

## Lothian Valuation Joint Board

### Internal Audit – Annual Report

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27 June 2013

#### 1. Purpose of this report

This report highlights the work carried out by Internal Audit for the Financial Year 2012/13.

#### 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 Head of Internal Audit. This report is designed to meet that 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 (Appendix 1).
- 2.3 My statement, along with the work of managers of LVJB and External Audit, helps inform the Annual Governance Statement (Appendix 2) which includes the Treasurer's Statement on the effectiveness of the Authority's internal financial control. 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 Annual Governance Statement.

#### 3. Governance

- 3.1 Internal Audit and the management of LVJB have undertaken a review of the corporate governance arrangements within the Board against best practice and concluded that the arrangements are fully compliant.

#### 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 the 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 updating of the framework that demonstrates compliance with appropriate governance arrangements.

## **5. Treasurer's 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 LVJB. It is also recommended that the Head of Internal Audit 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 Authority's system of internal financial control for the year to 31<sup>st</sup> March 2013. This work supplemented our annual programme of internal audit activity and provided documentary evidence to support the overall assessment of LVJB's system of internal control.
- 5.4 The following areas of work provided additional support to this assessment of LVJB' system of financial control:
- Internal Audit and LVJB's management review of corporate governance arrangements;
  - a programme of testing of Payroll and Creditor Payment systems has been undertaken by Internal Audit staff. This work allows reliance to be placed on the controls within these major financial systems;
  - a Certificate of Assurance signed by the Assessor to the effect that the controls in place are sound.

## **6. Focus of internal audit resources**

- 6.1 The Annual Internal Audit Plan for the period to 30<sup>th</sup> September 2013 (Internal Audit planning year) includes:
- an annual review of internal financial control in the Authority to support the development of LVJB's corporate governance arrangements and to provide evidence for the Treasurer's Statement on the system of internal financial control for the year to 31<sup>st</sup> March 2013;
  - assistance to the Authority in addressing any areas noted in the Treasurer's Statement;
  - advice and opinion as required.

## **7. Monitoring of performance**

- 7.1 Action plans are agreed with management on all recommendations made within 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.
- Note the Draft Annual Governance Statement contained in Appendix 2.

**Lorna Stewart  
Head of Internal Audit**

**23<sup>rd</sup> May 2013**

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| <b>Appendices</b>        | Appendix 1 – Annual Statement by Head of Internal Audit<br>Appendix 2 – Draft Annual Governance Statement 2012/13 |
| <b>Contact/Tel</b>       | Lorna Stewart, Head of Internal Audit (0131) 469 3194   |
| <b>Background Papers</b> | None  |

## **Appendix 1**

# **Annual Statement by the Head of Internal Audit**

As Head of Internal Audit for the City of Edinburgh Council and provider of the internal audit service for the Lothian Valuation Joint Board, I am pleased to present my Annual Statement on the adequacy and effectiveness of the internal control system of LVJB for the year ended 31 March 2013.

### **Respective responsibilities of management and internal auditors in relation to internal control**

It is the responsibility of LVJB'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 Head of Internal Audit 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 LVJB. 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 LVJB has in place to meet the risks it faces in delivery of its aims and objectives.

### **Sound internal controls**

The main objectives of LVJB's internal control systems are to ensure:

- that its aims and objectives can be met
- adherence to management policies and directives
- assets are safeguarded
- the relevance, reliability and integrity of information, so ensuring as far as possible the completeness and accuracy of records
- 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, LVJB 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 LVJB 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 LVJB. The audit plan is based on a formal risk assessment process and audit needs assessment which are revised on an ongoing basis to reflect evolving risks and changes within LVJB.

The Annual Audit Plan for LVJB 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 Head of Internal Audit's opinion on financial controls which is used to inform the Treasurer's Statement on control;

- support the Convener, Chief Executive and Clerk, the Assessor and Treasurer's Annual Governance Statement; and
- ensure the effectiveness of the controls that mitigate the risks that would prevent LVJB from 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 2013 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.

### **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 2013.

**Lorna Stewart, Head of Internal Audit**

**23<sup>rd</sup> May 2013**

### 1. Scope of responsibility

Lothian Valuation Joint Board aims to ensure best value and provide equitable, customer focussed, high quality, professional valuation and electoral services for all its stakeholders.

The Board is responsible for ensuring that its business is conducted in accordance with the law and appropriate standards, that public money is safeguarded and properly accounted for, and used economically, efficiently, effectively and ethically. The Board also has a duty to make arrangements to secure continuous improvement in the way its functions are carried out.

In discharging these overall responsibilities Elected Members and Senior Officers are responsible for implementing proper arrangements for the governance of the Board's affairs and facilitating the effective exercise of its functions, including arrangements for the management of risk.

The Board has approved and adopted a Local Code of Corporate Governance that is consistent with the principles, and reflects the requirements, of the CIPFA/SOLACE framework *Delivering Good Governance in Local Government* and is supported by detailed evidence of compliance, which is regularly reviewed. A copy of the code is on our website [www.lothian-vjb.gov.uk](http://www.lothian-vjb.gov.uk) or can be obtained from the Assessor.

This statement explains how Lothian Valuation Joint Board delivers good governance and reviews the effectiveness of those arrangements. It also includes a statement on internal financial control in accordance with proper practice.

### 2. The Board's governance framework

The governance framework comprises the systems and processes, and culture and values, by which the Board is directed and controlled, and its activities through which it accounts to, engages with and influences the community. It enables the Board to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The framework reflects the arrangements in place to meet the six supporting principles of effective corporate governance.

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

A significant part of the governance framework is the system of internal control which is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Board's policies, aims and objectives. These are outlined in the Board's annual Corporate & Service Plan. This enables the Board to manage its key risks efficiently, effectively, economically and ethically.

Within the overall control arrangements the system of internal financial control is intended to ensure that assets are safeguarded, transactions are authorised and properly recorded, and material errors or irregularities are either prevented or would be detected within a timely period. It is based on a framework of regular management information, financial regulations, administrative procedures and management supervision.

While the system of internal control is designed to manage risk at a reasonable level it cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable, and not absolute, assurance of effectiveness.

### **3. Determining the Board's purpose, its vision for the local area and intended outcomes for the Community**

The Board has communicated its vision in the Corporate and Service Plan. Delivery of the vision is the responsibility of the Board, the Assessor, Depute Assessor and Heads of Service. The Board has developed a partnership approach when working with other Authorities.

### **4. Review of effectiveness**

The Board has put in place arrangements, detailed in the Local Code, for monitoring each element of the framework and providing evidence of compliance. A Principal Officer within Lothian Valuation Joint Board has been nominated to review the effectiveness of the Local Code and will report annually to the LVJB Board.

The review of the effectiveness of its governance framework including the system of internal financial control is informed by:

- the work of the Internal Auditors and the Head of Internal Audit's Annual Statement on the adequacy and effectiveness of the Board's system of internal control;
- the Assessor's Certificate of Assurance on internal control;
- the operation and monitoring of controls by Board Managers; and
- the External Auditors in their Annual Audit Letter and other reports;

Through the year Elected Members and Officers have responsibility for the development and maintenance of the governance environment. These review mechanisms include:

- **The Lothian Valuation Joint Board** provides strategic leadership, determines policy aims and objectives and takes executive decisions not delegated to officers. It provides political accountability for the Board's performance.
- **Internal Audit** provides an independent and objective assurance service to the Board who complete a programme of reviews throughout the year, to provide an opinion on internal control, risk management and governance arrangements of Lothian Valuation Joint Board.
- **Audit Scotland's Annual Audit Report** is considered by the Board along with the output from other external audits.
- **The Strategic, Operational and Project Risk Registers** are reviewed as part of the Board's Corporate and Service Plan (the Corporate and Service Plan is approved by the Board). Key risks are monitored quarterly by the Board. This ensures that actions are taken to effectively manage the Board's highest risks.
- **The Monitoring Officer** is responsible to the Board for ensuring that agreed procedures are followed and that all applicable statutes and regulations are complied with.



## 5. Certification

In compliance with accounting practice, the Treasurer has provided the Chief Executive with a statement on the adequacy and effectiveness of the Board's internal financial control system for the year ended 31<sup>st</sup> March 2013. It is the Treasurer's opinion that reasonable assurance can be placed upon the adequacy and effectiveness of the Board's internal control system.

During the year, the Head of Internal Audit reviewed changes to the current corporate governance arrangements and systems of internal control and her findings are included in the Head of Internal Audit's Annual Report.

From this year's review there is evidence that the Code is operating effectively with overall compliance by the Board in all significant areas of its corporate governance arrangements.

Convenor of Lothian  
Valuation Joint Board: \_\_\_\_\_ Date

Chief Executive and Clerk: SUE BRUCE \_\_\_\_\_ Date

Assessor: JOAN HEWTON \_\_\_\_\_ Date

Treasurer: HUGH DUNN \_\_\_\_\_ Date