

HIGHLAND AND WESTERN ISLES VALUATION JOINT BOARD

11 June 2026

Agenda Item	8
Report No	VAL/10/26

Internal Audit Annual Report 2025/26

Report by Strategic Lead (Audit & Risk), 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.

The Global Internal Audit Standards (GIAS) came into effect from on 01/01/25. This was subsequently amended by the CIPFA Application Note on Global Internal Audit Standards in the UK Public Sector which are applicable from 01/04/25. Therefore, this is the first annual report under the GIAS in the UK Public Sector which requires the Chief Audit Executive to:

"... prepare an overall conclusion at least annually in support of wider governance reporting, mindful of any specific sector obligations or processes. This overall conclusion must encompass governance, risk management and control."

"... report annually on the results of the quality assurance including progress against action plans to address instances of non-conformance."

These requirements have been met by the report provided at **Appendix 1** with section 2 of the report also used to inform the Board's Annual Governance Statement.

Recommendation

The Board is invited to consider the content of the report, the audit opinion provided and to raise any relevant points with the Chief Audit Executive (Strategic Lead (Audit & Risk)).

Designation: Strategic Lead (Audit & Risk)

Date: 13th May 2026

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Highlands and Western Isles Valuation Joint Board

Internal Audit Annual report 2025/26

1. INTRODUCTION

- 1.1 The purpose of this report is to provide an annual Internal Audit opinion for the period 1st April 2025 to 31st March 2026, and a report that can be used by the Valuation Joint Board to inform its Annual Governance Statement.
- 1.2 This report has also been produced to meet the requirements of the Global Internal Audit GIAS (the GIAS) which came into effect from 1st January 2025 and apply to all internal audit service providers. CIPFA subsequently issued "The Application Note: Global Internal Audit GIAS in the UK Public Sector" which changed this date to 1st April 2025. Therefore, this is the first annual report produced under the GIAS in the UK Public Sector.

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 GIAS define internal auditing as *"an independent, objective assurance and advisory service governance, risk management and control processes"*. It also states that:

"Internal auditing enhances the organisation's:

- Successful achievement of its objectives.
- Governance, risk management, and control processes.
- Decision-making and oversight.
- Reputation and credibility with its stakeholders.
- Ability to serve the public interest.

Internal auditing is most effective when:

- It is performed by competent professionals in conformance with the GIAS, which are set in the public interest.
- The internal audit function is independently positioned with direct accountability to the board.
- Internal auditors are free from undue influence and committed to making objective assessments.”

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. Internal Audit undertake periodic follow-up (action tracking) reviews to ensure that the management agreed actions have been satisfactorily implemented and the results are reported to the Valuation Joint Board.

Internal Audit operates in accordance with the GIAS. Details of the assessment of conformance with the GIAS, and the results of the Quality Assurance and Improvement Programme is included within the Highland Council's Internal Audit Annual Report 2025/26. This report was considered by the Council's Audit Committee on 27/05/26.

2.3 Internal Audit work

In accordance with the GIAS requirements, a risk based tactical audit plan is produced each year and submitted for approval to the Valuation Joint Board. The 2025/26 Internal Audit Annual Plan was approved by the Board on 10/06/25 and this comprised of the following audit reviews:

- Maintenance of Self-Catering Units (SCUs) on the valuation roll
This review had been carried forward from the 2024/25 audit plan. The report carried a Limited Assurance opinion as it was concluded that whilst a significant amount of work had been undertaken, the Years 1 and 2 audits had not been concluded. However, it was recognised that the Board area had the highest number of SCUs in Scotland (32%). The report contained 3 High and 6 Medium priority recommendations and was considered by the Board on 07/10/25.
- Staff Development
This review focused on induction, mandatory training, employee training/development, and succession planning. The audit report was provided to the Board meeting of 16/12/25. It had the opinion of Limited Assurance, and had 2 High and 7 Medium priority recommendations. Overall, the report concluded that whilst there was evidence of commitment to staff development, the lack of formal policies, structured processes, and strategic oversight limited the effectiveness and resilience of current arrangements.
- Payroll
This audit is being coordinated with a review of the Highland Council's Payroll processes as they use the same systems. Fieldwork is underway

and it is anticipated that the audit report will be presented to the next Board meeting on 25/09/26.

2.4 Action Tracking

As part of the audit process, all audit recommendations are action tracked to ensure that the associated management actions were implemented as agreed. Monthly tracking is undertaken whereby individual actions are then tracked once their due date has passed. The action tracking process also allows for revision of the agreed action target dates. Again, these are tracked once the revised target date has passed.

The position as at 31/03/26 shows 15 open actions, 14 (93%) with revised target dates. Whilst operational pressures within the Office of the Assessor and ERO are recognised, the lack of progress in addressing actions in a timely manner is of concern. Therefore, improvement in this area is expected and will be monitored during 2025/26 with updates provided to the Board. This is summarised in the table below with further commentary provided.

Name	Date	High		Medium		Low		Total open actions
		No. recs	Open actions	No. recs	Open actions	No. recs	Open actions	
Information Management Arrangements	12/02/24			5	1	1	0	1
Maintenance of Self-Catering Units on the Valuation Roll	02/09/25	3	2	6	3	0		5
Staff Development	21/11/25	2	1	7	8	0	0	9
Total		5	3	18	12	1	0	15

Note: More than one action may have been agreed in response to a recommendation.

(1) Information Management Arrangements (1 Medium priority action)

The action was in respect of ensuring that there were appropriate security measures in place for a cloud-based system. Guarantees about the technical and organisational security measures governing the processing carried out and the steps to ensure compliance with those measures have been obtained from the system provider and have now been submitted for consideration by internal audit. Further evidence of independent security verification is being requested from the supplier. (Original target date 31/05/24, revised action date 31/08/26)

(2) Maintenance of Self-Catering Units (SCU) on the Valuation Roll (2 High, 3 Medium priority actions)

High priority actions:

- i. All outstanding tasks relating to the Year 1 SCU audit exercise should be completed:
 - (i) Check that all SCUs included on the Valuation Roll on 01/04/23, other than those excluded for specified reasons, had been issued with a communication and take appropriate action where gaps are identified.
 - (ii) Resolve all open/unresolved cases and action all outstanding transfers to Council Tax.

The agreed actions were to: (i) Identify any outstanding tasks including (ii) the processing of cases which are presently displaying as unresolved. Further progress has been made with several transfers to Council Tax carried out but there remain a number of outstanding cases. (Original target date 31/01/26, revised action date 30/06/26).

- ii. All outstanding tasks relating to the Year 2 SCU audit exercise should be completed:
 - (i) Establish which SCUs included on the VR on 01/04/24, other than those excluded for specified reasons, and issue them with a communication. This should include those previously excluded due to open/unresolved Year 1 cases.
 - (ii) Resolve all open/unresolved cases and then action all outstanding transfers to Council Tax.

The regulations governing the SCU audit changed from those applied for the 2022/23 audit. The initial audit was open-ended whereas the 2023/24 had a cut-off date which acted as a guillotine, and as such late returns or non-returns were placed on the Council Tax list even if they were operated as a SCU. Further progress has been made with the benefit of further amendment to the regulations providing an additional time-window late 2025, which permitted a significant number of cases to be closed and remain on the Valuation Roll. Several transfers to Council Tax carried out but there remain 64 outstanding cases, the majority of which are due to be transferred to Council Tax for 2023/24. (Original target date 31/01/26, revised action date 31/07/26).

Medium priority actions:

- iii. A more structured approach should be taken to reporting on the progression of each SCU audit exercise to senior management and the VJB. This should be facilitated by improved reporting from CAS, and the information should be presented to senior management and the VJB in a consistent manner. Progress has been made in terms of system functionality, but the formal reporting structure is still to be determined. (Original target date 31/12/25, revised action date 31/07/26).
- iv. A handwritten list of bookings should not be accepted as evidence that letting requirements had been met. Ideally, the owner/ occupier should be contacted for further information or alternatively the

property could be deemed to have failed to meet the requirements. In response it was acknowledged that the quality of returns varied and each case would be treated on its own merits within the legislative framework. This was to be addressed in updated guidance. Whilst some steps have been taken to address this, guidance has not been updated. In the meantime, staff were reminded by email on 26/05/26 that they should contact property owners for further information where returns are incomplete/ unclear or in an unusual format (e.g. handwritten) and ultimately refer any unclear returns where no further information is forthcoming to the valuers, who in turn can refer to divisional valuers if necessary. (Original target date 30/09/25, revised action date 30/06/26).

- v. Processes to be updated to ensure regular checking of each member of staff's handling of cases. Training documentation to be updated. Whilst some steps have been taken to address this, the guidance requires to be updated. (Original target date 30/09/25, revised action date 31/05/26).

(3) Staff development (1 High priority and 8 Medium priority actions).

- i. High priority - Formal succession planning framework to be developed. Knowledge sharing and role shadowing to be embedded into ongoing operations. Work in progress and following a review of the staff structure a number of new supporting role posts have been filled and further posts are in the process of being rolled out. (Original target date 17/02/26, revised action date 31/08/26).

Medium priority actions:

- ii. A formal training and development policy will be produced. A staff consultation regarding the schemes has just concluded and are now out for consultation by the Unions. (Original target date 17/02/26, revised action date 31/08/26).
- iii. Structured training and development plan to be developed and implemented. Process to be introduced for regular review and update of training and development policy and plan, and subsequent approval. (Original target date 30/06/26, revised action date 31/08/26).
- iv. Structured ERD process to be reinstated with outcomes feeding into a formal training plan. Work in progress, process delayed due to work on revaluation and SP election. (Original target date 31/12/25, revised action date 31/08/26).
- v. Individual training needs to be centrally collated and analysed to identify common themes and enable coordinated provision. Although reinstatement of ERD process is a work in progress, process has been delayed due to work on revaluation and SP election. Revised date agreed to allow sufficient time to collate and analyse training needs identified during ERD interviews. (Original target date 30/04/26, revised action date 30/11/26).

- vi. Functionality of the Traineasy system should be explored with Highland Council's People Development, with the aim of replacing the current manual, spreadsheet-based method for recording and monitoring mandatory training. Meantime, manual spreadsheet has been updated and is under further review. (Original target date 31/05/26, revised action date 31/08/26).
- vii. Written instructions to be developed, reviewed, and maintained for all key activities identified in the Service Plan. (Original target date 31/08/26).
- viii. Centralised framework for skills gap analysis to be developed and skills audits to be extended to all staff groups. Process to be aligned with ERD framework. This is currently work in progress. (Original target date 30/06/26, revised action date 31/08/26).
- ix. Formal workforce plan to be developed and reviewed regularly thereafter/progress reported to HWIVJB. Continues to be a work in progress and following a review of the staff structure a number of new supporting role posts have been filled and further posts are in the process of being rolled out. (Original target date 17/02/26, revised action date 31/08/26).

2.5 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 2025/26 was approved by the Board on 16/12/25 and contains a number of actions in place to ensure compliance with the above principles. An update was also provided in respect of the actions relating to the 2024/25 Code. It was stated that the majority of actions have been completed and where appropriate, some actions have been carried forward to the 2025/26 Code.

2.6 Risk Management

Updates on the risk are provided annually with the most recent report provided to the Board on 16/12/25. The risk register contained 7 risk headings, with a number of different risks listed below each heading. A risk may contain more than one mitigating action/ control, and the residual scores ranged between 1 (green) and 3 (amber). Further actions, together with Lead Officers and dates are recorded on the register for any amber scores.

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 2026.