HIGHLAND AND WESTERN ISLES VALUATION JOINT BOARD

Date: 27th June 2017

Report Title: **Internal Audit Annual Report 2016/17**

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 2016/17

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:

Author: Donna Sutherland

Background Papers:

Highlands and Western Isles Valuation Joint Board

Annual report 2016/17

1. INTRODUCTION

1.1 The purpose of this report is to provide an annual Internal Audit opinion for the period 1st April 2015 to 31st March 2017, 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.

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 2017 consisted of:

- A review of the adequacy and effectiveness systems of internal control for the financial year 2015/16.
- An audit of the Debtors and Income Systems. This audit had the opinion of "Substantial Assurance" and 1 medium grade recommendation was made.

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. Delays in receiving responses to action tracking requests have occurred but the planned meetings (see below) will include review of any outstanding management agreed actions.

The 2015/16 Annual Governance Statement highlighted particular concerns with regard to the robustness of the risk management process and the failure to implement the management agreed actions in response to audit reports. The Assessor has stated that changes will be made to the risk management process to ensure that this is robust and accords with best practice. Details will be provided to the Valuation Joint Board meeting on 27/06/17. In addition, in order to improve the Internal Audit process, six-monthly meetings will be held with the Assessor and the Corporate Audit Manager to discuss audit matters and to address any outstanding issues. The first such meeting took place on 12/06/17.

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 2016/17 Code was approved by the Board on 10/06/16.

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 10/06/16and the next report will be provided on 27/06/17 together with changes to the risk management process referred to at section 2.3 above.

2.6 Information Management and Security

The majority of the Council's information systems and services were provided by Fujitsu Services as part of a five year contract commencing from 01/04/10 with an agreed exit provision termination agreement to give the Council contractual cover until 31/03/17 in line with the ICT re-provision requirements. In September 2016, the Council awarded a 7 year ICT Services contract to Wipro Holdings UK Ltd. As part of this service provision, the ICT Team worked closely with partners since September 2016 towards the transition of ICT services from Fujitsu to Wipro with take on of service starting on 01/04/17. The planned ICT Transition programmes of work were reported to the Council's Resources Committee on 23/11/16 and also on 08/02/17 along with the ICT Network programmes to provide detail of the wider ICT Implementation activity. This covered the initial transition and 6 Transformation Projects.

An ICT Implementation Board is in place with 4 sub-boards: ICT Transition and Transformation, ICT Contract Exit, ICT Networks and the Curriculum ICTiL Boards to provide governance and oversee delivery of the ICT implementation.

The Telephony service successfully transferred to the Council on 01/04/15. On 01/03/16, a contract commenced with Capita (SWAN Value Added Service contract) for the LAN service.

Performance of Fujitsu ICT service delivery and contracts were monitored by the Service Management Board which sat under the ICT Partnership Board and reports were provided every 6 months to the Resources Committee. During 2016/17, Committee reports were presented on 25/05/16 for the period October 2015 to March 2016. On 23/11/16, a performance report was provided for the period April to September 2016 on the delivery of services by the Council's ICT providers, principally Fujitsu Services, Vodafone and Capita. A report for the period October to March 2017 is due in 2017 and new governance arrangements will be put in place for the new contract. This includes the new ICT Contracts Board to replace the ICT Partnership Board in April 2017.

SWAN Transition from Pathfinder North or PfN was reported to the Resources Committee in 23/11/16 and also in 08/02/17. These reports described the inter-dependencies between the ICT Re-provision Programme work and SWAN transition, with reference to preparatory work for a wider Local Area Network (LAN) refresh across Council sites.

The Council's contract with its other main ICT supplier, Vodafone, for managed data network services to Schools, Libraries and Council administration locations ended on 31/03/16 but was subsequently extended to cover the additional time needed to transition to the new provider. The Wide Area Network (WAN) provision is being transitioned from Vodafone to a new Capita Scottish Wide Area Network (SWAN) contract on a site by site basis. As at 08/02/17 the total number of Highland sites connected was reported as 250 out of 392, representing 64% of the Highland estate. The Transition forecast estimated that a very small percentage of sites may be completed beyond June 2017. Two defined key risks associated with delayed transition were defined as business continuity and additional costs.

The Council is authorised to use the Cabinet Office's Public Sector Network (PSN) for secure email communications between it and its government partners and applications such as DWP and Blue Badge. The Council has been re-accredited and this will cover the period 30/04/15 to 09/05/17.

The organisational structure in Active Directory did not accurately reflect the current structure at the start of the year. Active Directory is a database that keeps track of all the user accounts and passwords in the organisation and allows it to store user accounts and passwords in one protected location, improving security. It is used to allocate different access levels to different types of users who are accessing a network. The implementation of Active Directory is listed as one of 6 transformation projects to be commenced alongside Transition starting in 31/03/17.

The Assessor uses the majority of Council's ICT policies and procedures and the same governance arrangements apply. The Council has an approved Information Security Management System in place as a requirement of the information security standard ISO 27001. Exceptions to governance and policies are in respect of the Records Management Policy and a new Data Protection Policy, which were approved by the Board on 26/11/15 and 10/06/16 respectively.

In accordance with the Public Records (Scotland) Act 2011, the Council and the Highland Licencing Board submitted a Records Management Plan to the Keeper of the Records of Scotland which, following an assessment process, was approved on 31/03/16.

Operational Information Security management is managed by ICT Services and an ICT Security Group exists to support this through the review of security incidents and identifying and evaluating security risks. The IMGB reviews high level information security risks referred from the ICT Security Group and other information security risks that relate to non-ICT issues.

The following third party assurances have been received:

- Fujitsu has ISO 27001 information security management certification for their Data Centre in Stevenage and their back up site in London until 04/12/18.

- Wipro Holdings (UK) Ltd is UK registered. A visit to the WIPRO Holdings Ltd data centre and review of certification assurances is planned in summer 2017.

- For the SWAN contract Capita Business Services has ISO27001:2013 information security management certification for the period 26/01/15 to 26/01/18. Their Direct Network Service Provider (DNSP), Updata Infrastructure UK Ltd, has been assured as compliant with requirements to connect to the PSN as a DNSP. The Capita Updata connectivity and network framework has been assessed under CESG Assured Service and approved against Telecommunications from 23/03/15 to 22/03/18.

- In respect of Integra, Capita IBS has accreditations including ISO 9001:2008 – Quality Management System certification to 31/10/18 and ISO 27001:2013 – Information Security Management Systems Requirement certification to 15/06/18. The hosted system is managed in a UK data centre by Ark Data Centres Limited. Ark has certifications including ISO 27001:2013 – Information Security Management Systems Requirement for the provision of a distributed data centre environment valid from 28/07/16 to 27/07/19; ISO 9001:2008 – Quality Management System certification from 17/05/16 to 16/05/18; and certification for operating a Business Continuity Management System complying to the requirements of ISO22301:2012 from 18/05/16 to 17/05/19.

- To ensure the safety of the Council's network and comply with PSN requirements, penetration (PEN) testing was carried out in April 2016 and a report of findings followed in May 2016. This highlighted a number of areas for improvement which are being addressed. In May 2017, the areas remaining to be completed are classed as 1 critical, 3 high, 3 medium and 2 low.

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 framework of governance, risk management and control for the year to 31st March 2017.