

Item: 14

Orkney and Shetland Valuation Joint Board: 20 June 2024.

Internal Audit of Non-Domestic Rates.

Report by Chief Internal Auditor.

1. Purpose of Report

To present the Non-Domestic Rates Internal Audit Report for Members' scrutiny.

2. Recommendations

It is recommended:

2.1.

That the Board scrutinises the findings of the internal audit reviewing the adequacy of the controls and procedures in place to ensure that the Non-Domestic Rates Valuation Roll for Orkney Islands Council and Shetland Islands Council is up to date and accurate, 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.

The Non-Domestic Rates Valuation Roll sets out the rateable values of all non-domestic properties. The valuations are used by the local authorities as the base for collecting non-domestic rates. A new valuation roll is made up every three years, following a review of rateable values, a "General Revaluation." The last such Revaluation took place on 1 April 2023.

3.2.

The objective of this audit was to review the controls and procedures in place to ensure that the Valuation Roll for Orkney Islands Council and Shetland Islands Council is up to date and accurate.

4. Audit Findings

4.1.

The audit provides substantial assurance that the processes and procedures relating to the Non-Domestic Rates Valuation Roll are well controlled and managed.

4.2.

The internal audit report, attached as Appendix 1 to this report, includes one medium priority recommendation regarding a separation of duties and two low priority recommendations regarding control spreadsheets and a review of KPIs. 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

Andrew Paterson, Chief Internal Auditor, Telephone 01856 873535 extension 2107,
Email andrew.paterson@orkney.gov.uk

8. Appendix

Appendix 1: Internal Audit Report: Non-Domestic Rates.



Orkney & Shetland Valuation Joint Board



Internal Audit

Audit Report

O&SVJB – Non-Domestic Rates

Draft issue date: 16 February 2024

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Distribution list:	O&SVJB Assessor
	O&SVJB Treasurer
	O&SVJB Clerk

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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

This audit reviewed the adequacy of the controls and procedures in place to ensure that the Non-Domestic Rates Valuation Roll is up to date and accurate.

Our review indicated that information received in respect of additions and amendments to the Valuation Roll is processed on a timely basis by appropriate staff and accurately recorded in the Roll. There is ongoing monitoring of changes put through to the Roll, and regular reporting of amendments to the necessary functions within both Orkney Islands Council (OIC) and Shetland Islands Council (SIC).

The statutory process of dealing with Non-Domestic Rates proposals in response to the Revaluation of April 2023 has been correctly followed, and statutory deadlines have been met in most cases (97.4%).

The report includes three recommendations which have arisen from the audit. In addition, there was one further recommendation in respect of access to systems for staff who leave which was shared with Electoral Roll services and has been recorded within the audit of that service and appropriate action has been agreed to address this issue.

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 provide an update on progress with the agreed actions.

Total	High	Medium	Low
3	0	1	2

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

Introduction

The Orkney and Shetland Valuation Joint Board was established in 1996, under The Valuation Joint Boards (Scotland) Order 1995, and its primary purpose is to discharge all the functions of its two constituent authorities, Orkney Islands Council (OIC) and Shetland Islands Council (SIC) as valuation authorities under the Valuation Acts.

The Board is responsible for appointing the Assessor for Orkney and Shetland, an independent statutory official responsible for the preparation and maintenance of the Valuation Roll and the Council Tax Valuation List.

The Valuation Roll sets out the rateable values of all non-domestic properties. The valuations are used by the local authorities as the base for collecting non-domestic rates. A new valuation roll is made up every three years, following a review of rateable values, a "General Revaluation." The last such Revaluation took place on 1 April 2023.

In the period between Revaluations, the Valuation Roll is maintained by adding new properties coming into existence, deleting properties which have ceased to be and, where appropriate, making alterations to entries.

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

Audit Scope

The scope of this audit was as follows:

- To cover the Valuation Roll for the Orkney Islands and Shetlands Islands.
- To encompass the processes of registration, updating and maintenance of the Roll.
- To cover appeals against entries in the Valuation Rolls
- The audit focused on both paper and electronic records, together with related databases and systems.

The audit work focused on the period from 1 April 2022 to 30 September 2023.

Audit Findings

1.0 Systems Access and Security

- 1.1 The Valuation Roll and some supporting records are held digitally, with other supporting records held on paper files. The software used to keep records and facilitate the maintenance of the Valuation Roll is 'Corona,' and previously was 'Ffenics.'
- 1.2 Paper files are kept in locked filing cabinets within the Valuation Offices, which are buildings where public access is controlled. For the electronic records, there is a double level of login, firstly to the Shetland Island Council (SIC) server and then to the software itself. All staff have unique usernames and passwords.
- 1.3 In addition, both the Corona software and Ffenics software record details of the staff member making amendments, so that an audit trail would be available to identify the log-in implementing changes to records.
- 1.4 When staff leave, access rights to both the SIC system and Corona software are revoked, but there can be a delay in this being implemented. Logging onto the Corona systems is linked to specific IP addresses, so that staff who leave SIC would no longer have access, but people who leave but remain employed by SIC would retain the same IP address. A delay in removing access to the Corona software risks the possibility of unauthorised access.
- 1.5 A request to withdraw access rights to the SIC system and Corona software with effect from the leaving date should be made at the same time that HR are notified of the intention to leave. This recommendation, which is shared over the electoral roll and valuation services, has already been highlighted, and action agreed, in the audit report on the electoral roll, so will not be duplicated here.

No Recommendation

2.0 Conflicts of Interest

- 2.1 As both Orkney and Shetland are areas with smaller populations than some other local councils, the likelihood of staff being connected to parties with interests in a particular property will be higher. Controls around this area would typically include staff identifying properties in which they had an interest so that they could be excluded from involvement in work which concerned those properties, or the separation of duties between the staff involved in calculating the value and those tasked with entering those values on the Valuation Roll.
- 2.2 At present, the main controls in this area are that the Assessor or Depute Assessor would firstly, identify any potential conflicts of interest when allocating work, and appoint alternative staff where required, and secondly, undertake a review of the 'weekly update print' showing new entries, changes and deletions to the valuations, to provide a 'sense check' for the valuations being recorded. Both of these controls are heavily dependent on the local knowledge of the Assessor / Depute Assessor. Were there to be a change in staff, there is a possibility of controls being considerably weakened, which would impact both on ensuring the allocation of work to 'disinterested' parties and the effectiveness of the review of the weekly report.
- 2.3 Staff are not required to make declarations of interest. There are other controls in operation whereby all staff are required to sign up to the Code of Conduct for the relevant Council for

the office in which they are based, and the Valuers are bound by the professional standards of the Royal Institution of Chartered Surveyors. These controls are reliant on staff complying with the Code and standards.

- 2.4 It is recommended that separation of duties is implemented, so that the valuers undertaking the valuations are no longer entering the details within the Valuation Roll. This recommendation is shared with the Council Tax Valuation area.

Recommendation 1

3.0 Entries to the Valuation Roll

- 3.1 The Valuation Office receive notifications from various sources including planning permission notices, building warrants and completion certificates, as well as notifications from the council tax departments of both OIC and SIC, and notices from the building proprietors themselves. Each property is allocated a unique reference number on the Roll.
- 3.2 Where a property or part of a property is used for both domestic and non-domestic purposes, its entries on the Valuation Roll or Valuation List is determined on a case-by-case basis, with the predominant use determining the classification. So, for example, where a room in a domestic property is used for business purposes but reverts to domestic use at the end of the day, the classification remains domestic. Should there be a specific area or extension used on a permanent basis, there is a potential for that area to be an entry on the Valuation Roll. In this latter case the property would not be separately identified on the system as a dual use property, but would give rise to an entry on the Valuation Roll as well as an entry on the Valuation List (for Council Tax).
- 3.3 Entries to the Valuation Roll are made directly to the database by staff in line with their roles, e.g. administrative changes like change of tenant or correspondence address are put through by the business support staff, whilst valuations or changes in valuation basis are put through by the valuers and the technicians.
- 3.4 Supporting evidence for valuations including survey details, site plans and photographs are held in the records for each property together with supporting correspondence. The complete record for a property will consist of its entry in Corona or Ffenics, together with its paper file. Although records have been migrated from Ffenics to Corona successfully for the main part, there have been occasional minor glitches.
- 3.5 Access to the Valuation Roll is controlled via the individual staff members personal log in and control of access rights within the system. In addition, the system generates an audit trail of the individuals making amendments to the records.
- 3.6 All changes in the entries to the Valuation Roll are captured in the 'weekly update print' noted in 2.2 above. There are occasionally delays in producing this print, but it is always subject to oversight by the Assessor or Depute Assessor. This update is sent on to the finance departments of OIC and SIC.

No Recommendation

4.0 Valuation Notices, Proposals and Appeals

- 4.1 The Valuation Office issues valuation notices to non-domestic properties every three years following a general revaluation. The last such revaluation happened in April 2023. Appeals

against an entry in a Valuation Roll are initiated by the submission of a Non-Domestic Proposal.

- 4.2 The time limit for making a proposal is dependent on the circumstances of the issuing of a Valuation or Revaluation Notice, as follows:
- Revaluation – generally 31 July following, but extended to 31 August 2023 for the 23 revaluation.
 - New owner, tenant, occupier – within 4 months of acquisition of interest in property.
 - New entries or amended entries – within 4 months of date of notice
 - Error – up to the last day before next revaluation (31 March 26 for the 23 revaluation).
- 4.3 Within 56 days of a proposal, the Assessor should issue an acknowledgement or an 'Incomplete Letter' if insufficient supporting evidence is submitted to the Assessor in respect of the proposal. This allows the applicant to collect and submit any relevant information which was omitted from the original proposal.
- 4.4 The Assessor issues a written statement responding to the proposal. If a Proposal is agreed, then the relevant change is made on the Valuation Roll, otherwise the Assessor will contact the applicant setting out why they do not agree the revision. The applicant has 28 days to reply to the Assessor's statement. The Assessor can set a Proposal Determination Date (PDD) which is effectively a back stop date by which all discussions on valuation are finished, and on which the Assessor will determine the proposal. Applicants must receive 70 days' notice of the PDD.
- 4.5 If a valuation cannot be agreed, the applicant may then appeal to the Local Taxation Chamber of the Scottish Tribunals, and up through the courts, ultimately to the UK Supreme Court. The Assessor is notified of such appeals and the ultimate outcome.
- 4.6 In the period under review, the Assessor received 196 proposals, 70 in respect of Orkney properties and 126 in respect of Shetland properties. All but one proposal received were Revaluation proposals in respect of the April 2023 revaluation. The Revaluation proposals were all made on or before the 31 August 2023. The remaining proposal was issued in October 2023, but related to a new owner. Therefore, all proposals were made within the statutory timeframe.
- 4.7 Of the 196 total proposals, 7 were subsequently withdrawn or cancelled. Of the remaining 189 proposals, there were 5 proposals where an acknowledgement was issued late (2.6%). There were 7 proposals where an Incomplete Letter was issued, and all these letters were issued within the 56 days.
- 4.8 None of the proposals received in respect of the 2023 revaluation has advanced to appeal stage at present. We are informed that appeals are generally rare. At present, no Proposal Determination Dates have been issued yet in respect of the proposals received, and there are no current plans to issue any.
- 4.9 Audit testing was done on 5 of the proposals (3 Orkney and 2 Shetland – overall coverage 2.6% of total received) to ensure that the spreadsheet used to record proposals and their progress accurately reflects the key dates and details from the underlying records. We found that this was the case for all proposals tested.

- 4.10 We recommend that monthly monitoring of the control spreadsheet of proposals is established, to identify any cases where deadlines are at risk of being missed.

Recommendation 2

5.0 Monitoring and Key Performance Indicators

- 5.1 Assessors review rateable values every three years to reflect changes in the property market. At this time, all property valuations are reviewed and signed off by the Assessor. As noted above, the main tool used by the Assessor or Depute Assessor to monitor changes in valuations, new valuations, etc., during the period between revaluations, is the update report. In addition to the general oversight, one entry on the report is selected for detailed review of the valuation calculation.
- 5.2 The update reports form the main channel for reporting changes to the revenue departments of the relevant Local Authorities. There are no specific key performance indicators (KPIs) in place in respect of the timing of this reporting, but our audit testing has shown that this reporting is happening regularly throughout the year. Accordingly, the adoption of KPIs in this area would not usefully increase management or Board oversight.
- 5.3 KPIs are in place in respect of the timing of the entry to the Roll compared to the effective date, and the percentage reduction of the valuation on appeal. These are monitored annually as part of the Board and stakeholder reporting, but there is no ongoing monitoring of the position throughout the year. The Assessor has commented that increasing the frequency of reporting on KPIs is desirable, but is subject to resource constraint given that statutory requirements necessarily take precedent.
- 5.4 There are no KPIs phrased in terms of issuing Valuation Notices for new or amended entries, but since these would be generally issued concurrently with adding or adjusting entries to the Valuation Roll, the dates around Valuation Notices are being monitored, albeit indirectly.
- 5.5 There is also no KPI in respect of the timeframe of responding to appeals, whilst there is a KPI in respect of the quantum of the reduction in valuation on appeal. However, the required timeframes of responses are set out in statute, and therefore subject to controls. Any issues needing to be brought to the attention of the Board are highlighted in the 6 monthly Best Value Report.
- 5.6 We recommend that there is a review of appropriate KPIs for the rating valuation review process prior to the revaluation in 2026.

Recommendation 3

Action Plan

Recommendation	Priority	Management Comments	Responsible Officer	Agreed Completion Date
1 It is recommended that separation of duties is implemented, so that the valuers undertaking the valuations are no longer entering the details within the Valuation Roll.	Medium	Valuers will continue to flag up any potential conflict of interest with management. Valuers undertaking a valuation will no longer be allowed to enter details on the Valuation Roll.	Assessor & ERO	30 September 2024
2 We recommend that monthly monitoring of the control spreadsheet of proposals is established, to identify any cases where deadlines are at risk of being missed.	Low	Agreed	Assessor & ERO	30 September 2024
3 We recommend that there is a review of appropriate KPIs for the rating valuation review process prior to the revaluation in 2026.	Low	Agreed. It is considered that the current proposal settlement work for R23 is too new and unfamiliar to be able to establish meaningful potential KPIs.	Assessor & ERO	31 March 2026

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 significant 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.