

# Report

Report to:	<b>Lanarkshire Valuation Joint Board</b>
Date of Meeting:	<b>5 June 2023</b>
Report by:	<b>Executive Director (Finance and Corporate Resources)</b>

Subject:	<b>Internal Audit Annual Assurance Report 2022/2023</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 2022/2023
- ◆ 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 2023

## 2. Recommendation(s)

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

- (1) that the content of this 2022/2023 Internal Audit Annual Report be noted; and
- (2) that it be noted that the opinion expressed within this report informs LVJB's 2022/2023 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. Assessment has confirmed that South Lanarkshire Council's 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 2022/2023.
- 3.7 Any ongoing changes to working practices or controls, following the COVID-19 pandemic, were assessed during our 2022/2023 audit work where this was relevant to the subject areas being reviewed. The audit opinion expressed in this report once again relates to the revised service delivery arrangements in operation, where this is applicable.

**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 – 2022/2023  
Workload – 2022/2023**

- 5.1 Two core audit assignments were included in the 2022/2023 Audit Plan for LVJB. These are reflected in Table 1.

Table One – Core assignment analysis for 2022/2023

	<b>Total No. Jobs</b>
Core audit assignments planned	2
<b>Audit assignments completed</b>	<b>2</b>

- 5.2 Other areas of work agreed for the 2022/2023 Audit Plan included agreement of an audit plan, preparation and presentation of an annual report on audit findings to this Board and follow-up of audit actions.
- 5.3 All of the audit work concluded during 2022/2023 is listed in Appendix One along with the date the work was issued in draft format to LVJB. This work was conducted in conformance with PSIAS.
- 5.4 PSIAS requires an internal audit function to demonstrate engagement with clients to ensure the Audit Plan agreed at the outset of the year continues, throughout the year, to address known and emerging risks. To satisfy this requirement, feedback was gathered whilst delivering the Plan in year and no amendments were considered necessary. There was no work, in addition to the planned assignment, requested or carried out during 2022/2023.

**Performance – 2022/2023**

- 5.5 Delivery of an effective and efficient internal audit service requires good performance in three key areas - delivery of audit work within agreed budget days, issue of reports timeously following completion of audit fieldwork and prompt agreement of findings and recommendations with clients.

5.6 Internal Audit have met all of these requirements for the 2022/2023 Plan of work in line with the completion date of March 2023. All of the planned audit work has now been delivered within the budget agreed for the 2022/2023 Audit Plan. Final audit reports for the two core assignments (I923204 – Canvass Data Match and I923204 – Governance) have been issued and the findings and recommendations have been agreed by LVJB prior to the issue of this annual report.

5.7 The Board is asked to note the workload and performance (detailed at Appendix Two) in relation to the delivery of the internal audit service for the 2022/2023 year.

## 6. Basis of Audit Opinion

6.1 The opinion expressed within this report (see 8.4) has been based primarily on:-

- ◆ the output from the audit work included within LVJB's **2022/2023 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:-

- ◆ outputs of audits on **shared systems** within SLC
- ◆ the work of LVJB's **External Auditors** during 2021/2022

### Area of Assurance – Internal Audit Plan 2022/2023

6.3 Detailed below are a summary of the key findings from areas which were the subject of internal audit work in 2022/2023: -

#### I923203 – Canvass Data Match

6.4 Every Electoral Registration Officer (ERO) has a duty to maintain their electoral register and to ensure, as far as is reasonably practicable, that all those eligible (and no others) are registered in it. An annual canvass of electors is undertaken by each ERO to help them obtain assurances that their register is as up to date as it can be. The canvass seeks to gather information on potential additions, changes and deletions to the Electoral Register.

6.5 There are a number of steps involved in the canvass which, after preparation of the canvass plan involves determining the canvass “route” for each property by carrying out a “data step” to assess the canvass route that is required - route 1 is a streamlined canvass process where it is deemed likely from the data matching that the household is not likely to have changed composition since the last canvass; route 2 is a more intensive canvass for those properties where it is deemed likely that there have been changes in household composition since the last canvass; and route 3 is a separate route applicable to “establishments”. Once the route has been determined, the canvassers then need to carry out the statutory contact steps, as detailed in legislation and guidance, for each route before the revised register is published at the start of December each year.

6.6 The audit found that processes were in place to promote regular updates of changes to the register throughout the year, with defined monthly and annual checks in place to ensure the register is as up to date as it can be before the data matching steps are undertaken.

- 6.7 LVJB utilised both national and local data matching which facilitated the allocation of just over 80% of properties into a route 1 canvass process. Less than 20% of the properties had to follow the more intensive route 2 process. This significantly reduced the volume of canvassers required compared to pre-data match canvass years.
- 6.8 For the audit sample, the statutory canvass steps were undertaken for each property, in accordance with the requirements of the canvass route the property was allocated to, with all the statutory contact made before the canvass process final deadlines were reached and the canvass “chasing cycle” was closed. The response rate for route 2 properties following canvass contact was around 42%.
- 6.9 There was good systems’ audit trails to support the steps taken for each property during the canvass. There is also some manual spreadsheet back-up retained by LVJB to substantiate local matching and it is agreed that a list of the elector ID’s matched by the in-house local matching will be retained by LVJB in line with their retention schedules, to evidence the local matches.
- 6.10 It is Internal Audit’s opinion that substantial assurance was obtained that the processes in place at LVJB support them in ensuring that the necessary procedural steps have been taken to reduce the non-match list as far as is possible and that, for the sample, the route identified for the match has been followed.
- 6.11 No additional risks were identified during the audit that required the agreement of formal improvement action.

#### **1923204 – LVJB Governance Checks**

- 6.12 The Accounts Commission, following their 2020/2021 audit of Orkney and Shetland Valuation Joint Board, recommended that other Joint Boards consider the findings from that audit to identify if there were any areas where “lessons could be learned” surrounding governance, scrutiny and decision-making arrangements.
- 6.13 Internal Audit, with support from the Assessor and ERO, carried out an overview of the governance arrangements for LVJB, that were deemed to be potential risks areas from the Orkney and Shetland audit report.
- 6.14 Specifically, the key risk associated with the use of consultants in key management roles does not apply to LVJB. The Assessor / ERO and Assistant Assessors / ERO are all employed, on a permanent basis, by the Valuation Board. The Board are responsible for decisions regarding the Chief Officer (the Assessor / ERO) post, and they approved both the initial fixed term and then permanent recruitment into the Assessor role. The Board are also kept informed of all other notable vacancies and recruitment into posts via routine progress update reports at each Board meeting. There are agreed remuneration scales that apply to each grade. The remuneration of senior members in the organisation is reported within the annual account’s remuneration report.
- 6.15 For LVJB, the Board is convened properly, in line with the Standing Orders on Procedures, including the minimum quorum required to progress and decisions made are recorded in minutes for each meeting. The public minutes do exclude some aspects that are considered confidential (including changes in relation to the Chief Officer’s post), but there is transparency regarding the subject of these exclusions. All new Councillors are provided with induction training by North and South Lanarkshire Councils that covers the Councillor’s Code of Conduct. In

addition, a further development session, provided at the first meeting of each new Board, provides Members with detailed knowledge of LVJB services and statutory duties which is required as a pre-requisite to Member's monitoring, scrutiny and decision-making roles on the Board. Additional training and development can also be sought if an individual Board Member deems this helpful.

- 6.16 Standing Orders on Contracts outline the circumstances in which the Board need to authorise the seeking of tenders or the award of contracts but generally the approval of spend for LVJB is delegated to the Assessor who, when necessary, consults with the Treasurer. LVJB's most significant areas of spend relate to annual maintenance costs for systems / software that underpin service delivery and the bulk scanning / mailing contract. In recent years there has been some additional funding and expenditure relating to the additional duties following the Barclay review and the new Non-Domestic Rates (Scotland) Act 2020. The Board are generally kept informed of areas for noting via the Revenue Budget Monitoring reports and the standing agenda progress reports. However, there may also be merit, as promoted by LVJB's Standing Orders on Contracts, in presenting an overview procurement report to the Board (aligning to the budget monitoring report) which allows the Board to understand the contracts that LVJB have entered into or extended, as well the suppliers with whom LVJB incur significant spend over £50k. The LVJB contract register will be updated to reflect all contracts in place and the Assessor should also continue to be mindful of aggregate spend with suppliers with a view to negotiating contract terms where this could be favourable, per the Standing Orders on Contracts.
- 6.17 LVJB have plans in place that outline forward operational, workforce and financial requirements in the medium term which consider key risks identified. Action plans are in place to monitor particular risk areas where action is deemed necessary.
- 6.18 The Audit Scotland report for Orkney and Shetland made specific reference to the fact that the VJB relied upon Council staff and systems in relation to finance, HR, and IT systems. This is a similar situation for LVJB who utilise the services of South Lanarkshire Council as Lead Authority. Although there is no formal SLA, except for IT services provided by SLC, there is established custom and practice and the Assessor is content that there is sufficient clarity surrounding the level of service provision from SLC and specific exclusions, in particular with regards to legal advice (as was the area highlighted as posing confusion in the Orkney and Shetland report).
- 6.19 LVJB themselves undertake a review of their governance arrangements each year prior to publishing their annual governance statement. There are also programmes of review established by both internal and external audit and progress with the implementation of audit actions is monitored and reported to the Board each year as part of the Internal Audit Annual Assurance report.
- 6.20 On the basis of the overview work undertaken, it is Internal Audit's opinion that a reasonable level of assurance has been obtained that, generally, expected controls are in place within LVJB to mitigate any risks that could be applicable to LVJB as highlighted within the Accounts Commission's report following the audit of Orkney and Shetland VJB for 2020/2021.
- 6.21 There have been two improvement actions agreed for this audit (provision of a procurement overview report to the Board and review of LVJB's contract register).

## **I924207 - Formal Follow-Up**

- 6.22 There were two audit actions that fell due during 2022/2023 from the Conflict of Interest audit work undertaken during 2021/2022.
- 6.23 The original audit identified that LVJB had procedures in place and new employees were explicitly made aware of these but given there had been no formal declaration forms submitted to managers in recent years, there was deemed to be a risk that incumbent employees could have forgotten the requirements.
- 6.24 LVJB reminded employees, December 2022, of their responsibilities under the Code of Conduct to declare any actual or perceived conflicts of interest and offers of gifts or services. Employees were instructed to review sections 8 (conflict of interest) and 12 (gifts) of the Code of Conduct and to complete and return the necessary forms by January 2023 (including nil returns). Most responses had been received by the end of January, with those remaining being chased up. LVJB confirmed that a reminder will be issued annually, and a full (nil return) exercise will be repeated every three years in line with the agreed audit action.
- 6.25 LVJB also prepared and issued a new form to employees in December 2022 to be used to declare family / workplace relationships. LVJB had a view to the indicative number of returns expected and were monitoring the returns to ensure completeness.
- 6.26 Both of these actions support LVJB in ensuring that they are aware of actual or perceived conflicts of interest and can take the necessary steps to mitigate any risks identified.
- 6.27 There were also a further five audit actions that fell due during 2022/2023 for the New Homes audit work undertaken during 2021/2022.
- 6.28 The original audit reviewed the process in place whereby LVJB value new dwellings so that they can add the property Council Tax banding to the Council Tax Valuation List and a reasonable level of assurance was obtained that generally, expected controls were in place for the addition of new domestic dwellings to the valuation list. The recommendations made were largely to strengthen the audit trail that supports the valuations.
- 6.29 Since the audit, LVJB have reviewed the relevant forms / templates to reflect current practices and a move to more digitisation. Follow-up audit testing confirmed that forms were being completed and the people involved in completing forms were, as a minimum, now initialling the forms again to show their involvement.
- 6.30 Employees have also been reminded of the requirement to retain any relevant photographic or video evidence that has been used to support a valuation as part of the valuation documentation, particularly in any instances where a physical survey has not been carried out. LVJB confirmed that, in most instances, a physical survey will now support the valuation again as all properties are now able to be surveyed physically, except for care homes and hospitals.
- 6.31 Audit testing has concluded that LVJB has taken steps and made good progress in ensuring the risks identified in the 2021/2022 audits are being mitigated by implementation of the agreed audit actions.

## **I9245205 – Shared Systems**

- 6.32 LVJB shares some financial and Human Resources 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.
- 6.33 During 2022/2023, this shared system's work relates, in the main, to the significant project that has been ongoing to replace the core finance and HR system, used by SLC and shared with LVJB, with Oracle Fusion cloud. When the new system is implemented later in 2023, this will involve changes to some of the financial, procurement and personnel processes currently in place.
- 6.34 The broad scope of Internal Audit's role within the Oracle Fusion project implementation is to contribute to the provision of assurance around:-
- ◆ business process readiness and definition of Solution Design
  - ◆ effective project management and governance
  - ◆ preparation and delivery of a data migration plan
  - ◆ development and implementation of organisational change strategies
  - ◆ delivery of a detailed testing strategy
  - ◆ reporting requirements being met
  - ◆ robust internal controls being embedded within system processes
  - ◆ operational readiness of the organisation
- 6.35 Internal Audit work on Oracle Fusion spans 2022/2023 and 2023/2024. Work across all areas, set out in 6.34 above, remains ongoing at the date of writing this report. In 2023/2024, Internal Audit's focus will move to the testing of a small number of key processes within the new Oracle Fusion system. It is intended that this will seek to provide assurance of robust internal controls within these processes. The outcome of this work will be captured within the 2023/2024 Annual Assurance report that will be reported to the Board in June 2024.

## **Area of Assurance – External Audit**

- 6.36 LVJB's external auditors, Audit Scotland, undertook the 2021/2022 financial audit during 2022/2023 and provided an unqualified opinion in relation to LVJB's financial statements. Findings from external audit work in relation to the year ended 31 March 2023 will be considered in due course when interim output becomes available.

## **7. LVJB Performance – Delivery of Audit Actions 2022/2023**

- 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. Seven audit actions were due to be completed by LVJB during 2022/2023 and follow-up work (6.24 – 6.31) has confirmed that action has now been taken to implement all seven. There were no external audit actions.
- 7.2 No formal improvement actions have been recommended following the completion of the Canvass audit, although discussions were held around best practice retention of documentation to evidence local matches. Two improvement actions have been recommended following completion of the Governance audit, both of which will fall due for completion during 2023/2024.

## **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 remains of particular importance in the period following the 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 2022/2023, 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 2023 (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 SLA. The total charge for services delivered in 2022/2023 was £9,550.

## **11. Climate Change, Sustainability and Environmental Implications**

- 11.1 There are no climate change, sustainability or environmental implications in terms of the information contained in this report.

## **12. Other Implications**

- 12.1 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.

## **13. Equality Impact Assessments and Consultation Arrangements**

- 13.1 There is no requirement to carry out an impact assessment in terms of the information contained within this report.



13.2 The Assessor and Electoral Registration Officer is consulted in advance of every planned audit assignment and following completion of fieldwork.

**Paul Manning**  
**Executive Director (Finance and Corporate Resources)**

5 May 2023

**Link(s) to Council Values/Priorities/Outcomes**

- ◆ Accountable, effective, efficient and transparent

**Previous References**

- ◆ Internal Audit Annual Assurance Report 2021/2022 (27 June 2022)

**List of Background Papers**

- ◆ Service Level Statement for Lanarkshire Valuation Joint Board 2022/2023

**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 2022/2023****Appendix One**

<b>Job No.</b>	<b>Assignment name</b>	<b>Draft Issue</b>
I921209	Audit Plan	8 November 2022
I923203	Canvass Data Match	20 February 2023
I923204	Governance checks	14 March 2023
I924207	Follow-up 2022/23	Concluded in this annual report

In addition to this work above, there is the completion of this Annual Report for reporting to the Board.

## Internal Audit Performance During 2022/2023

## Appendix Two

<b>Performance Indicator</b>	<b>Target</b>
Completion of plan	100% planned assignments complete to draft report stage by agreed deadline <sup>1</sup>
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

<b>2022/2023</b>	<b>2021/2022</b>
100%	100%
100%	100%
100%	100%

Note:

1. Target deadline for 2022/2023 was 31 March 2023. For 2021/2022 the target date, as agreed by Internal Audit and LVJB, was revised to June 2022.