

Report

Report to:	Lanarkshire Valuation Joint Board
Date of Meeting:	27 June 2022
Report by:	Executive Director (Finance and Corporate Resources)

Subject:	Internal Audit Annual Assurance Report 2021/2022
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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 2021/2022
- ◆ 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 2022

2. Recommendation(s)

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

- (1) that the content of this 2021/2022 Internal Audit Annual Report be noted; and
- (2) that it be noted that the opinion expressed within this report informs LVJB's 2021/2022 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 2021/2022.
- 3.7 LVJB systems and controls have been impacted to some extent by the COVID-19 pandemic since March 2020 and the resulting requirement to amend some normal business operations. This has tested LVJB's risk management framework and has resulted in new ways of working in some areas. Embedded within some systems are controls that have been subject to change. LVJB continue to update the Board on the arrangements, which now focus on blended working arrangements, with a combination of staff working from home and within the office on a pro-rata basis. Duties continue to be undertaken with site visits now being undertaken in respect of maintaining the Valuation Roll, Valuation List for Council Tax, and the Electoral Register. In-person Valuation Appeal Committee hearings have now recommenced. The impact of revised working practices on controls continued to be assessed during our 2021/2022 audit work. 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 – 2021/2022

Workload – 2021/2022

- 5.1 Two core audit assignments were included in the 2021/2022 Audit Plan for LVJB. These are reflected in Table 1.

Table One – Core assignment analysis for 2021/2022

	Total No. Jobs
Core audit assignments planned	2
Audit assignments completed	2

- 5.2 Other areas of work agreed for the 2021/2022 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 2021/2022 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 2021/2022.

Performance – 2021/2022

- 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 2021/2022 Plan of work in line with a revised completion date of June 2022. All of the planned audit work has now been delivered within the budget agreed for the 2021/2022 Audit Plan. Audit reports for the two core assignments (I929189 – Conflict of Interest and I929188 – New Dwellings: Council Tax Valuation Roll / Electoral Register updates) have been issued and the findings and recommendations have been agreed by LVJB prior to the issue of this annual report. Final reports for these assignments will be issued imminently.
- 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 2021/2022 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 **2021/2022 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 2021/2022
 - ♦ outputs of audits on **shared systems** within SLC

Area of Assurance – Internal Audit Plan 2021/2022

- 6.3 Detailed below are a summary of the key findings from areas which were the subject of internal audit work in 2021/2022:-

I929189 – Conflict of Interest

- 6.4 LVJB have procedures in place that require employees to declare conflicts of interest, offers of gifts and hospitality and seek approval for additional employment out with LVJB.
- 6.5 New employees are made aware of their obligations under the Employee Code of Conduct to adopt the “principles of public life” and the requirements to declare conflicts of interest and offers of gifts and services, as well as the requirement to seek approval for additional employment.
- 6.6 However, LVJB managers are not proactively reminding incumbent employees of these requirements on a periodic basis.
- 6.7 Given the lack of any formal documented declarations in recent years (other than requests for approval of other paid employment), there may be a risk that employees are failing to declare any new interests. LVJB cannot necessarily assume that the non-receipt of returns is evidence that no conflict of interest exists for the Board's employees.

6.8 To mitigate this risk, Internal Audit recommend that all employees are asked each year, prior to LVJB completing their annual governance statement, if they have any conflicts to declare. This would assist in providing LVJB with more robust assurances that all conflicts of interest have been declared.

6.9 There have been two improvement actions agreed for this audit.

1929188 – New Dwellings: Council Tax Valuation Roll / Electoral Register updates

6.10 Audit work 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.

6.11 It is important that new dwellings are added to the Council Tax Valuation List accurately and timeously to ensure that the respective Councils can collect the correct Council Tax revenues for the property in a timely and efficient manner and there was reasonable assurance that this was the case for the audit sample reviewed. All dwellings in the sample had been added to the Valuation List.

6.12 It is noted that LVJB's external auditors, Audit Scotland, commented in their 2020/2021 annual audit report that, in respect of adding new houses to the Council Tax valuation list, LVJBs performance, based on reported performance, was above the average and, despite the pandemic, the Board had been able to sustain this level of performance over 2018/2019 to 2020/2021.

6.13 As a reminder, the reported KPIs for LVJB for the addition of new dwellings to the Council Tax valuation list over this period was:-

	2018/2019	2019/2020	2020/2021	2021/2022
Achievement				
Within 3 months	96%	96%	93%	93%
Within 6 months	99%	99%	98%	98%

6.14 Although only a small percentage are processed over the target 3 month timescale, the audit, nevertheless, reviewed the reasons for delays for a small sample of dwellings that were not added to the list within three months. The reasons provided included human errors and lack of notification that there was a new property (e.g. where there had not been adequate planning or building warrant information). Some of this was outwith LVJB's control.

6.15 The valuation process has been impacted by the pandemic, most notably physical surveys, although these have now recommenced; these were not carried out for all new dwellings during the pandemic. For most of the audit sample, existing surveys and plans were used to support the assessment of valuation for standard house types. Although the expected procedural documentation was used for the majority of these properties, there was not always a clear record from these documents of who had been involved in the valuation. Systems records were able to provide the necessary clarification. There has also been a change to the storage of electronic documentation, with the current approach to store this in the Records Management System as opposed to appending the documentation to the Northgate system property records, as indicated is required by LVJB's own procedures.

6.16 The systems audit trail provides assurances that the correct people, per LVJBs procedural requirements, were involved in the Council Tax valuation process and there was evidence that the expected segregation of duties between roles in this process was in place for the sample.

- 6.17 Confirmation was obtained that all sample dwellings had a “live” banding applied and, for relevant South Lanarkshire properties in the sample, all were confirmed as being recorded in the South Lanarkshire Council council-tax system to facilitate the collection of Council Tax revenues due for the properties.
- 6.18 Audit work also reviewed the process whereby LVJB add the details for new dwellings to the Electoral Register.
- 6.19 There is a defined process whereby the LVJB Audit and Information Management Team (AIM Team) notify the in-house Electoral Services section of the new dwellings added to the Valuation List each week. Audit testing confirmed that all sample dwellings have been added to the Electoral Register.
- 6.20 In summary, a reasonable level of assurance was obtained that generally, expected controls are in place for the addition of new domestic dwellings to the valuation list. In total, there have been five improvement actions agreed for this audit, most of which relate to the audit trail that supports the valuations. All of these actions will fall due for delivery during 2022/2023.

I924185 - Formal Follow-Up

- 6.21 Internal Audit have continued to monitor LVJB’s progress to dispose of the revaluation appeals from the 2017 non-domestic rating revaluation exercise. The only appeals now outstanding are those that have been referred to the Lands Tribunal for Scotland (LTS). At the March 2022 update to the Board, there were 207 of these appeals referred to the LTS. There are also nine appeals outstanding, with the LTS, from previous NDR revaluations.
- 6.22 Following the Scottish Government’s Barclay review of non-domestic rating, revaluations will now be undertaken every three years (instead of every five years). This may present LVJB with resourcing challenges. The risks are recognised within LVJB’s risks register and LVJB are monitoring the challenges via a workforce action plan in conjunction with their updated 2020/2021 – 2023/2024 Workforce Plan. The Board’s external auditors have outlined their intent to monitor updates to the workforce plan as part of their 2021/2022 external audit work plan.
- 6.23 The only other audit action due in 2021/2022 was in relation to the LVJB Emerging Fraud Risks audit carried out during 2020/2021. The audit related to the supplementary audit trail to be retained to support electronic purchase orders (that were not being manually signed during the pandemic). LVJB have provided some examples to demonstrate that this recommended audit trail is being retained.

Area of Assurance – External Audit and Shared Systems

- 6.24 LVJB’s external auditors, Audit Scotland, undertook the 2020/2021 financial audit during 2021/2022 and provided an unqualified opinion in relation to LVJB’s financial statements. Interim audit work in relation to the year ended 31 March 2022 is in progress, with no significant issues advised to Internal Audit to date.
- 6.25 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 on these shared systems.
- 6.26 During 2021/2022, ‘shared system’ review work was undertaken in relation to areas provided to LVJB under SLA with SLC, such as payroll, accounts payable and IT security. In all of these areas, there was reasonable assurance around the effectiveness of controls and no significant issues were identified that should be separately reported to the Board. Internal Audit have also participated in the Fusion

and Business Process working groups. Again, no material issues require to be reported to the Board.

7. LVJB Performance – Delivery of Audit Actions 2021/2022

- 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. One audit action was due to be completed by LVJB during 2021/2022. There were no external audit actions.
- 7.2 Appendix Three details how LVJB performed against agreed targets for implementing audit recommendations based on verbal updates received from LVJB. 100% of internal audit actions were advised to be delivered on time.
- 7.3 Two improvement actions have been recommended following the completion of the Conflict of Interest audit work. In addition, five improvement actions have been recommended following completion of the New Dwellings process audit. All seven of these actions fall due for completion during 2022/2023.

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 as we continue to emerge from 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 2021/2022, 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 2022 (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 2021/2022 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)

15 June 2022

Link(s) to Council Values/Ambitions/Objectives

- Achieve results through leadership, good governance and organisational effectiveness

Previous References

- Internal Audit Annual Assurance Report 2020/2021 (9 June 2021)

List of Background Papers

- Service Level Statement for Lanarkshire Valuation Joint Board 2021/2022

Contact for Further Information

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

Yvonne Douglas, Audit and Compliance Manager

Ext: 2618 (Tel: 01698 452618)

E-mail: yvonne.douglas@southlanarkshire.gov.uk

Internal Audit assignments completed during 2021/2022**Appendix One**

Job No.	Assignment name	Draft Issue
I921184	Audit Plan 2021/2022	16 June 2021
I929189	Conflict of Interest	6 June 2022
I929188	New Dwellings	6 June 2022
I924185	Follow-up 2021/22	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 2021/2022

Appendix Two

Performance Indicator	Target
Completion of plan	100% planned assignments complete to draft report stage by 31 May ²
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

2021/2022	2020/2021
100% ²	67% ¹
100%	100%
100%	100%

Note:

1. Impacted by redeployment of Internal Audit resources as a result of COVID-19
2. Revised target date of June 2022 agreed by Internal Audit and LVJB.

LVJB's approach to audit during 2021/2022 – Performance in delivering audit recommendations

Appendix Three

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

Internal

	Target	2021/2022
Delivery of internal audit actions on time and in full	90%	100%

2020/2021
100%

External

	Target	2021/2022
Delivery of external audit actions on time and in full	90%	N/A

2020/2021
N/A