

## **Item: 9**

**Orkney and Shetland Valuation Joint Board: 29 June 2023.**

**Internal Audit Annual Report and Opinion.**

**Report by Chief Internal Auditor.**

### **1. Purpose of Report**

To present the Internal Audit Annual Report and Opinion for 2022/23.

### **2. Recommendations**

**It is recommended:**

#### **2.1.**

That the Board scrutinise and seek assurance from the Internal Audit Annual Report and Opinion 2022/23, attached as Appendix 1 to this report.

### **3. Background**

The Public Sector Internal Audit Standards state that:

- The Chief Audit Executive must deliver 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.

### **4. Audit Report and Opinion**

#### **4.1.**

The Annual Audit Report and Opinion, attached as Appendix 1 to this report, details the level of completion of work achieved in respect of the 2022/23 audit plan.

#### **4.2.**

The Audit Report provides assurance on the systems examined by Internal Audit during the financial year. In respect of the areas subject to audit review during 2022/23, as well as a review of audit recommendations, it was found that the framework of controls in place provides adequate assurance regarding governance, internal control, and risk management.

## **5. Financial Implications**

The provision of support services from Orkney Islands Council will be apportioned through the established procedure for recharging a share of the centrally provided support services to the client services.

## **6. Governance Aspects**

The content and implications of this report have been reviewed and, at this stage, it is deemed that the Board **DOES NOT** require external legal advice in consideration of the recommendations of this report.

## **7. Contact Officer**

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## **8. Appendix**

Appendix 1: Internal Audit Annual Report and Opinion.



# Orkney & Shetland Valuation Joint Board



## Internal Audit Annual Report and Opinion

Issue date: 30 May 2023

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## 1. Introduction

1.1. The Public Sector Internal Audit Standards state that:

- The Chief Audit Executive must deliver 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

1.2. The purpose of this document is to report on the Internal Audit work completed during 2022/23 and to provide the Chief Internal Auditor's annual internal audit opinion on the Orkney & Shetland Valuation Joint Board's (VJB) framework of governance, risk management and control.

1.3. At its meeting on 3 March 2022 the VJB appointed the Chief Internal Auditor of Orkney Islands Council (OIC) as the Chief Internal Auditor of the VJB.

1.4. The 2022/23 internal audit strategy and plan was approved by the VJB on 30 June 2022. Audit work is undertaken by the OIC Internal Audit Service to allow the Chief Internal Auditor to provide an annual internal audit opinion.

## 2. Governance

2.1. Governance comprises the arrangements put in place to ensure that the intended outcomes for stakeholders are defined and achieved. The fundamental function of good governance in the public sector is to ensure that entities achieve their intended outcomes while acting in the public interest at all times. The core principles and sub-principles of good governance are:

- Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law.
- Ensuring openness and comprehensive stakeholder engagement.

2.2 Good governance in the public sector also requires effective arrangements for:

- Defining outcomes in terms of sustainable economic, social, and environmental benefits.
- Determining the interventions necessary to optimise the achievement of the intended outcomes.
- Developing the entity's capacity, including the capability of its leadership and the individuals within it.
- Managing risks and performance through robust internal control and strong public financial management.
- Implementing good practices in transparency, reporting and audit, to deliver effective accountability.

## 3. Risk Management

3.1. Risk management is the planned and systematic approach to the identification, evaluation and control of risk. The VJB approved a Risk Management Policy and Strategy 2 March 2023.

3.2. The aims and objectives of the strategy include:

- Identification of risks.
- Quantification of risks.
- Control of risks.
- Financing of risks.

3.3. Risk management is a continuous process which will incorporate all strategic and operational risks associated with the following:

- Premises.
- Finance.
- Information Technology (IT).
- Staffing (Valuation Service).
- Service.
- Electoral Registration:
- Planning and Organisation.
- Loss of Premises.
- Failure of IT.
- Communication.
- Failure on the part of Contractors.
- Integrity Issues.
- Staffing (Electoral Registration).

## 4. Control Framework

4.1. The policies, procedures and activities that are part of a control framework are designed and operated to ensure that risks are contained within the level that the organisation is willing to accept.

4.2. The control environment includes the following elements:

- Integrity and ethical values.
- Management's philosophy and operating style.
- Organisational structure.
- Assignment of authority and responsibility.
- Human resource policies and practices.
- Competence of personnel.

## 5. Internal Audit

5.1. The Public Sector Internal Audit Standards define the nature and set the basic principles for carrying out internal audit in the UK Public Sector.

5.2. The primary role of Internal Audit is that of an assurance function which provides an independent and objective opinion on the adequacy of the control environment and the effectiveness of risk management and governance processes.

5.3. The Internal Audit Charter 2022-24, which was approved by the VJB on 30 June 2022, defines the purpose, authority and responsibility for the Internal Audit service. The Charter conforms to the Definition of Internal Auditing, the Code of Ethics and the Standards contained in the Public Sector Internal Audit Standards updated in March 2017.

5.4. Internal Audit has organisational independence, and this independence was maintained throughout 2022/23. Staff involved in each internal audit review were independent of the VJB and their objectivity was not compromised in any way.

5.5. The Internal Audit Strategy and Plan is reviewed and approved annually. The Strategy for 2022/23 was approved by the VJB on 30 June 2022. A risk-based planning exercise is carried out each year to determine priorities and to establish and achieve objectives. This helps to control and direct audit work and to ensure the efficient and effective use of resources.

5.6. In carrying out the audit planning, consultation is carried out with the Assessor and Board Officers to produce a detailed list of VJB services. Emphasis is also placed on the VJB's risk registers when considering which areas should be subject to audit.

## 6. Overall Opinion

6.1. On the basis of the audit work performed in 2022/23, my opinion is that the VJB has a framework of controls in place that provides **Adequate** assurance regarding the organisation's governance framework, related internal controls, and the management of key risks.

6.2. The actions identified during the audit work did not impact on the overall governance arrangements of the VJB.

6.3. Furthermore, I confirm that there were no instances of fraud identified from the audit work conducted during the year.

6.4. My opinion has not been limited by any shortfall in resources, absence of skills, or any limitation of scope of internal audit activity that would adversely affect my ability to form an opinion.

## 7. Achievement of Annual Audit Plan

7.1. The internal audit plan for 2022/23 included audits of Corporate Governance and Risk Management, IT Network and Security, and Financial Controls. The table below shows the auditable areas considered as part of the annual planning process. Two audits from this year's plan have been completed, leaving the Financial Controls audit to be done.

<b>Auditable Areas</b>	<b>22/23 Days</b>	<b>23/24 Days</b>	<b>24/25 Days</b>	<b>Scope of Audit</b>
Performance Reporting			5	To consider the format, content, accuracy and timeliness of management information, both financial and non-financial, provided to the Board in terms of the Annual Public Performance Report.
Council Tax		5		Adequacy and effectiveness of the controls relating to the accuracy of records relating to domestic property including property bandings, new entries, deletions, amendments, proposals and appeals.
Non-Domestic Rates		5		The adequacy and effectiveness of the controls and procedures in place to ensure that: records relating to property values are up to date and accurate, valuations and appeals are dealt with appropriately and timeously, and entries and amendments are made to the Valuation Roll accurately and timeously.
Electoral Register		5		The adequacy and effectiveness of the controls and procedures in place to ensure that the Registers of Electors published annually for the Orkney and Shetland Islands Council areas are up to date and accurate.
Workforce Planning			5	To consider whether the Board is making best use of its staff included a review of workforce planning, recruitment, training, and succession planning.
Budget Setting & Budgetary Control			5	The adequacy and effectiveness of the processes and controls in place for budget setting and budgetary control within the Valuation Joint Board.
Corporate Governance & Risk Management	5			That the Board's corporate governance arrangements are in accordance with best practice as set out in the CIPFA / SOLACE Delivering Good Governance in Local Government: Framework (2016) and accompanying guidance notes. This audit will review the processes in place for the maintenance of policies and procedures and review of the Board's procedures for assessing, monitoring and mitigating risk.
Financial Controls	5			Review the financial systems documentation to ascertain the current processes and procedures and review the financial controls in place to ensure that they are adequate and effective. This will include a review of procurement, Contract Standing Orders and Financial Regulations.
IT Network and Security	5			To review the Board's IT network and cyber security arrangements including Data Governance and compliance with GDPR legislation.

## Summary of Internal Audit Recommendations and Current Status

7.2. Reports were prepared and presented to the VJB for both reviews completed this year. The recommendations from the reports and the current status of the actions are summarised in the table below.

Review Title	Recommendations	Target Date	Status
<b>Corporate Governance and Risk Management</b>	1. Each annual audit report must be made available on the VJB's website.	28 February 2023	Complete
	2. The VJB should consider having its own Risk Policy document which sets out its risk strategy and risk appetite.	30 June 2023	Complete
<b>IT Network and Security</b>	1. ICT services provided by both constituent councils should be formalised within signed SLA agreements.	31 March 2023	Complete
	2. Service level agreements with the constituent councils should provide for regular confirmation statements of compliance to be provided to the VJB.	31 March 2023	In progress
	3. The VJB's suite of data security and protection policies should be reviewed and updated to current legislation and provide required timescales for their regular review.	30 June 2023	In progress
	4. The contact details of the VJB Data Protection Officer should be shown on its website.	28 February 2023	Complete
	5. A simple service agreement should be drawn up between the VJB and its Data Protection Officer.	28 February 2023	Complete
	6. The VJB should review whether each of the commitments made within, and as a result of the records management plan have been embedded and develop an action plan to implement the remaining required improvements.	31 March 2023	In progress
	7. Following revision of Policies and Procedures within the VJB, staff should be updated on any significant revisions made and reminded of required practices to data security and protection.	31 August 2023	In progress
	8. Office doors and cabinet files should have keys or alternative security arrangements such as code lock entry.	1 May 2023	In progress



## 8. Quality Assurance and Improvement Plan

8.1. Internal Audit monitors its performance to gauge the effectiveness of the service and to inform future service improvements.

8.2. The PSIAS introduces a specific requirement for the Internal Audit Service to have in place a quality assurance and improvement programme. The purpose of the programme is to “enable an evaluation of the internal audit activity’s conformance with the Definition of Internal Auditing and the Standards and an evaluation of whether internal auditors apply the Code of Ethics. The programme also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunity for improvement.”

8.3. Conformance with the standards is confirmed through cyclical internal and external assessments of our methodology and practice.

Andrew Paterson MSc CMIIA

Chief Internal Auditor

## Annex 1 – Definition of Opinions

### Audit Opinions

Opinion	Definition
<b>Substantial</b>	The framework of governance, risk management and control were found to be comprehensive and effective.
<b>Adequate</b>	Some improvements are required to enhance the effectiveness of the framework of governance, risk management and control.
<b>Limited</b>	There are significant weaknesses in the framework of governance, risk management and control such that it could be or become inadequate and ineffective.
<b>Unsatisfactory</b>	There are fundamental weaknesses in the framework of governance, risk management and control such that it is inadequate and ineffective or is likely to fail.