Item: 11

Orkney and Shetland Valuation Joint Board: 27 March 2025.

Internal Audit of Performance Reporting.

Report by Chief Internal Auditor.

1. Purpose of Report

To present the Performance Reporting 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 controls and procedures in place to ensure the adequacy of performance reporting 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.

Effective performance reporting ensures that the Board has appropriate information to enable them to effectively scrutinise performance against agreed key priorities and objectives.

3.2.

The objective of this audit was to review the adequacy of performance reporting arrangements for the Orkney and Shetland Valuation Joint Board.

4. Audit Findings

4.1.

The audit provides substantial assurance that the performance reporting arrangements are well controlled and managed.

4.2.

The internal audit report, attached as Appendix 1 to this report, includes four low priority recommendations regarding action plans, accuracy of data and performance indicator targets. There are no medium or 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: Internal Audit Report: Performance Reporting.

Orkney & Shetland

Valuation Joint Board

Internal Audit

Audit Report **O&SVJB – Performance Reporting** **Draft issue date: 20 February 2025** **Final issue date: 17 March 2025**	
Distribution list:	**O&SVJB Assessor** **O&SVJB Treasurer** **O&SVJB Clerk**

Contents

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 adequacy of performance reporting arrangements for the Orkney and Shetland Valuation Joint Board (the Board).

Our audit has identified that the mechanisms for collecting the relevant data, calculating the required Key Performance Indicators (KPIs) and reporting on these internally and externally are predominantly operating satisfactorily, reflected in:

- A clear trail, from underlying Valuation system records, via working papers to the ultimate reporting of KPIs to relevant bodies.
- Accurate calculation of KPIs.
- A thorough understanding of the factors impacting on KPIs and clear reporting of these internally.

The report includes 4 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 provide an update on progress with the agreed actions .

Total	High	Medium	Low
4	0	1	3

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

Introduction

The Orkney and Shetland Valuation Joint Board (the 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 Non-Domestic Rates Valuation Roll and the Council Tax Valuation List. The Assessor has also been appointed as Electoral Registration Officer for both Orkney and Shetland and is, therefore, also responsible for the preparation and maintenance of the Register of Electors or Electoral Roll.

Effective performance reporting ensures that the Board has appropriate information to enable them to effectively scrutinise performance against agreed key priorities and objectives.

The aim of the audit was to review the adequacy of the performance reporting arrangements for the Board, and focussed on the period from 1 April 2024 to date.

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

Audit Scope

The scope of this audit included a review of whether there are in place:

- appropriate arrangements to ensure effective financial and operational performance management,
- performance measures and targets aligned with organisational objectives and focussing on improvements in priority areas,
- effective performance measuring and reporting arrangements, to ensure that the Board has accurate and timely information.

Audit Findings

1.0 Organisational Objectives and Reporting Arrangements

1.1 The Board has a Corporate Plan which sets out the strategic goals and priorities for the period 2023 – 2026 and sits alongside the Governance and Performance Framework and the Service Plan, which details the Performance Management, Planning and Reporting schedules to the Board and key stakeholders.

1.2 Non-financial Key Performance Indicators (KPIs) are measured for both the Valuation Roll, the basis of the Non-domestic Business Rates charge (the NDR Valuation Roll), and the Council Tax Valuation List (the CT Valuation List) with the aim of delivering a timely and efficient maintenance of these registers, one of the key objectives of the organisation. These KPIs are set out in more detail at 2.1 below.

1.3 In accordance with the Service Plan noted at 1.1 above, the Assessor / Electoral Registration Officer (ERO) produces Best Value Progress Reports every 6 months, which are presented to the Board for scrutiny and discussion. These reports detail the main tasks completed in the relevant 6 month period (April to October / November to March), and Service Priorities for the future. Although they do not contain details of the KPIs, they do contain statistics on the total number of entries and the total Rateable Valuation for the NDR Valuation Roll, and the total number of chargeable dwellings for the CT Valuation List.

1.4 The Best Value Progress Reports also update the Board on the activities around Electoral Registration. No statistical data is included in this part of the report.

1.5 In addition, the Assessor / ERO produces a Best Value Performance Report annually which details the annual performance related targets and outcomes, in relation to the statutory valuation functions for the financial year. In addition to reporting the targets and outcomes for the KPIs for the CT Valuation List and NDR Valuation Roll, these reports also compare the KPI targets for the Board to an average of the outcomes for the other 13 Assessor areas in Scotland for the financial year. The Board targets are set higher than the average outcomes.

1.6 The above arrangements ensure that operational performance management is focussed on organisational objectives and improvement within priority areas.

1.7 The Board also report on KPIs within the audited annual accounts for each financial year. In addition to the non-financial KPIs reported in the Progress Reports, the accounts also show outcomes and targets in respect of two financial KPIs:

- the amounts by which valuations are reduced on appeal, and
- actual net expenditure as a percentage of budgeted net expenditure.

1.8 The management team are confident that, as the staff team is comparatively small, they have good awareness on a day to day basis of any issues which might impact on performance. In addition, this proximity to operations also enables them to resolve issues on an ad hoc basis, where resolution is feasible. However, certain areas, such as recruitment, are more difficult to address.

1.9 The Best Value Progress Reports noted at 1.3 above include detailed reviews of changes in statutory requirements and proposed actions in response, together with listing the

‘Service Priorities’ for the next period. There are few timescales or target dates attached to these Service Priorities. The reports do not include an explicit review of the prior period’s proposed actions and the extent to which they have been achieved, but instead, note significant changes in operations in the body of the report.

1.10 Service Priorities, as currently reported, are a mixture of actions to address specific circumstances and ‘business as usual’ actions, for example, ‘Monitor staff training requirements for efficient continued use of the new valuation system’ or ‘Upload all records to the Scottish Assessors Portal on a weekly basis’. For Service Priorities which address specific circumstances, having, for example, a target date, would allow the Board to more closely scrutinise progress in these key areas.

1.11 We recommend that consideration is given to changing the format of the Service Priorities within the Best Value Progress Reports to an activity goal summary or action plan expressed in a SMART format, i.e. Specific / Measurable / Attainable / Realistic / Time Bound. In addition to new priorities which have arisen in the period, this should also include a summary of previous priorities and progress against them to date. This would give the Board greater clarity on the progress of agreed actions within a timescale.

Recommendation 1

2.0 Statutory Reporting requirements

2.1 The Scottish Government has issued statutory Guidance for Local Government on Best Value (last revised in 2020). This includes a section on performance management, which requires that performance is measured across all areas of activity. Following consultation with the Accounts Commission, the following key performance indicators (KPIs) have been adopted in respect of Scottish Assessors, who are required to report their performance to Scottish Government through the Scottish Assessors Association (SAA)’s Governance Committee:

Valuation Roll

- Total number of entries
- Total rateable value
- Number of amendments effected
- Amendments within time periods %
    - 0-3 months
    - 3-6 months
    - Over 6 months.

Council Tax

- Total number of entries
- New entries
- New entries within time period %
    - 0-3 months
    - 3-6 months
    - Over 6 months

General

- Number of FTE staff

2.2. Audit review confirmed that the required KPIs as set out in 2.1 above are measured and reported annually to the Board as part of the Best Value Performance Report, and were also included within the Management Commentary on the Annual Accounts.

No Recommendation

3.0 Accuracy of data reported

3.1 The source for the calculation of KPIs are the ‘Best Value’ spreadsheets and the ‘New Houses’ spreadsheets. Figures from these records are drawn into the ‘Stats’ spreadsheets which record the calculation of the KPIs for the CT Valuation List and the NDR Valuation Roll.

3.2 Audit testing confirmed that the key dates within the Best Value spreadsheets and New Houses spreadsheets could be traced back to the underlying records in the Valuation system with only minor and insignificant differences. However, on checking the calculation of the KPIs for the CT Valuation List including self-catering units, an error was identified which meant that the KPIs for % entered into the List within 6 months and more than 6 months after occupation as reported in the Best Value Performance Report for Financial Year (FY) 2023/24 were incorrect. See Table 1 below.

CT Valuation List **FY 2023/24**	**% entered within 3 m** **(Target 87%)**	**% entered within 6 m** **(Target 96%)**	**% entered more than 6 m** **(Target <4%)**
As previously reported	68	76	24
As calculated	68	72	28

Table 1 : KPIs – entry to CT Valuation List FY 2023/24

3.3 This error appears to have arisen on reading numbers across from one document to another. We recommend that the relevant worksheets are linked by formulae which should prevent a recurrence of this type of error in future.

Recommendation 2

3.4 Audit work confirmed that KPIs are in line with the Statutory Guidance and reporting requirements noted at 2.1 above, and are consistently measured and reported over time.

4.0 Trends and Factors impacting KPIs

4.1 Trends in KPIs were reviewed over a 10 year period to try and identify any impact from both cyclical events, e.g. revaluations, and changes in operational practice. The results of this analysis are shown below.

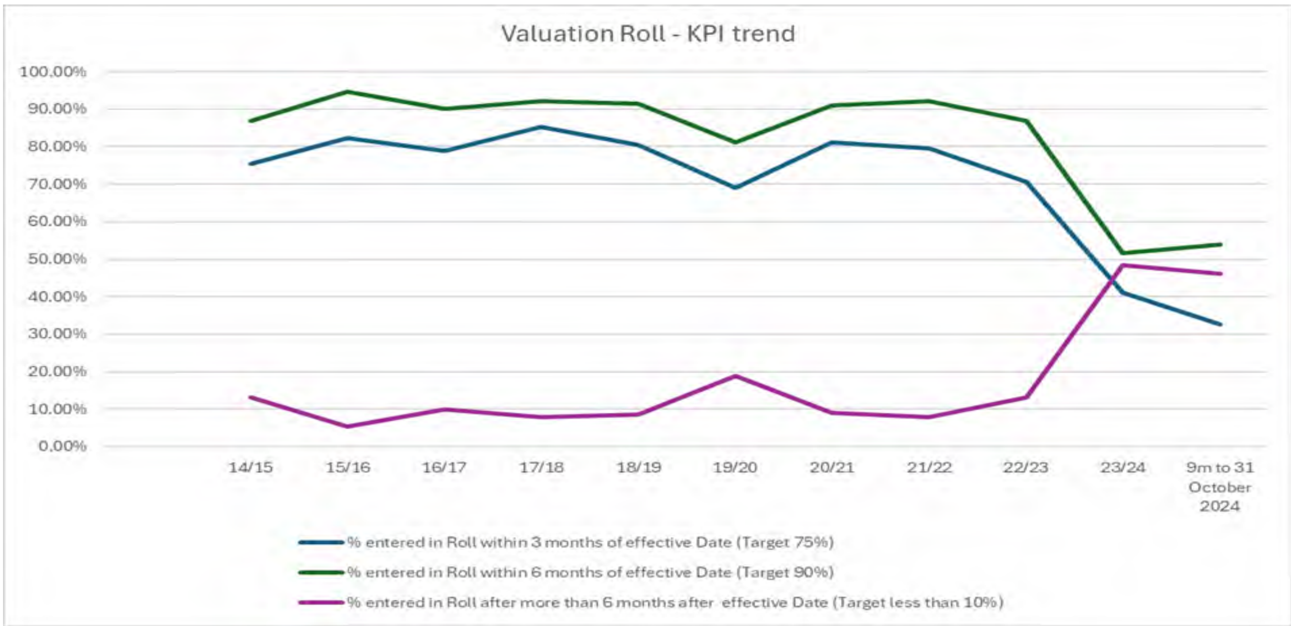

Figure 1: KPI trend – NDR Valuation Roll

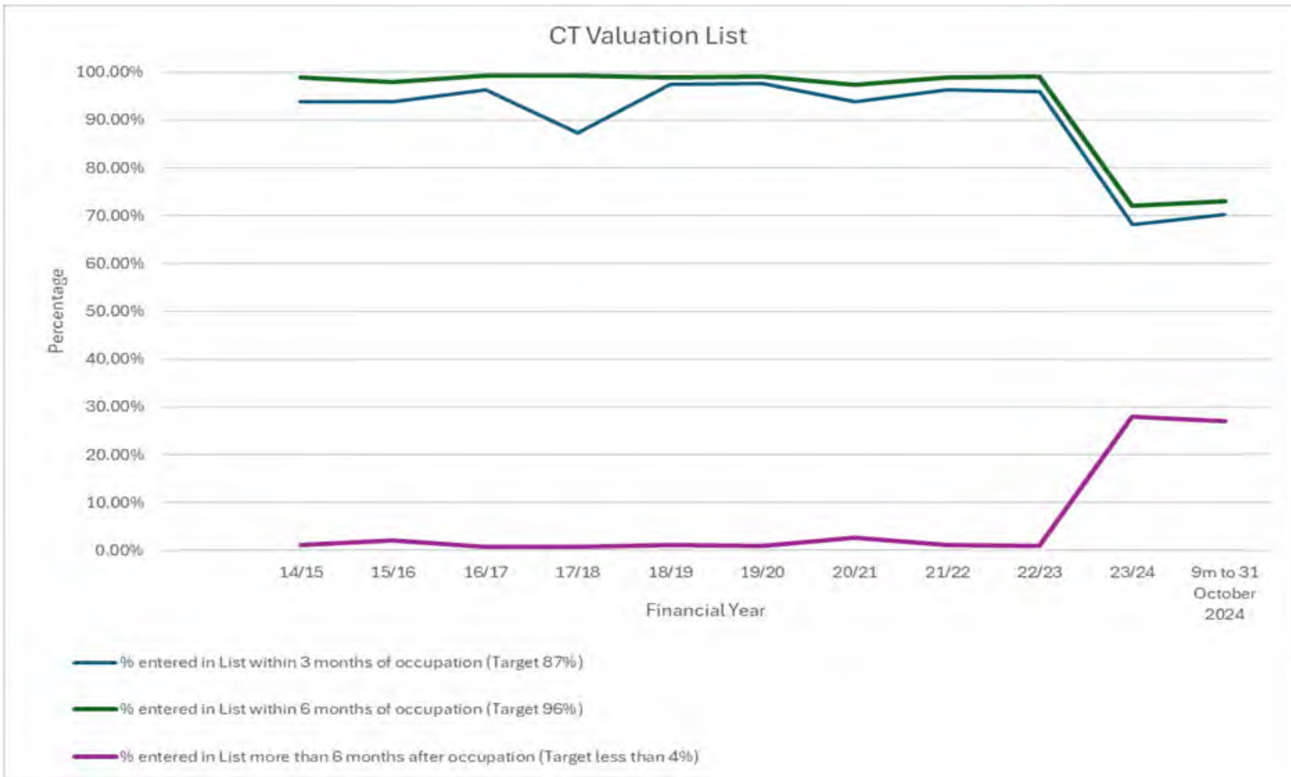

Figure 2: KPI trend – CT Valuation List

4.2 In the case of the CT Valuation List, the worsening of the performance indicators during 23/24 is due to the direct impact of the audit of self-catering units / short term lets (SCUs). This has impacted in 2 ways:

- SCUs which are added to the NDR Valuation Roll are not audited until 12 months after they are transferred. If they subsequently fail the audit, they are retrospectively added back to the CT Valuation List, but the effective date remains the original date of transfer. Accordingly, all SCUs which fail audits will have at least 12 months between their effective date and the date of change recorded on the system.

This has had a major impact on the KPIs in respect of CT Valuation list, for example, the percentage of cases which were entered into the List within 3 months of occupation has fallen from almost 96% in FY 22/23 to 68% in FY 23/24 and only rising slightly in the 9 months to 31 December 2024 to 70%.

Excluding the SCUs from the calculation of KPIs gives figures for entry into List within 3 months of 94% in both FY 23/24 and the subsequent 9 month period.

- The team is comparatively small, and the Assessor has been forced to use Valuers to undertake the work required for the SCU audits, in the absence of suitable administrative support resource. In addition, staff vacancies at Valuer level have meant that the Assessor has been forced to use the Consultant Depute Assessor to undertake the work required for the FY 2023/24 SCU audit.

4.3 For the NDR Valuation Roll, there has been a fall in the KPIs from FY 21/22 onwards. The change to a 1 year tone date ahead of revaluation is believed to be at the root of this. Preparing for the draft roll and final roll, resulted in much of the business as usual work being delayed. Whilst additional funding was made available as a result of the increased frequency of the revaluations, the Barclay funding, and has allowed for the employment of two additional Valuers, these staff were inexperienced at the time of the revaluation. In addition, wider staff unfamiliarity with the new valuation system would have had an impact.

4.4 The Assessor anticipates that as staff become more familiar with the new system, the situation will improve, but notes that for the coming revaluation cycle, there will again be two inexperienced Valuers and an incoming inexperienced Depute Assessor. In addition, it is currently anticipated that the level of resource required by the SCU audits will reduce, as the number of properties going into and coming out of that category ‘normalises’. However, it is not clear at present whether the ongoing resource demands of the SCU audit would reduce sufficiently to allow the restoration of the previous high KPIs.

4.5 Although the targets for FY 24/25 for the CT Valuation List were reduced in June 24 to 85% / 95% and 5%, for each of the categories noted in 2.1 above, the automatic inclusion of the failed audit SCUs in the over 6 month category would appear to make reaching these targets unlikely in the short to medium term.

4.6 Excluding the SCUs, the figures for % Entered into the List within 3 months are close to 94% for both FY 2023/24 and the 9 months to 31 December 2024. Accordingly, it appears that the current lower indicators are a function of the changes to the system rather than truly indicative of performance. Accordingly, we recommend that the Board considers amending the CT Valuation List KPIs for FY 2025/26 and subsequent years to reflect more realistic, aspirational but achievable targets.

Recommendation 3

4.7 As noted at 1.7 above, financial KPIs include budgets (addressed separately in the Budget Setting and Monitoring audit), and % reduction on appeal. Although this latter theoretically monitors the robustness of valuations undertaken, the Assessor is of the view that reductions on appeal are now primarily caused by timing differences. Firstly because, for example, taxpayers notify the Assessor’s Office of changes to plant etc., on large sites after they have received a valuation, and secondly, there have been subsequent changes in the valuation practice notes issued by the SAA between the initial valuation and the proposal which impact on the valuation reached. The Assessor’s view is therefore that the % reduction on appeal is not a true indicator of performance.

4.8 Audit review of the reported figures for % reduction on appeal indicates that prior to FY 2019/20 the percentage reduction on appeal was well below the 1% target. However from FY 2019/20 to FY 2022/23, the figures varied between 1.04% and 6.46%, returning to below 1% in FY 2023/24. In light of this and the Assessor's view in 4.7 above, the current target of <1% reduction on appeal may be too stringent.

4.9 In addition, the reduction in appeal varies with the Revaluation Cycle, reaching a peak at the end of one Revaluation Cycle, with the lowest figures being returned at the start of the next Revaluation, and accordingly is not a true yearly statistic. Looking at this KPI over a longer time frame would help to reduce short term fluctuations.

4.10 We recommend that consideration is given to the effectiveness of % reduction on appeal as an indicator of performance, and whether some alternative measure might be more appropriate. In the event that it is decided to retain the KPI, the Board should consider adopting a target of less than 5% reduction on appeal averaged over a 3-year period going forward.

Recommendation 4

Action Plan

Recommendation	Priority	Management Comments	Responsible Officer	Agreed Completion Date
1 Consideration should be given to adopting an Action Plan in a SMART format, within the Best Value Progress Reports, and using this to report both on new priorities and on progress against historic priorities.	Medium	This will be implemented where possible.	Assessor & ERO	30 June 2026
2 The Best Value spreadsheets and 'Stats' spreadsheets are linked by formulae to avoid errors in carrying numbers from one to the other.	Low	This will be implemented.	Assessor & ERO	30 June 2026
3 The Board should consider amending the CT Valuation List KPIs for FY 2025/26 and subsequent years to reflect more realistic, aspirational but achievable targets.	Low	We will always try to make targets as realistic as possible. The SCU audit is the single biggest negative influence in this regard currently. We expect this to become less of an issue as ratepayers get used to the new legislation.	Assessor & ERO	Immediate effect
4 The Board should consider whether the % reduction on appeal is an effective KPI, or whether some alternative measure might be more appropriate. In the event that the KPI is retained, the Board should consider adopting a target of less than 5% reduction on appeal averaged over a 3-year period going forward.	Low	This is a fairly meaningless statistic given the lack of control we have over it, only exasperated by the speed we have to carry out revaluations in the 3 yearly cycle with 1-year tone. It isn't a Statutory KPI and we aren't aware of any other Assessor who uses it. So for those reasons we would be in favour of dropping it and investigating an alternative measure. In the interim we agree with the change to 5% becoming the target.	Assessor & ERO	30 June 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.