

Report to: **Lanarkshire Valuation Joint Board**
Date of Meeting: **7 June 2010**
Report by: **Treasurer, Lanarkshire Valuation Joint Board**

Subject: **Lanarkshire Valuation Joint Board Internal Audit
Annual Report 2009/2010**

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 by South Lanarkshire Council
- ◆ Report on the findings of Internal Audit for 2009/10.

2. Recommendation(s)

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

- (1) that the Internal Audit Report for 2009/10 for Lanarkshire Valuation Joint Board is noted.
- (2) that the opinion of Internal Audit is considered in preparation of the Statement of Governance or Internal Control for Lanarkshire Valuation Joint Board.

3. Background

- 3.1. For the past eight years, the delivery of Internal Audit services has been governed by terms and conditions, formally contained in an agreed Service Level Statement, and delivered in accordance with the Internal Audit Code of Practice for Local Government. Obligations attach to both parties under the agreement.
- 3.2. Attached to the Service Level Statement, on an annual basis, is a plan of work with each audit assignment risk-assessed in relation to the operation of Lanarkshire Valuation Joint Board's activity within a sound internal control environment.
- 3.3. Each piece of 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 Service Level Statement for 2010/11 has been agreed and signed.

4. Current Performance

- 4.1. The agreed audit plan for 2009/10 allowed audit work on the following assignments:
 - LVJB Stress (originally Disaster Recovery) (I545017)
 - Follow-up reminders (I311650)
 - Annual Report and forward audit planning (I685158 & I330651).

- 4.2. The Assessor suggested on 28 October 2009 a preference for an audit on stress. The aim of the assignment was to gauge the levels of stress that the staff at the LVJB are under.
- 4.3. The draft LVJB Stress Audit was issued on 20 April 2010.
- 4.4. Key performance indicators are included in the Service Level Statement. For the core assignment (LVJB Stress):
- The draft report was not issued within 21 days of the completion of fieldwork. This was due to staff illness which resulted in the internal review of the report being delayed.
 - The Lanarkshire Valuation Joint Board was able to agree to the closing meeting within 28 days of the completion of the fieldwork. However the date of the meeting was delayed for a week due to the Depute Assessor being caught up in the travel disruption caused by the eruption of the Icelandic volcano.
 - The Lanarkshire Valuation Joint Board was able to sign action plan within 15 days of the closing meeting (and agreement of the draft).
 - The final report was issued within 7 days of the receipt of the signed action plan.

Three out of four performance targets were achieved by South Lanarkshire Council and Lanarkshire Valuation Joint Board.

The above only relates to the Stress Audit. Other jobs carried out and delivered to LVJB during the course of the year were Audit Follow Up, Audit Planning and the Annual Report.

In addition to planned work there was one special investigation for Lanarkshire Valuation Joint Board. See paragraph Reference 4.8.8.

- 4.5. Delivery of Audit Actions
Delivery of audit actions by due dates contributes to a sound control environment. For Lanarkshire Valuation Joint Board, a dual system of follow-up exists to ensure audit actions are delivered:
- Reminders are sent, based on information stored on an Internal Audit database (for actions due that month and for actions outstanding from previous months)
 - Formal follow-up activity in the style of an agreed assignment, if agreed as part of the plan.
 - Lanarkshire Valuation Joint Board also monitors audit actions via their regular management team meetings.
- 4.6. There were ten audit actions due in 2009/10, two of which were agreed only in principle by Lanarkshire Valuation Joint Board. These related to the Information Management audit carried out in 2008/09. Details of the actions due in 2009/10 are shown at Appendix 1. 70% of audit actions were completed on time. The remaining three actions are under consideration.
- 4.6.1. All actions relate to Information Governance.

- 4.6.2. Directives were issued to staff restricting access to files and advising that no external devices are to be used with PC's.
- 4.6.3. An initiative is underway to digitise general paperwork using a proprietary document management software application.
- 4.6.4. The use of pen drives is restricted to encrypted devices which must be signed out and their intended use is recorded on a central register.
- 4.6.5. An alternative method for encryption of data has been suggested in which a web facility may be introduced with users logging in via a password and accessing information which is only applicable to each member of staff.
- 4.6.6. Lanarkshire Valuation Joint Board currently assesses and will continue to assess South Lanarkshire Council IT policies and procedures and will adopt and formally advise the Board, where appropriate.
- 4.6.7. Internal Audit agreed that marking an email as sensitive or confidential, as originally recommended, does not mitigate data loss, thus no further action was required regarding the development of a more secure methodology of passing data to South Lanarkshire Council Personnel. The action was closed.
- 4.6.8. The three remaining audit actions are currently under consideration, particularly in relation to sharing of data with external parties. The reporting functionality linked to the People Connect initiative is currently being assessed prior to the phasing out of the employee access database.

4.7. **Findings**

4.7.1. **LVJB Stress Audit**

The objective of this piece of work was to provide assurance to Lanarkshire Valuation Joint Board that it has robust management arrangements around work related stress. Internal Audit provides a positive level of assurance regarding the adequacy of Lanarkshire Valuation Joint Board's work related stress management arrangements. However several areas for improvement were identified and six actions were recommended. These cover tailoring existing personnel policies to make them more relevant to Lanarkshire Valuation Joint Board staff, structuring employee consultation, for example in relation to change management and implementing a stress management improvement plan. Refer to Appendix Two for details.

Lanarkshire Valuation Joint Board should work in partnership with South Lanarkshire Council Corporate Personnel section to address the identified issues and to implement solutions. Lanarkshire Valuation Joint Board has committed to implement all agreed audit recommendations within a reasonable timescale to ensure that the identified risks are mitigated.

4.8. **Shared Systems and Cross-cutting Reviews**

Lanarkshire Valuation Joint Board share financial and HR systems with South Lanarkshire Council. Internal Audit, where applicable, include Lanarkshire Valuation Joint Board samples in audits of these shared systems in 2009/10. This involved an HRMS payroll controls audit. The main findings from this audit are reported below.

4.8.1. In addition to the shared systems audits a number of cross-cutting reviews were performed which were relevant to Lanarkshire Valuation Joint Board. These include Best Value, Single Outcome Agreement and Email & Internet Monitoring. Again the findings are reported below, as are the key principles arising from further reviews of efficiency, workforce monitoring and governance checks.

4.8.2. ***HRMS Payroll Controls (I212158)***

The objective of this audit was to provide assurance over general payroll controls and controls relating to People Connect. Tax and NI deductions are accurate as updates are received electronically from HMRC. It is anticipated that any issues will be mitigated by the continued development of the functionality of People Connect which gives greater transparency of the payroll process to both employees and managers.

4.8.3. ***Workforce Monitoring Statistics Follow-Up (I310676)***

This was a formal follow-up of an audit that was carried out in 2008/09. The objective was to provide assurance that workforce monitoring statistics reported to Committee are complete and accurate and that a sufficient audit trail exists to support calculations. Improvements included the preparation of guidance notes regarding all aspects of the reporting process, the incorporation of document retention policies and the use of advanced Excel for collation of information. Examination of options for increasing the full potential of HRMS via People Connect, will allow information to be extracted centrally.

In the course of carrying out the Stress Audit for Lanarkshire Valuation Joint Board Internal Audit found that that re-valuation performance targets for 2008/09 were not being met. This is a potential sign that workload pressures exist. Targets for 2009/10 are unchanged and it is already anticipated that these will not be met. Lanarkshire Valuation Joint Board has met, or in some cases exceeded, 80% of the targets set by the Electoral Commission

4.8.4. ***Performance Management (I683154)***

The objective of this audit was to provide assurance that adequate performance management arrangements are in place to provide a basis for continuous improvement. A robust performance management framework is essential for continuous improvement in service delivery, which is just as applicable to Lanarkshire Valuation Joint Board as it is to the Council.

4.8.5. ***Governance Checks (I686157)***

An audit was undertaken to provide assurance that the final governance statement for South Lanarkshire Council was supported by a reasonable quantity and quality of evidence. Lessons can be learned which are relevant to Lanarkshire Valuation Joint Board, such as pro-actively assessing compliance and identifying improvement areas on an annual basis. This should form a part of the preparation of the internal controls or annual governance statement. Lanarkshire Valuation Joint Board last undertook a review of their risk register in March 2008 which was subsequently followed up in November of the same year. Actions from the Information Audit that was carried out for LVJB in 2008/09 still remain outstanding and have the potential to cause information governance issues for the Board. These should perhaps be added to an updated risk register.

4.8.6. *Efficiency Statement*

A report on Lanarkshire Valuation Joint Board's efficiency savings was presented to the Board on 1 June 2009. Both the cashable and non cashable efficiency measures implemented in the 2008/09 were listed. Cashable efficiency gains of £43,600 had been identified in the course of the 2008/09 financial year. The Board noted the report.

The funding received by Lanarkshire Valuation Joint Board from South Lanarkshire Council and North Lanarkshire Council could reduce as government grants to both Councils diminish. Both authorities face increased pressure to identify efficiency savings, and this is likely to be passed on to the Board. The effects of this are already evident in vacancies being left unfilled to ease pressure on budgets. Under statute, the Board is unable to retain any surpluses it may generate during the year, and is unable to retain reserves for contingency.

The budget of the Lanarkshire Valuation Joint Board may be further stretched with increased numbers of appeals against Council Tax Band valuations. Each appeal carries with it administration costs. The number of Council Tax appeal hearings rose from 5 in 2008 to 30 in 2009.

4.8.7. *Email and Internet Usage (I341646)*

The objectives of this audit were to provide assurance that employee use of desktop tools is consistently monitored at local levels and to quantify the cost of personal use of email and internet use. Areas of concern as well as good practice were highlighted but before carrying out any monitoring or gathering information on email and web activity, employers should consider the cost and benefits of their proposed methods. The website of the Information Commissioner is a valuable source of guidance on this topic. Lanarkshire Valuation Joint Board management regularly review high level usage and gain assurance that it is valid for business use.

4.8.8. *Special Investigation Business from Home (I672187)*

An anonymous letter was received by Internal Audit in which allegations were made that a business was being run from a home resulting in increased traffic to the area. This carried the risk of an accident to members of the public. The person making the allegation also suspected that the business may not be registered for Non Domestic Rate purposes.

A number of checks were carried out by Lanarkshire Valuation Joint Board, including a check of local newspapers and websites for advertising of the commercial service detailed within the letter and a site visit was also made. The allegations were unfounded. No advertisements were found and the site inspection showed there were no signs of commercial activity or increased traffic. Based on the investigations no entry was made in the Valuation Roll for Non Domestic Rates to be charged.

4.9. *Internal Audit Opinion*

4.9.1. Lanarkshire Valuation Joint Board activities are closely governed by statute and as a result there is little scope for the Board to 'pick and choose' what activities it undertakes in the financial year. External pressures are anticipated to put a significant strain on the Board's budget in the following year.

- 4.9.2. It is hoped that these budget pressures will not significantly adversely affect Lanarkshire Valuation Joint Board service delivery and governance arrangements.
- 4.9.3. 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 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.
- 4.9.4. Nevertheless, the overall opinion of Internal Audit for the year 2009/10, based on the work undertaken in the last year, is that an adequate 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 Internal Control or Governance.

5. Employee Implications

- 5.1. 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.

6. Financial Implications

- 6.1. 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 2009/10 are shown in Table 1 below:

Table 1
Days booked to Audit Assignments in 2009/10 to 04.04.10

Assignment	Original Plan	Job Number	09/10 planned days	Actual days
LVJB Stress Audit (I545017) (originally Disaster Recovery)	25		25	16
Follow-up reminders	1		1	3
Annual Report 09/10 and forward audit planning	4		4	0
Annual Report 08/09	0			4
Total	30		30	23

- 6.2. Although fewer days than planned were booked by the end of the financial year, time has been incurred in preparing this report and in concluding the Stress Audit. This additional time amounts to 6 days, taking the final position to 29 days against a plan of 30.
- 6.3. Total payment in respect of the services delivered was £8,890.00.

7. Other Implications

- 7.1. 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.

- 7.2. PricewaterhouseCoopers in their 2008/09 Internal Controls Reports highlighted the continued need for an effective reconciliation process and audit trail for transactions between the Assessors systems and the Council Tax Billing systems. Processes are already in place and operational but continuous review will be undertaken to ensure that they are being followed.
- 7.3. In their 2008/09 Annual Report to Members and the Controller of Audit, PricewaterhouseCoopers issued an unqualified opinion on the financial statements of the Lanarkshire Valuation Joint Board. 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.
- 8. Equality Impact Assessment and Consultation Arrangements**
- 8.1. 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.
- 8.2. 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

Linda Hardie
Treasurer

30 April 2010

Link(s) to Council Values and Objectives

- ◆ Values: Accountable, effective and efficient

Previous References

- ◆ LVJB Internal Audit Annual Report for 2008/09 – 1 June 2009

List of Background Papers

- ◆ Internal Audit Files & Reports
- ◆ Service Level Statement for Lanarkshire Valuation Joint Board 2009/10

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

Action	Action Status	Target Date	Completion Date
Explore restricting access to files to specific staff or imposing restricted access to files during working hours	Completed - On time	30/09/2009	30/09/2009
Undertake a Privacy Impact Assessment in line with publish guidelines	Active	31/12/2009	
Produce guidance on the type of media and delivery method for the provision of data to external sources	Completed - On time	31/12/2009	31/12/2009
Investigate alternative methods for encryption of data	Completed - On time	31/12/2009	02/07/2009
Cease delivery of data by Royal Mail or Courier postal services. LVJB should hand-deliver or transfer information via secure server	Completed - On time	31/12/2009	31/12/2009
Prepare a LVJB Data Protection Policy document in compliance with the Data Protection Act 1998	Active	31/12/2009	
LVJB to develop a more secure methodology of passing data to SLC Personnel. Potential use of the 'sensitivity' status under 'Options' on any Email template. The 'private' and 'personal' settings do not allow the email to be seen and opened by anyone other than the recipient	Completed - On time	31/12/2009	02/07/2009
LVJB to develop appropriate IT policies, based on SLC policies and best practice, and formally advise the board in due course	Completed - On time	31/12/2009	22/12/2009
Phase out using the employee access database. Agree only when fully satisfied that the system used by SLC could provide LVJB with requested information	Active	31/12/2009	
Disable LVJB PC's ability to connect to external devices. Where this is required it is controlled via authorised personnel	Completed - On time	31/12/2009	22/12/2009

Delivery of Internal Audit Recommendations

Appendix 2

Due in 2010/11 – LVJB Stress

Recommended Action	Target Date
Review Revaluation targets on annual basis with a view to achievement within realistic but acceptable time-frames.	April 2010
Use workshops to identify reasons why Electoral Commission performance targets are not met and set interim targets to motivate staff.	August 2010
Review and amend SLC personnel policies to make them more relevant to LVJB staff. Undertake this in consultation with Corporate Personnel.	December 2010
Through workshops identify and address employee consultation issues and prepare improvement plan.	August 2010
Re-issue and reaffirm the LVJB Dignity at Work policy.	May 2010
Liaise with SLC Health and Safety team to review and assess stress management and suggested audit actions	May 2010

