



# Orkney and Shetland Valuation Joint Board

## 2015/16

Annual Audit Report to  
Members and the  
Controller of Audit

September 2016

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Audit Scotland is a statutory body which provides audit services to the Accounts Commission and the Auditor General. ([www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk))

This report has been prepared for the use of Orkney and Shetland Valuation Joint Board and no responsibility to any member or officer in their individual capacity or any third party is accepted.

This report will be published on our website after it has been considered by the Board. The information in this report may be used for the Accounts Commission's annual overview report on local authority audits published on its website and presented to the Local Government and Regeneration Committee of the Scottish Parliament.

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# Contents

**Key messages..... 4**

**Introduction..... 5**

**Audit of the 2015/16 financial statements ..... 6**

**Financial management and sustainability..... 9**

**Governance and transparency..... 11**

**Best Value ..... 13**

**Appendix I – Significant audit risks..... 14**

**Appendix II – Summary of local audit reports 2015/16..... 15**

**Appendix III - Action plan ..... 16**

# Key messages

 <p>Audit of financial statements</p>	<ul style="list-style-type: none"> <li>• We have given an unqualified opinion on the financial statements of Orkney and Shetland Valuation Joint Board for 2015/16.</li> </ul>
 <p>Financial management and sustainability</p>	<ul style="list-style-type: none"> <li>• The Orkney and Shetland Valuation Joint Board operated within its budget for 2015/16.</li> <li>• We confirm the financial sustainability of the Joint Board on the basis of its financial position. The financial position in the future will remain challenging with limited increases in funding coupled with rising cost pressures.</li> </ul>
 <p>Governance and transparency</p>	<ul style="list-style-type: none"> <li>• Overall, we found the Orkney and Shetland Valuation Joint Board had adequate governance arrangements in place during 2015/16, however policies require to be updated.</li> <li>• Systems of internal control operated effectively during 2015/16.</li> </ul>
 <p>Best Value</p>	<ul style="list-style-type: none"> <li>• The Joint Board publishes performance indicators on its website; however targets have not been met during 2015/16.</li> <li>• The Joint Board plans to undertake a best value review in the Autumn of 2016.</li> </ul>
 <p>Outlook</p>	<ul style="list-style-type: none"> <li>• Financial sustainability will remain a key challenge and expenditure should be closely monitored to identify and address any emerging budget pressures.</li> </ul>

# Introduction

1. This report is a summary of our findings arising from the 2015/16 audit of Orkney and Shetland Valuation Joint Board. The report is divided into sections which reflect our public sector audit model.
2. The management of Orkney and Shetland Valuation Joint Board is responsible for:
  - preparing financial statements which give a true and fair view
  - implementing appropriate internal control systems
  - putting in place proper arrangements for the conduct of its affairs
  - ensuring that the financial position is soundly based.
3. Our responsibility, as the external auditor of Orkney and Shetland Valuation Joint Board, is to undertake our audit in accordance with International Standards on Auditing, the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011 and the ethical standards issued by the Auditing Practices Board.
4. An audit of financial statements is not designed to identify all matters that may be relevant to those charged with governance. It is the auditor's responsibility to form and express an opinion on the financial statements; this does not relieve management of their responsibility for the preparation of financial statements which give a true and fair view.
5. A number of local reports have been issued by Audit Scotland during the course of the year. These reports have been summarised at **Appendix II**.
6. **Appendix III** is an action plan setting out our recommendations to address the high level risks we have identified during the course of the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "Management action/response". We recognise that not all risks can be eliminated or even minimised. What is important is that Orkney and Shetland Valuation Joint Board understands its risks and has arrangements in place to manage these risks. Members and officers should ensure that they are satisfied with proposed action and have a mechanism in place to assess progress and monitor outcomes.
7. We have included in this report only those matters that have come to our attention as a result of our normal audit procedures; consequently, our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.
8. The cooperation and assistance afforded to the audit team during the course of the audit is gratefully acknowledged.

# Audit of the 2015/16 financial statements

<b>Audit opinion</b>	<ul style="list-style-type: none"><li>• We have completed our audit and issued an unqualified independent auditor's report.</li></ul>
<b>Going concern</b>	<ul style="list-style-type: none"><li>• The financial statements have been prepared on a going concern basis. We are unaware of any events or conditions that may cast significant doubt on the Joint Board's ability to continue as a going concern.</li></ul>
<b>Other information</b>	<ul style="list-style-type: none"><li>• We review and report on other information published with the financial statements, including the management commentary, annual governance statement and remuneration report. We have nothing to report in respect of these statements.</li></ul>

## Submission of financial statements for audit

9. We received the unaudited financial statements on 13 June 2016, in accordance with the agreed timetable. The working papers were of a good standard and the staff provided support to the audit team which assisted the delivery of the audit to deadline.

## Overview of the scope of the audit of the financial statements

10. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined in our Annual Audit Plan issued in March 2016.

11. As part of the requirement to provide full and fair disclosure of matters relating to our independence, we can confirm that we have not undertaken non-audit related services. The 2015/16 agreed fee for the audit was set out in the Annual Audit Plan and, as we did not carry out any work additional to our planned audit activity, the fee remains unchanged.
12. The concept of audit risk is of central importance to our audit approach. During the planning stage of our audit we identified a number of key audit risks which involved the highest level of judgement and impact on the financial statements and consequently had the greatest effect on the audit strategy, resources and effort. We set out in our Annual Audit Plan the audit work we proposed to undertake to secure appropriate levels of assurance. **Appendix I**

sets out the significant audit risks identified during the course of the audit and how we addressed each risk in arriving at our opinion on the financial statements.

13. Our audit involved obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.

## Materiality

14. Materiality can be defined as the maximum amount by which auditors believe the financial statements could be misstated and still not be expected to affect the decisions of users of financial statements. In addition, a misstatement or omission, which would not normally be regarded as material by amount, may be important for other reasons (for example, an item contrary to law).
15. We consider materiality and its relationship with audit risk when planning the nature, timing and extent of our audit and conducting our audit programme. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.
16. We summarised our approach to materiality in our Annual Audit Plan. Based on our knowledge and understanding of Orkney and Shetland Valuation Joint Board we set our planning materiality for 2015/16 at £7,000 (1% of gross expenditure). We report all misstatements greater than £350. Performance materiality was calculated at £5,250, to reduce to an acceptable level the probability

of uncorrected and undetected audit differences exceeding our planning materiality level.

17. On receipt of the financial statements and following completion of audit testing we reviewed our materiality levels and concluded that our original calculation remained appropriate.

## Evaluation of misstatements

18. The unaudited financial statements have been adjusted to address the misstatements identified during the audit process. The gross value of adjustments was £38,969 and related to the adjustments detailed in paragraphs 22 and 23.
19. The net impact of all adjustments is to decrease the deficit on the provision of services by £1,850 with a similar reduction in the net liability position for the Joint Board.
20. The total adjustments exceeded our overall performance materiality and we considered the need to undertake further audit testing. We consider that the issues noted in paragraph 18 are isolated and do not indicate that further systematic errors exist within the account areas or more pervasively within the financial statements. We considered the impact of these misstatements on our audit approach and decided that further audit procedures were not required.

## Significant findings from the audit

21. International Standard on Auditing 260 requires us to communicate to you significant findings from the audit, including:
  - the auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures
  - significant difficulties encountered during the audit
  - significant matters arising from the audit that were discussed, or subject to correspondence with management
  - written representations requested by the auditor
  - other matters which, in the auditor's professional judgement, are significant to the oversight of the financial reporting process.
22. We identified specific grant income of £37,119 received by the Joint Board during the year that was unused and was paid back to the Scottish Government. In the accounts this sum was included in the total grant income received, and the repayment was charged to Supplies & Services. We discussed this treatment with officers and agreed that the accounts should be adjusted to eliminate the income and expenditure. This adjustment has no overall impact on the deficit on the provision of services.
23. The untaken holiday accrual in the unaudited accounts was an estimate based on a percentage of the overall accrual calculated for Shetland Islands Council. We requested that a specific accrual be calculated for the Joint Board, and officers agreed to amend the

accounts based on the revised calculation. The effect of this adjustment was to reduce employee costs, and consequently the deficit on the provision of services, by £1,850.

24. No Cash Flow Statement has been prepared for the Joint Board for 2015/16. Following a review of relevant guidance, and from discussions held between officers and the audit team, it was agreed that the Joint Boards decision not to prepare a Cash Flow Statement was reasonable.
25. There are no other matters, other than those set out elsewhere in this report, to which we wish to draw your attention.

## Future accounting and auditing developments

### Code of Audit Practice

26. A new Code of Audit Practice will apply to all audits from financial year 2016/17. There will be a focus on four areas:
  - Financial sustainability
  - Financial management
  - Governance and transparency; and
  - Value for money
27. In addition, as well as the annual audit report, other significant outputs, such as the annual audit plan, will be published on Audit Scotland's website.

# Financial management and sustainability

	Final Budget (£)	Actual Outturn (£)	Under / (Over) spend (£)
Employee Costs	527,287	487,510	39,777
Operating Costs	172,773	167,134	5,639
Fees and Charges	(27,900)	(28,743)	843
Specific Grant Income	(43,785)	(57,943)	14,208
<b>Total</b>	<b>628,425</b>	<b>567,958</b>	<b>60,467</b>

Source: OSVJB Statement of Accounts 2015-16

## Financial management

28. The Orkney and Shetland Valuation Joint Board set an annual budget to meet its service and other commitments for the forthcoming financial year. The funding is largely provided by Orkney and Shetland Islands councils who both continue to work within challenging financial targets. Regular monitoring of expenditure and income against agreed budgets is central to effective financial management.

## Financial outcomes

29. In 2015/16, Orkney and Shetland Valuation Joint Board incurred expenditure of £655,168 (£622,756 in 2014/15) on the provision of services. After accounting for sales, fees and charges, specific grant income and requisitions from members, the resulting deficit on the provision of services was £54,524 (£66,675 in 2014/15).

30. The 2015/16 budget was based on planned contributions of £628,425 (£582,240 in 2014/15) from the constituent authorities. The Management Commentary in the accounts states that, overall, there was an underspend of £60,467 (£23,023 in 2014/15) before adjusting the financial statements to account for pensions

(as shown in the table above). As the budget is prepared and monitored against actual expenditure in this way it is appropriate for the financial outcome to be presented as such. The underspend was mainly due to the savings made in employee costs, due to the Assistant Assessor post remaining vacant for the majority of the year.

## Financial planning

31. The Joint Board approved its 2016/17 budget in March 2016. The 2016/17 budgeted expenditure is £670,721. This will be met by funding from Orkney and Shetland Islands councils of £642,821 and funding from fees and charges and specific grant income of £27,900. The budget reflects an increase in employee costs to meet the pay award of 1% and the change in National Insurance contribution rate to a straight 13.8%. We note that the 2016/17 budget includes employee costs for the vacant assistant assessor role; however these are off set by the temporary appointment of a consultant valuer.
32. The Orkney and Shetland Valuation Joint Board has recorded an underspend against its budget for each of the last three years. Sound budget setting and monitoring is a key financial control and it is essential, particularly in light of the ongoing financial challenges, that appropriate budgets are set and variances are monitored and investigated promptly. We acknowledge that the underspend was largely due to the vacancy outlined in paragraph 30.

# Governance and transparency

33. Members and management of Orkney and Shetland Valuation Joint Board are responsible for establishing arrangements to ensure that its business is conducted in accordance with the law and proper standards, that public money is safeguarded and for monitoring the adequacy and effectiveness of these arrangements.
34. Citizens should be able to hold the public sector bodies to account about the services it provides. Transparency means that citizens have access to understandable, relevant and timely information about the decision making process and use of resources. Overall we concluded that the Orkney and Shetland Valuation Joint Board is open and transparent.

## Corporate governance

35. The Code of Audit Practice gives auditors a responsibility to review and report on audited bodies' corporate governance arrangements.
36. We noted in our Annual Audit Plan that the Joint Board does not have a documented business plan, and other governance policies including the financial regulations, scheme of delegation, and disciplinary procedures are either out of date or due to be

updated. Policies are currently being updated as part of Shetland Island Council's Governance Arrangements Review, but remain outstanding.

## Appendix III – action plan point 1

### Internal control

37. As part of our audit we reviewed the high level controls in a number of systems fundamental to the preparation of the financial statements. Our objective was to obtain evidence to support our opinion on the financial statements.
38. Orkney and Shetland Valuation Joint Board uses the corporate financial systems of Shetland Islands Council for its operations. As external auditors of the council, we have reviewed these systems and have been able to take assurance from this work. No material weaknesses in the accounting and internal control systems were identified during the audit which could adversely affect the ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.

### Internal audit

39. Internal audit provides members and management with independent assurance on risk management, internal control and corporate governance processes. We are required by international auditing standards to make an assessment of internal audit to determine the extent to which we can place reliance on its

work. To avoid duplication, we place reliance on internal audit work wherever possible.

40. The internal audit work for Shetland Islands Council provides assurance over the systems used by the council in providing administrative functions on behalf of the Joint Board.

## **Arrangements for the prevention and detection of fraud**

41. In our Annual Audit Plan we highlighted the responsibility audited bodies have for establishing arrangements to prevent and detect fraud and other irregularities. In our opinion, the overall arrangements for the prevention of fraud at Orkney and Shetland Valuation Joint Board are satisfactory, although it should be noted that no system can eliminate the risk of fraud entirely.

## **Arrangements for maintaining standards of conduct and the prevention and detection of corruption**

42. Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and have proper arrangements in place for implementing and monitoring compliance with standards and codes of conduct, standing orders and financial instructions. Auditors consider whether bodies have adequate arrangements in place. No issues have been identified by us for inclusion in this report.

# Best Value

43. Best value is a key factor to consider when planning policies, programmes and projects and when taking any spending decisions. The Orkney and Shetland Valuation Joint Board should have systems and processes in place to ensure that it can demonstrate best value by assessing and reporting on the economy, efficiency, effectiveness and equality in service provision.

## Performance information

44. Audited bodies have a specific responsibility to ensure that arrangements have been made to secure Best Value. Auditors of local government bodies also have a responsibility to review and report on the arrangements to prepare and publish performance information in accordance with directions issued by the Accounts Commission.
45. The Assessor and Electoral Registration Officer reports on best value issues to the board through twice yearly reports covering council tax, non-domestic rating and electoral registration. A three-year service plan and annual action plan is also presented to the board during the year.

46. The Orkney and Shetland Valuation Joint Board publishes performance indicators on its website and within the Management Commentary in the 2015/16 annual accounts. These performance indicators provide a comprehensive and balanced review of performance for the year ended 31 March 2016. These key statistics have been established to facilitate performance monitoring with suitably challenging performance targets established.
47. In the past two years, the Joint Board has failed to achieve its key performance targets and is completing a best value review to establish the best way forward for the Joint Board to meet its obligations and deliver best value.

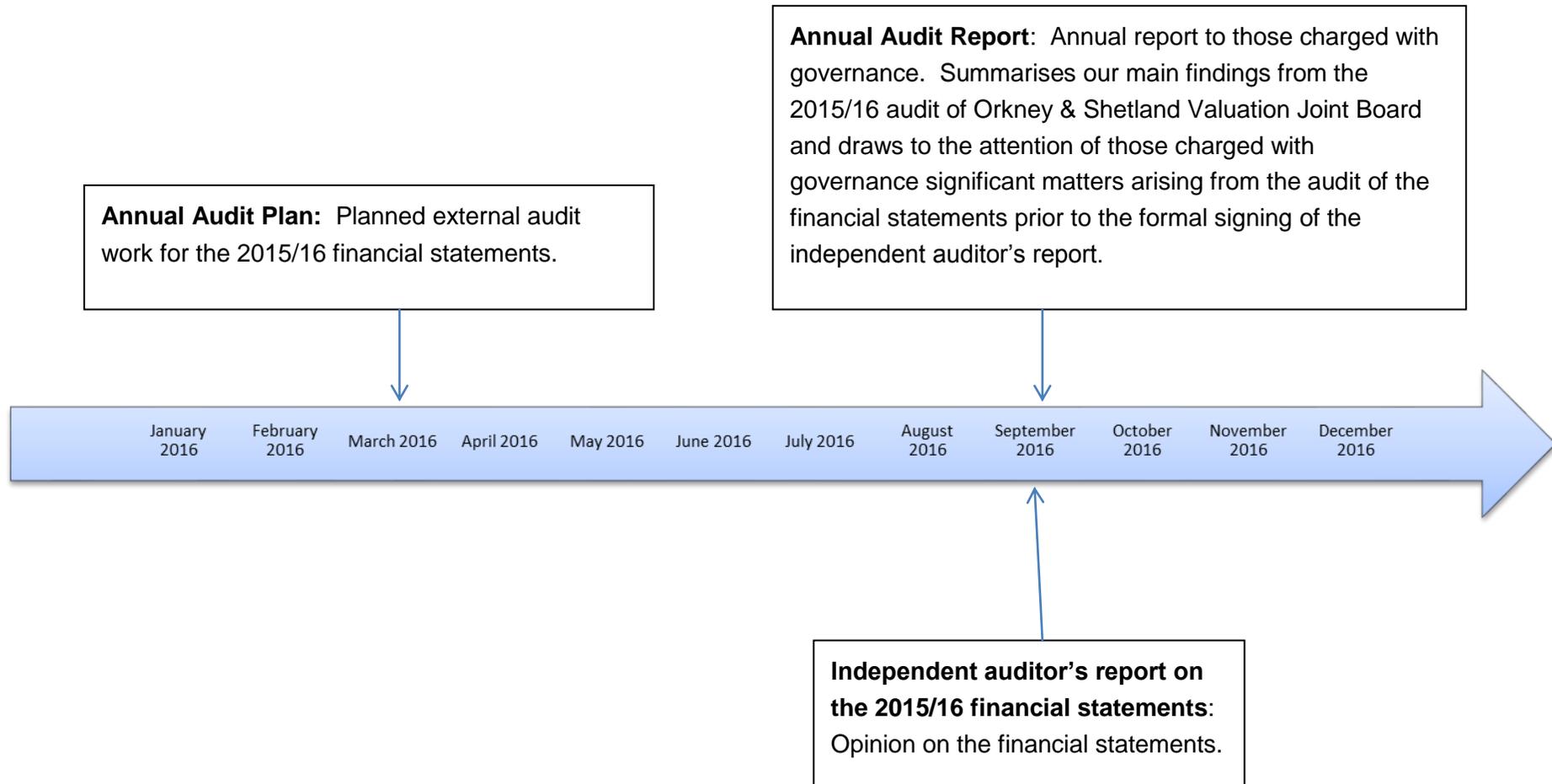
### Appendix III - Action plan point 2

# Appendix I – Significant audit risks

The table below sets out the audit risks, how we addressed each risk and our judgement in arriving at our opinion on the financial statements.

Audit Risk	Assurance procedure	Results and conclusions
<b>Risk of material misstatement</b>		
<p><b>Risk of management override of control</b></p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit.</p> <p><b>Risk</b></p> <p>Management’s ability to manipulate accounting records and prepare fraudulent or biased financial statements by overriding controls that otherwise appear to be operating effectively.</p>	<ul style="list-style-type: none"> <li>• Detailed testing of journal entries</li> <li>• Review of accounting estimates</li> <li>• Focused testing of accruals and prepayments</li> <li>• Evaluating significant transactions that are outside the normal course of business</li> </ul>	<p>We undertook detailed testing of journal entries, accruals and prepayments. We also reviewed accounting estimates and transactions for appropriateness.</p> <p>We did not identify any incidents of management override of controls.</p>

# Appendix II – Summary of local audit reports 2015/16



## Appendix III - Action plan

No. Page/para	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
1 11/36	<p><b>Issue</b> - The Joint Board does not have a Business Plan and several governance policies are either out of date or are due to be updated.</p> <p><b>Risk</b> - Without maintaining up to date policies, there is a risk that the Joint Board will not achieve the required standards of corporate governance to deliver best value in service provision.</p> <p><b>Recommendation</b> - A business plan and revised policies should be implemented.</p>	<p>The SIC governance policies are being reviewed and due for reporting to the SIC on 2 November 2016, with the Code of Governance Statement due for approval in February 2017. A review of the Joint Board's governance arrangements, including a detailed Business Plan, will commence shortly thereafter, with timescales for completion yet to be agreed. In the meantime, the Joint Board continues to conduct its business in accordance with the policies and procedures that apply to the relevant Constituent authorities. The SIC acts as lead authority and supplies the Board with administrative, financial management and human resources support. Accordingly, assurance on governance matters is overseen by the Clerk and Treasurer to the Board.</p>	Jan Riise, Clerk to the Board and Jonathan Belford, Treasurer to the Board.	Review to commence March 2017.

No. Page/para	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
2 13/47	<p><b>Issue</b> - The Joint Board has failed to achieve its performance targets for the past 2 years.</p> <p><b>Risk</b> - In failing to reach the performance targets the board sets itself there is a risk that the board is not providing best value for ratepayers.</p> <p><b>Recommendation</b> - The Joint Board should ensure the required arrangements are implemented to deliver the performance targets set.</p>	<p>A review of existing performance targets was carried out following a decision of the Board on 16 June 2016, to reflect the current resource pressures the Board is experiencing. This is now complete and is reflected in updated performance targets for the 2016/17 financial year.</p>	Dennis Stevenson, Assessor	Completed