



# Orkney and Shetland Valuation Joint Board

## 2014/15

Annual Audit Report to  
Members and the  
Controller of Audit

September 2015

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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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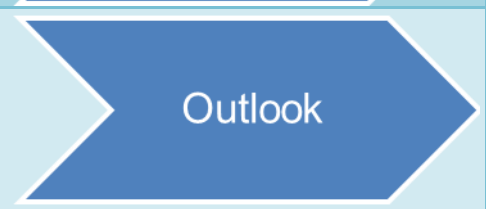
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# Key messages

 <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 2014/15.</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 2014/15.</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 however, become more challenging than previous years 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 sound governance arrangements in place during 2014/15.</li> <li>• Systems of internal control operated effectively during 2014/15.</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 2014/15.</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 2014/15 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 2014/15 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 18 June 2015, in accordance with the agreed timetable. The working papers were of a good standard and the staff provided good 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 February 2015.

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 2014/15 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 2014/15 at £6,000 (1% of gross expenditure). We report all misstatements greater than £300. Performance materiality was calculated at £4,500, 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. All misstatements identified during the audit, which exceeded our misstatement threshold, have been amended in the financial statements.
19. A number of presentational and monetary adjustments were identified within the financial statements during the course of our audit. These were discussed with relevant officers who agreed to amend the unaudited financial statements. The adjustments had no impact on the deficit on the provision of services as the additional expenditure identified of £8,908 was met by the requisitions from member authorities. Cash and cash equivalents and short term creditors both increased by £7,453 resulting in no change to the net balance sheet position.

## Significant findings from the audit

20. 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.
21. There are no matters, others than those set out elsewhere in this report, to which we wish to draw your attention.

## **Future accounting and auditing developments**

22. The financial statements are prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) which interprets and adapts International Financial Reporting Standards (IFRS) to the local authority context. There are no significant changes to accounting requirements introduced by the 2015/16 Code which are likely to impact on the financial statements of the Orkney and Shetland Valuation Joint Board.



# Financial management and sustainability

	Final Budget (£)	Actual Outturn (£)	Under / (Over) spend (£)
Employee Costs	463,481	463,142	339
Operating Costs	141,659	155,939	(14,280)
Fees and Charges	(22,900)	(28,905)	6,005
Specific Grant Income	0	(30,959)	30,959
<b>Total</b>	<b>582,240</b>	<b>559,217</b>	<b>23,023</b>

Source: OSVJB Statement of Accounts 2014-15

## Financial management

23. 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

24. In 2014/15, Orkney and Shetland Valuation Joint Board incurred expenditure of £685,756 (£642,681 in 2013/14) 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 £66,675 (£55,485 in 2013/14). The deficit is mainly due to the increase in the pension liability which is a consistent picture across the public sector.
25. The 2014/15 budget was based on planned contributions of £582,240 (£580,520 2013/14) from the constituent authorities. The Management Commentary in the accounts states that, overall, there

was an underspend of £23,023 (£33,561 2013/14) before adjusting the financial statements to account for pensions, as shown in the table above). As the budget is prepared and monitored against in this way it is appropriate for the financial outcome to be presented as such. The underspend was mainly due to additional income received from the Cabinet Office for the work undertaken for the transition to Individual Electoral Registration.

## Financial planning

26. The Joint Board set its 2015/16 budget in January 2015. The 2015/16 budget was set at £700,640. This will be met by funding from Orkney and Shetland Islands councils of £629,005 and funding from fees and charges and specific grant income of £71,635. The budget reflects the one-off costs relating to the revised staffing structure, and transitional period, with the departure of the existing Assessor in May 2015 and the start of the new Assessor.
27. The Orkney and Shetland Valuation Joint Board has recorded an underspend against its budget for each of the last two years. Sound budget setting and monitoring is a key financial control and it is essential, particularly in light of the financial challenges ahead, that appropriate budgets are set and variances are monitored and investigated promptly.

### Appendix III – action plan point 1

# Governance and transparency

28. 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.
29. 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

30. The Code of Audit Practice gives auditors a responsibility to review and report on audited bodies' corporate governance arrangements. From our work undertaken during the year, we have concluded that there are effective overarching and supporting governance arrangements which provide an appropriate framework for organisational decision making.

## Internal control

31. 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.
32. 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

33. 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.
34. The internal audit work for Shetland Islands Council provided assurance over the financial statements, however there was no formal agreement in place for specific assurance. This has now

been addressed and from 2015/16 onwards the council's internal audit function will undertake specific work in relation to the Orkney and Shetland Valuation Joint Board.

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

35. 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**

36. 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

37. 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 to ensure that it can demonstrate that it is delivering best value by assessing and reporting on the economy, efficiency, effectiveness and equality in service provision.

## Performance information

38. 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 that specified audited bodies have made to prepare and publish performance information in accordance with directions issued by the Accounts Commission.

39. The Orkney and Shetland Valuation Joint Board publishes performance indicators on its website and within the Management Commentary in the 2014/15 annual accounts. These performance indicators provide a comprehensive and balanced review of performance for the year ended 31 March 2015. These key statistics have been established to facilitate performance monitoring with suitably challenging performance targets established.

40. 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.

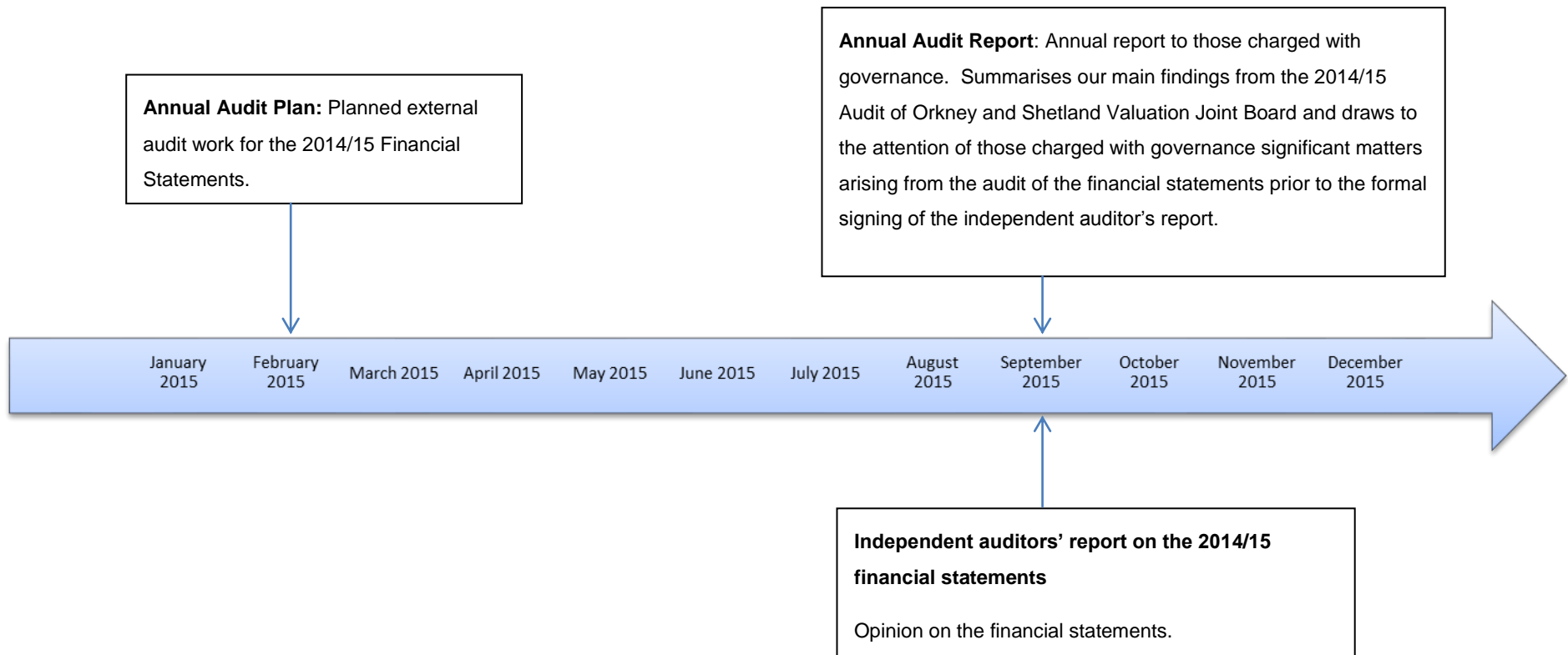
# Appendix I – Significant audit risks

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>

Audit Risk	Assurance procedure	Results and conclusions
<p><b>Proper Officer for Finance</b></p> <p>The Executive Manager – Finance, Shetland Islands Council left in December 2014 and the council appointed the Head of Finance at Aberdeen City Council to this post in a shared capacity. The new Executive Manager - Finance allocates his time between Shetland Islands Council and Aberdeen City Council as part of a partnership agreement.</p> <p><b>Risk</b></p> <p>There is a risk that the changed arrangements regarding the Proper Officer for Finance may result in financial statements that do not comply with the 2014/15 Code.</p>	<ul style="list-style-type: none"> <li>• An officer has been appointed with the appropriate experience in the role of a Proper Officer for Finance.</li> <li>• Ongoing liaison with the council's Finance Services to ensure that the unaudited financial statements are prepared in line with the 2014/15 Code.</li> <li>• Year-end audit of financial statements to ensure compliance with the 2014/15 Code.</li> </ul>	<p>We liaised with finance staff throughout the year and reviewed the financial statements to ensure compliance with the Code.</p> <p>No issues were identified in respect of financial management and accounting arrangements.</p>
<p><b>Local Authority Accounts (Scotland) Regulations 2014</b></p> <p>The Board is required to comply with the revised Local Authority Accounts (Scotland) Regulations 2014</p> <p><b>Risk</b></p> <p>There is a risk that the Board does not comply with the requirements of the new regulations.</p>	<ul style="list-style-type: none"> <li>• Review of the Board's arrangements to ensure compliance with the requirements of the Local Authority Accounts (Scotland) Regulations 2014.</li> </ul>	<p>We liaised with council staff throughout the year regarding the requirements of the new regulations.</p> <p>No issues were identified.</p>

# Appendix II – Summary of local audit reports 2014/15





# Appendix III - Action plan

No. Page/para	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
1 10/27	<p><b>Issue</b></p> <p>There are financial challenges ahead with restricted funding increases coupled with rising cost pressures.</p> <p><b>Risk</b></p> <p>Without regular financial reporting and effective cost management arrangements to ensure the 2015/16 budget is met, there is a risk that the Joint Board will not meet its statutory duties.</p> <p><b>Recommendation</b></p> <p>Going forward, it is essential that appropriate budgets are set and that variances continue to be monitored and investigated promptly.</p>	The budget will continue to be monitored throughout the year with information being reported to the joint board.	Treasurer	31 March 2016