

# Report

Report to:	<b>Lanarkshire Valuation Joint Board</b>
Date of Meeting:	<b>1 June 2020</b>
Report by:	<b>Executive Director (Finance and Corporate Resources)</b>

Subject:	<b>Internal Audit Annual Assurance Report 2019/2020</b>
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## 1. Purpose of Report

1.1 The purpose of the report is to:-

- ◆ report on the progress and performance of Internal Audit in the provision of internal audit services to Lanarkshire Valuation Joint Board (LVJB) in 2019/2020
- ◆ provide an independent audit opinion on the adequacy and effectiveness of LVJB's framework of governance, risk management and control arrangements for the year ended 31 March 2020

## 2. Recommendation(s)

2.1 The Board is asked to approve the following recommendation(s):-

- (1) that the content of this 2019/2020 Internal Audit Annual Report is noted.
- (2) that it be noted that the opinion expressed within this report informs LVJB's 2019/2020 governance statement.

## 3. Background

- 3.1 South Lanarkshire Council (SLC) delivers an internal audit service to Lanarkshire Valuation Joint Board (LVJB) in conformance with the Public Sector Internal Audit Standards (PSIAS) (revised 1 April 2017), compliance with which is mandatory under Section 95 of the Local Government (Scotland Act) 1973. This sets out a series of standards to ensure a professional, independent and objective internal audit service is delivered that supports good governance within an organisation.
- 3.2 PSIAS requires that a Quality Assurance and Improvement Programme (QAIP) is developed to provide assurance that internal audit activity is conducted in accordance with an Internal Audit Charter, that it operates in an efficient and effective manner and that it is perceived to be adding value and improving operations. This assessment during 2019/2020 confirmed that South Lanarkshire Council's (SLC) internal audit function continues to generally conform to PSIAS.

- 3.3 The Internal Audit service is governed by the terms and conditions agreed in an annual Service Level Statement (SLS) between SLC and LVJB. The agreement details Internal Audit's service objectives and plans for delivery of the service. Obligations attach to both parties under this agreement, including performance targets.
- 3.4 On an annual basis, a plan of work, derived from a risk evaluation of each suggested audit area, is attached to the Service Level Statement.
- 3.5 Each piece of agreed audit work is discussed with the Assessor and Electoral Registration Officer prior to the issue of a final report and progress with the implementation of actions is monitored by the Assessor and Electoral Registration Officer on a regular basis.
- 3.6 The objective of an internal audit service is to evaluate and improve the effectiveness of governance, risk management and control processes. The purpose of this report is to provide an independent audit opinion on the overall adequacy and effectiveness of LVJB's framework of governance, risk management and control arrangements based on audit work undertaken in 2019/2020.
- 3.7 In March 2020, LVJB systems and controls were impacted by the COVID-19 pandemic and the resulting requirement to amend governance arrangements and normal business operations. This has tested LVJB's risk management framework and has resulted in new ways of working to allow the Service to continue to be delivered. Embedded within these systems are controls that have been subject to change. The audit opinion expressed in this report relates to the period before these changed service delivery arrangements took effect. It will be important for LVJB, at an appropriate point in time, to undertake a post-incident review and highlight any lessons learned.

#### **4. Link to LVJB's Objectives and Top Risks**

- 4.1 LVJB's objective is to deliver equitable, customer-focused, professional valuation and electoral services for all of its stakeholders. The internal audit service seeks to support this through the delivery of a risk-based plan of internal audit work each year that tests the processes and procedures that deliver this objective.

### **5. Internal Audit Workload and Performance – 2019/2020**

#### **Workload – 2019/2020**

- 5.1 The actual number of days required to conclude the audit work undertaken in 2019/2020 is approximately 28 days which is marginally below the planned number of 30 days. The remaining 2 days were allocated to complete testing in relation to Cyber Security work which was postponed due to support work that Internal Audit was required to undertake in relation to COVID-19 tasks. These days will now be delivered in 2020/2021 as part of the agreed plan of work for that year. The reduction in days does not prevent an opinion being expressed as all key assignments were completed in the year.

Table One - Internal Audit workload analysis for 2019/2020

	Total No. Jobs
Planned	4
<b>Audit work concluded for the annual report</b>	<b>4</b>

- 5.2 Internal Audit was not able to issue final reports by 31 March 2020 for the reason stated above, however, all audit reports have been issued in draft format alongside this annual report and key findings and actions agreed. These reports will be issued as final imminently.
- 5.3 Each of the audits undertaken in the year was conducted in conformance with PSIAS and Appendix One details a full list of audit assignments which were undertaken during 2019/2020.
- 5.4 PSIAS requires an internal audit function to demonstrate engagement with clients to ensure the Audit Plan is agreed at the outset of the year and continues, throughout this period, to address known and emerging risks. To satisfy this requirement, feedback has been gathered whilst delivering the Plan in year and no amendments were considered necessary.

### **Performance – 2019/2020**

- 5.5 A summary of key Internal Audit performance statistics is included at Appendix Two. These detail performance in areas that are relevant to the delivery of an effective and efficient internal audit service.
- 5.6 The Board is asked to note the workload and performance in relation to the delivery of the internal audit service in the year to 31 March 2020.

### **6. Basis of Audit Opinion**

- 6.1 The opinion expressed within this report (see 8.4) has been based primarily on:
- ◆ the output from a programme of audits included within LVJB's **2019/2020 Internal Audit Plan**
- 6.2 Together with reliance on the following areas of assurance that have also been considered in the expression of an overall audit opinion for the year:
- ◆ the work of LVJB's **External Auditors** during 2019/2020
  - ◆ outputs of audits on **shared systems** within SLC.

### **Area of Assurance – Internal Audit Plan 2019/2020**

- 6.3 Detailed below are a summary of the key findings from areas which were the subject of internal audit work in 2019/2020:
- 6.4 **I923112 Non-Domestic Rates (NDR) Appeals** – this audit work concluded a review of the full NDR appeals process. The 'front end' stages in the process (logging and categorising appeals) were covered during 2018/2019 and the remaining stages of the process (negotiation, Valuation Appeal Committee hearings and processing the agreed appeal outcome) were covered by the 2019/2020 audit assignment.
- 6.5 The audit sought to confirm that there was a sufficient audit trail to support the remainder of the appeals process, including the reasons for an appeal, who took part in the negotiations and who was involved in the review and approval of decisions. In general, there was a good audit trail to support these stages for each of the sample, although one recommendation has been made in relation to further improvements to support the audit trail. Internal Audit was able to confirm that the basis of an appeal, the actual outcome for the appeal and the reasons for that outcome were recorded.

- 6.6 The audit also sought to confirm that there was sufficient segregation of duties within the process and this was the case for the sample appeals selected for review; in each case a different officer agreed the outcome. Evidence was available to substantiate, for most of the sample, that a senior manager had been involved for cases where a reduction in the rate value was more than 10%. Verbal assurances were given that this was the case for those where evidence was not available in an expected format and a recommendation made to review how this is captured in the audit trail for all cases going forward.
- 6.7 Systems records were updated to record the outcome for all sample appeals and the records reflected the revised rates value, where this was applicable.
- 6.8 LVJB advised that, as at 1 May 2020, they had disposed of 8,242 Revaluation appeals leaving 1,039 appeals outstanding. Of this figure, 827 had been cited for hearings in April, May and June 2020 suggesting that LVJB would complete the disposal within the legislative timeframe of 31st December 2020. However, following the Government's public health advice in relation to the COVID-19 pandemic, the Lanarkshire Valuation Appeal Panel took the decision to cancel all hearings up until the end of June, at which point only 11 had been settled. Consequently, the remaining appeals will now be cited in due course once the Panel has decided that appeal hearings can resume. As yet, the December 2020 deadline has not been relaxed and so the requirement to dispose of all remaining appeals prior to this date will be challenging to deliver. LVJB should continue to monitor the position carefully.
- 6.9 **1925113 – Information Governance, including Cyber Security risks** - LVJB are aware of the risks around the data it holds, including specific cyber security risks, with key risks captured within the organisation's risk register. The accountabilities attached to various parties are understood, with reliance placed on SLC IT Services, under an SLA with LVJB, to protect the data from an IT infrastructure security perspective; system's software or website providers providing updates / notifying issues specific to their own applications; and with LVJB responsible for governance of the data and the controls at a staff and user access level.
- 6.10 Monitoring of the threat of cyber-attack sits, principally, with SLC IT Services and previous audit work in this area provided reasonable assurances as to the arrangements in place with regards to expected cyber security controls in use by SLC IT Services (e.g. monitoring threats and vulnerabilities, patching, and back-up arrangements). SLC IT Services' approach to information security management includes good practice ISO standards and 'Cyber Essentials' principles. Nevertheless, with regards to specific cyber security risks, although SLC IT Services are taking reasonable steps to identify vulnerabilities and take actions to deal with these, new vulnerabilities are continuous within the current cyber landscape and to pose an inherent risk to LVJB and its data.
- 6.11 LVJB have a suite of policies and procedures designed to support the safeguarding of personal and sensitive data held by LVJB. This suite includes expected policies in relation to Records Management, Data Protection and Business Continuity planning. LVJB also adopt SLCs Information Security Policy, IT acceptable use policy and core employee training modules, including GDPR and Cyber Security as part of their wider partnership with SLC.

6.12 Controls are deemed, by LVJB, to be in place in relation to restricting access to data and limiting the instances where data is removed from business premises. However, it is understood that the national response to the COVID-19 pandemic may have introduced new risks to LVJB in this respect if homeworking practices have been adopted. It is essential that LVJB understand any emerging risks in this area and have fully briefed staff on expected data protection controls specific to LVJB services, in addition to Personnel Circulars issued to all staff in this respect. Review of the risks and controls should continue to be covered at management meetings and discussed with the SLC IT Security Manager.

#### **6.13 I924114 Follow up of actions**

6.14 Three improvement actions were agreed following the completion of the NDR appeals processing and the Records Management audit assignments undertaken during 2018/2019 and these actions were due for completion during 2019/2020. All have been declared complete and documentation has been provided to confirm that this is the case.

#### **Area of Assurance – External Audit and Shared Systems**

6.15 LVJB's external auditors undertook the 2018/2019 financial audit during 2019/2020 and provided an unqualified opinion in relation to LVJB's financial statements. Interim audit work in relation to the year ended 31 March 2020 is in progress and no significant issues have been raised to date.

6.16 LVJB shares some financial and HR systems with SLC. The overall audit opinion for LVJB is also informed by the assurances obtained from systems audits carried out by Internal Audit for SLC on these shared systems.

6.17 During 2019/2020, 'shared system' audits were undertaken in relation to financial systems / processes and HRMS self-service controls. In all of the areas, there was reasonable assurance around the effectiveness of existing controls and no significant issues were identified that should be separately reported to the Board. The steps being taken to progress some self-service processing will potentially impact on LVJB processes and this is an area that Internal Audit could review during 2020/2021, if deemed useful by LVJB.

#### **7. LVJB Performance – Delivery of audit actions 2019/2020**

7.1 PSAIS places a responsibility for monitoring progress with the delivery of audit actions with the Chief Internal Auditor to ensure that recommendations are effectively implemented. Appendix Three details how LVJB performed against agreed targets for implementing audit recommendations based on verbal updates received from LVJB. There were no external audit actions and 100% of internal audit actions were advised to be delivered on time.

7.2 Two improvement actions have been recommended following the completion of the NDR appeals processing audit. These are due for completion during 2020/2021.

## **8. Summary of overall assurance and audit opinion**

- 8.1 Internal control remains, primarily, a management responsibility to ensure that LVJB conducts its business in a manner that has due regard to the principles of good governance. The procuring of an internal audit service to test and report on control arrangements does not negate the importance of management continually monitoring the effectiveness of internal controls that are in operation. This is of particular importance in the midst of the current COVID-19 pandemic and the resulting changes to business processes that have been required in response. The internal audit service cannot be expected to give total assurance that control weaknesses or irregularities do not exist. The audit opinion is based upon the audit work undertaken during the year and knowledge of LVJB's wider governance, risk management and control arrangements.
- 8.2 LVJB activities are closely governed by statute and, as a result, there is little scope for LVJB to select what activities it undertakes in the financial year. Continued pressure from external sources is anticipated, which will put a significant strain on LVJB's resources.
- 8.3 All of the work undertaken by Internal Audit, including any shared system audits and the reports produced by External Audit, whether of an investigative or routine nature, help to inform an opinion on whether the internal controls that LVJB has in place are adequate.
- 8.4 **In 2019/2020, the Internal Audit opinion is that, overall, reasonable assurance can be placed on the adequacy and effectiveness of LVJB's framework of governance, risk management and control arrangements for the year ending 31 March 2020 (see 3.7).**
- 8.5 The Board is asked to note the audit findings and consider the opinion expressed above during preparation of LVJB's Annual Governance Statement.

## **9. Employee implications**

- 9.1 The Internal Audit Section within SLC covers the planned audit work but employees in LVJB also contribute to the work by supplying documentation and information as requested and by discussing and agreeing recommendations.
- 9.2 Feedback received in relation to audit assignments is used to highlight areas for training and development. These are progressed on an individual basis as part of the performance development review process. Best practice information is shared and learning points discussed throughout the year.

## **10. Financial implications**

- 10.1 The total charge to LVJB for the Internal Audit service is based on the work plan agreed in the SLS. Total payment for services delivered in 2019/2020 was £9,550.

## **11. Other implications**

- 11.1 LVJB's external auditors, Audit Scotland, may consider the findings of Internal Audit in forming an opinion on the organisation as part of their annual audit.
- 11.2 There are no sustainability issues in terms of the information contained in this report.

## **12. Equality impact assessments and consultation arrangements**

- 12.1 There is no requirement to carry out an impact assessment in terms of the information contained within this report.
- 12.2 The Assessor and Electoral Registration Officer are consulted in advance of every planned audit assignment and following completion of fieldwork.

**Paul Manning**

**Executive Director Finance and Corporate Resources**

13 May 2020

### **Link(s) to Council Values/Ambitions/Objectives**

- Achieve results through leadership, good governance and organisational effectiveness

### **Previous References**

- Internal Audit Annual Assurance Report 2018/2019 (3 June 2019)

### **List of Background Papers**

- Service Level Statement for Lanarkshire Valuation Joint Board 2019/2020

### **Contact for Further Information**

If you would like to inspect the background papers or want further information, please contact:-

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**Internal Audit assignments completed during 2019/2020****Appendix One**

<b>Job No.</b>	<b>Assignment name</b>	<b>Draft Issue</b>
I923112	Non-Domestic Rates Appeals	13/05/2020
I925113	Information Governance, including Cyber Security Risk Assessment	13/05/2020
I924114	Follow-up 2019/20	13/05/2020
I928115	Annual Report, Planning and Admin	13/05/2020



## Internal Audit performance during 2019/2020

## Appendix Two

Performance Indicator	Target
Completion of plan	100% planned assignments complete to draft report stage by 31 March
Completed plan within budget	100% of plan completed within budget
Draft reports issued on time	80% of drafts prepared within 42 days of completion of fieldwork

2019/2020	2018/2019
100%	100%
0%	100%
75% <sup>1</sup>	100%

Note:

1. Impacted by redeployment of Internal Audit resources as a result of COVID-19

	Target met
	Target missed

LVJB’s approach to audit during 2019/2020 – Performance in delivering audit recommendations

Appendix Three

Results based on verbal assurance information supplied by LVJB at requested date for returns.

Internal

	Target	2019/2020	2018/2019
Delivery of internal audit actions on time and in full	90%	100%	100%

External

	Target	2019/2020	2018/2019
Delivery of external audit actions on time and in full	90%	N/A	100%

	Target met
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