

HIGHLAND AND WESTERN ISLES VALUATION JOINT BOARD

DATE: 15th September 2016

Agenda Item	5
Report No	VAL/17/16

Internal Audit Report – Matters Arising from the Statement on Internal Control 2015/16

Report by Audit & Risk Manager, Highland Council

Summary

This report refers to the audit work undertaken since the last report to the Board on 25th November 2015.

1. Internal Audit Report – Matters Arising from the Statement of Internal Control 2015/16

- 1.1 There has been one audit report issued which relates to the Matters Arising from the Statement on Internal Control 2015/16. This report has an audit opinion of Substantial Assurance and contains a total of 2 recommendations comprising of 1 high and 1 medium priority grade. All recommendations have been accepted by management and actions have been agreed to address these. Some of these are already completed, target dates have been agreed for the outstanding actions and the final one is due to be implemented by 31/01/17.
- 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.

Recommendation

Members are invited to consider the content of the attached report and the audit opinion provided, and to raise any relevant points with the Audit & Risk Manager.

Designation: Audit & Risk Manager

Date: 5th September 2016

Ref:

Background Papers

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

Author's Telephone No.: (01463) 702304

INTERNAL AUDIT FINAL REPORT

ASSESSOR'S DEPARTMENT
MATTERS ARISING FROM THE STATEMENT OF
INTERNAL CONTROL 2015/16

AUTHOR

Sharon Calder
Internal Audit
Finance Service

DISTRIBUTION

Assessor & ERO

REF: ASS09/002

DRAFT DATE:
FINAL DATE:

14/07/16
05/09/16

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1. INTRODUCTION

In order to inform the Audit & Risk Manager'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 Assessor's Department 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, General Ledger, Payroll 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 and HITRANS).

A separate audit of the Assessor's Debtors & Income systems is also currently being undertaken.

- (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 & 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 01/04/15 – 31/03/16.

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:

3.1 Internal Control Checklist

The Assessor's risk management framework is not as robust as expected due to the fact that the management agreed action from the previous audit report have not been implemented, see Section 3.3 for further details.

3.2 Review of key controls

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

As part of the testing of creditor invoices, a sample of two from the Assessor's Department were examined comprising of a quarterly IT support charge of £14,035 for maintaining the Assessor's Chameleon system and a payment £7,583 for the Strand/Electoral register maintenance. With regard to the former, contrary to the Assessor's Financial Regulations the processed invoice did not contain the Assessor's official order number. For the latter, although a contract was in place, contrary to Financial Regulations, no purchase order was raised for the services required.

3.3 Follow-up of management agreed actions

The audit report on the Matters arising from the Statement of Internal Control 2014/15 was issued on 07/09/15. This report contained one high, one medium and one low grade action, all of which were accepted by management. The recommendations were due to be fully completed by 31/12/15, but when followed up, not all of the previous management actions had been implemented as agreed. Details are provided in the table below.

Recommendation	Management agreed action	Status
Steps should be taken to strengthen the Assessor's risk management framework, In particular: <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;• Identifying target risk scores for all above the line risks;• 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.	<p>Report to the Board (26/11/15)</p> <p>Agreed (31/12/15)</p> <p>Agreed (31/12/15)</p> <p>Agreed 31/05/16)</p>	<p>Action outstanding. Although risks were agreed and identified, the risk profile reported to the Board did not contain full details of all risks above or below the line.</p> <p>Completed 31/12/15.</p> <p>Action outstanding.</p> <p>Action outstanding.</p>

Recommendation	Management agreed action	Status
(1) All (debtor) invoices should be dated to demonstrate that invoices are raised in accordance with the timelines specified in Financial Regulations.	Remind staff of this requirement (30/9/15) Monitor (ongoing)	Outstanding.
(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.	There are ongoing discussions with the Treasurers staff in relation to improvements to budget coding. We shall seek to develop these discussions to consider the broader subject of financial.	Completed 30/11/15.

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 and one medium priority grade recommendation. The recommendations have been accepted by management, with the agreed actions to be completed by 31/01/17.

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 **Substantial Assurance** can be given in that while there is 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.

6. ACTION PLAN

The Action Plan contains **2** 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	0
	<u>2</u>

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
3.2.1	Medium	Two paid invoices were examined and the process did not comply with the requirements of the Assessor's Financial Regulations in that 1 invoice was not supported by a purchase order and the other invoice did not contain the relevant purchase order number.	All officers involved in the purchasing and payment of goods and services should be reminded of the need to fully comply with the requirements of Financial Regulations and the associated guidance notes. In particular it should be ensured that purchase orders are raised and that invoices contain all required information before being processed for payment.	Relevant Officers shall be reminded.	Assessor	Completed

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
3.3.1	High	The agreed actions from the 2014/15 audit report have not been fully implemented.	The previous management agreed actions should be implemented as a matter of priority and these are reiterated below.			
		(1) The Assessor's risk management framework is not as robust as expected:	(1) 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:			
		<ul style="list-style-type: none"> The risk profile reported to the Board did not contain complete details of risks identified as those being above and below the line. Risks have been scored but target scores have not been set. No action plans were in place to manage all identified above the line risks. 	<ul style="list-style-type: none"> Agreeing the Board's risk appetite and then recording this on the risk profile; Identifying target risk scores for all above the line risks; 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. 	<p>A new risk register will be developed.</p> <p>Risk register submitted to June Board contained RAG status and acceptable, managed and active risks.</p> <p>Action plans will be developed for each identified managed and active risk.</p>	Assessor	30/11/16
		(2) The debtor invoices examined did not record the date when the goods or services were supplied.	(2) In accordance with Financial Regulations, all debtor invoices should include the date of supply.	Relevant staff to be advised.	Assessor	30/11/16
					Assessor	31/01/17
					Assessor	Completed