/09/15

Contents

1.	INTRODUCTION	1
2.	SCOPE, METHOD AND COVERAGE	1
3.	MAIN FINDINGS	1
4.	CONCLUSION.....	3
5.	AUDIT OPINION	3
6.	ACTION PLAN	4

1. INTRODUCTION

In order to inform the Head of Audit & Risk Management's annual Statement of Internal Control, work was undertaken to examine the systems of internal control operated within the Assessor's Department. This consisted of:

- (i) A high level review of the system of internal control by way of an evidence-based checklist comprising six key areas:
 - Control environment.
 - Identification and evaluation of risk and control objectives.
 - Information and reporting.
 - Control processes.
 - Monitoring and corrective action.
 - Assessment of whether the key controls have been applied during the year.
- (ii) A review of the key controls operated within those financial systems which were not subject to a detailed audit review during the year (Creditors, Debtors and Budgetary Control). The areas examined included:
 - Financial procedures and guidance issued to staff;
 - Segregation of duties;
 - User access levels and appropriateness;
 - System backups and security of data.

A sample of transactions was also selected for detailed testing to verify that the controls were operating as expected. This sample covered the Council, Pension Fund and organisations which use some or all of the Council's financial systems (Assessor's Department, High Life Highland, NHS Highland and HITRANS).

An audit of the Assessor's payroll was also undertaken for 2014/15.

- (iii) A follow-up review to ensure that the agreed actions arising from the previous audit report have been satisfactorily implemented by Management.

2. SCOPE, METHOD AND COVERAGE

Details of the procedures in operation were ascertained by enquiry of officers within the Assessor's Department and review of documents published on their website.

The audit testing covered the financial year 01/04/14 – 31/03/15.

3. MAIN FINDINGS

The main finding of the review was that the systems of internal control were reliable. However, there were some matters identified where action could be taken by management to improve the internal controls as follows:

- (i) Internal Control Checklist

In addition to the policies referred to at (iii) below, the Assessor's Financial Regulations have not been reviewed since November 2012. These are based upon the Highland Council's document, however, this has been subject to several revisions since 2012.

In addition, the Assessor's risk management framework is not as robust as expected due to the following:

- The risk profile reported to the Board does not contain details of the risk appetite in order to identify which risks are above and below the

line. Best practice is to manage the above the line risks and monitor those below the line.

- The identified risks have been risk scored but no target scores have been set.
- There are no action plans in place to manage any above the line risks identified. Reference to this omission was made in the Statement of Internal Control 2013/14 and the Assessor agreed that this would be taken forward during 2014/15 but this has not been done.

Due to these findings it was concluded that the current process is one of risk identification rather than the critical element which is to manage the identified risks. (report reference 6.1)

(ii) Review of key controls

Other than the issues noted below, the key controls were found to be operating satisfactorily.

Creditors

As part of the testing of creditor invoices, a sample of two from the Assessor's Department were examined comprising of a monthly rent payment amounting to £27,093 and a payment for property repairs amounting to £2,868. In both cases, the correct procedures as set out in Financial Regulations had been followed.

Debtors

One debtor invoice was examined with related to the supply of a copy of the valuation roll. As no date of supply was recorded, as such, it could not be determined if the invoice was raised within 14 days of the date of supply as required by the Assessor's Financial Regulations.

Budgetary Control

The budgetary control process is operating satisfactorily. However, there were issues with the completeness and accuracy of the information reported to the Valuation Joint Board (VJB) on 21/05/15 as whilst explanations were provided for costs over or under the budget, no details were provided in respect of the unbudgeted cost of £7k on Board expenses or what action was being taken to address this. In addition, the appendix supporting the report wrongly referred to an overspend on the Valuation Appeals Committee rather than underspend.

(iii) Follow-up of management agreed actions

There is still a medium grade action outstanding from the Statement of Internal Control (SIC) 2012/13 report relating to the update of two Corporate Governance Policies, namely the Code of Corporate Governance and Contract Standing Orders, the details of which has been highlighted below. These actions were from the 2012/13 report that should have been implemented but when 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, but the policies have not been revised (report reference 6.3):

- 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.

4. CONCLUSION

It has been concluded that there are adequate and effective systems of internal control operating for the Assessor's Department, which can be improved by carrying out the recommendations in this report. As a result, this report contains one high, one medium and one low priority grade recommendation. All recommendations have been accepted by management, with the last agreed action due to be completed by 31/05/16.

5. AUDIT OPINION

The opinion is based upon, and limited to, the work performed in respect of the subject under review. Internal Audit cannot provide total assurance that control weaknesses or irregularities do not exist. It is the opinion that **Reasonable Assurance** can be given in that whilst the system is broadly reliable, areas of weakness have been identified which put some of the system objectives at risk, and/or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk. The levels of assurance and their definitions can be found at Appendix 1.

6. ACTION PLAN

The Action Plan contains **3** recommendations as follows:

Description

Major issues that managers need to address as a matter of urgency.

Important issues that managers should address and will benefit the Organisation if implemented.

Minor issues that are not critical but managers should address.

Total recommendations

Priority	Number
High	1
Medium	1
Low	1
	3

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
6.1	High	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.	Financial Regulations should be reviewed and updated.	Agreed. The Regulations have as their basis the Highland Council's Financial Regulations which are due to be updated at the end of September. The Board's Regulations shall be updated immediately thereafter.	Assessor	26/11/15
		The risk management process is insufficient and concentrates upon the identification rather than the management of risk. In particular:	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:	Agreed.		
		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.	<ul style="list-style-type: none"> Agreeing the Board's risk appetite and then recording this on the risk profile; Identifying which risks are above and below the risk appetite; 	Report to Board.	Assessor	26/11/15
		No target risk scores have been set to identify where the managed risk would be.	<ul style="list-style-type: none"> Identifying target risk scores for all above the line risks; 	Agreed.	Assessor	31/12/15
				Agreed.	Assessor	31/12/15

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
		No action plans are in place to manage any above the line risks identified.	<ul style="list-style-type: none"> 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. 	Agreed.	Assessor	31/05/16
6.2	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.</p> <p>Monitor.</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>Assessor</p> <p>Office Support Manager &</p> <p>Office Support Manager and</p> <p>Assessor</p>	<p>30/09/15</p> <p>Ongoing</p> <p>30/09/15</p> <p>30/11/15</p>

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
6.3	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"> The local Code of Corporate Governance has not been updated and the present format does not accord with best practice. Contract Standing Orders have not been reviewed since 2010. 	<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 & Risk Management should be contacted to agree a revised target date.</p>	<p>Agreed.</p> <p>Noted. Delay is due to necessary prioritisation of available resources. Progress shall be reported to the Board in November and January.</p>	Assessor	31/03/16

Internal Audit Opinion

Level	Definition
Full Assurance	There is a sound system of control designed to achieve the system objectives and the controls are being consistently applied.
Substantial Assurance	While there is a generally a sound system, there are areas of weakness which put some of the system objectives at risk, and/ or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.
Reasonable Assurance	Whilst the system is broadly reliable, areas of weakness have been identified which put some of the system objectives at risk, and/ or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.
Limited Assurance	Weaknesses in the system of controls are such as to put the system objectives at risk, and/ or the level of non-compliance puts the system objectives at risk.
No Assurance	Control is generally weak, leaving the system open to significant error or abuse, and/ or significant non-compliance with basic controls leaves the system open to error or abuse.