

Report

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Report to:	Lanarkshire Valuation Joint Board
Date of Meeting:	6 June 2011
Report by:	Treasurer, Lanarkshire Valuation Joint Board

Subject:	Internal Audit Annual Report 2010/11 for Lanarkshire Valuation Joint Board
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1. Purpose of Report

1.1. The purpose of the report is to:-

- ◆ report on the performance of Internal Audit Services delivered to Lanarkshire Valuation Joint Board (LVJB) by South Lanarkshire Council
- ◆ report on the findings of Internal Audit for 2010/11

2. Recommendation(s)

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

- (1) that the Internal Audit Report for 2010/11 for Lanarkshire Valuation Joint Board is noted; and
- (2) that the opinion of Internal Audit is considered in preparation of the Statement of Governance and Internal Control for Lanarkshire Valuation Joint Board

3. Background

3.1. Delivery of Internal Audit services is governed by terms and conditions, formally contained in an agreed Service Level Statement. Services are delivered in accordance with the Internal Audit Code of Practice for Local Government. Obligations attach to both parties under the agreement and it contains key performance indicators.

3.2. Attached to the Service Level Statement, on an annual basis, is a plan of work derived from a risk evaluation of each suggested audit area.

3.3. Each piece of agreed audit work is discussed with a nominated Lanarkshire Valuation Joint Board officer prior to the issue of a final report and generally progress is monitored jointly by the Assessor and Electoral Registration Officer, and the Depute Assessor and Electoral Registration Officer.

3.4. The agreed audit plan for 2010/11 allowed audit work on the following assignments:

1. LVJB Budget Monitoring and Reporting (I214918)
2. Follow-up reminders (I311704)
3. Annual Report, forward audit planning and administration (I331007)

- 3.5. The Service Level Statement for 2011/12 has been agreed in principle and will be finalised later in the year.

4. Performance – Service Level Statement

- 4.1. Four out of four performance targets were achieved by South Lanarkshire Council and Lanarkshire Valuation Joint Board in relation to the main assignment.
- 4.2. Fieldwork relating to the main assignment, LVJB Budget Monitoring and Reporting was completed within one week of the target and the draft report was issued on 4 March 2011. This was within 21 days of the completion of fieldwork. LVJB agreed to the closing meeting within the required four weeks. Following discussions and input from operational managers, LVJB signed the action plan within 15 days of the closing meeting and the final report was issued within seven days of the receipt of the signed action plan.
- 4.3. In addition, regular meetings took place during the year to monitor the Service Level Agreement, discuss progress on actions and agree plans. An audit planning strategy was prepared and discussed. Guidance was also provided on governance and risk management. This helped LVJB to deliver actions from their Service Plan.

5. Performance - Delivery of Audit Actions

- 5.1. Delivery of audit actions by due dates contributes to a sound control environment. For Lanarkshire Valuation Joint Board, a system of follow-up exists to ensure audit actions are delivered:
1. Reminders are sent, based on information stored on an Internal Audit database (for actions due that month and for actions outstanding from previous months)
 2. Formal follow-up activity in the style of an agreed assignment, if agreed as part of the plan.
 3. Lanarkshire Valuation Joint Board also monitors audit actions via their regular management team meetings.
- 5.2. Appendix One summarises all nine actions due for delivery during 2010/11. This includes three recommendations carried forward from 2009/10. 78% (7/9) of audit actions were delivered and closed during the year. The remaining two actions are work in progress and relate to a privacy impact assessment for retention of the full electoral register (a data protection requirement) and preparation of a stress improvement plan arising from findings from employee workshops held earlier in the year.
- 5.3. Completed actions relate to the following:
- ◆ Preparation of an LVJB Data Protection Policy document
 - ◆ Adoption of People Connect system to manage employee data
 - ◆ Annual review of Revaluation Services which sets realistic but acceptable time-frames
 - ◆ Examine Electoral Commission performance targets
 - ◆ Review and amendment of South Lanarkshire Council employee policies to make them more relevant to LVJB. This action was undertaken in consultation with SLC Corporate Personnel
 - ◆ Re-issue and reaffirmation of the LVJB Dignity at Work policy

6. Audit Findings

6.1. LVJB Budget Monitoring and Reporting Audit (I214918)

The objective of this piece of work was to provide assurance that the accounting processes and practices in operation within LVJB are robust. Internal Audit provided a positive level of assurance regarding the adequacy of LVJB's budget monitoring and reporting arrangements. A few areas for improvement were, however, identified and three actions were recommended. These cover updating the existing procedural manual to reflect new working practices, exploring the scope for devolved keying of supplier invoices and evaluating alternative solutions for financial management systems. This report will be presented to the Board under separate cover.

6.2. Administration and advice - Risk Workshop (I331007)

In January 2011, the Council's central risk management team facilitated a risk workshop for the LVJB management team. LVJB's risk register had been in place since 2004 and was last updated during 2008. Amendments were made to both the register and the control plan as a result of the workshop. A report outlining the outcomes from the workshop and the revised register was presented to the Board in February 2011. LVJB management has now drafted a strategy and methodology unique to LVJB operations. This type of activity provides assurance of sound governance arrangements within the Board.

6.3. Audit Planning (I331007/L)

LVJB in their Service Plan for 2008/11 targeted an Internal Audit Strategy with agreement of an annual plan by April of each year. The strategy was to identify audit priorities and include management concerns.

The Internal Audit strategy was jointly reviewed by the Risk and Audit Manager and the Assessor and a revised framework has been agreed. This shows audit ideas spanning a five year period and these will be reviewed annually for changes in the level of risk and management priorities.

These ideas will be prioritised with the highest risk items being selected. Final selections will remain a client responsibility although Internal Audit may advise on areas to be covered.

6.4. Shared systems and cross-cutting reviews

6.4.1. South Lanarkshire Council's Internal Audit Section carries out assignments during the year which, although not directly involving Lanarkshire Valuation Joint Board, may provide some useful background information concerning potential areas for improvement. A brief summary of findings which may have relevance to Lanarkshire Valuation Joint Board follows. Some of these areas may represent emerging risks for LVJB and help in future reviews of its business risk register.

6.4.2. Review of governance arrangements

LVJB may wish to consider the scope for annual self assessment of its governance arrangements as a source of assurance for its statement on internal control.

6.4.3. Organisational Change

The Chartered Institute of Public Finance and Accountancy has made recommendations on managing during change. All public bodies are considering material changes as a result of budget pressures and LVJB are no different so a

review of the level of compliance against this guidance may be helpful. Of particular relevance may be the scope for programme and project management.

6.4.4. Data analysis of high spend areas such as overtime and contracts

Again there may be value in setting hard overtime targets to help deliver services within reduced budgets. The implementation of more structured monitoring of such targets through data analysis may also be worthwhile.

Tender evaluations, creditor payments, journal entries, petty cash top-ups and income and ledger analysis also lend themselves to continuous monitoring in order that exceptions can be highlighted and promptly investigated.

6.4.5. Inventory management

Lower value but attractive assets, such as mobile phones and other portable equipment can sometimes be omitted from local inventories. It is a common risk that the recording of some items may fall between the formal asset register, stock records and local inventories. There may be value in revisiting the controls relating to these areas.

6.4.6. Information governance

Access to electronic systems must be adequately controlled in the interests of data protection. It is a good idea to regularly monitor and report on system users and their permissions. Unnecessary risks can be created by allowing high numbers of users' access to functionality, which is not needed for their daily job, and by not sufficiently guarding the security of data held both manually and electronically.

6.4.7. Management accounting

The alignment of physical output, for example, numbers of visits to new premises, to the costs of such activities is a crucial control in identifying inefficiency. A review of the unit costs for each main type of activity may be a sound financial risk control initiative to consider.

7. Internal Audit Opinion

7.1. Lanarkshire Valuation Joint Board activities are closely governed by statute and, as a result, there is little scope for the Board to select what activities it undertakes in the financial year. Continued pressure from external sources is anticipated which will put a significant strain on the Board's budget and time in the following year.

7.2. All of the work undertaken by Internal Audit and the reports produced by PricewaterhouseCoopers, whether of an investigative or routine nature, help to inform whether the internal controls which Lanarkshire Valuation Joint Board has in place are adequate. Work covers both financial and operational risk. However, Internal Audit cannot be expected to give total assurance that control weaknesses or irregularities do not exist, as it is a management responsibility to ensure a system of robust control.

7.3. Nevertheless, the overall opinion of Internal Audit for the year 2010/11, based on the work undertaken in the last year, is that a good level of assurance can be placed on the adequacy and effectiveness of the Board's internal control system. It is recommended that this report is considered in preparation of the Lanarkshire Valuation Joint Board Statement of Governance and Internal Control.

8. Employee Implications

- 8.1. A team of auditors in South Lanarkshire Council covers the planned audit work but employees in Lanarkshire Valuation Joint Board also contribute to the work by supplying documentation and information as requested and by discussing and agreeing recommendations.

9. Financial Implications

- 9.1. The total charge to Lanarkshire Valuation Joint Board for the Internal Audit service is based on the work plan agreed in the Service Level Statement, although there is scope to alter the allocation or to charge for extra days on an ad-hoc basis. The days booked for each assignment during 2010/11 are shown in Table 1 below:

Table 1
Days booked to Audit Assignments in 2010/11

Assignment	Original Plan	Job Number	Actual days
LVJB Budget Monitoring and Reporting	25	I241918	20
Follow-up reminders	1	I311704	1
Annual Report 10/11 and forward audit planning	4	I331007	2
Annual Report 09/10 and Conclusion of Stress Audit	0	I685158 I545017	5
Total	30		28

- 9.2. Despite fewer days than planned being booked by the end of the financial year additional time has been incurred during 2011/12 in preparing this report. This additional time amounts to two days. This takes the final position to 30 days against a plan of 30.

- 9.3. Total payment in respect of the services delivered was £9,112.

10. Other Implications

- 10.1. Lanarkshire Valuation Joint Board's external auditors may consider the findings of Internal Audit in forming an opinion on the organisation as part of their annual audit.
- 10.2. In their 2009/10 Annual Report to Members and the Controller of Audit, PricewaterhouseCoopers issued an unqualified opinion on the financial statements of the Lanarkshire Valuation Joint Board.
- 10.3. The external auditors provided assurance that the supporting documentation and the internal review procedures that were undertaken by management were sound. They also stated that there was an effective working relationship with South Lanarkshire Council finance staff.

11. Equality Impact Assessment and Consultation Arrangements

- 11.1. This report does not introduce a new policy, function or strategy or recommend a change to an existing policy, function or strategy and, therefore, no impact assessment is required.

11.2. Consultation is undertaken with the Assessor and Electoral Registration Officer and his Depute in the preparation of the Audit Plan, and in any amendments throughout the year.

Paul Manning
Treasurer

30 April 2011

Previous References

- LVJB Internal Audit Annual Report for 2009/10 – Monday 7 June 2010

List of Background Papers

- Internal Audit Reports
- Service Level Statement for Lanarkshire Valuation Joint Board 2010/11

Contact for Further Information

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

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Delivery of Internal Audit Recommendations
Appendix 1

Due in 2009/10 carried forward into 2010/11

Action	Action Status	Target Date	Completion Date
Undertake a Privacy Impact Assessment in line with publish guidelines	Active	31/12/2011	
Prepare a LVJB Data Protection Policy document in compliance with the Data Protection Act 1998	Completed - Late	31/12/2009	29/11/2010
Phase out using the employee access database. Agree only when fully satisfied that the system used by SLC could provide LVJB with requested information	Completed - Late	31/12/2009	27/01/2011

Due in 2010/11

Action	Action Status	Target Date	Completion Date
Review Revaluation targets on annual basis with a view to achievement within realistic but acceptable time-frames.	Completed – On Time	31/05/2010	31/05/2010
Use workshops to identify reasons why Electoral Commission performance targets are not met and set interim targets to motivate staff.	Completed - Late	31/08/2010	30/09/2010
Review and amend SLC personnel policies to make them more relevant to LVJB staff. Undertake this in consultation with Corporate Personnel.	Completed - Late	31/12/2010	25/02/2011
Through workshops identify and address employee consultation issues and prepare improvement plan.	Active #	30/06/2011	
Re-issue and reaffirm the LVJB Dignity at Work policy.	Completed – On Time	31/05/2010	31/05/2010
Liaise with SLC Health and Safety team to review and assess stress management and suggested audit actions	Closed – Combined with the above action #	-	-

Number of actions due during 2010/11	9	100%
Number of actions due during 2010/11 closed as at 31/03/2011	7	78%
Number of actions due during 2010/11 open as at 31/03/2011	2	22%