

Item: 11.1

Orkney and Shetland Valuation Joint Board: 2 March 2023.

Internal Audit of Corporate Governance and Risk Management.

Report by Chief Internal Auditor.

1. Purpose of Report

To present the Corporate Governance and Risk Management Audit Report for Members' scrutiny.

2. Recommendations

It is recommended:

2.1.

That the Board scrutinises the findings of the internal audit relating to a review of Corporate Governance and Risk Management arrangements, attached as Appendix 1 to this report, in order to obtain assurance that action has been taken or agreed where necessary.

3. Background

3.1.

This review follows the identification and reporting of significant weaknesses in governance and leadership within the Orkney and Shetland Valuation Joint Board (OSVJB), by the appointed External Auditor, Deloitte LLP, in their 2019/20 and 2020/21 annual audit reports.

3.2.

The objective of this audit was to review the OSVJB's Corporate Governance and Risk Management arrangements focusing on the response to the issues identified by the External Auditor.

4. Audit Findings

4.1.

The audit provides substantial assurance that the processes and procedures relating to Corporate Governance and Risk Management are well controlled and managed.

4.2.

The internal audit report, attached as Appendix 1 to this report, includes one medium priority recommendation regarding the publication of External Audit Reports, and one low priority recommendation regarding developing a risk policy. There are no high level recommendations made as a result of this audit.

5. Financial Implications

There are no financial implications associated directly with this report.

6. Governance Aspects

The content and implications of this report have been reviewed and, at this stage, it is deemed that the Board **DOES NOT** require external legal advice in consideration of the recommendations of this report.

7. Contact Officer

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8. Appendix

Appendix 1: Corporate Governance and Risk Management Audit Report.



Orkney & Shetland Valuation Joint Board



Internal Audit

Audit Report

Corporate Governance and Risk Management

Draft issue date: 16 January 2023

Final issue date: 8 February 2023

Distribution list:	Assessor & Electoral Registration Officer for Orkney & Shetland Clerk to the VJB Treasurer to the VJB
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Audit Opinion

Based on our findings in this review we have given the following audit opinion.

Substantial

The framework of governance, risk management and control were found to be comprehensive and effective.

A key to our audit opinions and level of recommendations is shown at the end of this report.

Executive Summary

The objective of this audit was to review the Orkney and Shetland Valuation Joint Board's (VJB) Corporate Governance and Risk Management arrangements.

Our review follows the identification and reporting of significant weaknesses towards governance and leadership within the VJB, by the appointed external auditor, in their 2019/20 and 2020/21 annual audit reports.

The Accounts Commission noted with serious concern the conclusion of the Controller of Audit that the Board took numerous decisions that were unlawful or not supported by appropriate procedures. The Accounts Commission also shared the Controller's significant concerns in relation to the Board's governance, transparency, and planning. The Accounts Commission acknowledged the commitment made by the Board to rectify these matters and the steps that it had already taken.

The external auditor's annual audit report for the 2021/22 financial year included Deloitte's view on governance and transparency that: "the Board has acted quickly to address the weaknesses in the leadership and governance arrangements that were highlighted in our 2020/21 report. Six of the [nine] recommendations have been assessed as fully implemented and the remaining three partially implemented. It is important that the Board maintains the momentum during the first year of the new Board."

Our audit opinion of Substantial is based solely on the VJB's response to addressing weaknesses in the leadership and governance arrangements identified by the external auditor and not towards the issues identified in previous financial years.

One of the external auditor's nine recommendation remains partially completed at the time of our review. This action relates to the VJB having a full range of its own bespoke governance documents. The VJB has adopted bespoke Standing Orders and a Scheme of Delegation. At the time of our review the VJB has adopted Orkney Islands Council's Financial Regulations and Contract Standing Orders. The development of bespoke Financial Regulations and Contract Standing Orders are recorded on the VJB's action log. These two documents will be the subject of a separate audit review.

Our report includes 2 recommendations which have arisen from the audit. The number and priority of the recommendations are set out in the table below. The priority headings assist management in assessing the significance of the issues raised.

Responsible officers will be required to update progress on the agreed actions via Pentana Risk.

Total	High	Medium	Low
2	0	1	1

The assistance provided by officers contacted during this audit is gratefully acknowledged.

Introduction

The Orkney and Shetland Valuation Joint Board is a separate public body from the two constituent authorities, being Orkney Islands Council and Shetland Islands Council, and draws its membership from them, each nominating five Councillors to serve on the Board.

The Orkney and Shetland Valuation Joint Board's responsibilities are to ensure its business is conducted in accordance with the law and proper standards, safeguard and properly account for public money; and to use public money economically, efficiently, and effectively.

To discharge the Board's responsibilities, the Board must put in place proper arrangements for the governance of its affairs, to facilitate the effective exercise of its functions, which includes arrangements for the management of risk.

This review was conducted in conformance with the Public Sector Internal Audit Standards.

Audit Scope

The scope of this audit included a review of the following:

- Progress made by the VJB in addressing the findings of the independent review of Governance for the Orkney and Shetland Valuation Joint Board carried out by the Scottish Government Improvement Service following reports by the External Auditor.
- The VJB's bespoke governance documents.
- Training provided to members of the VJB relating to practices of good governance.
- Self-assessment carried out by the VJB in accordance with the Local Code of Corporate Governance (the Local Code) published by CIPFA in association with SOLACE.
- The VJB's risk management policy and risk register.

A detailed review of the VJB's Financial Regulations and Contract Standing Orders will be the subject of a separate internal audit.

Background

The Orkney and Shetland Valuation Joint Board's annual audit report for the 2019/20 financial year gave the following view of the appointed external auditor, Deloitte LLP, towards governance and transparency:

"Leadership within the VJB is not robust. The VJB is faced with a significant risk that it could effectively have no leadership in place later in 2020/21 if effective action is not taken now. The

issues identified throughout our report and the substantial increase in involvement in VJB affairs by the Chief Executives of Orkney Islands Council and Shetland Islands Council indicate that leadership within the VJB is not effective.

There have been six resignations (three from the Board, three from management) at the end of 2019/20 and into 2020/21 because of concerns with governance. This indicates that there are significant weaknesses within the governance framework of the VJB. We also note the highly unusual nature of the Board adopting positions which contradict advice received from officers without a detailed assessment, particularly given that relevant officers highlighted concerns that the Board would be failing to deliver its obligations under Best Value and good governance principles.

While there is a lack of clarity surrounding roles and responsibilities of Board members and management, we are satisfied that the matters identified do not indicate an underlying issue with regards to the Board's attitude to openness and transparency or relationships within the VJB."

The audit report for 2019/20 provided 6 recommendations for improvement, 4 of which were of high priority and 2 of which were of medium priority. Three of the 6 recommendations were within the area of governance and transparency, namely:

- 1) The VJB should engage an independent review of its governance framework and the effectiveness of governance within the organisation.
- 2) The VJB should undertake training to ensure that the Board and management are clear in their understanding of roles and responsibilities in line with the VJB's own governing documents and good practice.
- 3) The VJB should carry out a review of how open and transparent it is, influenced by the views of the Board, staff, and the wider community.

Following a request made by the Interim Chief Executive of Orkney Islands Council, the Scottish Government's Improvement Service undertook the review of governance for the VJB and reported its findings in February 2021.

The review found that, while most members felt there were no major governance issues remaining outstanding, a number of areas were highlighted by members where the Board should focus on improvement.

Deloitte's audit report for 2020/21 included a conclusion that: "the Board have acted on recommendations made in our prior year audit report and have proactively opted to perform a review of governance in the 2020/21 financial year.

While this review was a useful starting point, significant changes are needed for the operation of the governance framework within the VJB and to establishing a culture of good governance practice. The governance review noted that Members believed "*issues raised in terms of governance were a reflection of the staffing and recruitment issues facing the VJB at the time*". The significant issues identified indicate that these issues are more wide-ranging than Members believed. There is a clear need for a more comprehensive review of the VJB's governance framework, the documentation underpinning it, training on it, and Members and officers understanding of and adherence to it."

The Controller of Audit prepared a report on governance and decision making within the VJB because of the findings in the external auditor's 2020/21 report which was delivered to the Accounts Commission in March 2022.

The report referred to concerns reported by the appointed external auditor about how the Board managed contracts and pay awards for the Assessor and the Depute Assessor, and in related matters concerning financial sustainability, governance, leadership, procurement and aspects of best value.

The Accounts Commission noted with serious concern the conclusion of the Controller of Audit that the Board took numerous decisions that were unlawful or not supported by appropriate procedures. The Accounts Commission also shared the Controller of Audit's significant concerns in relation to the Board's governance, transparency and planning.

The Accounts Commission "acknowledged the commitment made by the Board to rectify these matters and indeed the steps that it has already taken. As it does so, it is vital that Board members and officers fully understand their leadership responsibilities and statutory obligations, as well as having clarity on the support available from the contributing councils, namely Orkney Islands and Shetland Islands councils. We [the Accounts Commission] therefore expect the new Board in place following the forthcoming local government elections to draw upon effective training and development to allow them to fulfil such responsibilities."

The Commission also commented that "as well as underlining the need for the Board to learn lessons from this matter, we would also, in line with our role of providing assurance about the use of public money, underline lessons to be learned by other bodies, particularly joint boards. Such lessons centre on the need for robust governance around decision-making. We also note in this case the need to manage risks around workforce planning for staff with specialised skills. Further, it is concerning that significant matters have been reported in successive external annual audits rather than through the Board's internal controls and reporting, including internal audit. We therefore underline the need for effective self-evaluation and governance and control frameworks to be in place to ensure that significant matters are identified and addressed as they arise."

The appointed external auditor's report for the 2021/22 financial year, included Deloitte's view towards governance and transparency that: "the Board has acted quickly to address the weaknesses in the leadership and governance arrangements that were highlighted in our 2020/21 report".

Audit Findings

1.0 Progress made towards implementing the recommendations made by the appointed external auditors

- 1.1. The appointed external auditor's report for 2020/21 included 9 recommendations, of which 6 had been fully implemented by the time of their 2021/22 audit report.
- 1.2. Of the 9 recommendations made, 2 were around leadership and 4 within the area of governance and transparency. The remaining 3 recommendations related to financial management, procurement and financial sustainability.
- 1.3. The six recommendations that have been fully implemented, are summarised as follows:
 - 1.3.1. The issuing of an appropriately revised contract to the Assessor.
 - 1.3.2. To consider how technology can be utilised to further engage stakeholders.
 - 1.3.3. That the VJB should undertake training to ensure that the Board and management are clear in their understanding of roles and responsibilities in line with the VJB's own governance documents and good practice.

- 1.3.4. To consider whether the significant issues identified with regards to the consultant Depute Assessor are isolated or indicative of other issues in the VJB's procurement process.
- 1.3.5. The Board should consider the provision of internal audit services to the VJB.
- 1.3.6. When developing its Medium-Term Financial Plan (MTFP) the VJB should refer to the key principles of public service reform, prevention, performance, partnership and people, and how these reflect in the VJB's financial planning.
- 1.4. The first of the three recommendations which were partially completed at the time of the 2021/22 annual audit report was that "the VJB should undertake a comprehensive root cause analysis and 'lessons learned' review given the number and significance of the issues identified during our (external) audit. A clear improvement plan needs to be developed to implement the findings of this review".
- 1.5. By the time of the 2021/22 annual audit report, the new board Members, as part of their induction, have been briefed on the background to the paper, which was presented to the Board, at its meeting in June 2022, regarding the external auditor's findings and the Audit Commission's comments to the Controller of Audit's report.
- 1.6. After the 2021/22 annual audit report, a lessons learned review was presented to the Board at its meeting on 8 December 2022. The Appendix to the lessons learned report identifies for each of the 9 issues identified, their root cause, the lessons learned and action taken. We therefore assess that this recommendation has been implemented.
- 1.7. The second of the three recommendations partially completed at the time of the 2021/22 annual audit report was that the VJB should review its internal governance documents, ensuring that its Constitution is appropriately tailored and up to date, and supported by VJB specific Financial Regulations, Contract Standing Orders, and other governance documents as appropriate.
- 1.8. The Board reviewed its constitution and approved Standing Orders at a meeting held on 30 June 2022. The Board approved its Scheme of Delegation for Officers at its meeting of 8 December 2022. At the time of our review the VJB utilises Orkney Islands Council's Financial Regulations and Contract Standing Orders following Board approval, given on 3 March 2022. A detailed review of the VJB's bespoke Financial Regulations and Contract Standing Orders will be the subject of a separate internal audit review.
- 1.9. The third of the three recommendations partially completed at the time of the 2021/22 annual audit report was that the VJB should carry out a comprehensive analysis of the skills and competencies required of the Board and leadership team and a clear training plan or alternative arrangements should be put in place to address any gaps identified.
- 1.10. Training was provided to current Members of the VJB as part of their induction programme. There is also provision within the agreement with external legal advisors for training towards governance to be provided.
- 1.11. An analysis of the current skills and competencies of the Board and leadership team was carried out prior to the meeting of the Board held on 8 December 2022. The meeting identified general contentment with the skills development and training received through the respective constituent councils. For some areas, such as the Board's capacity and capabilities members were content and agreed to inform the Clerk by e-mail on any subsequent thoughts on individual development needs. Board Members concluded that they would like more training on the specific activities and concepts within the VJB such

as the reforms to the business rates system in Scotland following the Barclay review and the meaning of some terminology used. We therefore assess this recommendation as being completed and moved to business as usual within the VJB.

- 1.12. The external auditor's reports for the 2019/20, 2020/21 and 2021/22 financial years have been considered by the Board, in accordance with Scottish Government regulations. The external auditor's reports however have not been published on the VJB's website in the manner set out under the regulation. All external auditor reports must be made available on the VJB's website.

Recommendation 1

- 1.13. The VJB maintains a very comprehensive risk register, identifying and assessing some 70 risks. The risk register was presented to the Board at its meeting of 8 December 2022.
- 1.14. The VJB should consider having a Risk Policy which sets out its risk strategy and risk appetite.

Recommendation 2

Action Plan

Recommendation	Priority	Management Comments	Responsible Officer	Agreed Completion Date
<p>1 Each annual audit report must be made available on the VJB's website.</p>	<p>Medium</p>	<p>Agreed.</p> <p>Each annual report is available on the VJB's Board meeting pages of the OIC website as part of the agenda, minutes, and reports information and audiocast available for every meeting of the VJB.</p> <p>Each annual report has also been published on the VJB's website.</p>	<p>Clerk</p>	<p>Action Completed.</p>
<p>2 The VJB should consider having its own Risk Policy document which sets out its risk strategy and risk appetite.</p>	<p>Low</p>	<p>Agreed.</p> <p>A Risk Policy will be developed and presented to the Board for consideration / approval.</p>	<p>Clerk / Assessor and ERO</p>	<p>30/06/23</p>

Key to Opinion and Priorities

Audit Opinion

Opinion	Definition
Substantial	The framework of governance, risk management and control were found to be comprehensive and effective.
Adequate	Some improvements are required to enhance the effectiveness of the framework of governance, risk management and control.
Limited	There are significant weaknesses in the framework of governance, risk management and control such that it could be or become inadequate and ineffective.
Unsatisfactory	There are fundamental weaknesses in the framework of governance, risk management and control such that it is inadequate and ineffective or is likely to fail.

Recommendations

Priority	Definition	Action Required
High	Significant weakness in governance, risk management and control that if unresolved exposes the organisation to an unacceptable level of residual risk.	Remedial action must be taken urgently and within an agreed timescale.
Medium	Weakness in governance, risk management and control that if unresolved exposes the organisation to a high level of residual risk.	Remedial action should be taken at the earliest opportunity and within an agreed timescale.
Low	Scope for improvement in governance, risk management and control.	Remedial action should be prioritised and undertaken within an agreed timescale.