

Deloitte.



**Orkney & Shetland
Valuation Joint Board**



Final report to the Board and the Controller of Audit
on the 2016/17 audit

21 September 2017

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Director introduction

The key messages in this report

Audit quality is our number one priority. We plan our audit to focus on audit quality and have set the following audit quality objectives for this audit:

- A robust challenge of the key judgements taken in the preparation of the financial statements.
- A strong understanding of your internal control environment.
- A well planned and delivered audit that raises findings early with those charged with governance.

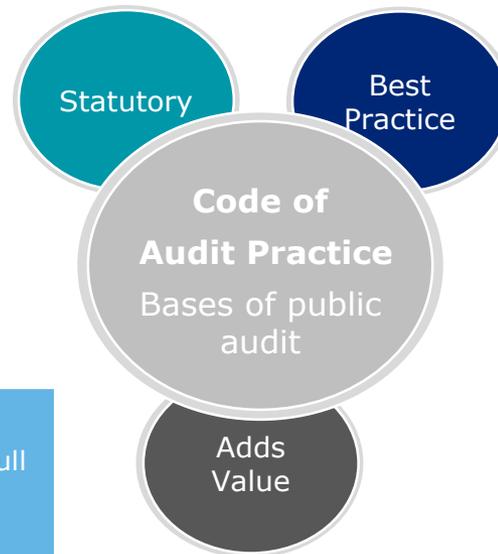
As set out in our plan, due to the relative size and scale of the functions delivered by the VJB, we concluded that the full wider scope audit was not appropriate. In accordance with paragraph 53 of the Code, our work in this area was restricted to concluding on:

- The appropriateness of the disclosures in the governance statement; and
- The financial sustainability of the board and the services that it delivers over the medium to longer term.

I have pleasure in presenting our final report to the Board for the 2017 audit.

As detailed in our plan presented to the Orkney and Shetland Valuation Joint Board ("the Board", "VJB") in February 2017, the new Code of Audit Practice, which came into force for the 2016/17 audits sets out our responsibilities under core audit and wider scope requirements. A reminder of the requirements is set out below.

- *Opinion on the financial statements and regularity*
- *National performance audits and Best Value audits*



- *Opinion on management commentaries, remuneration reports and governance statements*

- *Public reporting and audit findings*
- *Wider scope reporting*

Director introduction (continued)

The key messages in this report (continued)

I would like to draw your attention to the key messages of this paper:

Statutory audit

Conclusions from our testing

- The significant risks, as identified in our audit plan, related to:
 - Completeness and accuracy of income; and
 - Management override of controls.
- A summary of our work on the significant risks is provided in the dashboard on page 10.
- We have identified no audit adjustments from our procedures to date.
- Based on the current status of our audit work, we envisage issuing an unmodified audit opinion.

Insight

- We have utilised Spotlight, Deloitte's patented analytics tool, to perform analytics on the journal entries posted in the year to mitigate the risks of fraudulent activity. Insights from this analytics work has been noted for consideration by management and the Board, as detailed on page 12.

Status of the audit

- The audit is substantially complete subject to the completion of the following principal matters:
 - Update from Head of Legal and Governance on any legal issues;
 - Finalisation of our internal quality control procedures;
 - Receipt of signed management representation letter; and
 - Our review of events since 31 March 2017.

Director introduction (continued)

The key messages in this report (continued)

Best Practice

Overall conclusion

- We have reviewed the management commentary with reference to the statutory guidance set out in Regulation 8(2) of The Local Authority Accounts (Scotland) Regulation 2014 and Finance circular 5/2015 The Local Authority Accounts (Scotland) Regulations 2014 – management commentary. We have confirmed that the management commentary complies with the statutory guidance requiring local authorities, including the VJB's, to include in the management commentary those matters which companies are required to disclose in a strategic report, with some modification to interpret for local authorities.
- As a new requirement in 2016/17, we are required to provide an opinion on whether:
 - information given in the management commentary is consistent with the financial statements;
 - the management commentary has been prepared in accordance with the statutory guidance;
 - information given in the annual governance statement is consistent with the financial statement; and
 - the annual governance statement has been prepared in accordance with proper practice.
- Based on the current status of our audit work, we envisage issuing unmodified opinions on the above.
- In addition to the opinion, we have read the management commentary and confirmed that the information contained is materially correct and consistent with our knowledge acquired during the course of performing the audit, and is not otherwise misleading.
- We have also audited the auditable parts of the remuneration report and confirmed that it has been prepared in accordance with the Regulation 8(2) of The Local Authority Accounts (Scotland) Regulation 2014.

Director introduction (continued)

The key messages in this report (continued)

Adds Value

Financial Sustainability

Total outturn net expenditure for 2016/17 was £577k, which was £65k under-budget due largely to a staff vacancy within the VJB as well as a small amount of additional funding received from Scottish Government. This differs from the results reported in the Comprehensive Income and Expenditure Statement as a result of accounting adjustments required to comply with the Code and proper accounting practice.

Effective short-to medium-term budgeting is in place to assess ongoing risk of under/overspend. The use of budgets to assess risks in the short-term have continued from the previous year.

The greatest risk currently facing the Board is the potential for budgets to be cut by a significant amount resulting in an overspend in future years. The 2017/18 budget has been agreed at £652k compared to the 16/17 budget of £643k, a decrease of approx. 1%. Running costs are not expected to exceed the approved budget for the next financial year. As the financial position for Shetland Islands Council (SIC) and Orkney Islands Council (OIC) become more challenging, it is important the VJB also looks to the medium-longer term to identify any funding gaps and efficiency savings required.

No funding gaps or major risks have been identified in relation to the financial sustainability of the Board.

Governance Statement

Regulation 5 of the accounts regulations requires local authority bodies to undertake an annual review of their systems of internal control and report the results in an annual governance statement published as part of the annual accounts. The regulations require the annual governance statement to be prepared in accordance with proper practices in relation to internal control, which are those set out in Delivering Good Governance in Local Government: Framework 2016 published by CIPFA and SOLACE.

We have confirmed that the VJB's governance statement is in compliance with this guidance and is consistent with our knowledge gained during the audit. We are not aware of any significant events between 31 March 2017 and the date of authorisation which have not been included in the governance statement.

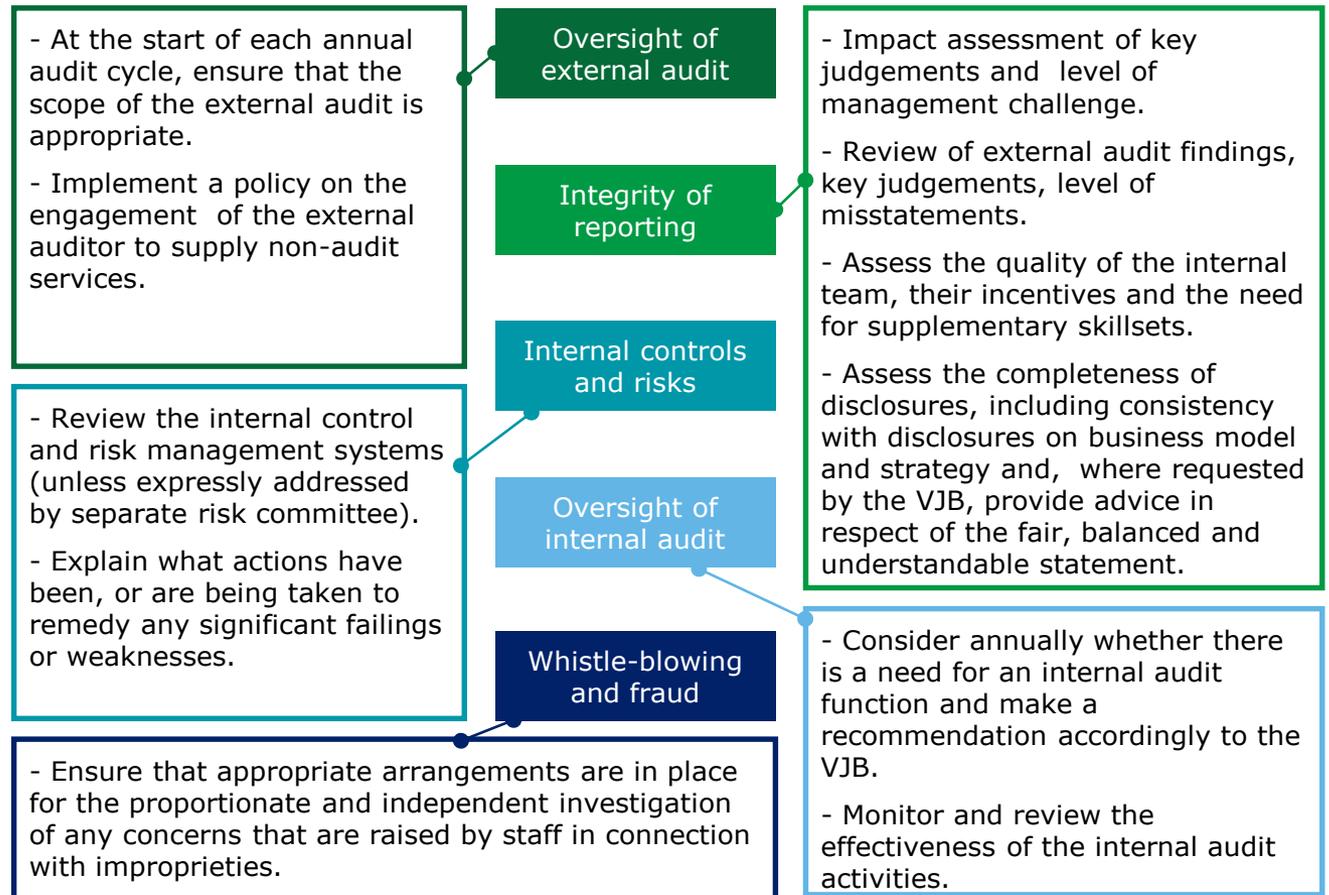
Responsibilities of the Audit Committee/ Board

Helping you fulfil your responsibilities

The primary purpose of the Auditor's interaction with the Board is to:

- Clearly communicate the scope of the financial statements audit
- Provide observations arising from the audit that are significant and relevant to the Board's responsibility to oversee the financial reporting process
- In addition, we seek to provide the Board with additional information to help them fulfil their broader responsibilities

As a result of regulatory change in recent years, the role of the Audit Committee, which is part of the role of the VJB, has significantly expanded. We set out here a summary of the core areas of Audit Committee responsibility to provide a reference in respect of these broader responsibilities and highlight throughout the document where there is key information which helps the Audit Committee in fulfilling its remit.



Our audit explained

Area dimensions

In accordance with the 2016 Code of Audit Practice, we have considered:

- The appropriateness of the disclosures in the governance statement; and
- The financial sustainability of the Board and the services that it delivers over the medium to longer term.

Significant risks

Our risk assessment process is a continuous cycle throughout the year. Page 9 provides a summary of our risk assessment of your significant risks.

Final audit report

In this report we have concluded on the audit risks identified in our planning report and any other key findings from the audit.

Key developments in your business

As noted in our planning report, the VJB continues to face financial pressures in achieving its remit with limited resources

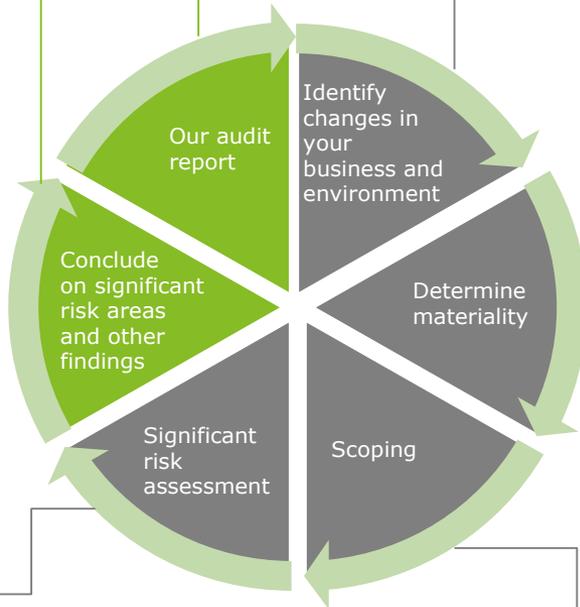
Materiality

The materiality of £10k and performance materiality of £7.5k has been based on the benchmark of gross expenditure (£653k) and is in line with that reported in our planning paper.

We have used these as the basis for our scoping exercise and initial risk assessment. We have reported to you all uncorrected misstatements greater than £200.

Scope of the audit

We have audited the financial statements for the year ended 31 March 2017 of the VJB.



Quality and Independence

We confirm we are independent of Orkney & Shetland VJB. We take our independence and the quality of the audit work we perform very seriously. Audit quality is our number one priority.

Timeline 2017

November 2016 – February 2017

Meetings with management and other staff to understand the processes and controls.

17 February 2017

Audit Plan presented to Board meeting

July – August 2017

Review of draft accounts, testing of significant risk and performance of substantive testing of results.

March 2017

Year end

22 August 2017

Audit close meeting

20 September 2017

Board meeting and Accounts sign off

Significant risks Dashboard

Risk	Material	Fraud risk	Planned approach to controls testing	Controls testing conclusion	Consistency of judgements with Deloitte's expectations	Comments	Slide no.
Recognition of requisition income			D+I	Satisfactory		No issues identified	10
Management override of controls			D+I	Satisfactory		No issues identified	11



Overly prudent, likely to lead to future credit



Overly optimistic, likely to lead to future debit.

D+I: Testing of the design and implementation of key controls

Significant risks (continued)

Completeness and Accuracy of Income

Risk identified

ISA 240 states that when identifying and assessing the risks of material misstatement due to fraud, the auditor shall, based on a presumption that there are risks of fraud in revenue recognition, evaluate which types of revenue, revenue transactions or assertions give rise to such risks.

The main components of income for the VJB are contributions from its funding partners, namely Shetland Islands Council and Orkney Islands Council. The significant risk is pinpointed to the recognition of this income, being completeness and accuracy of contributions received from both councils.

Our Audit Approach

We have performed the following:

- Tested income to ensure that the correct contributions have been input and received in accordance with that agreed as part of budget process;
- Confirmed the management accounts have been reviewed on a regular basis monitoring expenditure and matched income.



Deloitte view

We have concluded that income has been recognised correctly in accordance of the requirements of the Local Authority Code of Audit Practice.

Significant risks (continued)

Management override of controls

Risk identified

International Standards on Auditing requires auditors to identify a presumed risk of management override of control. This presumed risk cannot be rebutted by the auditor. This recognises that management may be able to override controls that are in place to present inaccurate or even fraudulent financial reports.



Deloitte response

We have considered the overall sensitivity of judgements made in preparation of the financial statements, and note that:

- Budgeted against actual income and expenditure was monitored closely throughout the year; and
- senior management's remuneration is not tied to particular financial results.

We have considered these factors and other potential sensitivities in evaluating the judgements made in the preparation of the financial statements.

Deloitte view

- We have not identified any significant bias in the key judgements made by management.
- The control environment is appropriate for the size and complexity of the Board.

Journals

We have made inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments. We have used Spotlight data analytics tools to test a sample of journals, based upon identification of items of potential audit interest.

Accounting estimates

Our retrospective review of management's judgements and assumptions relating to significant estimates reflected in last year's financial statements completed with no issues noted.

Significant transactions

We did not identify any significant transactions outside the normal course of business or transactions where the business rationale was not clear.

Other matters

Defined benefits pension scheme

Background

The VJB participates in the Shetland Islands Council Local Government Pension Scheme.

The net pension liability has increased from £1,403k in 2015/16 to £1,978k in 2016/17 as a result of a change in assumptions of the pension liability which occurred in the year.

Deloitte response

- We obtained a copy of the actuarial report produced by Hymans Robertson, the scheme actuary, and agreed in the disclosures to notes in the accounts;
- we reviewed and challenged the assumptions made by Hymans Robertson;
- we assessed the reasonableness of the VJB's share of the total assets of the scheme with the Draft Pension Fund financial statements;
- we reviewed the disclosures within the accounts against the Code;
- we assessed the independence and expertise of the actuary supporting the basis of reliance upon their work; and
- we liaised with our in-house actuary regarding their assessment of the key assumptions.

Deloitte view

We have reviewed the assumptions and, on the whole, the set of assumptions is prudent when compared with the Deloitte benchmarks. The assumptions have been set in accordance with generally accepted actuarial principles and are compliant with the accounting standard requirements of IAS19.

	Board	Benchmark	Comments
Discount rate	2.6%	2.55%	Reasonable
RPI Inflation rate	3.4%	3.2%	Relatively prudent
CPI Inflation rate	2.4%	2.2%	Prudent
Pension increase	2.4%	2.2%	Prudent
Current mortality	VitaCurves	Employer specific	Reasonable
Mortality – future improvements (CMI – Continuous Mortality Investigation)	CMI12 with a 1.25% p.a. long-term trend	CMI15 with a 1.25% p.a. long-term trend	Reasonable
Cash commutations	50% (75%) of max. allowed pre (post) 6 April 2009 service	Employer specific	Reasonable

Your annual report

We welcome this opportunity to set out for the Board our observations on the annual report. We are required to provide an opinion on the remuneration report, the annual governance statement and whether the management commentary has been prepared in accordance with the statutory guidance.

	Draft Annual Report	Deloitte response
Management Commentary	The Management Commentary comments on financial performance, strategy and performance review and targets. Deloitte note that the Management Commentary has been prepared in line with issued guidance. The commentary included both financial and non financial KPIs.	<p>We have assessed whether the management commentary has been prepared in accordance with the statutory guidance. No exceptions noted. We would, however, highlight that greater use could be made of graphs and charts to make the report more user friendly.</p> <p>We have also read the management commentary and confirmed that the information contained within is materially correct and consistent with our knowledge acquired during the course of performing the audit, and is not otherwise misleading</p>
Remuneration Report	The remuneration report has been prepared in accordance with the 2014 Regulations, disclosing the remuneration and pension benefits of Senior Councillors and Senior Employees of the Council.	We have audited the disclosures of remuneration and pension benefit and pay bands and confirmed that they have been properly prepared in accordance with the regulations.
Annual Governance Statement	The Annual Governance Statement reports that the VJB's governance arrangements provide assurance, are adequate and are operating effectively.	We have assessed whether the information given in the Annual Governance Statement is consistent with the financial statements and has been prepared in accordance with the accounts direction. No exceptions noted.

Wider scope requirements

Governance statement disclosures

Audit dimension

As part of the annual audit of the financial statements, we have considered the appropriateness of the disclosures in the governance statement.



Areas considered

- The completeness of the disclosures in meeting the requirements of the essential features, as specified in the good governance framework.
- Inconsistencies between the disclosures or between the disclosures and audit knowledge.

Deloitte view

The governance statement meets the requirements of the good governance framework and no inconsistencies have been noted between the disclosures and our knowledge gained during the audit.



Deloitte response

In the year, there no notable changes in either board members or in the senior leadership team.

Significant governance issues have been disclosed in the governance statement, which outlines an example in relation to the commissioning of the best value review of the valuation and registration services. There were not enough resources available to carry out the task, and as a result it was agreed that corporate planning and governance would be revisited within the VJB and an assistant assessors post be advertised to assist with this issue.

No inconsistencies have been noted in relation to the disclosures or between the disclosures and our audit work.

Wider scope requirements (continued)

Financial sustainability

Audit dimension

As part of the annual audit of the financial statements, we have considered the appropriateness of the use of the going concern basis of accounting. Going concern is a relatively short-term concept looking forward 12 to 18 months from the end of the financial year. Financial sustainability interprets the requirements and looks forward to the medium (two to five years) and longer term (longer than five years) to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.

Areas considered



- The financial planning systems in place across the shorter and longer terms
- The arrangements to address any identified funding gaps
- The affordability and effectiveness of funding and investment decisions made

Deloitte response



We have monitored the VJB's actions in respect of its short, medium and longer term financial plans to assess whether financial balance can be achieved.

Deloitte view

Effective short-term planning has continued from the previous year and involves the production of management accounts, which are presented to the board. This identifies any expenditure variances which are discussed at Board level. The budget for the following financial year is approved and funding has been allocated by the SIC and OIC.

Long-term financial plans, which includes a 5 year service plan, are high level due to the financial risk sitting with the SIC and OIC, both of which are statutorily obliged to fund the VJB. As the financial positions for SIC and OIC becomes more challenging, it is important the VJB also looks to the medium-longer term to identify any funding gaps and efficiency savings required.

Short-term

Approved funding budget of £652k has been obtained from the SIC and OIC for 2017/18 which is £5k (1%) lower than the 2016/17 approved budget. Deloitte is satisfied that the overall budget spend is unlikely to be exceeded in the year due to the significant underspend in the current year, and an overall efficiency target of 1% is reasonable to be achieved in the short term.

Medium-term

The 5 year service plan recognises the scrutiny placed on the board in the medium-to-long term. All future redesign projects will be supported with robust needs and risk assessments to ensure that the VJB runs smoothly in the years to come. The main financial risks lay with the Councils that underpin the funding available to the VJB. The greatest concern around this is that should the SIC or OIC receive a cut in funding in future, this may have an adverse effect on the VJB and could reduce the funding allocated during the annual budget setting process.

Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

Our report is designed to help the Board discharge their governance duties. It also represents one way in which we fulfil our obligations under ISA 260 (UK and Ireland) to communicate with you regarding your oversight of the financial reporting process and your governance requirements. Our report includes:

- Results of our work on key audit judgements and our observations on the quality of your Annual Report.
- Our internal control observations.
- Other insights we have identified from our audit.

What we don't report

As you will be aware, our audit was not designed to identify all matters that may be relevant to the Board.

Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.

Finally, our views on internal controls and business risk assessment should not be taken as comprehensive or as an opinion on effectiveness since they have been based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

We welcome the opportunity to discuss our report with you and receive your feedback.

The scope of our work

Our observations are developed in the context of our audit of the financial statements.

We described the scope of our work in our audit plan and the supplementary "Briefing on audit matters" circulated to you with the planning report.

This report has been prepared for the Board, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose.



Deloitte LLP

Glasgow

6 September 2017

Appendices



Audit adjustments

Corrected misstatements

- No corrected misstatements have been identified from our audit work performed.

Uncorrected misstatements

- No uncorrected misstatements have been identified from our audit work performed.

Disclosure misstatements

- Auditing standards require us to highlight significant disclosure misstatements to enable audit committees to evaluate the impact of those matters on the financial statements. We have noted no material disclosure deficiencies in the course of our audit work.

A verbal update will be provided to the Board if anything arises from any outstanding work before financial statements are signed.

Fraud responsibilities and representations

Responsibilities explained



Responsibilities:

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.



Required representations:

We have asked the Board to confirm in writing that you have disclosed to us the results of your own assessment of the risk that the financial statements may be materially misstated as a result of fraud and that you are not aware of any fraud or suspected fraud that affects the entity.

We have also asked the Board to confirm in writing their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.



Audit work performed:

In our planning we identified the risk of fraud in revenue recognition and management override of controls as a key audit risk for your organisation.

During course of our audit, we have had discussions with management and those charged with governance.

In addition, we have reviewed management's own documented procedures regarding fraud and error in the financial statements

We have reviewed the paper prepared by management for the audit committee on the process for identifying, evaluating and managing the system of internal financial control.

Deloitte view:

From our year-end audit procedures and discussions with management we have noted no cause for concern around the fraud arrangements in place.



Independence and fees

As part of our obligations under International Standards on Auditing (UK and Ireland) we are required to report to you on the matters listed below:

Independence confirmation	We confirm that we comply with APB Ethical Standards for Auditors and that, in our professional judgement, we and, where applicable, all Deloitte network firms are independent and our objectivity is not compromised.
Fees	<p>The audit fee for 2016/17 is £7,578 as detailed in our Audit Plan.</p> <p>No non-audit fees have been charged by Deloitte in the period.</p>
Non-audit services	In our opinion there are no inconsistencies between APB Ethical Standards for Auditors and the company's policy for the supply of non-audit services or any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.
Relationships	<p>We are required to provide written details of all relationships (including the provision of non-audit services) between us and the organisation, its board and senior management and its affiliates, including all services provided by us and the DTTL network to the audited entity, its board and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on our objectivity and independence.</p> <p>We are not aware of any relationships which are required to be disclosed.</p>





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