



Orkney & Shetland Valuation Joint Board



Clerk to the Board: Jan-Robert Riise

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Date: 2 February 2018

Dear Sir/Madam

You are invited to the following meeting:

Orkney and Shetland Valuation Joint Board (By video conference)
Committee Room 1, Council Offices, Kirkwall and
Council Chamber, Town Hall, Lerwick
Friday 9 February 2018 at 10am

Apologies for absence should be notified to Louise Adamson at the above number, or by e-mail to louise.adamson@shetland.gov.uk

Yours faithfully

J R Riise
Clerk to the Board

AGENDA

- (a) Hold circular calling the meeting as read.
- (b) Apologies for absence, if any.
- (c) Confirm the minutes of the meetings held on (i) 3 October 2017 and (ii) 8 November 2017

Items:

1. Best Value Regime Progress Report
2. Orkney & Shetland Valuation Joint Board – Annual Audit Plan 2017/18
VF-001
3. Orkney & Shetland Valuation Joint Board – Projected Outturn as at Quarter 3
VF-002
4. Orkney & Shetland Valuation Joint Board – Proposed Budget 2018/19
VF-003
5. Meeting Dates for 2018/19
VGL-01



Orkney & Shetland Valuation Joint Board



Agenda Item

1

To: Orkney and Shetland Valuation Joint Board

9 February 2018

From: Assessor & Electoral Registration Officer

BEST VALUE REGIME - PROGRESS REPORT

1. PURPOSE OF REPORT

To present to the Board a six monthly Progress Report since the Board's meeting on 3 October 2017 as required by the Board's Best Value Regime.

2. BACKGROUND

In the Board's Best Value Submission provision was made that the Assessor and Electoral Registration Officer would produce six monthly Progress Reports for presentation to meetings of the Board.

3. INTRODUCTION

The statutory duties of the Assessor and Electoral Registration Officer is to prepare, maintain and publish the Valuation Roll; prepare, maintain and publish the Council Tax Valuation List and prepare, maintain and publish the Register of Electors. This report describes these 3 duties in more detail and also presents to the Board details of the main tasks completed in the last six months since the Board's full meeting on 3 October 2017.

4. ELECTORAL REGISTRATION SERVICE OVERVIEW AND PRIORITIES

4.1 Individual Electoral Registration (IER)

Individual Electoral Registration came into force on the 19 September 2014.

The first Register published under the new system was published on 27 February 2015. This Register, with subsequent updates, was used for the Local Government Council Election on 4 May 2017 and the UK Parliamentary General Election on 8 June 2017. The latest Orkney & Shetland revised Register of Electors were published on 1st December 2017.

To support the move to IER and assist those electors who receive new application forms, the Cabinet Office created an on-line registration system which is accessed through a government web site, www.gov.uk/register-to-vote. This is proving to be a considerable success with millions of applications having been received throughout the UK since IER went live.

In order to deal with the more complex time consuming IER process the Board agreed to employ two 0.5 FTE Admin Assistants, one in each office. Both posts were filled on 1 April 2015. At the Board meeting on 17 February 2017 it was agreed to extend these posts in tandem with Cabinet Office funding until the end of the projected Parliament, at that time, to 2020.

4.2 Cabinet Office Funding for IER & overall costs/income

The main Cabinet Office funding awarded in the current financial year 2017-2018 has been set at £45,790 (previously £38,597.84 in 2016-2017).

A further Justification Led Bid (JLB) was available if there was a shortfall in Cabinet Office funding and the identified extra costs of undertaking IER. However, after detailed analysis of identifiable cost associated to the IER process it was found that the original main Cabinet Office funding of £45,790 covered the extra costs, to within £180 of the estimated costs, of undertaking the new processes.

The Cabinet Office had given an assurance that it would meet the additional costs associated with IER until the end of the former Parliamentary term to 2020, allowing for efficiencies in the process where identified.

A summary of the costs associated with IER is shown below.

Summary Calculation of IER Cost Pressure 2017-2018 (Revised 06-12-2017)				
Two 0.5 FTE Staff				£ 30,058.00
Canvass Door to Door requirement under Section 9A (HEF)				£ 5,035.00
Rolling Door to Door ITR costs (ITR's)				£ 2,743.00
Increase in Postage Costs				£ 5,134.00
Increase in Printing Costs				£ 2,400.00
Contribution to IER National Publicity Campaigns				£ -
Increase in Stationary/In house Printing Costs				£ 600.00
Total Estimated Cost				£45,970.00
Cabinet Office IER Funding for 2017-2018				£45,790.00

4.3 Election Management Systems (EMS)

As reported at the Board meeting in October 2017 at that time six Electoral Registration Offices in Scotland, including Orkney and Shetland Valuation Joint Board, use the same Electoral Management System (EMS) and the general consensus held is that our current supplier does not provide the best package available on the market. The other ERO's were Highland & Western Isles VJB, Ayrshire VJB, Scottish Borders, Glasgow and Fife. Since October two ERO's have moved to a new EMS supplier leaving four ERO's remaining on our current EMS.

The EMS system is currently operating more efficiently than in previous years. This company has now acquired one of it's main competitors, giving it two systems in the same market. This situation is currently being monitored. As noted in previous reports, should the remaining ERO's using our current EMS

choose to migrate to the system now acquired by our existing supplier, we would be placed in a position of having to do likewise.

Electoral registration software requires a number of Scottish specific solutions to be built in to it. The most significant of these has been the registration of 14 and 15 year olds and our current supplier developed their system to accommodate this for the May 2016 Scottish Parliamentary Election. Software development costs are significant and if the Board was left in the position of being the only Scottish customer of a particular software provider it would place us in a very weak, if not impossible situation.

4.4 Annual Canvass under IER

The third annual canvass under IER commenced in August 2017 which required the issuing of a Household Enquiry Form (HEF) to each property within each local authority area. Each HEF requires to be returned even if there has been no change to household occupancy. A total of 23,276 HEF's were issued on 14 August 2017. A combined total of 8,236 first HEF reminders were issued on 13 September. The third phase of the process was the printing of a combined total of 4,109 second reminder HEF's which were used in tandem with our door-to-door canvasser visits, which is a requirement under Legislation.

Under the old style household canvass the above return of information would end the cycle if returned.

Under IER, if new electors appear on a returned HEF the potential elector will be issued with an Invitation To Register (ITR) which requires the elector to provide their national insurance number (NINO) and date of birth. Alternatively to a paper return they can go online to the government's website and make an online return providing their personal identifiers. Either way the elector's details will require to be verified via the Department of Works and Pensions (DWP) database. Only then will the elector's application be processed to the next stage by the ERO office.

If the verification fails the check with DWP records further evidence is requested from the applicant to verify their identity e.g. copy of passport etc.

The above process is more elaborate, time consuming and complicated for the elector and ERO staff along with the requirement, where a property has non-returned forms, to be individually visited annually during the canvass period and on an ongoing year round basis.

By law EROs have to issue a HEF plus two reminders and undertake a personal visit to each property where a canvass form remains unreturned. Employment of part time canvassers along with existing staff undertook this duty for the 2017 canvass between October and early December.

A further personal door-to-door visit is required to canvass all non-returned ITR's and this is underway by part time canvassers and existing staff during January and February 2018.

At the request of the Cabinet Office a number of pilot projects are being undertaken by selected ERO's throughout the UK to identify best practices and efficiency savings. Two ERO's in Scotland are part of the pilot projects. The findings of these pilot projects are not complete but it's expected any efficiencies will not be identified prior to the 2018 canvass cycle.

4.5 Absent Vote Signature Refresh

Every 5 years electors are required to submit refreshed signatures where an absent vote is in place (e.g. Postal Vote). This initial issue has been undertaken on the Scotland wide agreed timetable to be issued by 12th January 2018. This resulted in the issue of 130 letters in Shetland and 496 in Orkney. The Orkney figure is significantly higher as it reflects the outer Isles polling stations were removed in 2012. Where forms remain outstanding, all electors will receive a reminder and a further final removal letter with a new application form enclosed.

4.6 The main service priorities for - January 2018 - July 2018

- Issue and process Postal Vote signature refresh correspondence from the 496 and 130 sent out in Orkney and Shetland respectfully.
- Continue to process HEF & IER application forms whether that be paper forms, on line applications or IVR returns;
- Continue to canvass all electors where an outstanding HEF or ITR application is required through door-to-door visits;
- Monitor staff workloads and assess if there is sufficient staffing to carry out IER duties.
- As part of our Electoral Registration Public Awareness – Issue ITR forms to all individuals who can be identified as having changed address using Council Tax records, Council Housing Tenancy records and Housing Association records etc.
- All of the above Electoral Registration functions are to be undertaken within the guidance produced performance standards set by the Electoral Commission and within the Legislative timetables.

5. COUNCIL TAX

5.1 Council Tax - New Entries

As at 1 August 2017 there were 11,191 chargeable dwellings in Orkney and 11,174 in Shetland which has risen to 11,234 in Orkney and 11,226 in Shetland, as at 1 February 2018. These figures include the addition of 46 new dwellings in Orkney and 69 in Shetland over the 6 month period.

5.2 Council Tax - Proposals/Appeals

The numbers of Council Tax proposals/appeals remain at very low levels in Orkney and Shetland. Proposals to alter bands are dealt with as business as usual queries in the first instance and it is unusual that any proceed before the Valuation Appeal Committee. At 1 February there is 1 outstanding proposals in Orkney and 7 in Shetland.

5.3 Council Tax - Service Priorities February 2018 - July 2018

The main service priorities are affected by the current valuer shortage in the Shetland Office. The current service priorities are summarised as follows;

- Continue improvement on the time taken between completion of new dwellings and the insertion of the dwelling in the Council Tax List in accordance with performance targets;
- Continue improvement on the time taken between the sale of houses which have been altered and the date their Council Tax Band is changed;
- Continue to resolve proposals and appeals against Council Tax banding;
- The Assessor is currently making regular trips to the Shetland Office in order to manage the valuation functions and offer support and guidance to valuation and technical staff.

6. **NON DOMESTIC RATING**

6.1 Valuation Roll Statistics

As at 1 August 2017 there were 2,185 entries in the Orkney Valuation Roll with a Rateable Value of £28,776,085 and 2,082 in Shetland Valuation Roll with a Rateable Value of £60,930,795 which has been amended to 2,554 entries in Orkney with a Rateable Value of £28,985,035 and 2,372 in Shetland with a Rateable Value of £61,761,240 as at 1 February 2018.

6.2 2010 Revaluation Appeals

The number of 2010 Revaluation appeals outstanding at the Lands Tribunal amounts to 2 subjects for Shetland and none for Orkney. These represent telecommunication appeals which should be settled following a Lands Valuation Appeal Court decision which favoured the mobile phone companies.

6.3 2010 Running Roll Appeals

The number of outstanding running roll appeals stands at 1 for Shetland and 1 for Orkney. Both appeals will be required to be cited for hearing by the Appeal Committee by December 2018. All other running roll appeals have either been settled or have been referred to the Lands Tribunal.

6.4 2017 Revaluation

The 2017 Revaluation of all non-domestic subjects shown in the Valuation Roll was completed with values available for public inspection on the Scottish Assessors Portal website (www.saa.gov.uk) from 1st April 2017. Valuation Notices were issued to all proprietors, tenants and occupiers on 15th March 2017.

6.5 2017 Revaluation Appeals

Appeals against the new valuations were lodged between 1st April and 30th September 2017. The number of appeals lodged by 30th September was 181 in Orkney and 246 in Shetland. Valuation Appeal Committee Hearings are to be held on 13th February in Shetland and 27th February in Orkney with the hearings covering the appealed subjects of shops and offices within both areas. Further hearings later in 2018 will cover industrial subjects.

6.6 2017 Revaluation Running Roll Appeals

The number of running roll appeals received against the 2017 Valuation Roll stands at 9 for Orkney and 30 for Shetland. Most of the running roll appeal activity is the result of the implementation of The Land Reform (Scotland) Act 2016 where it re-introduced the valuation of shootings and deer forests into the Valuation Roll with effect from 1st April 2017. The number of running roll appeals which relate to shooting entries stands at 4 for Orkney and 27 for Shetland. These subjects had been exempt since 1st April 1995. Since exemption, no records had been held or information gathered by the Assessor relating to these subjects. However, since the above Act has been introduced it required the issue of a shooting rights form to all known land holders to enable analysis of rental information. Throughout Scotland Assessors issued over 25,000 shooting rights forms and locally over 1000 were issued in Shetland and up to 800 in Orkney. Due to the late laying of Act, the amount of time taken receiving and collating the information and the subsequent analysis and production of Scottish Assessors guidance no entries for shooting rights were made by 1st April 2017. However, entries were made by 30th September 2017 and resulted in 666 Valuation Roll entries in Orkney and Shetland, which represents 372 in Orkney and 294 in Shetland. This exercise increased the number of subjects in the Orkney & Shetland Valuation Rolls by over 16%. No additional funding from the Scottish Government has been available for the introduction of the above Act.

Many challenges will emerge from the 2017 Revaluation and this will consume considerable staff resources over the next two years along with normal business as usual workloads.

6.7 Barclay Review on Non-Domestic Rating

The Barclay review group was set up to make recommendations that seek to enhance and reform the business rates system in Scotland to better support business growth and long term investment and reflect changing marketplaces. The Barclay report was published on 22nd August 2017 and made 30 recommendations. These recommendations and the estimated implications on the Boards future budgets was the subject of a further report to the November 2017 meeting.

6.8 Non-Domestic Rating - Service Priorities February 2018 – July 2018

The current service priorities are summarised as follows: -

- Prepare any cases as may be required for the Valuation Appeal Committee scheduled hearings;
- Schedule and action the disposal of appeals resulting from the 2017 Revaluation and any 2010 and 2017 Running Roll appeals;
- Survey and value new property or alterations to existing properties to ensure that the Valuation Roll is as complete and accurate as possible;
- To upload all records to the Scottish Assessors Portal on a weekly basis;
- The Assessor is currently making regular trips to the Shetland office in order to support any valuation queries raised by valuation and technical staff;

7. GOVERNANCE

- 7.1 The General Data Protection Regulations (GDPR) come into force on 25th May 2018 and all the information held and processed by the Orkney & Shetland Valuation Joint Board will be required to comply with GDPR. With guidance from the Scottish Assessors Association Governance Committee, work is underway to make sure our procedures will comply along with investigating the required staff training and qualifications for the commencement of the above Regulations.

8. STAFFING

8.1 Current situation

The vacant Assistant Assessors post was re-advertised for the fourth time with a closing date of 31st May 2017. As agreed at the October 2017 meeting this post will be subject to an assessment as to whether market forces would apply and a report will follow. While staff resources and workload priority has been diverted to the 2017 Revaluation appeal hearing dates of 13th and 27th February it is hoped the report will be completed by end of March 2018.

From 11th August 2017 the Technician's post in the Orkney office has been filled on a temporary basis and has been extended for a further 6 months to 10th August 2018. It is expected the post will be advertised after this extended date.

9. FINANCIAL IMPLICATIONS

- 9.1 Any financial implications arising from 4.3 will be reported to the Board along with the implications from 6.7 when more information is available.

10. RECOMMENDATIONS

- 10.1 The Joint Board is requested to note the contents of this report and discuss any issues identified.

Dennis M Stevenson
Assessor and Electoral Registration Officer
29 January 2018



Orkney & Shetland Valuation Joint Board



Agenda Item

2

Meeting(s):	Orkney & Shetland Valuation Joint Board	9 February 2018
Report Title:	Annual Audit Plan 2017/18	
Reference Number:	V-001-F	
Author / Job Title:	Treasurer to the Board	

1.0	Decisions / Action required:
1.1	The Orkney & Shetland Valuation Joint Board ("the Board") is asked to NOTE the contents of the Audit Plan 2017/18 (Appendix 1) from external auditors, Deloitte LLP.
2.0	High Level Summary:
2.1	The Annual Audit Plan detailed at Appendix1 provides information on the work that external auditors will undertake to review and assess the governance and performance of the Orkney & Shetland Valuation Joint Board in 2017/18.
3.0	Corporate Priorities and Joint Working:
3.1	The audit process plays a key role in helping the Board to maintain good governance, accountability and provides assurance around financial stewardship.
4.0	Key Issues:
4.1	<p>The Annual Audit Plans present the planned audit work for the 2017/18 financial year by the Board's external auditors, Deloitte LLP, for the 2017/18 financial year; the second year of a five-year appointment. The core audit work includes:</p> <ul style="list-style-type: none"> • providing the Independent Auditor's Report on the annual accounts (and any assurance statement on whole of government accounts); • providing the annual report on the audit addressed to the Board and the Controller of Audit; • communicating audit plans to those charged with governance; • providing reports to management, as appropriate, in respect of the auditor's corporate governance responsibilities in the Code; • preparing and submitting fraud returns to Audit Scotland, where appropriate; • identifying significant matters arising from the audit, alert the Controller of Audit and support Audit Scotland in producing statutory reports as required; and • undertaking work requested by Audit Scotland or local performance audit work.
5.0	Exempt and/or confidential information:
5.1	None.

6.0 Implications :		
6.1 Service Users, Patients and Communities:	None arising from this report.	
6.2 Human Resources and Organisational Development:	None arising from this report.	
6.3 Equality, Diversity and Human Rights:	None arising from this report.	
6.4 Legal:	The Orkney & Shetland Valuation Joint Board is required to prepare accounts in accordance with the Local Government (Scotland) Act 1973 and the Code of Practice on Local Authority Accounting 2017/18.	
6.5 Finance:	The audit fee for 2017/18 is £7,387.	
6.6 Assets and Property:	None arising from this report.	
6.7 ICT and new technologies:	None arising from this report.	
6.8 Environmental:	None arising from this report.	
6.9 Risk Management:	The annual audit work is focused on identifying and assessing the key challenges and risks to the Orkney & Shetland Valuation Joint Board in order to mitigate future risk.	
6.10 Policy and Delegated Authority:	The Board has terms of reference to be consulted on the external audit strategy and plan, review reports from the Council's external advisors and review action on external audit recommendations.	
6.11 Previously considered by:	n/a	n/a

Contact Details:

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9 February 2018

Appendices:

Appendix 1 – Orkney & Shetland Valuation Joint Board Annual Audit Plan for 2017/18



Orkney & Shetland Valuation Joint Board

Planning report to the Board on the audit for the year ending 31 March 2018

9 February 2018

Deloitte Confidential: Public Sector

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Planning report



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.

We have pleasure in presenting our draft planning report to the Orkney and Shetland Valuation Joint Board ('the VJB') for the year ending 31 March 2018 audit. We would like to draw your attention to the key messages of this draft audit plan:

Audit Plan

We have updated our understanding of the VJB including discussion with management and review of relevant documentation as well as Audit Scotland performance reports published during the year.

Based on these procedures, we have developed this plan in collaboration with the VJB to ensure that we provide an effective audit service that meets your expectations and focuses on the most significant areas of importance and risk to the VJB.

Key Risks

We have taken an initial view as to the significant audit risks the VJB faces. These are presented as a summary dashboard on page 13.

- As with all public sector bodies, the VJB continues to face significant financial challenges and without sufficient funding the delivery of priorities would be impeded.

- The VJB approved the budget strategy for 2017/18 on the 17 of February 2017. In agreeing to this, the VJB proposed a review to be carried out to ensure that there is sufficient resources to deliver the duties of the VJB and Best Value is being achieved by the VJB on behalf of the constituent authorities in delivering valuation and Individual Electoral Registration (IER) services. The achievement of a breakeven position will be a key focus of our audit.
- In accordance with auditing standards, we have identified a significant risk associated with income. This risk is pinpointed to the occurrence of the income received from Orkney and Shetland Councils given the reliance of the VJB on this income and the potential that funding partners may not provide additional income to cover overspends.
- In accordance with auditing standards, management override of controls has also been identified as a significant audit risk.

Director introduction (continued)

The key messages in this report (continued):

Audit Dimensions

The 2016 Code of Audit Practice sets our four audit dimensions which set a common framework for all public sector audits in Scotland. These are financial sustainability, financial management, governance and transparency and value for money. Due to the relative size and scale of the functions delivered by the VJB, we have concluded that the full wider scope of audit is not appropriate. In accordance with paragraph 53 of the Code, our work in this area will therefore be restricted to concluding on:

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

The potential audit risks associated with the wider scope, below, are detailed further in page 16.

- The governance statement is not consistent with the wider disclosure of the accounts or compliant with the CIPFA guidance note;
- A lack of forward financial planning, leading to VJB's projects being delayed or cancelled;
- Insufficient review of savings plans could impact on achievement of its corporate priorities.

Other wider scope work

In accordance with Audit Scotland guidance, we will be requested to provide information to support national performance audits on 'Digital – cross cutting'.

Regulatory Change

There are limited changes this year affecting the audit, through the Code of practice on local authority accounting or statutory guidance.

We would highlight that new accounting standards on financial instruments will apply from 2018/19 and it is important that the VJB considers their impact ahead of implementation. See page 23 for more details.

Our Commitment to Quality

We are committed to providing the highest quality audit, with input from our market leading specialists, sophisticated data analytics and our wealth of experience.

Adding value

Our aim is to add value to the VJB through our external audit work by being constructive and forward looking, by identifying areas of improvement and by recommending and encouraging good practice. In this way, we aim to help the VJB promote improved standards of governance, better management and decision making and more effective use of resources.

Pat Kenny
Audit Director

Responsibilities of the VJB

Helping you fulfil your responsibilities

The primary purpose of the Auditor's interaction with the VJB:

- Clearly communicate the planned scope of the financial statements audit
- Provide timely observations arising from the audit that are significant and relevant to the VJB's responsibility to oversee the financial reporting process
- In addition, we seek to provide the VJB with additional information to help fulfil your 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 VJB responsibility to provide a reference in respect of these broader responsibilities and highlight throughout the document where there is key information which helps the VJB in fulfilling its remit.

- At the start of each annual audit cycle, ensure that the scope of the external audit is appropriate.

- Implement a policy on use of the external auditor for non-audit services and approve if arise.

Oversight of external audit

Integrity of reporting

- Make an impact assessment of key judgements and the level of management challenge.
- Review the external audit findings, key judgements and level of misstatements.
- Assess the quality and capacity of the internal team and their incentives.
- Assess the completeness of disclosures, including consistency with disclosures on business model and strategy and, where requested by the VJB, provide advice in respect of the fair, balanced and understandable statement.

- Review the internal control and risk management systems.

- Explain what actions have been, or are being taken to remedy any significant failings or weaknesses.

-Oversee the work of the VJB's local counter fraud service.

Internal controls and risks

Oversight of internal audit

Whistle-blowing and fraud

- Ensure that appropriate arrangements are in place for the proportionate and independent investigation of any concerns that are raised by staff in connection with improprieties.

- Consider annually whether the scope of the internal audit programme is adequate.
- Monitor and review the effectiveness of the internal audit activities.

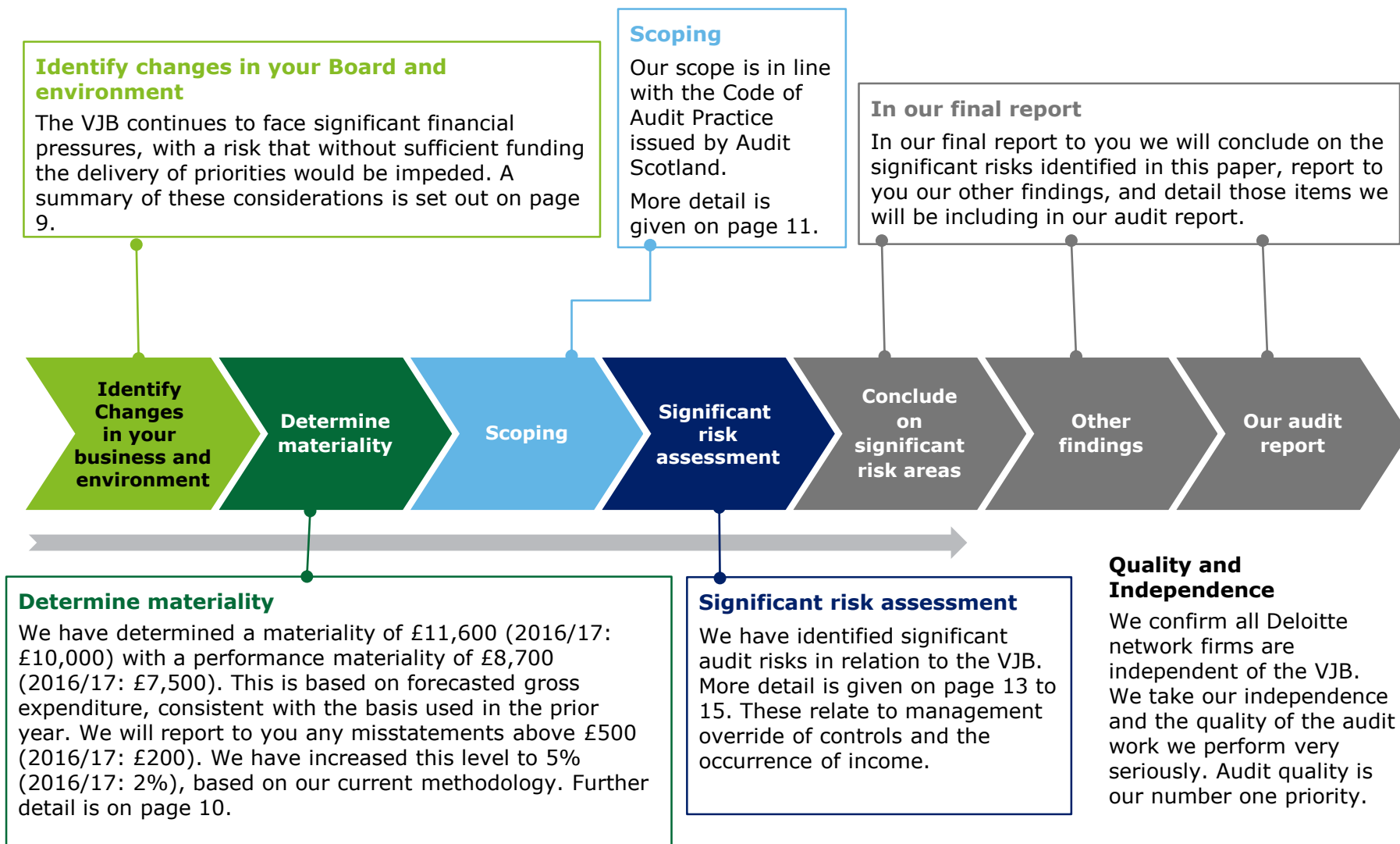


Target icons throughout the document highlights key information which should be a focus of interest for the VJB.



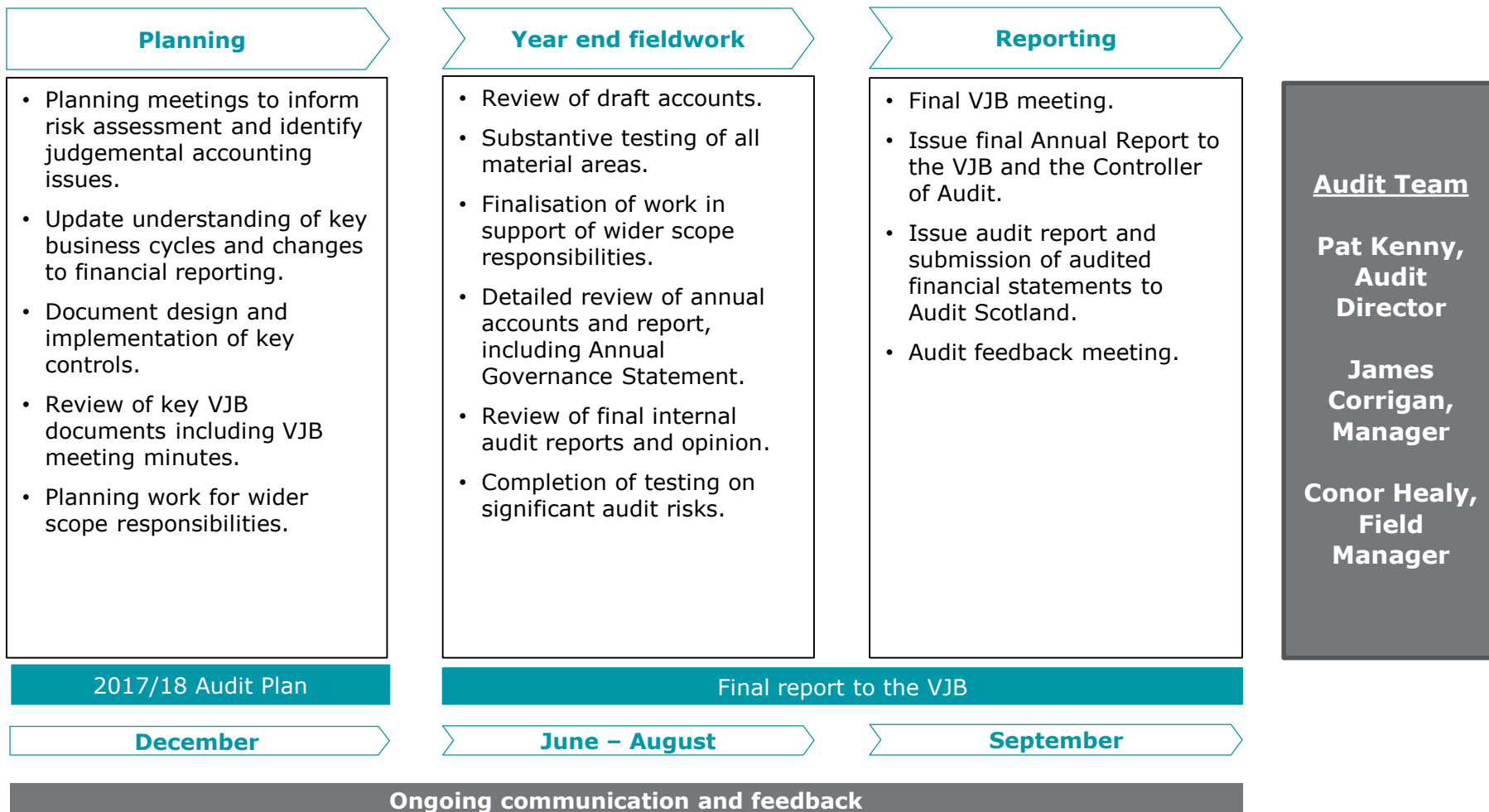
Our audit explained

We tailor our audit to the VJB and your strategy



Continuous communication and reporting

Planned timing of the audit



An audit tailored to you

Focusing on your business and strategy

Description

Impact on our audit

Future financial sustainability



As with all public sector bodies, the VJB continues to face significant financial challenges. Deloitte have noted that as at 30 September 2017, the VJB is forecasting a slight budget underspend (£11.4k) and expects to be able to meet its responsibilities within budget in the current year. As part of our prior year audit work, no funding gaps were identified in the medium term. This position will be reviewed again during the year-end audit.

The VJB must continue to look at how it can reduce costs to meet the challenge of making savings per year or secure additional longer term funding. We will consider the VJB's financial sustainability in the medium to longer term and consider whether it is planning effectively to continue to deliver its services on a sustainable basis.



New significant risk



Continuing significant risk



Considered as part of wider scope audit requirements

Materiality

Our approach to materiality

Basis of our materiality benchmark

- The Audit Director has determined materiality as £11,600 (2016/17: £10,000) and a performance materiality of £8,700 (2016/17: £7,500), based on professional judgement and risk factors specific to the VJB, the requirement of auditing standards and the financial measures most relevant to users of the financial statements.
- We have used 1.6% of forecasted gross expenditure as the benchmark for determining materiality.
- This approach is consistent with our prior year materiality calculation.

Reporting to those charged with governance

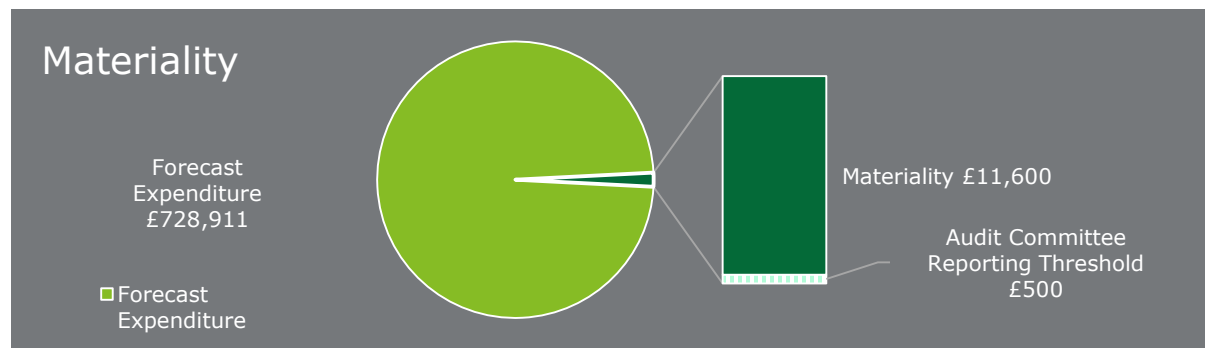
- We will report to you all misstatements found in excess of £500 (2016/17: £200).
- We have increased this level to 5% (2016/17: 2%) of materiality based on our current methodology.

- We will report to you misstatements below this threshold if we consider them to be material by nature.
- Our approach to determining the materiality benchmark is consistent with Audit Scotland guidance which states that the threshold for clearly trivial above which we should accumulate misstatements for reporting and correction to audit committees must not exceed £250k.

Our annual audit report

We will:

- Report the materiality benchmark applied in the audit of the VJB;
- Provide comparative data and explain any changes in materiality, compared to prior year, if appropriate; and
- Explain any normalised or adjusted benchmarks we use, if appropriate.



Although materiality is the judgement of the audit director, the VJB must satisfy themselves that the level of materiality chosen is appropriate for the scope of the audit.



Scope of work and approach

Our key areas of responsibility under the Code of Audit Practice

Core audit

Our core audit work as defined by Audit Scotland comprises:

- Providing the **Independent Auditor's Report** on the annual accounts (and any assurance statement on consolidation packs);
- Providing the **annual report** on the audit addressed to the VJB and the Controller of Audit ;
- Communicating **audit plans** to those charged with governance;
- Providing **reports to management**, as appropriate, in respect of the auditor's corporate governance responsibilities in the Code;
- Preparing and submitting **fraud returns**, including nil returns, to Audit Scotland where appropriate;
- Identifying significant matters arising from the audit, alert the Controller of Audit and support Audit Scotland in producing statutory reports as required; and
- Undertaking work requested by Audit Scotland or local performance audit work.

Wider scope requirements

The Code of Audit Practice sets out four audit dimensions which set a common framework for all public sector audits in Scotland:

- **Financial sustainability** – Looking forward to the medium and longer term to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.
- **Financial management** – Financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.
- **Governance and transparency** – The effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.
- **Value for money** - Using resources effectively and continually improving services.

Due to the relative size and scale of the functions delivered by the VJB, we have concluded that the full wider scope of audit is not appropriate. In accordance with paragraph 53 of the Code, our work in this area will therefore be restricted to concluding on:

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

Scope of work and approach (continued)

Our approach

Liaison with internal audit

The Auditing Standards Board's version of ISA (UK) 610 "Using the work of internal auditors" prohibits use of internal audit to provide "direct assistance" to the audit. Our approach to the use of the work of Internal Audit has been designed to be compatible with these requirements.

The VJB uses the corporate financial systems of Shetland Islands Council as well as the Council's internal audit function. We will review their reports and meet with them to discuss their work. We will discuss the work plan for internal audit, and where they have identified specific material deficiencies in the control environment we consider adjusting our testing so that the audit risk is covered by our work.

Using these discussions to inform our risk assessment, we can work together with internal audit to develop an approach that avoids inefficiencies and overlaps, therefore avoiding any unnecessary duplication of audit requirements on the VJB and the Council's staff.

Approach to controls testing

Our risk assessment procedures will include obtaining an understanding of controls considered to be 'relevant to the audit'. This involves evaluating the design of the controls and determining whether they have been implemented ("D&I").

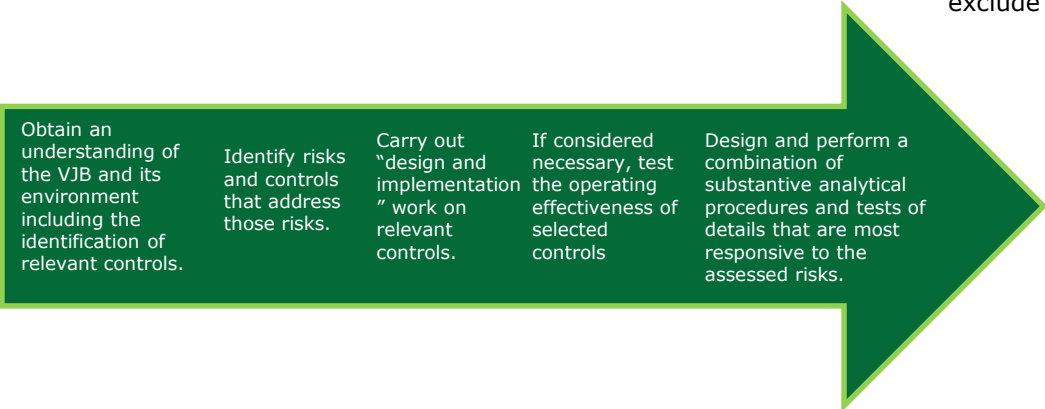
The results of our work in obtaining an understanding of controls and any subsequent testing of the operational effectiveness of controls will be collated and the impact on the extent of substantive audit testing required will be considered.

Promoting high quality reporting to stakeholders

We view the audit role as going beyond reactively checking compliance with requirements: we seek to provide advice on evolving good practice to promote high quality reporting.

We will utilise the Code of Practice on Local Authority Accounting in the UK Disclosure Checklist to support the VJB in preparing high quality drafts of the Annual Report and financial statements, which we would recommend the VJB complete during drafting.

The Disclosure Checklist reflects the cutting clutter agenda and includes a "not material" column. We would encourage the VJB to exclude disclosure if the information is not material.



Obtain an understanding of the VJB and its environment including the identification of relevant controls.	Identify risks and controls that address those risks.	Carry out "design and implementation" work on relevant controls.	If considered necessary, test the operating effectiveness of selected controls	Design and perform a combination of substantive analytical procedures and tests of details that are most responsive to the assessed risks.
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Significant risks Dashboard



Risk	Material	Fraud risk	Planned approach to controls testing	Level of management judgement	Page no.
Occurrence of income			Design and implementation		14
Management override of controls			Design and implementation		15



Some degree of management judgement



Limited management judgement

Significant risks (continued)

Risk 1 – Occurrence of income

Risk identified	<p>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 income recognition, evaluate which types of income, income transactions or assertions give rise to such risks.</p> <p>The main components of income for the VJB are requisitions received from the Orkney Islands Council ('OIC') and Shetland Islands Council ('SIC'). The significant risk is pinpointed to the recognition of requisition income, being occurrence of income received from the Councils given the reliance of the VJB on this income and the potential that funding partners may not provide additional income to cover overspends.</p>
Our response	<p>We will perform the following:</p> <ul style="list-style-type: none">• Test the requisition income to ensure that the correct amounts have been input and received in accordance with that agreed as part of budget process;• test the reconciliations performed by the VJB at 31 March 2018 to confirm all income is correctly recorded in the ledger;• compare income recorded with expectations, based on amounts agreed as part of budget process;• confirm that the reconciliations performed during 2017/18 have been reviewed on a regular basis; and• assess management's controls around recognition of requisition income.
Deloitte Comment	<p>No issues were identified with regards to income in the prior year audit. We have completed our design & implementation work for the current year audit and have not identified any issues. No issues have been noted with regards to treatment of income at the planning stage of the audit.</p>

Significant risks (continued)

Risk 2 – Management override of controls

We will use computer assisted audit techniques to support our work on the risk of management override

Risk identified	<p>In accordance with ISA 240 (UK and Ireland) management override is a significant risk. This risk area includes the potential for management to use their judgement to influence the financial statements as well as the potential to override the VJB's controls for specific transactions.</p> <p>The key judgments in the financial statements are those which we have selected to be the significant audit risk around income recognition. This is inherently the areas in which management has the potential to use their judgment to influence the financial statements.</p>
Planned audit challenge	<p>In considering the risk of management override, we plan to perform the following audit procedures that directly address this risk:</p> <ul style="list-style-type: none">• We will test journals, using our data analytics tool, to focus our testing on higher risk journals;• we will review accounting estimates for bias that could result in material misstatements due to fraud;• we will obtain an understanding of the business rationale of significant transactions that we become aware of that are outside of the normal course of business for the entity, or that otherwise appear to be unusual, given our understanding of the entity and its environment.
Deloitte Comment	<p>We did not identify in our prior year audit work any transactions which appeared unusual or outside the normal course of business. We have completed design & implementation work in this area and have not identified any issues.</p>

Wider scope requirements

Audit dimensions

The Code of Audit Practice sets our four audit dimensions which set a common framework for all public sector audits in Scotland. These are financial sustainability, financial management, governance and transparency and value for money. Due to the relative size and scale of the functions delivered by the VJB, we have concluded that the full wider scope of audit is not appropriate. In accordance with paragraph 53 of the Code, our work in this area will therefore be restricted to concluding following:

Audit dimension	Areas to be considered	Impact on the 2017/18 Audit
The appropriateness of the disclosures in the governance statement .	<ul style="list-style-type: none">The completeness of the disclosures in meeting the requirements of the new guidance note issued by CIPFA <i>Delivering good governance in local government: framework 2016</i>.Inconsistencies between the disclosures or information that is materially incorrect and audit knowledge.	<p>We will review the draft governance statement and assess whether there are any inconsistencies or omissions based on other audit evidence obtained throughout the audit. We did not note any issues from our work performed in the 2016/17 audit.</p> <p>Audit Risk: The governance statement is not consistent with the wider disclosure of the accounts or compliant with the CIPFA guidance note.</p>
Financial sustainability looks forward to the medium and longer term to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.	<ul style="list-style-type: none">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.	<p>We will monitor the VJB's actions in respect of its short, medium and longer term financial plans, including progress towards outcome based planning/budgeting. In 2016/17 we noted that the VJB's long term financial planning was kept high level due to the risk being with the SIC and OIC. We are monitoring the VJB's response to this and will continue to do so as part of the 17/18 audit.</p> <p>Audit Risk: A lack of forward financial planning, leading to VJB's projects being delayed or cancelled.</p> <p>We will monitor the VJB's savings plans to assess whether the impact has been fully identified, mitigated and planned for.</p> <p>Audit Risk: Insufficient review of savings plans could impact on achievement of its corporate priorities.</p>

Wider scope requirements (continued)

Specific risks

As part of the 2017/18 planning guidance, Audit Scotland have identified the following areas as significant risks faced by the public sector. While we have not identified any specific risks in relation to these areas for the VJB, we will continue to monitor these areas as part of our audit work.

Risk	
EU withdrawal	<p>There remains significant uncertainty about the detailed implications of EU withdrawal. Nonetheless, given the potential timetables involved, it is critical public sector bodies are working to understand, assess and prepare for the impact on their business. Key aspects of this are likely to include three broad areas:</p> <ul style="list-style-type: none">- Workforce- Funding- Regulation
New Financial Powers	<p>The provisions of the 2012 and 2016 Scotland Acts and the accompanying Fiscal Framework agreement are leading to fundamental changes to the Scottish public finances. New tax raising, borrowing and social security powers provide the Scottish Parliament with more policy choice, but also mean the Scottish budget is subject to greater volatility, uncertainty and complexity. There is also a stronger link between the performance of the Scottish economy (relative to the rest of the UK) and available funding.</p> <p>The changes are likely to impact across public sector bodies to varying degrees, both directly (for example where an organisation's activities include additional responsibilities as a result of the new powers) and indirectly (for example as a result of potential changes to the way the Scottish Government manages its overall budget).</p>

Wider scope requirements (continued)

Specific risks (continued)

Risk	
Ending of public sector pay cap	<p>Pay increases in the public sector have been frozen and then capped at 1% for seven years. Politicians in both Westminster and Holyrood are talking about ending the public sector pay cap.</p> <p>When introducing the Programme for Government 2017-18, the First Minister confirmed that the Scottish Government will lift the 1% public sector pay cap.</p> <p>All public bodies need to consider the potential impact of the ending the pay cap as they prepare their budgets and consider their financial sustainability.</p>
Response to cyber security risks	<p>Audit Scotland will issue further guidance in relation to this risk, setting out the risk context for public bodies, the new cyber resilience requirements being introduced by the Scottish Government and questions that auditors can pose to bodies to understand the risk and mitigating action in a local context. We will share this with management when this is available.</p>
Openness and transparency	<p>There are signals of changing and more challenging expectations for openness and transparency in public business. In view of this direction of travel, Audit Scotland noted that 2016/17 annual audit reports highlighted the need for public bodies to keep this area under review and to consider whether there is scope to enhance transparency.</p>

Wider scope requirements (continued)

Performance audits

Performance Audit	
In accordance with Audit Scotland planning guidance, we will be requested to provide information to support performance audits on the following subjects during the year:	
Performance audit title	Appointed auditor input
Digital – cross cutting	No formal return. Audit Scotland will provide information and guidance on current issues and risks to consider as part of planning process.

Audit Quality

Our commitment to audit quality



Our objective is to deliver a distinctive, quality audit to you. Every member of the engagement team will contribute, to achieve the highest standard of professional excellence.

In particular, for your audit, we consider that the following steps will contribute to the overall quality:

We will apply professional scepticism on material issues and significant judgements identified, by using our expertise in the central government sector and elsewhere to provide robust challenge to management.

We have obtained a deep understanding of your business, its environment and of your processes in income recognition and expenditure enabling us to develop a risk-focused approach tailored to the VJB.

Our engagement team is selected to ensure that we have the right subject matter expertise and industry knowledge. We will involve specialists to support the audit team in our work.

In order to deliver a quality audit to you, each member of the core audit team has received tailored learning to develop their expertise in audit skills, delivered by Pat Kenny, Audit Director. This is a Director led programme encouraging teams from across our practice to engage and discuss current sector and audit issues, sharing best practice and expertise. This is in addition to a practice wide local government training day held prior to the end of the financial year to share key issues from across the country, to update on regulatory changes and provide early warning of issues other teams may have faced at the interim testing phase.



Engagement Quality Control Review

We have developed a tailored Engagement Quality Control approach. Our dedicated Professional Standards Review (PSR) function will provide a 'hot' review before any audit or other opinion is signed. PSR is operationally independent of the audit team, and supports our high standards of professional scepticism and audit quality by providing a rigorous independent challenge.

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 establish our respective responsibilities in relation to the financial statements audit, to agree our audit plan and to take the opportunity to ask you questions at the planning stage of our audit. Our report includes:

- Our audit plan, including key audit judgements and the planned scope;
- Key regulatory and corporate governance updates, relevant to you.

What we don't report

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

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

Other relevant communications

We will update you if there are any significant changes to the audit plan.

This report has been prepared for the VJB, 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. Except where required by law or regulation, it should not be made available to any other parties without our prior written consent.

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



Pat Kenny, CPFA

for and on behalf of Deloitte LLP

Glasgow

23 January 2018

Technical update

Information on sector developments



IFRS 9 *Financial Instruments*

In a nutshell

- In July 2014, the IASB published a final version of IFRS 9. This version supersedes all previous versions.
- IFRS 9 *Financial Instruments* will replace IAS 39 *Financial Instruments: Recognition and Measurement*, and has three main impacts
 - *Classification and measurement* - introduces new approach for the classification of financial assets driven by cash flow characteristics and the business model in which an asset is held. This classification determines how financial assets are accounted for in financial statements and, in particular, how they are measured on an ongoing basis.
 - *Amortised cost and impairment of financial assets* – introduces an “expected losses” impairment model where entities are required to account for expected credit losses from when financial instruments are first recognised.
 - *Hedge accounting* - introduces new general hedge accounting model that aligns the accounting treatment with risk management activities and allows for better reflection of the hedging activities in the financial statements.
- The key practical change in IFRS 9 for most bodies is the introduction of a new approach to recognising impairments of debtors and other financial instruments.
- CIPFA/ LASAAC has advised that representatives from central and devolved governments, including the Scottish Government, have confirmed that they would be willing to consider representations from local authorities for a statutory mitigation.

Potential impact on the VJB

IFRS 9 is expected to have relatively limited impact on most local government bodies, but will at least affect the process of assessing impairment of debtors and other financial assets. As part of the process of adoption, the VJB will need to consider the impact on policies, processes, systems and people.

Effective date

The Standard has a mandatory effective date for annual periods beginning on or after 1 January 2018, with earlier application permitted. CIPFA/ LASAAC has confirmed that it has approved the full adoption of IFRS9 into the accounting code and therefore will apply to local authority annual accounts from 2018/19.



Find out more on our
website UK Accounting
Plus
<https://www2.deloitte.com/uk/en/pages/audit/articles/uk-accounting-plus.html>

General Data Protection Regulation

The EU GDPR will come into effect from 25 May 2018, and will effectively supercede the existing Data Protection Act.

Issue

The EU General Data Protection Regulation ("GDPR") will come into effect in 2018, replacing the Directive that formed the basis for the Data Protection Act. The GDPR is expected to remain in effect for the foreseeable future, notwithstanding Brexit.

The key new concept is of "accountability" – being able to **demonstrate** compliance, with specific actions required with an evidence trail.

- Data Protection Impact Assessments are required for high risk processing of data, and there are specific requirements for transparency and fair processing of data. There are tighter rules where consent is the basis for processing data.
- There are requirements to keep records of data processing activities, with the removal of most charges for providing copies of records to patients or staff who request them.
- Penalties for breaches of the regulation are significantly higher than existing arrangements (up to €10m for data breaches and up to €20m for breaches of the principles), and apply to any breach of the regulation, not just data breaches.
- All public authorities are required to appoint a suitably qualified and experienced Data Protection Officer.
- There is a legal requirement to notify security breaches to the Information Commissioner within 72 hours.

Getting ready to comply with the GDPR can start with reducing the risk of the data breaches – and reducing that risk doesn't need to be complicated. The biggest causes of data breaches can be avoided by making sure the basics are in place: keep all operating systems and software up to date, implement encryption for sensitive data, and educate all employees about the risk of phishing and other social engineering attacks.

Your organisation might also consider the [Cyber Essentials scheme](#) and the [10 Steps to Cyber Security](#), both developed by Government to ensure any organisation can protect themselves from common cyber-attacks.

The Information Commissioner's Office has also developed a useful [12 step guide](#) to help organisations consider their current data protection activities and what needs to be done to comply with the new regulations. They will be developing guidance over the coming months so keep an eye on [their website](#) for more information.

Deloitte View

Privacy as a concept is broad and far-reaching. The GDPR impacts many areas of an organisation, and is not just a legal/compliance issue. The GDPR brings specific rights to the public, including the "right to be forgotten" and data portability.

The emphasis on organisational accountability will require proactive, robust privacy governance. A key challenge is the need to identify a suitably qualified Data Protection Officer, with an estimated need for 28,000 DPOs across Europe.

The requirements will change how information technologies are designed and managed, with a requirement for documented privacy risk assessments when implementing major new systems, with "Privacy by Design" now enshrined in law.

The requirement to notify security breaches within 72 hours will require new or enhanced incident response procedures.

Teams tasked with information management will need to provide clearer oversight on data storage, journeys and lineage. Greater clarity on what data is collected and where it is stored will make it easier to comply with the new data subject rights.

Next steps

The VJB should consider how it is obtaining assurance over the adequacy of the VJB's action plans to ensure compliance with the GDPR.

Appendices



Prior year audit adjustments

Uncorrected and disclosure misstatements

Uncorrected misstatements

There were no uncorrected misstatements identified during the course of our prior year audit

Disclosure misstatements

There were no uncorrected disclosure misstatements identified during the course of our prior year audit

Fraud responsibilities and representations

Responsibilities explained



Your 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.



Our responsibilities:

- We are required to obtain representations from your management regarding internal controls, assessment of risk and any known or suspected fraud or misstatement.
- 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.
- As set out in the significant risks section of this document, we have identified the risk of fraud in revenue recognition, the accuracy of accrued income, and management override of controls as a key audit risk for your organisation.



Fraud Characteristics:

- Misstatements in the financial statements can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the financial statements is intentional or unintentional.
- Two types of intentional misstatements are relevant to us as auditors – misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets.

We will request the following to be stated in the representation letter signed on behalf of the VJB:

- We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error.
- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- We are not aware of any fraud or suspected fraud that affects the entity or group and involves:
 - (i) management;
 - (ii) employees who have significant roles in internal control; or
 - (iii) others where the fraud could have a material effect on the financial statements.
- We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.



Fraud responsibilities and representations

Inquiries

We will make the following inquiries regarding fraud:



Management:

- Management's assessment of the risk that the financial statements may be materially misstated due to fraud, including the nature, extent and frequency of such assessments.
- Management's process for identifying and responding to the risks of fraud in the entity.
- Management's communication, if any, to those charged with governance regarding its processes for identifying and responding to the risks of fraud in the entity.
- Management's communication, if any, to employees regarding its views on business practices and ethical behaviour.
- Whether management has knowledge of any actual, suspected or alleged fraud affecting the entity.



Internal audit and Local Counter Fraud Specialist

- Whether internal audit and the VJB's local counter fraud specialist has knowledge of any actual, suspected or alleged fraud affecting the entity, and to obtain its views about the risks of fraud.



Those charged with governance

- How those charged with governance exercise oversight of management's processes for identifying and responding to the risks of fraud in the entity and the internal control that management has established to mitigate these risks.
- Whether those charged with governance have knowledge of any actual, suspected or alleged fraud affecting the entity.
- The views of those charged with governance on the most significant fraud risk factors affecting the entity.

Independence and fees



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

Independence confirmation

We confirm the audit engagement team, and others in the firm as appropriate, Deloitte LLP and, where applicable, all Deloitte network firms are independent of the VJB and will reconfirm our independence and objectivity to the VJB for the year ending 31 March 2018 in our final report to the VJB.

Fees

The audit fee for 2017/18, in line with the fee range provided by Audit Scotland, is £7,387 as analysed below.

	2017/18 £
Auditor remuneration	6,447
<i>Audit Scotland fixed charges:</i>	
Pooled costs	550
Audit support costs	390
Total Fee	7,387

Details of any non-audit fees for the period will be presented in our final report.

Non-audit services

We continue to review our independence and ensure that appropriate safeguards are in place in relation to any non-audit services provided 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

We have no other relationships with the VJB, its directors, senior managers and affiliates, and have not supplied any services to other known connected parties.

Our approach to quality

AQR team report and findings



We maintain a relentless focus on quality and our quality control procedures and continue to invest in and enhance our overall firm Audit Quality Monitoring and Measuring programme.

In June 2017 the Financial Reporting Council ("FRC") issued individual reports on each of the six largest firms, including Deloitte, on Audit Quality Inspections which provides a summary of the findings of its Audit Quality Review ("AQR") team for the 2016/17 cycle of reviews.

The review performed by the AQR forms an important part of our overall inspection process. We perform causal factor analysis on each significant finding arising from both our own internal quality review and those of our regulators to identify the underlying cause. This provides insight which drives the developments in our quality agenda.

18 of the audits reviewed by the AQR were performed to a good standard with limited improvements required. We were disappointed that, despite the high standards we set and many areas of improvement in our quality record, the percentage of audits rated as requiring more than limited improvements has remained broadly similar to the previous year and that two reviews were identified as requiring significant improvement.

We have taken swift and decisive action to respond to the matters identified and will continue to monitor the implementation of these. We are firmly committed to achieving, and indeed exceeding, the FRC's objective that by 2019 90% of FTSE 350 audits reviewed will be assessed as requiring no more than limited improvements.

All the AQR public reports are available on its website.

The AQR's 2016/17 Audit Quality Inspection Report on Deloitte LLP

"We reviewed selected aspects of 23 individual audits in 2016/17. In selecting which aspects of an audit to inspect, we took account of those areas identified to be of higher risk by the auditors and Audit Committees, our knowledge and experience of audits of similar entities and the significance of an area in the context of the audited financial statements. The communications with the Audit Committee and the audit of revenue were reviewed on nearly all of these audits..."

"The firm has taken the actions they committed to take following our last inspection. Some of the issues driving more adverse quality assessments this year are in similar areas to those reported last year, although some audits reviewed were undertaken before these actions had been carried out. Our main concern continues to be the adequacy of audit teams' challenge of management in key areas of judgment (particularly goodwill impairment) and further immediate action is required to improve audit quality in this area.

The firm has enhanced its policies and procedures in the following areas:

- Strengthened the evidence of the Engagement Quality Control Review ("EQCR") partner and audit technical reviewer involvement.
- Updated Deloitte's audit methodology to include additional focus on risk assessment and the related audit response (effective from 31 December 2016 year-end audits).
- Introduced more focused coaching for audit teams throughout the audit process.
- Issued more timely and focused guidance and reminders to the audit practice on key audit matters, to facilitate appropriate consideration by audit teams at the key stages of the audit.
- Increased mandatory technical training for qualified staff through to partner level

Our key findings in the current year requiring action by the firm, which are elaborated further in section 2 together with the firm's actions to address them, are that the firm should:

- Improve the extent of challenge of management in key areas of judgment, in particular impairment reviews and valuation of acquired intangible assets.
- Strengthen the firm's audit of revenue recognition.
- Make further improvements to the audit of defined benefit pension scheme balances in corporate entities.
- Continue to seek to improve the consistency of the quality of communications with Audit Committees."

Our approach to quality

Areas identified for particular attention	How we have addressed these as a firm	How addressed in our audit
Strengthen the firm's audit of income recognition.	<p>A key theme of the enhancements to our methodology in 2016, (deployed after these engagements reviewed by the AQR were complete), was to enhance our risk assessment procedures and, as a result, encourage our auditors to develop more robust responses to the largest most critical account balances, with a natural focus on revenue.</p> <p>This included the removal of capped sample sizes for very large balances and facilitation of a combination of test of details and substantive analytical procedures to enable more comprehensive audit responses to be designed.</p> <p>This theme has continued in 2017 when our Summer Technical Training showcased our investment in analytic tools applied to the audit of revenue, as well as training on the accounting and auditing of revenue as we prepare to audit the implementation of the new revenue standard IFRS 15 'Revenue from Contracts with Customers' which is effective for periods beginning on or after 1 January 2018.</p>	This is a significant audit risk and is addressed in page 14 of this paper.
Continue to seek to improve the consistency of the quality of communications with Audit Committees.	<p>We take our responsibilities for reporting to the Audit Committee very seriously. There is a natural follow on that if there is a failure in the underlying audit work we will inevitably fall short in our reporting on those areas. The majority of issues noted in the report linked directly to the review findings.</p> <p>We continue to stress the critical importance of reporting matters to the Audit Committee in the training we deliver and in the enhanced procedures we have established, in particular around key management estimates and judgments. We have issued refreshed Audit Committee reporting templates to the practice reflecting the observations of the reviews to ensure audit practitioners continue to focus on this critical aspect of our role.</p>	<p>We have reported to you in page 11 and 12 of this paper the scope of work and the planned approach to the audit.</p> <p>We would welcome any feedback on our approach to communicating with you.</p>



Our approach to quality

Areas identified for particular attention	How we have addressed these as a firm	How addressed in our audit
Improve the extent of challenge of management in key areas of judgment, in particular impairment reviews and valuation of acquired intangible assets.	<p>We have developed an Impairment Centre of Excellence and have mandated its involvement in all public interest entity audits with a material goodwill or intangibles balance for years ending on or after 15 December 2016. The specialists within the Impairment Centre of Excellence, in addition to having significant experience auditing complex impairment issues, have had specialist training to be able to identify and respond to the issues raised in the AQR report.</p> <p>Our Summer Technical Training in 2017 included interactive workshops on this area including sharing anonymised findings from internal and external review to illustrate the types of challenge and extent of audit evidence that teams should seek to achieve in this area.</p>	The VJB does not have a goodwill balance or a material intangible asset balance, and so this is not applicable for the VJB's audit.
Make further improvements to the audit of defined benefit pension scheme balances in corporate entities.	<p>We have improved our procedures to ensure confirmations are obtained from asset custodians where appropriate. In December 2015 we introduced a detailed practice aid dedicated to all areas of corporate pension balance auditing together with increased training.</p> <p>We have also mandated consultation with our Pension Audit Centre of Excellence for years ending on or after 15 December 2016 and refreshed the practice aid. This ensures our audit teams have access to our experts in the audit of pension balances.</p>	The VJB is a member of the Shetland Islands Council Pension Fund. We will consult with our Pension Audit Centre of Excellence in advance of our year-end work.





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Orkney and Shetland Valuation Joint Board



Agenda Item

3

Meeting(s):	Orkney and Shetland Valuation Joint Board	9 February 2018
Report Title:	Management Accounts for Orkney and Shetland Valuation Joint Board 2017/18 – Projected Outturn as at Quarter 3	
Reference Number:	VF-002-F	
Author / Job Title:	Treasurer to the Board	

1.0 Decisions / Action required:

- 1.1 That the Orkney and Shetland Valuation Joint Board (“the Board”) RESOLVES to review the Management Accounts showing the projected outturn position as at the end of Quarter 3 (Appendix 1).

2.0 High Level Summary:

- 2.1 The report sets out the Board’s financial position as at Quarter 3. This shows that expenditure on services is expected to be £626k against a budget of £652k; a projected underspend of £26k.
- 2.2 This is largely due to an underspend on employee costs owing to staff vacancies, offset by reduction of Cabinet Office funding; see Appendix 1 for further detail.

3.0 Corporate Priorities and Joint Working:

- 3.1 Reduction in funding may impact on the Board’s ability to deliver service priorities. In 2017/18 there was a significant constraint on local authority funding and it is essential that the Board is able to plan and measure its outcomes and their associated costs.

4.0 Key Issues:

- 4.1 On 17 February 2017 (O&SVJB Min Ref: 08/17), the Board approved the 2017/18 revenue budget with a net expenditure of £652k. It is vital to the economic wellbeing of the constituent authorities that the Board’s financial resources are managed effectively and that expenditure and income is delivered in line with the budget, as any overspends will result in a further draw on the resources of constituent authorities.
- 4.2 Also on 17 February 2017 (O&SVJB Min Ref: 06/17), the Board approved 3-year Corporate and Service Plans. These detail the operations and activities that will be undertaken in relation to the Boards’ statutory function and other service provisions.
- 4.3 Funding has been claimed from the Cabinet Office to meet the Board’s additional costs of Individual Electoral Registration (IER). However, the amount claimed is now less than budgeted following the withdrawal of Cabinet Office funding for costs relating to Household Enquiry Forms.

5.0 Exempt and/or confidential information:	
5.1	None.
6.0 Implications :	
6.1 Service Users, Patients and Communities:	None arising from this report.
6.2 Human Resources and Organisational Development:	The vacant Assistant Assessor post is currently being covered by consultancy services and the extended duties of other staff. This is a temporary arrangement that still requires to be resolved, but it is being managed within existing budgets.
6.3 Equality, Diversity and Human Rights:	None arising from this report.
6.4 Legal:	None arising from this report.
6.5 Finance:	<p>The Board is wholly funded by its constituent authorities: Orkney Islands Council and Shetland Islands Councils.</p> <p>The Board's projected outturn position as at Quarter 3 is £626k against a budget of £652k, an underspend of £26k.</p> <p>This results in a reduced requisition to Orkney Islands Council of £14k and Shetland Islands Council of £12k.</p>
6.6 Assets and Property:	None arising from this report.
6.7 ICT and new technologies:	None arising from this report.
6.8 Environmental:	None arising from this report.
6.9 Risk Management:	<p>From a financial management perspective, risks are an integral part of future planning, as assumptions must be made. These can be affected by many internal and external factors, such as demand, which could have a significant financial impact.</p> <p>The Board maintains a Risk Register and its primary risk is a lack of sufficient funding that could result in the Board not meeting statutory duties.</p> <p>This report is part of the framework that provides assurance, or recognises any deviation from the budget that could put the Board in a financially challenging position and require remedial action.</p> <p>A net overspend will have an adverse impact on the budgets of both constituent authorities.</p>
6.10 Policy and Delegated Authority:	Overall stewardship of the Board's resources rests with the Orkney and Shetland Valuation Joint Board.

6.11 Previously considered by:	n/a	n/a
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Contact Details:

Maria Forrester, Senior Assistant Accountant, Maria.Forrester@shetland.gov.uk,
29 January 2018

Appendices:

Appendix 1 – Revenue projected outturn position 2017/18 as at Quarter 3

Background Documents:

17 February 2017 – Orkney & Shetland Valuation Joint Board Budget 2017/18 report

17 February 2017 – Orkney & Shetland Valuation Joint Board Corporate Plan

17 February 2017 – Orkney & Shetland Valuation Joint Board Service Plan

Orkney and Shetland Valuation Joint Board

1. Revenue Projected Outturn Position 2017/18 as at Quarter 3

Income & Expenditure Summary	2017/18 Revised Annual Budget £	2017/18 Projected Outturn at QTR 3 £	Budget v Projected Outturn Variance (Adv) / Pos £
EXPENDITURE:			
Basic Pay	359,152	313,315	45,837
Overtime	1,380	1,380	-
National Insurance	37,242	32,723	4,519
Pension Costs	134,606	117,918	16,688
Allowances	26,413	26,341	72
Liability Insurance	4,932	4,932	-
Employee Costs	563,725	496,609	67,116
Administration	85,126	83,810	1,316
Agency Payments	8,208	42,887	(34,679)
Property and Fixed Plant	31,625	31,572	53
Supplies and Services	3,850	5,145	(1,295)
Transport and Mobile Plant	34,642	31,477	3,165
Recharges for Shetland Islands Council	13,637	13,637	-
Operating Costs	177,088	208,528	(31,440)
TOTAL EXPENDITURE	740,813	705,137	35,676
INCOME:			
Sales/Agency Income	(33,400)	(32,900)	(500)
IER Funding	(55,001)	(45,790)	(9,211)
TOTAL INCOME	(88,401)	(78,690)	(9,711)
NET EXPENDITURE	652,412	626,447	25,965
CHARGE TO CONSTITUENT AUTHORITIES:			
Orkney Islands Council	(333,048)	(319,266)	(13,782)
Shetland Islands Council	(319,364)	(307,181)	(12,183)
TOTAL CHARGE TO CONSTITUENT	(652,412)	(626,446)	(25,965)

An explanation for the main variances for Quarter 3 are set out below.

1.1 Employee Costs – projected outturn underspend £67k (11.9%)

This projected underspend relates to the vacant Assistant Assessor post and unfunded pension payments no longer attributable to the Board. The Assistant Assessor post remains vacant following a recent advertisement. The post is subject to a market forces report and is anticipated to be vacant until April 2018 at the earliest.

1.2 Operating Costs – projected outturn overspend of (£31k) (17.8%)

This overspend relates to the ongoing use of external consultants in lieu of an internal Assistant Assessor.

1.3 Income – projected outturn under-achievement of (£10k) (11.0%)

This under-recovery relates to withdrawal of Cabinet Office funding for costs associated with Householder Enquiry forms.



Orkney & Shetland Valuation Joint Board



Agenda Item

4

Meeting(s):	Orkney & Shetland Valuation Joint Board	9 February 2018
Report Title:	Proposed Budget 2018/19	
Reference Number:	V-003-F	
Author / Job Title:	Treasurer to the Board	

1.0 Decisions / Action required:

- 1.1 The Orkney & Shetland Valuation Joint Board (“the Board”) is asked to APPROVE the 2018/19 Budget, as detailed.

2.0 High Level Summary:

- 2.1 At its meeting on 8 November 2017, the Board agreed a budget strategy for 2018/19, based on a standstill position, subject to a 1.25% pay award for staff.
- 2.2 Since then, there have been a number of circumstantial changes that are now reflected in the figures shown in section 4, as follows:
- The Scottish Government has lifted the public sector pay cap, resulting in the constituent authorities budgeting for a 3% pay award for staff earning up to £30,000 and 2% for others;
 - The draft triennial valuation of the Shetland Islands Pension Fund proposes a new contribution rate for the Board of 31.1% - a reduction from 33.8%;
 - IER Funding estimates have been reworked owing to the withdrawal of Cabinet Office support for costs related to Household Enquiry Forms.

3.0 Corporate Priorities and Joint Working:

- 3.1 The Assessor has prepared Corporate and Services Plans to support the planning and performance management of the functions which are the responsibility of the Board; the proposed budget is aligned to these plans.

4.0 Key Issues:

- 4.1 The proposed Budget 2018/19 is presented in the table below. 2017/18 figures are based on the most up-to-date budget position at Quarter 3.
- 4.2 Budget figures for 2018/19 are split between core activities, which are wholly funded by the two constituent authorities: Orkney Islands Council and Shetland Islands Council, and IER activities, which are wholly funded by a central government grant.
- 4.3 Where appropriate, efficiency savings have been applied to Operating Costs in order to accommodate other unavoidable cost increases, such as pay award.
- 4.4 A Vacancy Factor has been introduced for 2018/19 to capture, in the budget, savings from staff turnover that occur year-on-year. This has been estimated at 2% of core staff costs.

2017/18 Revised Total Budget £	Income & Expenditure Summary	2018/19 Proposed Core Budget £	2018/19 Proposed IER Budget £	2018/19 Proposed Total Budget £
	EXPENDITURE:			
359,152	Basic Pay	355,648	21,854	377,502
1,380	Overtime	500	0	500
37,242	National Insurance	38,339	1,557	39,896
134,606	Pension Costs	117,955	7,455	125,410
26,413	Allowances	25,912	2,115	28,027
0	Vacancy Factor	(12,000)	0	(12,000)
4,932	Liability Insurance	3,100	0	3,100
563,725	Employee Costs	529,454	32,981	562,435
85,126	Administration	78,003	8,634	86,637
8,208	Agency Payments	8,819	0	8,819
31,625	Property and Fixed Plant	31,600	0	31,600
3,850	Supplies and Services	2,870	0	2,870
34,642	Transport and Mobile Plant	27,768	2,732	30,500
13,637	Recharges for Shetland Islands Council	13,797	0	13,797
177,088	Operating Costs	162,857	11,366	174,223
740,813	TOTAL EXPENDITURE	692,311	44,347	736,658
	INCOME:			
(33,400)	Sales/Agency Income	(33,000)	0	(33,000)
(55,001)	IER Funding	0	(44,347)	(44,347)
(88,401)	TOTAL INCOME	(33,000)	(44,347)	(77,347)
652,412	NET EXPENDITURE	659,311	0	659,311
	CHARGE TO CONSTITUENT AUTHORITIES:			
(333,048)	Orkney Islands Council	(334,775)	0	(334,775)
(319,364)	Shetland Islands Council	(324,536)	0	(324,536)
(652,412)	TOTAL CHARGE TO CONSTITUENT AUTHORITIES	(659,311)	0	(659,311)

5.0 Exempt and/or confidential information:

5.1 None.

6.0 Implications :

6.1 Service Users, Patients and Communities:

A clear Corporate and Service Plan aligned to the budget enables better evidence of governance and performance management and provides assurance to the constituent authorities that the functions and services of the Board meet expectations and achieve best value.

6.2 Human Resources and Organisational Development:

None arising from this report.

6.3 Equality, Diversity and Human Rights:

None arising from this report.

6.4 Legal:

The Orkney & Shetland Valuation Joint Board is required to set a balanced budget and to determine

	the level of requisition to be sought from its constituent authorities.
6.5 Finance:	The Budget 2018/19 amounts to £659k and represents an increase of £7k since 2017/18.
6.6 Assets and Property:	None arising from this report.
6.7 ICT and new technologies:	None arising from this report.
6.8 Environmental:	None arising from this report.
6.9 Risk Management:	If a realistic, affordable budget is not set, there is a risk that the Board will be unable to fulfil its statutory duties should insufficient funding be requisitioned from constituent authorities.
6.10 Policy and Delegated Authority:	Overall stewardship of the Board's finances rests with the Valuation Joint Board.
6.11 Previously considered by:	n/a

Contact Details:

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9 February 2018

Appendices:

None.



Orkney & Shetland Valuation Joint Board



Agenda Item

5

Meeting(s):	Orkney & Shetland Valuation Joint Board	9 February 2018
Report Title:	Meeting Dates for 2018/19	
Reference Number:	VGL-01-F	
Author / Job Title:	Clerk to the Board	
1.0 Decisions / Action required:		
1.1	That the Orkney & Shetland Valuation Joint Board RESOLVE to approve the schedule of meetings for 2018/19.	
2.0 High Level Summary:		
2.1	The purpose of the report is to present the meeting dates for the Orkney and Shetland Valuation Joint Board (the Board) for 2018/19.	
3.0 Corporate Priorities and Joint Working:		
3.1	In setting the proposed dates for the Board meetings during 2018/19, as set out below, consultation has taken place with the Convener, Vice-Convener and Lead Officers of the Board.	
3.2	The meeting dates have taken account of the calendar of meetings for Orkney Islands Council and Shetland Islands Council.	
4.0 Key Issues:		
4.1	The proposed meeting dates, times, venues, and an indication of the business to be transacted at each meeting is set out below:	
	<ul style="list-style-type: none">• Tuesday 26 June 2018 at 1.30pm – by VC (for draft Financial Accounts and AOB)• Friday 21 September 2018 (time to be decided) – by VC (for final Financial Accounts <u>only</u> [fits in with the Auditors being in Shetland for other Boards also meeting the same day]). There may be a requirement for the Assessor and Electoral Registration Officer and the Convener to the Board to be in Shetland, to sign the final accounts.• Friday 23 November 2018 (time of meeting depending on flight arrangements) – in Shetland – ordinary business.• Wednesday 27 February 2019 at 10am – in Orkney – ordinary business.	

5.0 Exempt and/or confidential information:	
5.1	None
6.0 Implications :	
6.1 Service Users, Patients and Communities:	No consultation has taken place with the community or service users, but the diary dates will provide the community and other stakeholders with information as to the planned meeting dates for the coming year.
6.2 Human Resources and Organisational Development:	None
6.3 Equality, Diversity and Human Rights:	There are no equality, diversity or human rights issues and an Equalities Impact Assessment is not required.
6.4 Legal:	None
6.5 Finance:	The proposals in this report do not have any direct financial implications, but indirect costs may be avoided by optimising Councillor and Officer time, and utilising video conferencing facilities.
6.6 Assets and Property:	None arising directly from this report.
6.7 ICT and new technologies:	The proposals in this report do not have any direct ICT implications.
6.8 Environmental:	There are no environmental issues associated with the terms of this report, and an Environmental Impact Assessment is not required.
6.9 Risk Management:	The main risks associated with setting the meeting dates are around the challenges for officers meeting the timescales required, and any part of Board business slipping and causing reputational damage to the Board. Equally, not applying the diary of meetings could result in decision making being unplanned and haphazard.
6.10 Policy and Delegated Authority:	The Board has authority to approve its meeting dates for 2018/19, as set out in this report.
6.11 Previously considered by:	None

Contact Details:

Jan Riise, Clerk to the Board, email: jan.riise@shetland.gov.uk
2 February 2018