

Internal Audit – Annual Report

26th June 2009

1 Purpose of Report

This report highlights the work carried out to-date by Internal Audit for the Financial Year 2008/2009. This report will assist the Board in promoting internal control and monitoring of audit performance.

2 Summary

- 2.1 Due to the size of the organisation, LVJB has no audit committee. The External Auditor has however recommended that an annual report is provided by the Chief Internal Auditor. This report meets this requirement.
- 2.2 Overall reasonable assurance can be placed upon the internal controls in place within the Board and I am pleased to include my Statement of Assurance at Appendix 1.
- 2.3 My statement, along with the work of Managers in LVJB and External Audit, help inform the Treasurer in his review of the effectiveness of the Board's system of internal financial control. A draft statement on the System of Internal Financial Controls for consideration by the Treasurer is attached at Appendix 2. Although considered unlikely, it should be noted that any major issues raised by the External Auditor in the audit of the accounts could affect the draft statement.
- 2.4 Internal Audit and the management of the Board have reviewed the corporate governance arrangements against best practice and concluded that the arrangements are fully compliant.

Main Report

3 Governance

- 3.1 Together with LVJB's management, a review of the corporate governance arrangements within the Board has been undertaken and the Internal Audit Report and Draft Corporate Governance Statement is included at Appendix 3.

3.2 The audit report recommends that the Board reviews its formal Local Code of Corporate Governance to reflect the latest guidance adapted for local circumstances. It is noted that the Assessor has prepared a report on the Arrangements for Corporate Governance which is to be presented to the Board in June 2009.

4 Promotion of Internal Control

4.1 The Internal Audit section ensures a systematic appraisal of the Board's control environment and framework of internal controls by being active in a number of areas within the Board. The section's work is based upon a risk analysis of the Board's activities to ensure that limited resources of the section are used in the most effective way.

4.2 The section has also provided the Board with ongoing advice on corporate governance issues including the production, in line with best practice, of a Local Code of Corporate Governance and a template which demonstrates compliance with the code.

5 Annual Assurance Statement

5.1 Within the Accounting Code of Practice there is a requirement for the Treasurer to sign an annual statement on the adequacy of the internal controls in place within the financial systems.

5.2 As part of his assurance statement it is recommended that the Treasurer reports on the arrangements within the Board for internal audit provision. It is also recommended that the Chief Internal Auditor reports on the financial controls in place.

5.3 Internal audit staff carried out a high level review of the adequacy and effectiveness of the Board's system of internal financial control for the year to March 31st 2009. This work, completed in May 2009, supplemented our annual programme of internal audit activity and provided documentary evidence to support the overall assessment of the Board's system of internal control. The continued development of risk management arrangements have been noted and will be subject to a separate audit before the end of the current audit planning year.

5.4 The following areas of work provided additional support to this assessment of the Board's system of financial control:

- Internal Audit and LVJB's management review of corporate governance arrangements.
- A programme of testing of the payroll and creditors payment system is being undertaken by Internal Audit staff. This work will allow reliance to be placed on the controls within these major financial systems.
- A Certificate of Assurance signed on behalf of the Assessor to the effect the controls in place are sound.

6 Focus of Audit Resources

6.1 The Annual Audit Plan for the period to 30 September 2009 (Internal Audit Planning year) includes:

- an annual review of internal financial control in LVJB to support the development of the Board's Corporate Governance Arrangements, and to provide evidence for the Treasurer's Annual Statement on the System of Internal Financial Control for the year to 31 March 2009.
- assistance to the Board in addressing any areas noted in the Treasurer's Statement.
- a review of the risk management process.
- advice and opinion as required.

7 Monitoring of Performance

7.1 Action plans are agreed with management on all recommendations made within the reports issued and appropriate follow-up arrangements are put in place.

8 Recommendations

8.1 The Board is requested to:

- note the contents of this report.
- consider the Statement of Internal Financial Control as set out in Appendix 2.
- note the report on Corporate Governance contained in Appendix 3 recommending the need to adopt the revised Local Code of Governance as detailed in the Assessor's report.



IAN STIRTON
Chief Internal Auditor

Appendices	Appendix 1 – Annual Assurance Statement Appendix 2 – Statement on the System of Internal Financial Control Appendix 3 – Internal Audit Report on Corporate Governance
Contact/Tel	Ian Stirton, Chief Internal Auditor (0131) 469 3194
Background Papers	None

To the Members of Lothian Valuation Joint Board, the Treasurer, the Chief Executive and Clerk

As Chief Internal Auditor of the City of Edinburgh Council and provider of the internal audit service for the Board, I am pleased to present my annual statement on the adequacy and effectiveness of the internal control system of the Board for the year ended 31 March 2009.

Respective Responsibilities of Management and Internal Auditors in relation to Internal Control

It is the responsibility of the Board's senior management to establish an appropriate and sound system of internal control and to monitor the continuing effectiveness of that system. It is the responsibility of the Chief Internal Auditor to provide an annual overall assessment of the robustness of the internal control system. The agreed Internal Audit Strategy ensures that I have in place a planning mechanism to enable me to deliver a formal opinion on the internal control environment within the Board. The formal movement away from purely financial controls to a mixture of financial and non-financial risks ensures that audit opinion is available on the major controls the Board has in place to meet the risks it faces in delivery of its aims and objectives.

Sound Internal Controls

The main objectives of the Board's internal control systems are:

- To ensure that its aims and objectives can be met;
- To ensure adherence to management policies and directives;
- To safeguard assets;
- To ensure the relevance, reliability and integrity of information, so ensuring as far as possible the completeness and accuracy of records; and
- To ensure compliance with statutory requirements.

Any system of control can only ever 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 or regulations. Accordingly, the Board is continually seeking to improve the effectiveness of its systems of internal control.

The Work of Internal Audit

Internal Audit is an independent appraisal and assurance function established by the Treasurer for the review of the Board's control environment, comprising risk management, control and governance. It objectively examines, evaluates and reports on the financial and operational controls within the Board, and provides an opinion on the effectiveness of the control environment in achieving the Board's objectives.

The Internal Audit section operates in accordance with the Chartered Institute of Public Finance and Accountancy's Code of Practice for Internal Audit in Local Government and complies with the ISO 9001:2008 quality standard. The section undertakes an annual programme of work which is reported to the Board. The audit plan is based on a formal risk assessment process and audit needs assessment, which is revised on an ongoing basis to reflect evolving risks and changes within the Board.

The Annual Audit Plan for the Lothian Valuation Joint Board is based upon the agreed strategy and is split between work that is required to:

- be carried out annually on the major financial systems to support the Chief Internal Auditor's opinion on financial controls which is used to inform the Treasurer's formal statement on control;

- support the Convener, Chief Executive and Clerk, and Assessor's annual statement on Corporate Governance; and
- ensure the effectiveness of the controls that mitigate the risks that would prevent the Valuation Board achieving its aims and objectives set out in its Service Plan.

In addition, a rolling programme based upon risk is used to cover all other areas of internal control. This rolling programme together with the annual coverage helps to inform my opinion on the adequacy and effectiveness of the control environment.

All internal audit reports identifying system weaknesses and/or non-compliance with expected controls are brought to the attention of management and include appropriate recommendations and agreed action plans. It is management's responsibility to ensure that proper consideration is given to internal audit reports and that appropriate action is taken on audit recommendations. The internal auditor is required to ensure that appropriate arrangements are made to determine whether action has been taken on internal audit recommendations or that management has understood and assumed the risk of not taking action. Significant matters including non-compliance with audit recommendations arising from internal audit work are reported to the Board.

Basis of Opinion

My evaluation of the control environment is informed by a number of sources:

- The audit work undertaken by internal audit during the year to 31 March 2009 including the ongoing assessment of the effectiveness of the Board's risk management arrangements;
- Reports issued by the Board's external auditors, Audit Scotland, and other review agencies; and
- My knowledge of the Board's governance, risk management and performance monitoring arrangements.

Limitation of Scope

The Board delivers its main financial functions through the City of Edinburgh Council's major financial systems. A programme of continuous testing of the Payroll system and the Creditors' Payments system is being undertaken by Internal Audit staff. I have relied upon this ongoing work in addition to the planned internal audit work undertaken in the Board during the year to 31 March 2009.

Enhancing the Board's Control Environment

Having reviewed the above, it is my opinion that reasonable assurance can be placed upon the adequacy and effectiveness of the Board's internal control system. I have noted the progress, which has been made during the year to improve the control environment.

Opinion

It is my opinion, based on the above, that reasonable assurance can be placed upon the adequacy and effectiveness of the Board's internal control system in the year to 31 March 2009.



Ian Stirton, Chief Internal Auditor

8/6/09.

Date

LOTHIAN VALUATION JOINT BOARD

**DRAFT STATEMENT ON THE SYSTEM OF INTERNAL FINANCIAL CONTROL
FOR THE YEAR ENDED 31ST MARCH 2009**

1. This statement is given in respect of the statement of accounts for the Lothian Valuation Joint Board. I acknowledge our responsibility for ensuring that an effective system of internal financial control is maintained and operated.
2. The system of internal financial control can provide only reasonable and not absolute assurance that assets are safeguarded, that transactions are authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected within a timely period.
3. The system of internal financial control is based on a framework of regular management information, financial regulations, administrative procedures (including segregation of duties), management supervision, and a system of delegation and accountability. The system is maintained and developed by Board management and includes:
 - comprehensive budgeting systems;
 - regular reviews of periodic reports that measure financial performance against forecasts;
 - targets against which financial and operational performance can be assessed;
 - preparation of regular financial reports that compare expenditure with plans and forecasts;
 - clearly defined capital expenditure guidelines; and
 - as appropriate, formal project management disciplines.
4. The Internal Audit function is provided by the City of Edinburgh Council's Internal Audit Section. The Section operates in accordance with the Chartered Institute of Public Finance and Accountancy's Code of Practice for Internal Audit in Local Government and complies with the ISO 9001:2008 quality standard. The Section's annual programme is based on formal assessments of risk and audit needs in line with the agreed Audit Strategy. The Section reports directly to the Treasurer of the Board and, where necessary, to members and employees of the Board. The Chief Internal Auditor has provided me with an assurance statement that contains his views on the adequacy and effectiveness of the system of internal financial control.
5. My review of the effectiveness of the system of internal financial control is informed by:
 - the Assessor's assurance certificate on internal controls;
 - the work of managers within the Board;
 - the work of the internal auditors as described above; and
 - the external auditors in their annual audit letter and other reports.
6. Having reviewed the above, it is my opinion that reasonable assurance can be placed on the adequacy and effectiveness of the Board's internal control system.

DONALD McGOUGAN, CPFA
Treasurer



Local Code of Corporate Governance – Annual Review by Internal Audit

26th June 2009

1 Purpose of report

This report summarises the results of Internal Audit's review of the Local Code of Corporate Governance as adopted by the Board in November 2004. The review findings will provide assurance to the Chief Executive and Clerk to the Board, the Convenor and the Assessor when considering and signing the annual statement of assurance for inclusion within the annual accounts.

2 Summary

- 2.1 The Local Code of Corporate Governance is based upon best practice identified jointly by CIPFA and SOLACE and includes the requirement for an annual review by Internal Audit. During 2008, revised Scottish guidance was issued by CIPFA and SOLACE.
- 2.2 Internal Audit together with LVJB management have reviewed the current arrangements against the latest guidance and have concluded that the arrangements are fully compliant with requirements.

3 Main Report

- 3.1 The Board's adoption of the Local Code acknowledges their support of the fundamental principles of good corporate governance:
 - Openness and inclusiveness
 - Integrity
 - Accountability
- 3.2 These principles are reflected in each dimension of the Board's business:
 - Community focus
 - Service delivery arrangements
 - Structures and processes
 - Risk management and internal control
 - Standards of conduct

3.3 The revised guidance details four objectives and six core principles. These will require to be tailored to meet the unique circumstances of the Board. In order to demonstrate good corporate governance, evidence must be supplied to show that each requirement has been addressed effectively. The four objectives are:

- To engage in effective partnerships and provide leadership for and with the community;
- To ensure the delivery of high-quality local services whether directly or in partnership or by commissioning;
- To perform a stewardship role, which protects the interests of local people and makes the best use of resources;
- To develop citizenship and local democracy.

The six core principles that should influence the manner in which the Board undertakes their business and achieves their objectives are:

1. Focusing on the purpose of the Board and on outcomes for the community, and creating and implementing a vision for the local area;
2. Members and officers working together to achieve a common purpose with clearly defined functions and roles;
3. Promoting values for the Board and demonstrating the values of good governance through upholding high standards of conduct and behaviour;
4. Taking informed and transparent decisions which are subject to effective scrutiny and managing risk;
5. Developing the capacity and capability of members and officers to be effective;
6. Engaging with local people and other stakeholders to ensure robust public accountability.

3.4 The new guidance details a number of specific requirements that need to be in place to demonstrate good corporate governance and evidence must be supplied to show that each requirement has been addressed effectively.

3.5 Internal Audit has reviewed this evidence, updated it where required and concluded that it demonstrates adequate levels of compliance in all areas.

3.6 The guidance also recommended that the formal Local Code of Corporate Governance be updated by the Board, to reflect the new guidance, after taking into account the particular circumstances of the Board. It is noted that the Assessor has prepared a report on the Arrangements for Corporate Governance which is to be presented to the Board in June 2009.

4 Recommendation

4.1 The Board is requested to:

- note the draft Statement of Assurance on Corporate Governance set out in Appendix 1.
- note the compliance with best practice within corporate governance arrangements.
- approve the adoption of the revised Local Code of Corporate Governance detailed in the Assessor's report.



IAN STIRTON
Chief Internal Auditor

Appendices	Appendix 1 – Draft Statement of Assurance on Corporate Governance
Contact/Tel	Ian Stirton, Chief Internal Auditor (0131) 469 3194
Background Papers	None

Appendix 1

Draft Statement of Assurance on Corporate Governance

The Lothian Valuation Joint Board is responsible for ensuring that its business is conducted in accordance with the law and proper standards and that public money is safeguarded, properly accounted for and used economically, efficiently and effectively. In discharging this accountability, members and senior officers are responsible for putting in place proper arrangements for governance of the Board's affairs and the stewardship of the resources at its disposal. To this end the Board adopted a Local Code of Corporate Governance in November 2004, which is consistent with the principles and reflects the requirements of the CIPFA/SOLACE framework.

The Board has put in place arrangements, detailed within the Local Code, for monitoring each element of the framework and providing evidence of annual compliance.

During the year, the Chief Internal Auditor has undertaken a review of changes in the current arrangements and has indicated that he is satisfied the Code is adequate and effective. He has also indicated that satisfactory evidence has been provided to allow him to conclude the arrangements are fully compliant with the requirements of the latest guidance issued by CIPFA/SOLACE.

Arrangements have also been put in place to support the Treasurer's statement on Internal Financial Controls.

Stuart McIvor
CONVENER

Tom Aitchison
CHIEF EXECUTIVE AND CLERK

Joan Hewton
ASSESSOR