Orkney & Shetland Valuation Joint Board

Clerk to the Board: Jan-Robert Riise

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If calling please ask for
Louise Adamson
Direct Dial: 01595 744555

Date: 14 September 2018

Dear Sir/Madam

You are invited to the following meeting:

Special Orkney and Shetland Valuation Joint Board (by video conference)
Committee Room 1, Council Offices, Kirkwall and
Council Chamber, Town Hall, Lerwick
Friday 21 September 2018 at 9am

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.

Items:

1. Management Accounts for Orkney and Shetland Valuation Joint Board 2018/19 – Outturn at Period 4
VF-006

2. Annual Audit Report on the 2017/18 Audit
VF-007

Orkney & Shetland Valuation Joint Board

Agenda Item
1

Meeting(s):	Orkney and Shetland Valuation Joint Board	21 September 2018
Report Title:	Management Accounts for Orkney and Shetland Valuation Joint Board 2018/19 - Outturn at Period 4	
Reference Number:	VF-006-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”) considers the Management Accounts showing the projected outturn position as at Period 4: the end of July (Appendix 1).

2.0 High Level Summary:

2.1 The report sets out the Board’s financial position as at the end of Period 4. This shows that expenditure on services is expected to be £623k against a budget of £659k; a projected outturn underspend of £36k.

2.2 This is largely due to the underspend on employee costs owing to staff vacancies; 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. There is ongoing pressure on local authority funding and it is essential that the Board is able to plan and measure its outcomes and associated costs.

4.0 Key Issues:

4.1 On 9 February 2018 (O&SVJB Min Ref: 04/18), the Board approved the 2018/19 revenue budget with a net expenditure of £659k. 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 Funding is being claimed from the Cabinet Office to meet the Board’s additional costs of Individual Electoral Registration (IER). The expected value of this work for 2018/19 is £44k.

4.3 A separate report will be presented to the Board on 13 September 2018 outlining alternative strategy options for Assistant Assessor recruitment. The outcome of that report is unknown at the time of writing and has therefore not been built into the projected outturn figures in this report.

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 extended duties of other staff. This is a temporary arrangement that is being managed within existing budgets and is subject to review by the Board.
6.3 Equality, Diversity and Human Rights:	None arising from this report.
6.4 Legal:	None arising from this report.
6.5 Finance:	The Board is wholly funded by its constituent authorities: Orkney Islands Council and Shetland Islands Council. The Board's outturn position at Period 4 is £623k against a budget of £659k, an outturn underspend of £36k. This results in a reduced requisition to each authority: Shetland Islands Council by £17k and Orkney Islands Council by £19k.
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:	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. 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. 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. A net overspend would have an adverse impact on the budgets of both constituent authorities.

6.10 Policy and Delegated Authority:	Overall stewardship of the Board's resources rests with the Orkney & Shetland Valuation Joint Board.
6.11 Previously considered by:	n/a

Contact Details:
Maria Forrester, Senior Assistant Accountant, Maria.Forrester@shetland.gov.uk,
05 September 2018

Appendices:
Appendix 1 – Revenue Outturn Position 2018/19 as at Period 4

Background Documents:
9 February 2018 – Orkney & Shetland Valuation Joint Board Proposed Budget 2018/19

Orkney and Shetland Valuation Joint Board

1. Revenue Outturn Position 2018/19 as at Period 4

Income & Expenditure Summary	2018/19 Revised Annual Budget £	2018/19 Outturn at Period 4 £	Budget v Outturn Variance (Adv) / Pos £
EXPENDITURE:			
Basic Pay	377,502	324,328	53,174
Vacancy factor	(12,000)	(12,000)	-
Overtime	500	500	-
National Insurance	39,896	32,289	7,607
Pension Costs	125,410	106,769	18,641
Allowances	28,027	25,063	2,964
Liability Insurance	3,100	3,844	(744)
Employee Costs	**562,435**	**480,793**	**81,642**
Administration	86,602	89,594	(2,992)
Agency Payments	8,854	13,154	(4,300)
Property and Fixed Plant	31,600	31,600	-
Supplies and Services	2,870	41,370	(38,500)
Transport and Mobile Plant	30,500	30,500	-
Recharges for Shetland Islands Council	13,797	13,797	-
Operating Costs	**174,223**	**220,015**	**(45,792)**
TOTAL EXPENDITURE	**736,658**	**700,808**	**35,850**
INCOME:			
Sales/Agency Income	(33,000)	(33,000)	-
IER Funding	(44,347)	(44,347)	-
TOTAL INCOME	**(77,347)**	**(77,347)**	**-**
NET EXPENDITURE	**659,311**	**623,461**	**35,850**
CHARGE TO CONSTITUENT AUTHORITIES:			
Orkney Islands Council	(334,775)	(315,615)	(19,160)
Shetland Islands Council	(324,536)	(307,846)	(16,690)
TOTAL CHARGE TO CONSTITUENT	**(659,311)**	**(623,461)**	**(35,850)**

An explanation for the main variances for Period 4 are set out below.

1.1 Employee Costs – projected outturn underspend £81,642 (14.5%)

Of the projected employee costs underspend, £66k relates to the Assistant Assessor post, which remains vacant despite several recruitment exercises. The post is the subject of a benchmarking report that is intended to assist with the development of a suitable recruitment strategy and is due to be presented to the Board on 13 September 2018.

The remaining projected underspend can be attributed to two main items: following the triennial actuarial valuation of the Shetland Islands Council Pension Fund at the start of the year, there was an agreed reduction in the Board's employers' contribution rate by 2.7% and this is contributing to a £7k projected underspend here. The second projected underspend arises from a job evaluation review not increasing the pay grade, as had been anticipated in the budget.

1.2 Operating Costs – projected outturn overspend of (£45,792) (26.3%)

This projected overspend relates predominantly to the ongoing use of a consultant Valuer in lieu of an internal Assistant Assessor while this post remains vacant (£38k).

The remaining £7k relates to one-off costs in the year, including the purchase of photocopier, Counsel Opinion on the 2017 Revaluation and a prior year pension report from the Board's actuary for the 2017/18 annual accounts.

1.3 Projected Requisition outturn

The overall projected underspend of £36k equates to a reduction in requisition expected from the constituent authorities, as outlined in the table above.

Orkney & Shetland Valuation Joint Board		Agenda Item **2**

Meeting(s):	Orkney & Shetland Valuation Joint Board	21 September 2018
Report Title:	Annual Audit Report on the 2017/18 Audit – Orkney & Shetland Valuation Joint Board	
Reference Number:	VF-007-F	
Author / Job Title:	Treasurer to the Board	

1.0 Decisions / Action required:

1.1 That the Orkney & Shetland Valuation Joint Board:

a) NOTES the findings of the 2017/18 audit as contained in the external auditor's Annual Audit Report at Appendix 1;

b) CONSIDERS a verbal report by the external auditor;

c) APPROVES the audited Annual Accounts for 2017/18 (Appendix 2) for Orkney & Shetland Valuation Joint Board for signature;

2.0 High Level Summary:

2.1 The Local Authority Accounts (Scotland) Regulations 2014 (“the Regulations”) require the Board to prepare and publish annual accounts that are subject to external audit. The appointed external auditor is Deloitte LLP.

2.2 Section 10 of the Regulations requires the Board to consider any report made by the appointed auditor before deciding whether to sign the audited accounts.

2.3 International Standard on Auditing 260 (ISA 260) requires the external auditors to communicate significant findings from the audit, including:

- results of work on key audit judgements;
- the auditor’s views about significant qualitative aspects of the entity’s accounting practices, including accounting policies, accounting estimates and financial statement disclosures;
- the auditor’s internal control observations; and
- other matters which in the auditor's professional judgement, are significant to the oversight of the financial reporting process.

2.4 Deloitte LLP’s ISA260 findings are included in the Annual Audit Report at Appendix 1 and confirms their unmodified opinion, which means that the annual accounts are free from material misstatement and present a true and fair view of the Board’s financial position at 31 March 2018.

2.5	The unaudited accounts for the year to 31 March 2018 were approved by Board on 26 June 2018 and there is no change to the net assets in the audited annual accounts, attached at Appendix 2. The deficit has reduced by £5,000 owing to the adjustment outlined in 4.4 below.	
2.6	Deloitte LLP's Annual Audit Report (Appendix 1) includes an Action Plan relating to medium and low level risks identified in the course of the audit. There were no high priority recommendations.	
3.0	**Corporate Priorities and Joint Working:**	
3.1	The preparation and presentation of the annual accounts is a key element of the Board's overall governance and reporting arrangements.	
4.0	**Key Issues:**	
4.1	The Board's accounts for the year to 31 March 2018 were submitted to Deloitte LLP by the statutory deadline of 30 June 2018. The external auditor was required to complete the audit by 30 September 2018 and to report on certain matters arising to those charged with governance.	
4.2	The Audit Report (Appendix 1) highlights two significant risk areas that auditors reviewed, as follows: a) Completeness and accuracy of income; and b) Management override of controls.	
4.3	Pages 8 to 10 of the report at Appendix 1 presents how, in each of these areas, the result of the audit control testing was satisfactory.	
4.4	One audit adjustment was identified, which has been corrected. It related to the removal of an immaterial error in the opening balance of the pension liability.	
4.5	As well as reviewing the annual accounts, the scope of the audit includes wider issues, such as governance, transparency and financial sustainability. Some of the key audit findings (detailed in Appendix 1) in these areas are: • **Governance and transparency:** 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. Having reviewed the processes in place and having identified no issues during our audit testing, we are satisfied that there are appropriate arrangements in place for securing best value. • **Financial sustainability:** Effective short-term planning has continued from the previous year and involves the production of management accounts which are presented to the Board quarterly. Given the current economic climate, it is important that the VJB also looks to the medium-longer term regarding finance, to identify any potential funding gaps and efficiency savings required.	
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 Local Authority Accounts (Scotland) Regulations 2014 require the Board to approve the audited Annual Accounts for signature no later than 30 September each year.
6.5 **Finance:**	None arising from this report.
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 Report includes the identification of key risks and internal control arrangements in place to manage those risks, together with any improvement actions required.
6.10 **Policy and Delegated Authority:**	The remit of the Orkney & Shetland Valuation Joint Board includes consideration of all reports from the external auditors, including the Annual Audit Report and to review the financial performance outlined.
6.11 **Previously considered by:**	N/A

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21 September 2018

Appendices:
Appendix 1: Annual Audit Report 2017/18 for Orkney & Shetland Valuation Joint Board
Appendix 2: Audited Annual Accounts 2017/18 for Orkney & Shetland Valuation Joint Board

Background Documents: The Local Authority Accounts (Scotland) Regulations 2014

Deloitte.

Orkney & Shetland
Valuation Joint Board

Orkney and Shetland Valuation Joint Board

Final report to the Board and the Controller of Audit on the 2017/18 audit

21 September 2018

Contents

01 Our final report

02 Technical update

03 Appendices

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.

I have pleasure in presenting our final report to the Board for the 2017/2018 audit. The scope of our audit was set out within our planning report presented to the Committee in February 2018.

This report summarises our findings and conclusions in relation to:

- The audit of the **financial statements**; and
- Consideration of the wider scope requirements of public sector audit. This includes our consideration of the Orkney and Shetland Valuation Joint Board's (VJB's) duty to secure best value. 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.

Introduction (continued)

The key messages in this report – financial statements audit

I would like to draw your attention to the key messages of this paper in relation to the audit of the financial statements:

Conclusions from our testing

- The significant risks, as identified in our audit plan, related to:
  - recognition of grant income; and
  - management override of controls.
- A summary of our work on the significant risks is provided in the dashboard on page 8.
- We have identified one audit adjustment, which has been corrected by management. This related to the identification and removal of an immaterial prior year error during the year.
- The management commentary and annual governance statement comply with the statutory guidance and proper practice and are consistent with the financial statements and our knowledge of the Board.
- The auditable parts of the remuneration report have been prepared in accordance with the relevant regulation.
- Based on our audit work, we expect to issue an unmodified audit opinion.

Insights

- We have utilised Spotlight, Deloitte's patented analytics tool, to perform analytics on the journal entries posted in the year to profile the journal population which has helped us identify journals of audit interest, such as journals posted on non-business days or journals with key words. No issues were noted from this testing.
- We have made a number of recommendations that would improve the Board's annual accounts if adopted going forward, discussed at page 14.
- Other insights obtained through our audit work have been collated into an action plan for improvement on page 25.

Status of the audit

- The audit is substantially complete subject to the completion of the following principal matters:
  - finalisation of our internal quality control procedures;
  - receipt of signed management representation letter; and
  - our review of events since 31 March 2018.

Introduction (continued)

The key messages in this report – wider scope

The following sets out the key messages of this paper in relation to the wider scope work:

Financial sustainability

The Board continues to face a challenging financial position. The Board underspent against budget in 2017/18 but finished with a deficit on services as summarised below due to accounting adjustments. The Board has agreed its 2018/19 budget with a slight increase in funding (1%) from £652k to £659k. Given that the Board underspent by £54k in the current year despite having a series of additional responsibilities related to the local and general elections, Deloitte are satisfied that the balanced budget settlement for 2018/19 is achievable.

Total outturn net expenditure for 2017/18 was £598k, which was £54k under-budget due largely to a long term staff vacancy within the VJB.	This total outturn net expenditure differs from the results reported in the Comprehensive Income and Expenditure Statement as a result of required accounting adjustments.	Effective short 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. Medium term planning and value for money could be improved by having a standalone medium term financial plan for the Board, rather than relying on those of the funding Councils.	The 2018/19 budget has been agreed at £659k compared to the 2017/18 budget of £652k, an increase of 1%. As the financial position of the Shetland Islands Council (SIC) and Orkney Islands Council (OIC) become more challenging, it is important that the VJB also looks to the medium-longer term to identify any funding gaps and efficiency savings required.

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 2018 and the date of authorisation which have not been included in the governance statement.

Pat Kenny
Audit Director

Our audit explained

Area dimensions

In accordance with the 2016 Code of Audit Practice, we have considered how you are addressing the wider audit dimensions:

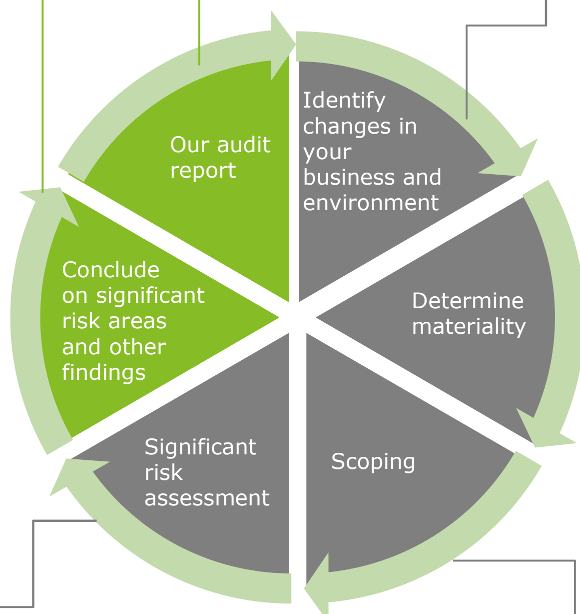
- Financial sustainability
- Governance and transparency

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 significant financial challenges and faces uncertainty due to a political and regulatory system which is currently in a state of change.



Materiality

The materiality of £9.8k and performance materiality of £6.9k has been based on the benchmark of gross expenditure and is a slight decrease from what we reported in our planning paper due to updated final figures.

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 £0.49k.

Significant risks

Our risk assessment process is a continuous cycle throughout the year. Page 8 provides a summary of our risk assessment of your significant risks.

Quality and Independence

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

Scope of the audit

We will audit the financial statements for the year ended 31 March 2018 of Orkney and Shetland Valuation Joint Board.

Timeline 2017/18

November 2017 – February 2018
Meetings with management and other staff to update understanding of the processes and controls.

9 February 2018
Presented planning paper to the Board.

March 2018
Year end

June – July 2018
Review of draft accounts, testing of significant risk and performance of substantive testing of results.

21 September 2018
Board meeting and Accounts sign off

Financial statements audit

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.
Completeness and accuracy of income	✓	✓	D+I	Satisfactory		Satisfactory	9
Management override of controls	✓	✓	D+I	Satisfactory		Satisfactory	10

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)

Risk 1 – Completeness and Accuracy of Income

Risk identified

International Standards on Auditing (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.

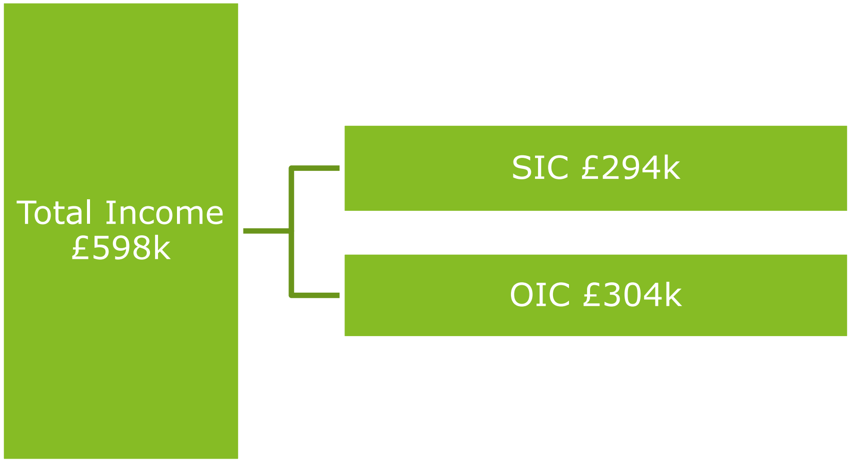
Key judgements and our challenge of them

There is significant management judgement around determining if there are any conditions attached to a grant and if so whether the conditions have been met. The complex accounting for grant income as the basis for revenue recognition in the accounts will depend on the scheme rules for each grant.

Deloitte response

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 the 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 correctly recognised in accordance with the requirements of the Local Authority Code of Audit Practice.

Significant risks (continued)

Risk 2 - Management override of controls

Risk identified
In accordance with ISA 240 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 Board’s controls for specific transactions.

The key judgement in the financial statements is that which we have selected to be the significant audit risk around completeness and accuracy of income. This is inherently the area in which management has the potential to use their judgment to influence the financial statements.

Deloitte view

- We have not identified any significant bias in the key judgements made by management.

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.

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

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.

Other matters

Defined benefits pension scheme

Background

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

The net pension liability has decreased from £1,978k in 2016/17 to £1,933k in 2017/18 as a result of an update in actuarial 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

Deloitte view

We have reviewed the assumptions and, on the whole, the set of assumptions is reasonable and the valuation is carried out by a suitably qualified, independent and regulated actuary. The assumptions have been set in accordance with generally accepted actuarial principles and are compliant with the accounting standard requirements of IAS19.

Our audit report

Other matters relating to the form and content of our report

Here we discuss how the results of the audit impact on other significant sections of our audit report. The revisions to ISA (UK) 700 have changed the form and content of audit report, including how different sections are presented.

Our opinion on the financial statements

Our opinion on the financial statements is unmodified.

Material uncertainty related to going concern

We have not identified a material uncertainty related to going concern and will report by exception regarding the appropriateness of the use of the going concern basis of accounting.

Emphasis of matter and other matter paragraphs

There are no matters we judge to be of fundamental importance in the financial statements that we consider it necessary to draw attention to in an emphasis of matter paragraph.

There are no matters relevant to users' understanding of the audit that we consider necessary to communicate in an other matter paragraph.

Other reporting responsibilities

The Annual Report is reviewed in its entirety for material consistency with the financial statements and the audit work performance and to ensure that they are fair, balanced and reasonable.

Our opinion on matters prescribed by the Controller of Audit are discussed further on page 13.

Your annual accounts

We welcome this opportunity to set out for the Board our observations on the annual accounts. 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.

	Requirement	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.	We have assessed whether the Management Commentary has been prepared in accordance with the statutory guidance. No exceptions noted. 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. We have made a number of recommendations for changes to the annual accounts in line with good practice. We have included elements of good practice for your consideration at page 14.
Remuneration Report	The remuneration report has been prepared in accordance with the 2014 Regulations, disclosing the remuneration and pension benefits of Senior Board members and Senior Employees of the Board.	We have audited the disclosures of remuneration and pension benefit, pay bands, and exit packages and confirmed that they have been properly prepared in accordance with the regulations.
Annual Governance Statement	The Annual Governance Statement reports that 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.

Your annual report (continued)

Audit Scotland has issued a series of Good Practice notes to highlight where annual reports can be improved. Although not specific to valuation joint boards, we would encourage the Board to use the findings to assess and enhance their own disclosures to ensure they provide high quality information to stakeholders in their annual accounts.

We have provided below some extracts which should be considered by the Board in drafting future annual accounts.

Management commentary
The following areas for improvement were identified when reviewing the Board's annual accounts:

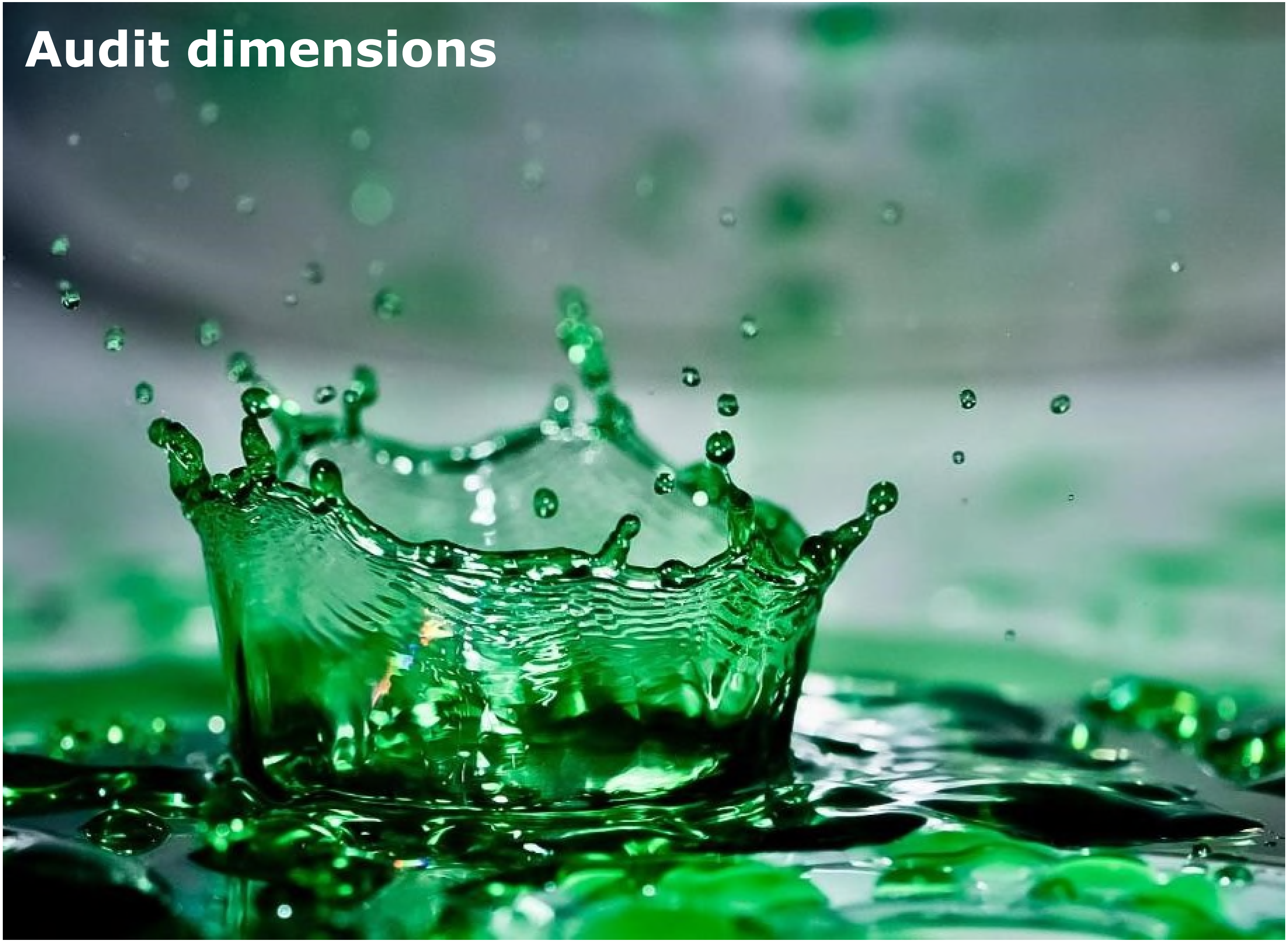
- Explain the Board's objectives, the strategy for achieving these (including current performance, position and future prospects);
- Set out how the Board generates and preserves value over the longer term;
- Provide additional information on how funding was used in the year – rather than just repeating information included in the financial statements;
- Include KPIs – both financial and non financial – and analyse performance against these in the year and whether they have been achieved or not;
- The key risks facing the VJB should be specific and tailored to the Board and genuinely be the principal risks/uncertainties that Board members are concerned about;
- The annual report should be reviewed in its entirety to identify areas where tabular, graphical or pictorial information (supported by narrative) may improve the accessibility of the document;
- The Board should consider if the use of case studies would enhance the general publics' understanding of the work carried out by the Partnership.

Governance statement
The following areas for improvement were identified when reviewing the Board's annual accounts:

- The Board should consider whether findings raised by internal audit within SIC and OIC are relevant to the VJB and if so, these should be included in an action plan which outlines how the Board will mitigate the risk of control failure within the Councils impacting on the Board. If not, the Board should explicitly state that it has considered the findings and that any issues identified have no impact on the Board;
- The annual governance statement should follow up on any issues from previous years (e.g., the issue with recruitment) and provide an assessment of actions previously taken and how future actions will result in a different outcome;
- Critical judgements should be further explained in the commentary (rather than just disclosed in the notes).

A list of comments for improvement, including the above, have been provided to management at the Board with a recommendation that these be amended in the annual accounts. The majority of these have been actioned in the current year, with a minority carried forward for consideration in 2018/19. We are satisfied that the annual accounts are CIPFA Code compliant and fair, balanced and understandable.

Audit dimensions



Wider scope audit work

Overview

Public audit in Scotland is wider in scope than financial audit. This section of our report sets out our findings and conclusion on our audit work covering the following area. 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.

Our report is structured in accordance with these two specific areas, but also covers our specific audit requirements on best value and specific risks as summarised below.

Best Value (BV)

It is the duty of the VJB to secure BV as prescribed in the Local Government (Scotland) Act 1973.

We have considered the Board's duty to secure BV as part of the governance arrangements considered as part of the audit dimensions work.

Specific risks (SR)

As set out in our Annual Audit Plan, Audit Scotland had identified a number of significant risks (SRs) faced by the public sector which we have considered as part of our work on the wider audit dimensions.

SR 1 – EU Withdrawal
SR 2 – New Financial Powers
SR 3 – Ending public sector pay cap
SR 4 – Cyber security risk
SR 5 – Openness and transparency

Wider scope audit work (continued)

Governance statement

Audit dimension

As part of the annual audit of the financial statements, we have consider 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.

Having reviewed the processes in place at the VJB, and having identified no issues during our audit testing, we are satisfied that there are appropriate arrangements in place for securing best value.

Deloitte response

Following the local Government elections in May 2017, there have been some changes to the Board. A Convenor for OIC and a Vice-Convenor for SIC were elected in the place of the former SIC Convener and OIC Vice-Convener.

Significant governance issues have been disclosed in the governance statement, which include the efforts made to recruit an Assistant Assessor for a post that has been vacant for two years. The filling of this post would support strong governance and strengthen the management team. The recruitment process has been unsuccessful in the current year, and the Board utilised an external consultant when required. Further options surrounding this matter are going to be reported in 2018/19, but currently the situation is being held under constant review.

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

Audit dimensions (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.
- Workforce planning.

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 quarterly. 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.

Medium-to-long term financial plans, which includes a 3 year Corporate and Service Plan, are high level due to the financial risk sitting with the SIC and OIC, both of whom are statutorily obliged to fund the VJB. Given the current economic climate, it is important that the VJB also looks to the medium-longer term regarding finance, to identify any potential funding gaps and efficiency savings required.

Short-term

Approved funding budget of £659k has been obtained from the SIC and OIC for 2018/19 which is £7k (1%) higher than the 2017/18 approved budget of £652k. The budget covers the lifting of the public sector pay cap (3% >£30k and 2% <£30k), a new contribution rate for the Pension Fund (down from 33.8% to 31.1%) and the withdrawal of Cabinet Office support for costs relating to Household Enquiry Forms.

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 and achievable in the short term.

Medium-term

The VJB is required to set a balanced budget and to determine the level of requisition to be sought from its constituent authorities. In terms of risk management, if an 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 constituents authorities.

The VJB has a three year Corporate Plan and three year Service plan. Regular progress reports are presented to the Board in relation to this. These clearly highlight the pressures faced by the Board in relation to the transition to Electoral Registration Service and the priorities associated with it, the Cabinet Office funding for Individual Electoral Registration (IER) and overall costs/income, the Election Management System and the main service priorities for the year. These are the longer term pressures faced by the Board, but these two plans are in place to address and monitor these risks.

Wider scope audit work (continued)

Specific risks

In accordance with our Audit Plan, we have considered the specific risks identified by Audit Scotland as part of our audit as follows:

Risk identified	Response
EU Withdrawal	The UK is expected to leave the European Union (EU) on 29 March 2019, followed by a transition period to the end of 2020. There are still a lot of uncertainties surrounding the terms of the withdrawal agreement but the outcome will inevitably have significant implications for devolved governments in Scotland and for Scottish public sector bodies. Given the scale of the potential implications and possible timescales for implementing changes, it is critical that public sector bodies are working to understand, assess and prepare for the impact on their organisation. This is likely to include consideration of three areas: **Workforce**: the extent to which potential changes to migration and trade policies are likely to affect the availability of skilled and unskilled labour. **Funding**: the extent to which potential changes to funding flows including amounts anticipated under existing EU funding programmes, are likely to affect the finances of the organisation and the activity that such funding supports. **Regulation**: the extent to which potential changes to regulation across a broad range of areas currently overseen at an EU level are likely to affect the activity of the organisation. The impact of changes to migration and trade policies on the VJB is expected to be minimal, given that all employees are local to the respective areas (Shetland and Orkney), with no employees either from the EU or outside the EU. Further, as funding is derived from the Councils and regulation is devolved to the Scottish Government, it is not anticipated that there will be any material impact on the Board in these areas. The VJB have implemented all regulations to date which affect the organisation, for example the EU Directive of General Data Protection Regulation.
New financial powers	The Scottish Parliament's new financial and social security powers and responsibilities from the 2012 and 2016 Scotland Acts are fundamentally changing the Scottish public financials. The Scottish Government will publish its medium-term financial strategy in 2018 in response to recommendations in the Budget Process Review Group final report, and has made a number of other commitments to improve financial management and help Parliamentary scrutiny of decisions. As a result of this, there is an expectation that public bodies will be seen before subject committees of the Parliament more often. The Board should therefore use this as an opportunity to make comment within their annual reports beyond the compliance requirements to clearly articulate their achievements against outcomes and future plans.
Ending public sector pay cap	The lifting of the pay cap has been factored into the approved 2018/19 budget in line with Scottish Government recommendations, with the additional funding required to meet these increased pay costs agreed as part of the budget setting process with SIC and OIC.

Wider scope audit work (continued)
Specific risks (specific risks)

Risk identified	Response
Cyber security risk	There is no specific structured approach to cyber security. The Board carries out annual PSN CoCo (Public Services Network Code of Connection) certification and are currently undertaking the Cyber Essentials certification. This guides the overall security strategy, which includes cyber risk. There is no specific cyber policy/strategy in place, but there is an ICT Security Policy which all staff agree to abide by, which is regularly updated and covers areas such as password security and other good practice security. Cyber attack is recorded as a risk at Chief Executive level. Fortnightly, Security Review Teams consider security issues as they arise, and the ICT Management Board decides on issues which cannot be resolved at Executive Manager level within SIC. The VJB have considered cyber security within its supply chain partners, as they have data processing agreements with suppliers where appropriate, and ask for software to run on supported versions of hardware and software.
Openness and transparency	From our audit work, we are satisfied that the Board is appropriately open and transparent in its operations and decision making. All agendas, meetings and management accounts are published online.

Technical update

Technical Update
IFRS 16 Leases

The effective date of IFRS 16 Leases is 1 January 2019. Therefore (subject to CIPFA/LASAAC decision) the standard is anticipated to be adopted in the 2019/20 Code.

IFRS 16 removes the existing classifications of operating and finance leases under IAS 17 *Leases* for lessees.

It requires that a lessee recognises assets and liabilities for all leases with a term of more than 12 months unless the underlying asset is of low value. A lessee will recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing the lessee's obligation to make lease payments for the asset.

The consultation papers and the Exposure Draft have been drafted by CIPFA/LASAAC with the assistance of its sub group. However, both CIPFA and CIPFA/LASAAC are considering new ways of assessing how the standard will impact on local authorities.

CIPFA/LASAAC will issue the consultation as soon as possible and notification of the issue of the consultation will be via Treasurers Societies, the Networks and CIPFA social media or via the CIPFA/LASAAC pages of the CIPFA website. This consideration will also include the assessment of the practical effects of implementation. The consultation papers, for example, include a readiness assessment questionnaire to assist CIPFA/LASAAC with an understanding of the impact (and could also be usefully used by local authorities to assess the issues that need to be considered).

Potential impact on the Board
The VJB leases a property in Orkney from OIC. This lease has been renewed for three years and is due to expire in June 2021. Under IFRS 16, this lease will be brought on to the balance sheet as an asset offset by an identical liability: the net impact being £nil. The Board should take steps now to ensure compliance with the new standard from 2019/20, including determination of the quantitative impact on the balance sheet.

Appendices

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 separately.

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.

for and on behalf of Deloitte LLP
Glasgow

30 August 2018

Action plan
Recommendations for improvement

Area	Recommendation	Management Response	Responsible person	Target Date	Priority
Financial Sustainability	We recommend that the VJB develop and implement a medium term financial plan, specifically tailored to their needs. Although the SIC and OIC are obliged to fund the VJB, the Board should identify medium term funding needs and opportunities for efficiencies and savings, so as to demonstrate value for money and sustainability at a Board level, whilst also assisting the SIC and OIC to plan appropriately at a Council level.	Due to the size and nature of VJB and its operations, there is currently no requirement for a medium/long term financial strategy. As with other small local authority boards, the VJB will review this in 2018/19 to determine if there is value in developing a medium term financial plan.	Executive Manager – Finance	March 2019	Medium
Annual accounts	We recommend that management follow any good practice guides issued by Audit Scotland and discuss with Deloitte any significant changes to the annual accounts that they plan to make year-on-year (if these are voluntary changes, as opposed to those required by the annual update to the Code) ahead of making these changes. This will allow for an agreed approach to the annual accounts prior to them being issued for public consultation and reduce the number of changes arising from the audit process.	Management have confirmed that going forward, any significant changes will be discussed with Deloitte ahead of issue of the annual accounts.	Executive Manager – Finance	March 2019	Low

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 it has disclosed to us the results of its own assessment of the risk that the financial statements may be materially misstated as a result of fraud and that it is not aware of any fraud or suspected fraud that affects the Board.

We have also asked the Board to confirm in writing its 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 complying with recognition of grant income and management override of controls as a key audit risk for your organisation.

During course of our audit, we have had discussions with management, internal audit 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 Board on the process for identifying, evaluating and managing the system of internal financial control.

Concerns:

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	The audit fee for 2017/18 is £7,387 as detailed in our Audit Plan. No non-audit service fees have been charged by Deloitte in the period.
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	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. We are not aware of any relationships which are required to be disclosed.

Events and publications

Our publications and insights to support the Board

Publications

The State of the State 2017-18
Citizens, government and business

This year's report finds the UK government amid the complex challenge of leaving the EU. Inevitably, this early phase of EU exit is taking place under intense media scrutiny and passionate political debate. But while EU exit issues may dominate headlines, the public services face more local challenges as they address rising demand, budget restraint and renewed levels of concern about social inequality.

The State of the State 2017-18 explores government through three lenses – the citizen lens, the public sector lens and the business lens.

Download a copy of our publication here:
https://www2.deloitte.com/uk/en/pages/public-sector/articles/state-of-the-state.html

Sharing our informed perspective

We believe we have a duty to share our perspectives and insights with our stakeholders and other interested parties including policymakers, business leaders, regulators and investors. These are informed through our daily engagement with companies large and small, across all industries and in the private and public sectors.

Recent publications relevant to the local authorities are shared opposite:

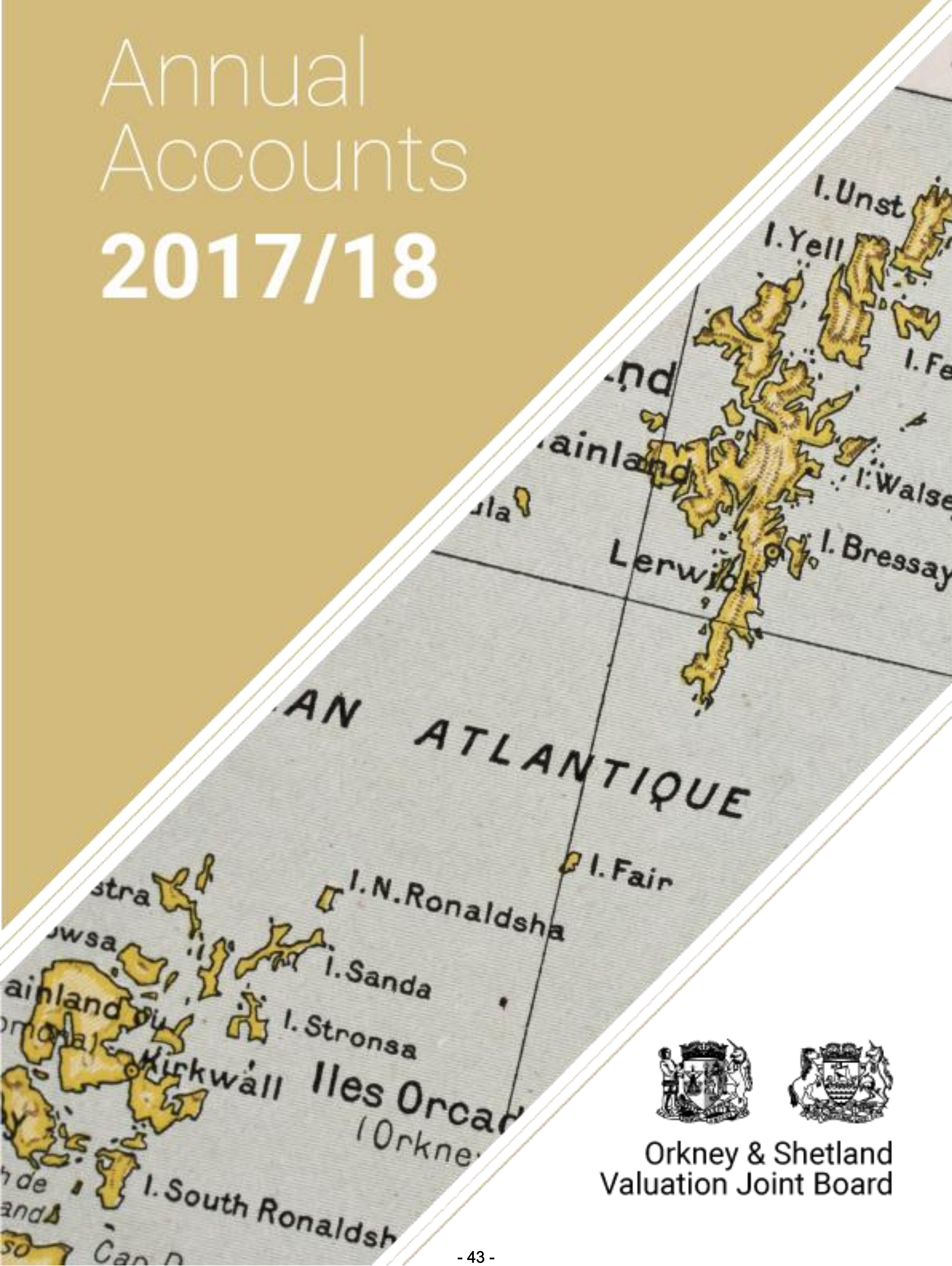
Perspectives: Do you have a digital mindset?
Accelerating health and care integration
Digital technology is helping to transform the way citizens interact with service providers across all other service industries. The time is now ripe for changing the relationship between health and social care commissioners and providers and service users.

Read the full blog here:
https://www2.deloitte.com/uk/en/pages/public-sector/articles/do-you-have-a-digital-mindset.html

Article: Public sector transformation
Five lessons from the private sector
An analysis of private sector global companies, including high-tech start-ups, manufacturers, banks, retailers and insurance firms, reveal five valuable lessons for the public sector.

Read the full article here:
https://www2.deloitte.com/uk/en/pages/public-sector/articles/public-sector-transformation.html

Annual Accounts
2017/18



Orkney & Shetland
Valuation Joint Board

Contents

Management Commentary

The purpose of the Management Commentary is to help all users of the accounts to assess how the Orkney & Shetland Valuation Joint Board ("the Board") has performed during 2017/18 and understand the year-end financial position as at 31 March 2018. In addition, it provides a narrative on the financial outlook for the Board during financial year 2017/18 and beyond.

Introduction

The Board exists for the discharge of certain statutory functions relating to the preparation, publishing and maintenance of both the Valuation Roll and Council Tax List (Valuation List); the Assessor also provides the electoral registration function on behalf of both island areas. All three documents (Valuation Roll, Valuation List and Electoral Register) are available for public inspection at the Assessor's offices, at the public libraries and offices of the two constituent authorities as follows:

Orkney Islands Council, Office HQ, Council Offices, Kirkwall, Orkney, KW15 1NY

Shetland Islands Council, Montfield, 28 Burgh Road, Lerwick, ZE1 0LA

There are 14 Assessors in Scotland, four are appointed directly by a single Council and the remaining 10 are appointed by Valuation Joint Boards comprising elected members appointed by two or more Councils. Where a Valuation Joint Board exists, all the duties, powers and responsibilities of the constituent Councils as Valuation Authorities are delegated to the Board. An Assessor is therefore responsible for the valuation of both domestic and non-domestic properties within one or more Council areas. Each board appoints an independent Assessor to ensure that valuations are free from political influence or interference. This is essential to the performance of the Assessor's statutory duties which can involve situations where the interests of the local authority and the ratepayer may conflict.

The current Assessor is Dennis M Stevenson, MRICS IRRV; he has been in post since May 2015 and is based in the Orkney office in Kirkwall. The post of Assistant Assessor has remained vacant since May 2015 following unsuccessful recruitment exercises and alternative arrangements have been established to address the resulting capacity gap.

Copies of the minutes of meetings and audited accounts of the Board can found on the Board's website: www.orkney-shetland-vjb.co.uk.

Composition of the Board

The Board is a separate public body from the two constituent authorities, being Orkney Islands Council and Shetland Islands Council and draws its membership from them, each nominating five councillors to serve on the Board.

Local Government elections were held in May 2017 and the Board members are now as follows:

Members:

Orkney Islands Council	Shetland Islands Council
A Drever (Convener)	T Smith (Vice Convener)
S Clackson	A Cooper
D Dawson	A Duncan
S Heddle	J Fraser
H Johnston	B Wishart

Substitute Members:

Orkney Islands Council	Shetland Islands Council
B Foulkes	M Bell
J R Scott	S Leask
	E MacDonald
	G Smith
	R Thomson

The Board composition prior to the election was:

Members:

Orkney Islands Council	Shetland Islands Council
H Johnston (Vice Convener)	D Ratter (Convener)
S Clackson	F Robertson
A Drever	G Smith
J Moar	T Smith
D Tullock	M Stout

Substitute Members:

Orkney Islands Council	Shetland Islands Council
W L Manson	M Bell
G Shearer	A Cooper
	S Coutts
	A Duncan
	A I Manson

Background

The functions of the Assessor are different from those of most other Local Government Officers, whose duties are to carry out the policies of local authorities, as determined by elected councillors. The Assessor is required to balance the interests of individual ratepayers against those of others in terms of valuation levels.

The independence of the Assessor is necessary to ensure that decisions are made on considerations of value, without political pressure. The actions of the Assessor are subject to scrutiny however, through an appeals process.

Further detail can be found here:
http://www.saa.gov.uk/theassessor.html

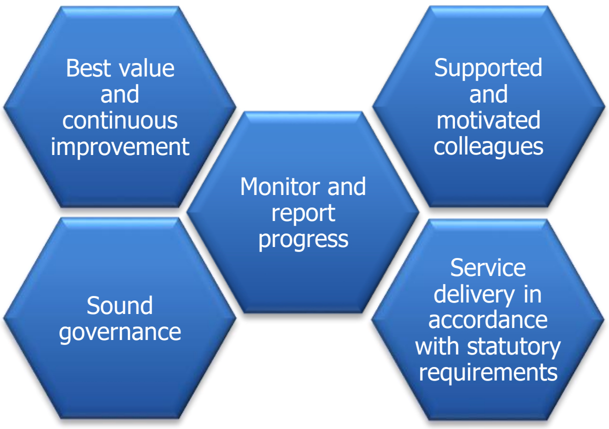
Strategy

Corporate Plan

The Board has a three-year corporate plan. It sets out the Board's vision as follows:

> "to provide a range of valuation and electoral services to the stakeholders of the Valuation Joint Board in accordance with statute and at levels of excellence which match their expectations"

Five core strategic objectives for 2016-2019 have been identified in the corporate plan, as follows:



The plan is monitored by the Board's senior management team and a progress update is due to be reported to the Board in late 2018.

The corporate plan can be found at:
http://www.orkney-shetland-vjb.co.uk/OSVJB%20Corporate%20Plan%202016%20-19.pdf

Performance Information

2017/18 was another busy year for the Board and its employees involving local elections, a snap Parliamentary General Election in close succession, an annual electoral canvass and the completion of the 2017 rating revaluation in addition to ongoing valuation duties.

Individual Electoral Registration (IER) continues to be a demand on resources. Funding from the Cabinet Office was received in 2017/18 with assurance that this will continue until 2020.

The Land Reform (Scotland) Act 2016 re-introduced shooting rights into the Valuation Roll with effect from 1 April 2017 which proved a significant demand on resources resulting in 666 additional entries being made in the combined Valuation Rolls of Orkney and Shetland.

Work on the 5-year programme to update the asset register on behalf of Orkney Islands Council was completed in May 2016. Work began in 2017 on a refresh of the programme.

Key Performance Indicators

The Board has adopted an agreed range of local non-financial Key Performance Indicators (KPIs) with reference to those published by other Valuation Joint Boards. Performance targets are set annually by the Assessor with consideration of previous achievements, pressures on resources and anticipated workload.

Performance targets have been more than achieved during 2017/18 despite the extra work created by local elections and a Parliamentary General Election, the additional work under IER, the Assistant Assessor's post remaining vacant and the new workload of the 2017 Revaluation and shooting rights entries. Temporary valuation resource is being provided to the Board by the employment of a Consultant Valuer.

The non-financial KPIs for 2017/18 are:

Council Tax List	2017/18 Target %	Actual %
% entered in List within 3 months of occupation	87.00	87.34
% entered in List within 6 months of occupation	96.00	99.33
% entered in List more than 6 months after occupation	<4.00	0.67
Valuation Roll		
% entered in Roll within 3 months of effective date	75.00	85.25
% entered in Roll within 6 months of effective date	90.00	92.14
% entered in Roll more than 6 months after effective date	<10.00	7.86
Total Reduction on appeal	1.00	0.03

The comparison of the actual outturn to budgeted net expenditure is a measure of the effectiveness of financial management. Quarterly revenue monitoring reports inform this key financial indicator of the Board's performance over the financial year and of the affordability of its ongoing commitments.

Financial Management	2017/18	2016/17
Actual net expenditure as a percentage of budgeted net expenditure.	92%	90%

Further information on performance can be found here: http://www.orkney-shetland-vjb.co.uk/KPIWeb06.html

Key Risks and Uncertainties

The maintenance of a risk register ensures the Board's functions operate effectively under all assessable and identifiable risks. This was established and reported to the Board by the Assessor at the meeting of 3 October 2017.

The risk register assesses the likelihood and impact of identifiable risks and provides actions to mitigate or minimise them. A traffic light system is used to show the overall risk rating - green being low risk, amber medium and red high. A total number of 47 risks were identified and of these, no risks are red, six are amber and the remainder are green.

Progress against actions are being regularly monitored and an update to the risk register is due to be reported to the Board in late 2018.

The risk register can be found at: http://www.orkney-shetland-vjb.co.uk/OSVJB%20RISK%20REGISTER_2017.pdf

Primary Financial Statements

The accounting framework defines local authorities as Councils constituted under Section 2 of the Local Government (Scotland) Act 1994 and the Valuation Joint Boards (Scotland) Order 1995 and those bodies to which Section 106(1) of the Local Government (Scotland) Act 1973 applies (i.e. committees, joint committees and joint boards, the members of which are appointed by local authorities and charities, etc.).

The annual accounts summarise the Board's transactions for the year and its year-end position at 31 March 2018. The annual accounts are prepared in accordance with the International Accounting Standards Board Framework for the Preparation and Presentation of Financial Statements as interpreted by the Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

A description of the purpose of the Primary Financial Statements has been included immediately prior to each statement: the Comprehensive Income and Expenditure Statement (CIES), Movement in Reserves Statement and Balance Sheet. These three statements are accompanied by Notes to the Accounts which set out the Accounting Policies adopted by the Board and provide more detailed analysis of the figures disclosed on the face of the Primary Financial Statements.

There is no Cashflow Statement because the Board does not have a bank account. All transactions are accounted for through Shetland Islands Council as administering authority.

The cash balance at 31 March 2018 of £100 represents petty cash held by officers of the Board.

The primary financial statements and notes to the accounts, including the accounting policies, form the relevant annual accounts for the purpose of the auditor's report.

Financial Performance

The purpose of the annual accounts is to present a public statement on the stewardship of funds for the benefit of both members of the Board and the public. The Board is funded by Orkney Islands Council and Shetland Islands Council. The Board meets several times a year, with its budget meeting taking place in January or February. A budget strategy report is presented to the Board annually. The strategy takes account of any known commitments and costs pressures and is viewed within the context of the available budgets of the constituent authorities. In line with the strategy the Board approves a budget for the year. The 2017/18 budget was approved by the Board on 17 February 2017. The Board's budget is its prime annual planning document and actual expenditure is monitored against it during the year. Any underspend or overspend of budget is reported to the Board in the quarterly revenue monitoring reports and annual requisitions are correspondingly adjusted.

The CIES presents the full economic cost of providing the Board's services in 2017/18. This differs from the budgeted outturn position shown in the following table as the CIES includes accounting adjustments required to comply with proper accounting practice. Therefore, the difference between the CIES and the actual outturn position is purely as a result of necessary accounting adjustments in the former. The Cost of Services of £611k, which is disclosed on the CIES, has been reconciled to the outturn used for management decision making of £598k within Note 1: Expenditure and Funding Analysis, on page 19.

Expenditure (net of income from fees and charges) that is funded from central government and Orkney and Shetland Islands Councils in 2017/18 is summarised in the following table:

	2017/18		
	Budget £	Actual £	Variance £
Expenditure:			
Employee Costs	563,725	486,716	77,009
Operating Costs	177,088	190,551	(13,463)
Income:			
Fees and Charges	(33,400)	(33,263)	(137)
Specific Grant Income	(55,001)	(45,790)	(9,211)
Net Expenditure	**652,412**	**598,214**	**54,198**

Overall in 2017/18, the Board underspent against its budget. There was an underspend of £77k on employee costs for the year, mainly due to the Assistant Assessor post remaining vacant for the whole year. To provide capacity and support valuation work, an additional £38k was spent on external consultants; this was offset by underspends on travel and other administration costs of £25k. Additionally, £9k of budgeted funding to cover Householder Enquiry forms was withdrawn by the Cabinet Office.

The Balance Sheet as at 31 March 2018

The Balance Sheet sets out the total net worth of the Board at a snapshot in time. When comparing the net worth of the Board at 31 March 2018 to that of the prior year, an overall increase in net worth of the organisation of £46k can be seen.

This has been driven by a decrease in pension liabilities that represent a long-term commitment for the Board and do not require to be met in any single year. The decrease results from updated pension assumptions which interact in complex ways. For example, an increase in the net discount rate has the effect of decreasing pension liabilities, as a lower value is placed on benefits paid in the future. Changes in these assumptions are further discussed in Note 14: Retirement benefits on page 24.

Material Transaction

Pension Liability

In order to comply with International Accounting Standard (IAS) 19 - Employee Benefits, a valuation of the Shetland Islands Council Pension Fund was made by the Fund Actuary as at 31 March 2018. This indicated a net pension liability for the Board of £1.933m compared to a net pension liability of £1.978m as at 31 March 2017. The movement in the year is influenced by actuarial assumptions and changes to these assumptions have reduced the valuation as at 31 March 2018.

The pension fund is a long-term commitment and is subject to a triennial actuarial valuation; the last valuation at 31 March 2017 recorded a funding level of 90% and the contributions the Board makes to the pension fund reduced in line with the actuary's valuation and recommendations.

Given the net pension liability is an actuarial estimation, i.e. an attempt to look into the future which is dependent on complex judgments, its value is subject to a high degree of uncertainty and inherent to risk of misstatement. The actual results could therefore be materially different from estimates however such effects can be measured. The effects of changes of assumptions are further discussed in Note 14: Retirement benefits on page 24.

Detailed information on the Shetland Islands Council Pension Fund can be found here: http://www.shetland.gov.uk/about_finances/

The Board Outlook

Looking forward, the 2018/19 budget was approved at the Board meeting on 9 February 2018. The approved budget has been set at £659k, which is an increase of £7k (1.1%) on the 2017/18 budget.

Given the current resourcing issues, the Board agreed that a Best Value Review would not take place and also approved revised staffing structure proposed by Assessor at the Board's meeting on 17 February 2017.

The Board is now considering an alternative recruitment strategy for the vacant Assistant Assessor post.

Close monitoring will also be given to the IER work and its funding, which remains a concern due to the extra costs being incurred to deliver the new obligation.

Further information on staffing and IER can be found here: http://www.shetland.gov.uk/coins/submissiondocuments.asp?submissionid=21983

In 2017/18 the Barclay Review published a number of recommendations in relation to Non-Domestic Rates and while all these have not yet been implemented it is anticipated that there will be workload and financial impact on the Board, should they all be implemented in the future. The Board has been updated on the potential implications and will need to monitor the situation as further responses are made by the Scottish Government.

Further information on the Barclay Review can be found here: https://www.gov.scot/Publications/2017/08/3435

https://www.saa.gov.uk/wp-content/uploads/2017/09/Barclay-Report-SAA-Recommendation-12-action-plan-20170929.pdf

The operational impact of new General Data Protection Regulations that came into force on 25 May 2018 is not yet fully known, but may be resource intensive due to the volume of personal data held and processed under the Board's statutory functions.

To find out more about the Board's Data Protection, Retention and Security Policies, or read the Privacy Notice, please visit: http://www.orkney-shetland-vjb.co.uk/Foi.html

Executive Manager – Finance

The unaudited annual accounts were signed by the then Executive Manager – Finance, Jonathan Belford, who took up a new post at Aberdeen City Council on 1 September 2018. Jamie Manson has been appointed as the new Executive Manager – Finance and will start on 24 September 2018. In the interim Hazel Tait, Acting s95 Officer, has been given delegated authority to sign the annual accounts.

Acknowledgements

Finally, we would like to acknowledge all the hard work of the officers in both Orkney Islands Council and Shetland Islands Council and the officers of the Board who have had a role in the preparation of these annual accounts and those who have worked diligently throughout the year in the delivery of the Board's objectives.

……………………………………………….

Andrew Drever
Convener
Orkney & Shetland Valuation Joint Board
21 September 2018

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Hazel Tait CPFA
Acting Section 95 Officer
Shetland Islands Council
21 September 2018

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Dennis M Stevenson
Assessor and Electoral Registration Officer
Orkney & Shetland Valuation Joint Board
21 September 2018

Annual Governance Statement

Scope of Responsibility

The Orkney & Shetland Valuation Joint Board is responsible for ensuring that its business is conducted in accordance with the law and proper standards and that public money is safeguarded and properly accounted for and used economically, efficiently and effectively. In discharging this accountability, elected members collectively and senior officers individually are responsible for establishing proper arrangements for the governance of the organisation's affairs and the stewardship of the resources at its disposal.

The Governance Framework

The undernoted principles were in place throughout 2017/18 when the Board was carrying out its business.

The key elements of the systems and processes that comprise the Board's governance arrangements are summarised in the following six principles:

Governance Principle 1: focusing on the purpose of the authority and on outcomes for the Island Communities of Orkney and Shetland

This principle is about delivering intended outcomes for citizens and service users, ensuring that high quality valuation assessment and registration services are delivered and that best use is made of the Board's resources.

The Board is focused around delivery of specialised valuation and registration service. The two services delivered by the Board are foundation stones to local government and democracy at local, national and international levels, as the services provide the means to raise local taxation and to conduct elections and referendums.

The Assessor is a member of the Scottish Assessors Association (SAA) and through this non-statutory voluntary association, the 14 Assessors that provide valuation assessments and registration services across the 32 local authority areas in Scotland share expertise and resources.

Through engagement with external stakeholders such as the Electoral Commission, the Cabinet Office, the Scottish Government, the Electoral Management Board for Scotland, the Institute of Revenue and Rating and Valuation (IRRV), the Royal Institution of Chartered Surveyors (RICS) and through close working with the Corporate Service directorates of the two constituent authorities, the Assessor draws on these resources and has developed engagement strategies that reflect the prevailing service requirements.

The Board's performance management framework is reviewed regularly to drive continuous improvement and ensure effective monitoring of progress and outcomes against stated objectives. Best Value progress reports are provided by the Assessor at least twice yearly to the Board.

Governance Principle 2: members and officers working together to achieve a common purpose with clearly defined functions and roles

This principle is about defining roles of elected members and officers, making sure responsibilities are clearly defined.

Standing orders regulate the form and content of Board meetings and the Board's financial regulations, modelled on those of Shetland Islands Council, provide a scheme of delegation for financial decisions. They can be found here: http://www.shetland.gov.uk/about_how_we_work/constitutionandgovernance.asp.

Performance and Best Value reports are presented to the Board at least twice a year; see http://www.shetland.gov.uk/our-performance-matters/ for further detail.

Functions and roles of statutory posts including the Assessor, Clerk, Electoral Registration Officer (ERO) and Treasurer are clearly defined. While the Assessor and ERO roles are employed directly by the Board the roles of Clerk and Treasurer are currently carried out by Shetland Islands Council and recharged to the Board on an annual basis.

Governance Principle 3: promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour

High standards of behaviour are essential to good governance. There is an expectation that elected members and senior officers will exercise leadership through exemplary standards of behaviour. This is achieved through compliance with codes of conduct and registers of interests which record any potential areas where conflicts of interest might arise.

The Board has in place a "Single Equality Scheme" for ensuring equalities compliance. Further information can be found here: http://www.orkney-shetland-vjb.co.uk/EQUALITIES.html

In order to avoid duplication, the Board relies on the register of interests and gifts maintained by the relevant constituent authorities for elected members. These can be found at http://www.orkney.gov.uk/Council/D/Declaration-of-Interest.htm for Orkney Islands Council and http://www.shetland.gov.uk/coins/allMembers.asp?sort=0 for Shetland Islands Council. The Assessor is bound by the policies of the Board and also must adhere to the professional standards and ethics regime set by the RICS.

There were no recorded breaches of codes of conduct by officials or members during the 2017/18 period.

Governance Principle 4: taking informed and transparent decisions which are subject to effective scrutiny and managing risk

The Board's decision-making process is well established with governance, finance and performance issues being discussed at Board meetings that take place in public (unless exempt under statutory provision). The Board's reports are published prior to each meeting and made available to the public on the Shetland Islands Council website. Rules and procedures govern how decisions are made and appropriate legal, financial and other professional advice is considered as part of the decision-making process.

Scrutiny is secured through internal and external audit. Minutes of meetings are uploaded onto Shetland Islands Council website and are also available on the Board's website thereby also allowing access through the link to the SAA website.

Decisions of the Assessor are subject to public scrutiny, scrutiny via an appeal and complaint process to the respective judicial bodies and external stakeholders that monitor performance such as the Electoral Commission and the Electoral Management Board for Scotland.

Risk management is a fundamental part of the organisation's decision making process and informs consideration of reports, both prior to and at Board meetings. The Board has undertaken to annually review its strategic and corporate risks, risk register and its associated Business Continuity Plans.

Governance Principle 5: developing the capacity and capability of members and officers to be effective

This element of governance is designed to ensure that both elected members and officers have the knowledge, skills and capacity to enable them to fulfil their respective roles effectively.

New members and employees receive induction training on taking up their post and some post holders are able to participate in a career grade development scheme that seeks to promote personal and professional development. All officials are subject to a staff review and development scheme and valuers who are members of the RICS are subject to additional compulsory continuing professional development training that is monitored by the RICS.

Governance Principle 6: engaging with local people and other stakeholders to ensure robust public accountability

The Board achieves this through timely publication of its annual accounts, of statutory and local performance information, and by publishing the Assessor's annual public performance report. Both the annual accounts and performance information is available on the Board's website:

http://www.orkney-shetland-vjb.co.uk/THE%20BOARD.html

http://www.orkney-shetland-vjb.co.uk/KPIWeb06.html

The Assessor also makes significant use of media to communicate relevant items of news. For example, to publicise the annual electoral canvass the Assessor pre-recorded a broadcast on BBC Radio Orkney.

Procedures are in place to meet requests made under the Freedom of Information (Scotland) Act. Community engagement is driven by the priorities of the particular aspect of the service under consideration. This is particularly evident during the lead up to elections when the information supplied and personal engagement through the media, gives timely information to the voting public of timescales to meet and the value to be gained, for example, by maximising absent voting options.

The financial management arrangements conform to the governance requirements in the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010).

Review of Effectiveness

The Board has a responsibility for ensuring the continuing effectiveness of its governance framework and systems of internal control. The review of effectiveness is informed by:

- progress towards key strategic and service objectives, as demonstrated through reporting on targets and performance;
- financial and budget monitoring;
- Internal Audit reviews on the systems of the Council as used by the Board;
- the work of managers within the Board;
- the annual accounts; and
- external inspections.

During the year there were no specific internal audits carried out for the Board, and the controls work undertaken across the Council systems by internal audit were found to be adequate.

Significant Governance Issues

The system of governance can provide only reasonable, and not absolute, assurance that assets are safeguarded, transactions are authorised and properly recorded, material errors or irregularities are either prevented or would be detected within a timely period and all the significant risks impacting on the achievement of our objectives have been mitigated.

The Board agreed, most recently in October 2017, to seek the recruitment of the Assistant Assessor post that has been vacant for two years. Successful recruitment to this post would strengthen management resilience and capacity, which will support strong governance.

The recruitment process was again unsuccessful and therefore the Board has retained the services of an experienced consultant valuer to strengthen management resilience and capacity. The Board keeps the situation under constant review and the Assessor will report on options in 2018/19.

There are no other significant governance issues to report.

Certification

The Governance Framework has been in place for the financial year ended 31 March 2018 and up to the date of approval of the annual accounts. Effective governance arrangements will remain a key priority for the Board in the future.

Overall, we consider that the governance and internal control environment operating in 2017/18 provides reasonable and objective assurance that any significant risks impacting on the achievement of our principal objectives will be identified, and actions taken to avoid or mitigate their impact.

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Andrew Drever
Convener
Orkney & Shetland Valuation Joint Board
21 September 2018

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Dennis M Stevenson
Assessor and Electoral Registration Officer
Orkney & Shetland Valuation Joint Board
21 September 2018

Remuneration Report

Introduction

The remuneration report is set out in accordance with the Local Authority (Scotland) Regulations 2014. These regulations require various disclosures on the remuneration and pension benefits of senior councillors and employees.

All disclosures in the tables below in relation to remuneration, pension benefit and pay bands are audited by Deloitte LLP. The other sections of the Remuneration Report are reviewed by Deloitte LLP to ensure that they are consistent with the financial statements.

Remuneration arrangements of Senior Councillors

The remuneration of Councillors is regulated by the Local Governance (Scotland) Act 2004 (Remuneration) SSI No. 2017/66 and the (Remuneration) Regulations 2007 (SSI No. 2007/183). The Regulations provide for the grading of Councillors for the purposes of remuneration arrangements, as the leader of Council, the Convener of the Council, Senior Councillors and Councillors. These regulations set out the amounts a Councillor may be paid for being a Convener or Vice-Convener of a Joint Board. This is inclusive of any amount payable to them as either a Councillor or Senior Councillor. The Convener and Vice-Convener are the only two Senior Councillor positions recognised by the Board.

The Board has an arrangement with each constituent authority to reimburse that Council for the additional costs of the Councillor arising from them being a Convener or Vice-Convener of the Board. The disclosures made in this report are limited to the amounts paid to the Council by the Board for remuneration and do not reflect the full value of the remuneration that may be paid to the Councillor.

The Convener and Vice-Convener of the Board are remunerated by the Council of which they are an elected member.

The regulations permit remuneration of Senior Councillors to one position held. No payment is made to Harvey Johnston, since when he was Vice-Convener (up to 3 May 2017), he was in receipt of remuneration for another Senior Councillor post at Orkney Islands Council.

Disclosure of remuneration for Senior Councillors

		2017/18			2016/17
Name	**Designation**	**Salary, fees and allowances £**	**Taxable Expenses £**	**Total Remuneration £**	**Total Remuneration £**
Andrew Drever	Convener (from 31 May 2017)	3,357	0	**3,357**	**0**
Theo Smith	Vice-Convener (from 1 June 2017)	2,612	0	**2,612**	**0**
Drew Ratter	Convener (to 3 May 2017)	382	47	**429**	**4,225**

Remuneration of Senior Employees

The employees of the Board are employed on the same terms and conditions as the employees of Shetland Islands Council. The Scottish Joint Negotiating Committee (SJNC) for Local Authority Services sets the salaries for the Chief Executives of Scottish Local Authorities. Circular CO/149 details the salaries paid to Chief Officers.

The Treasurer to the Board is the Executive Manager – Finance of Shetland Islands Council and is remunerated by the Shetland Islands Council. Details are included in the Remuneration report of the Shetland Islands Council. There is no additional remuneration for the role of the Treasurer to the Board.

Disclosure of remuneration for Senior Employees

Name	Designation	2017/18			2016/17
		Salary, fees and allowances £	Taxable Expenses £	Total Remuneration £	Total Remuneration £
Dennis M Stevenson	Assessor & Electoral Registration Officer	69,090	15	**69,105**	**66,992**

General Disclosure of Pay Band

Remuneration Bands	Number of Employees	
	2017/18	2016/17
£65,000 - £69,999	1	1

Bands that do not appear in the table had nil employees in both 2017/18 and 2016/17.

Pension details of Senior Councillors

The pension disclosure for Joint Boards for a Convener or Vice-Convener is limited to the contribution the Board has been asked to make to that person's pension by the Council of which the Convener or Vice-Convener is a member. No accrued pension benefit needs to be disclosed. Local Government Finance Circular 8/2011 (revised) details the disclosure requirements for Senior Councillors of Joint Boards.

Pension employer contributions – Senior Councillors

Name	Designation	In-Year Employer Pension Contributions	
		Year ending 31 March 2018 £	Year ending 31 March 2017 £
Andrew Drever	Convener (from 31 May 2017)	644	0
Theo Smith	Vice-Convener (from 1 June 2017)	543	0
Drew Ratter	Convener (to 3 May 2017)	79	837

As no remuneration was payable to Harvey Johnston when Vice-Convener (up to 3 May 2017), there is no corresponding pension employer contribution. Andrew Drever is a member of the Orkney Islands Council Pension Fund.

Pension details of Senior Employees

Pension benefits for local government employees are provided through the Local Government Pension Scheme (LGPS). The LGPS is a funded pension scheme, consisting of contributions received from members of the scheme as well as from employers.

From 1 April 2015, the LGPS moved away from a final salary pension scheme to a career average related earnings scheme (CARE). This means that pension benefits are worked out using career average revalued earnings rather than final salary.

The scheme's normal retirement age for employees is now linked to their state pension age, with the minimum age now 65.

From 1 April 2009 a five-tier contribution system was introduced, with contributions from scheme members based on how much pay falls into each tier.

This is designed to give more equality between the cost and benefits of scheme membership. Prior to 2009 contributions rates were set at 6% for all non-manual employees.

The tiered contribution rates are as follows:	2017/18
On earnings up to and including £20,700	5.50%
On earnings above £20,700 and up to £25,300	7.25%
On earnings above £25,300 and up to £34,700	8.50%
On earnings above £34,700 and up to £46,300	9.50%
On earnings above £46,300	12.00%

If a person works part-time, their contribution rate is worked out on their actual pay for the job. There is no automatic entitlement to a lump sum. Members may opt to give up (commute) pension for a lump sum of up to 25% of their pension value at retirement. The accrual rate guarantees a pension based on 1/49th of actual pay (prior to 1 April 2015 the actual rate guaranteed a pension based on 1/60th of final pensionable salary and years of pensionable service. Prior to 2009 the accrual rate guaranteed a pension based on 1/80th and a lump sum based on 3/80th of final pensionable salary and years of pensionable service).

The value of the accrued benefits has been calculated on the basis of the age at which the person will first become entitled to receive a pension on retirement without reduction on account of its payment at that age; without exercising any option to commute pension entitlement into a lump sum; and without any adjustment for the effects of future inflation.

Pension benefits – Senior Employees

Name and Designation	In-Year Employer Pension Contributions			Accrued Pension Benefits		
	Year ending 31 March 2018 £	Year ending 31 March 2017 £		As at 31 March 2018 £	As at 31 March 2017 £	Increase / (Decrease) £
Dennis M Stevenson - Assessor & Electoral Registration Officer	23,352	22,617	Pension	30,104	27,648	2,456
			Lump Sum	56,950	55,154	1,796

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Andrew Drever
Convener
Orkney & Shetland Valuation Joint Board
21 September 2018

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Dennis M Stevenson
Assessor and Electoral Registration Officer
Orkney & Shetland Valuation Joint Board
21 September 2018

Statement of Responsibilities for the Annual Accounts

The Board's responsibilities

The Board is required to:

- make arrangements for the proper administration of its financial affairs and to secure that the appointed Treasurer has the responsibility for the administration of those affairs (section 95 of the Local Government (Scotland) Act 1973). For the Board, that officer is the Executive Manager – Finance of Shetland Islands Council;
- manage its affairs to secure economic, efficient and effective use of resources and to safeguard its assets;
- ensure that the annual accounts are prepared in accordance with legislation (The Local Authority Accounts (Scotland) Regulations 2014) and, so far as is compatible with that legislation, in accordance with proper accounting practices (section 12 of the Local Government in Scotland Act 2003); and
- approve the annual accounts for signature.

I confirm that these annual accounts were approved for signature by the Board at its meeting on 21 September 2018.

Signed on behalf of the Valuation Joint Board.

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Dennis M Stevenson
Assessor and Electoral Registration Officer
Orkney & Shetland Valuation Joint Board
21 September 2018

The Treasurer's responsibilities

The Treasurer is responsible for the preparation of the Board's annual accounts in accordance with proper practices as required by legislation and as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Accounting Code).

In preparing these annual accounts, the Treasurer has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- complied with legislation; and
- complied with the Accounting Code (in so far as it is compatible with legislation).

The Treasurer has also:

- kept adequate accounting records which were up to date;
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

I certify that the annual accounts give a true and fair view of the financial position of the Orkney & Shetland Valuation Joint Board at the reporting date and the transactions of the Board for the year ended 31 March 2018.

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Hazel Tait CPFA
Acting Section 95 Officer
Shetland Islands Council
21 September 2018

Independent auditor's report to the members of Orkney and Shetland Valuation Joint Board and the Accounts Commission

Report on the audit of the financial statements

Opinion on financial statements

We certify that we have audited the financial statements in the annual accounts of Orkney and Shetland Valuation Joint Board for the year ended 31 March 2018 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Comprehensive Income and Expenditure Statement, Movement in Reserves Statement, Balance Sheet and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 (the 2017/18 Code).

In our opinion the accompanying financial statements:

- give a true and fair view in accordance with applicable law and the 2017/18 Code of the state of affairs of the Orkney and Shetland Valuation Joint Board as at 31 March 2018 and of its income and expenditure for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2017/18 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

Basis for opinion

We conducted our audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)). Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Orkney and Shetland Valuation Joint Board in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern basis of accounting

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Executive Manager – Finance has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about Orkney and Shetland Valuation Joint Board's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Responsibilities of the Executive Manager – Finance and Orkney and Shetland Valuation Joint Board for the financial statements

As explained more fully in the Statement of Responsibilities, the Executive Manager – Finance is responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal control as the Executive Manager – Finance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Executive Manager – Finance is responsible for assessing the Orkney and Shetland Valuation Joint Board's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

The Orkney and Shetland Valuation Joint Board is responsible for overseeing the financial reporting process.

Auditor’s responsibilities for the audit of the financial statements

Our objectives are to achieve reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of the auditor’s responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor’s report.

Other information in the annual accounts

The Executive Manager – Finance is responsible for the other information in the annual accounts. The other information comprises the information other than the financial statements, the audited part of the Remuneration Report, and our auditor’s report thereon. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon except on matters prescribed by the Accounts Commission to the extent explicitly stated later in this report.

In connection with our audit of the financial statements, our responsibility is to read all the other information in the annual accounts and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Report on other requirements

Opinions on matters prescribed by the Accounts Commission

In our opinion, the audited part of the Remuneration Report has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014.

In our opinion, based on the work undertaken in the course of the audit

- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003; and
- the information given in the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016).

Matters on which we are required to report by exception

- We are required by the Accounts Commission to report to you if, in our opinion:
- adequate accounting records have not been kept; or
- the financial statements and the audited part of the Remuneration Report are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit; or
- there has been a failure to achieve a prescribed financial objective.

We have nothing to report in respect of these matters.

Use of our report

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 120 of the Code of Audit Practice approved by the Accounts Commission, we do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

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Pat Kenny, CPFA (for and on behalf of Deloitte LLP)
110 Queen Street,
Glasgow,
G1 3BX,
United Kingdom

21 September 2018

Comprehensive Income and Expenditure Statement for the year ended 31 March 2018

The CIES shows the full economic cost of providing the service in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation by way of central government grant-in-aid and amounts requisitioned from Orkney and Shetland Islands Councils. Where accounting costs are different from those to be funded from taxation in the year (e.g. pension costs) the difference is shown in the Movement in Reserves Statement.

2016/17 £		Note	Orkney Islands Council £	Shetland Islands Council £	2017/18 £
470,486	Employee Costs		249,792	249,792	499,584
32,702	Property Costs		19,160	11,197	30,357
1,790	Supplies and Services		21,340	19,609	40,949
21,678	Transport Costs		10,648	10,648	21,296
120,438	Administration Costs		47,393	46,286	93,679
5,509	Payments to Other Bodies		2,010	2,260	4,270
(27,624)	Sales, Fees and Charges		(16,654)	(16,609)	(33,263)
(63,174)	Specific Grant Income	5	(23,648)	(22,142)	(45,790)
561,805	**Cost of Services**		**310,041**	**301,041**	**611,082**
	Financing and Investment Income and Expenditure				
49,000	Pension Interest Cost and Expected Return on Pension Assets	14			55,000
	Taxation and non-specific grant income				
(577,765)	Requisitions from Member Authorities		(303,803)	(294,411)	(598,214)
33,040	**Deficit on the Provision of Services**				**67,868**
537,000	Actuarial (gains)/losses on pension assets/liabilities	8			(114,000)
570,040	**Total Comprehensive Income and Expenditure**				**(46,132)**

Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the Board, analysed into usable reserves (i.e. those that can be applied to fund expenditure) and unusable reserves. The Board has no usable reserves.

	Usable Reserve £	Pension Reserve £	Employee Benefits Reserve £	Total Unusable Reserves £	Total Reserves £
Balance at 1 April 2017	**0**	**1,978,000**	**5,167**	**1,983,167**	**1,983,167**
Movement in reserves during the year					
Total comprehensive income and expenditure	67,868	(114,000)	0	(114,000)	(46,132)
Adjustments between accounting basis & funding basis per regulations	(67,868)	69,000	(1,132)	67,868	0
(Increase)/Decrease in year	**0**	**(45,000)**	**(1,132)**	**(46,132)**	**(46,132)**
Balance at 31 March 2018	**0**	**1,933,000**	**4,035**	**1,937,035**	**1,937,035**

Comparative movements in 2016/17	Usable Reserve £	Pension Reserve £	Employee Benefits Reserve £	Total Unusable Reserves £	Total Reserves £
Balance at 1 April 2016	**0**	**1,403,000**	**10,127**	**1,413,127**	**1,413,127**
Movement in reserves during the year					
Total comprehensive income and expenditure	33,040	537,000	0	537,000	570,040
Adjustments between accounting basis & funding basis per regulations	(33,040)	38,000	(4,960)	33,040	0
(Increase)/Decrease in year	**0**	**575,000**	**(4,960)**	**570,040**	**570,040**
Balance at 31 March 2017	**0**	**1,978,000**	**5,167**	**1,983,167**	**1,983,167**

Balance Sheet as at 31 March 2018

This shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Board.

As at 31 March 2017 £		Note	As at 31 March 2018 £
	Long-Term Assets		
0	Other Long-term Debtors		232
0			**232**
	Current Assets		
42,990	Short-term Debtors	6	46,602
209	Cash in hand		100
43,199			**46,702**
	Less Current Liabilities		
(48,366)	Short-term Creditors	7	(50,969)
(5,167)	**Net Assets excluding Pension Liability**		**(4,035)**
(1,978,000)	Pension Liability	8	(1,933,000)
(1,983,167)	**Net Liabilities including Pension Liability**		**(1,937,035)**
	Represented by		
5,167	Employee Benefits Reserve	8	4,035
1,978,000	Pension Reserve	8	1,933,000
1,983,167			**1,937,035**

……………………………………………….
Hazel Tait CPFA
Acting Section 95 Officer
Shetland Islands Council
21 September 2018

Notes to the Financial Statements

Note 1: Expenditure and Funding Analysis

The objective of the Expenditure and Funding Analysis is to demonstrate how the funding available to the Board for the year has been used in providing services in comparison with those resources consumed or earned in accordance with accounting practices.

2017/18	Net Expenditure chargeable to VJB £	Adjustments for pensions net change £	Other adjustments £	Net Expenditure in the CIES £
Employee Costs	486,716	14,000	(1,132)	499,584
Property Costs	30,357	0	0	30,357
Supplies and Services	40,949	0	0	40,949
Transport Costs	21,296	0	0	21,296
Administration Costs	93,679	0	0	93,679
Payments to Other Bodies	4,270	0	0	4,270
Sales, Fees and Charges	(33,263)	0	0	(33,263)
Specific Grant Income	(45,790)	0	0	(45,790)
Net Cost of Services	**598,214**	**14,000**	**(1,132)**	**611,082**
Other Income and Expenditure:				
Requisitions from Member Authorities	(598,214)	0	0	(598,214)
Net Interest Expense	0	55,000	0	55,000
(Surplus) or Deficit	**0**	**69,000**	**(1,132)**	**67,868**

2016/17	Net Expenditure chargeable to VJB £	Adjustments for pensions net change £	Other adjustments £	Net Expenditure in the CIES £
Employee Costs	486,446	(11,000)	(4,960)	470,486
Property Costs	32,702	0	0	32,702
Supplies and Services	1,790	0	0	1,790
Transport Costs	21,677	0	0	21,678
Administration Costs	120,439	0	0	120,438
Payments to Other Bodies	5,509	0	0	5,509
Sales, Fees and Charges	(27,624)	0	0	(27,624)
Specific Grant Income	(63,174)	0	0	(63,174)
Net Cost of Services	**577,765**	**(11,000)**	**(4,960)**	**561,805**
Other Income and Expenditure:				
Requisitions from Member Authorities	(577,765)	0	0	(577,765)
Net Interest Expense	0	49,000	0	49,000
(Surplus) or Deficit	**0**	**38,000**	**(4,960)**	**33,040**

Note 2: Accounting Standards Issued not Adopted

The Code requires the disclosure of information relating to the impact of an accounting change that will be required by a new standard that has been issued, but not yet adopted. This applies to the adoption of the following new or amended standards within the 2018/19 Code:

- IFRS 9: Financial Instruments;
- IFRS 15: Revenue from Contracts with Customers, including amendments and clarifications;
- Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses; and
- Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative.

The Code requires implementation in the accounts from 1 April 2018 and there is therefore no impact on the 2017/18 financial statements, neither will there be retrospective restatement of the 2017/18 year in next year's accounts upon implementation of the two new standards. Instead, opening balances at 1 April 2018 will be adjusted.

There is not expected to be any significant impact on the Board.

Note 3: Assumptions made about the future and other major sources of estimation uncertainty

The financial statements contain estimated figures that were based on assumptions made by the Board about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from assumptions and estimates.

There is one item on the Board's Balance Sheet as at 31 March 2018 for which there is a significant risk of material adjustment in the forthcoming financial year as shown in the following table:

Pensions Liability
Uncertainties
Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. Actuaries are engaged to provide the Board with expert advice about the assumptions to be applied.
Effect if actual results differ from assumptions
The effects on the net pensions liability of changes in individual assumptions can be measured. For instance, a 0.5% decrease in the discount rate assumption would result in an increase of £480k in the pension liability; equating to a 9% increase.

Note 4: Adjustments between Accounting Basis and Funding Basis under regulations

This note, as disclosed in the tables below, details the adjustments that are made to the total CIES, recognised by the Board in the year, in accordance with proper accounting practice, to the resources that are specified by statutory provisions as being available to the Board to meet future expenditure. Such adjustments involve the Pension Reserve and Employee Benefits Reserve by amounts charged for holiday pay to the CIES that are different from the cost of settlements chargeable in the year in accordance with statutory requirements.

2017/18	Usable reserves £	Unusable reserves £
Adjustments primarily involving the Pensions Reserve:		
Reversal of items relating to retirement benefits debited or credited to the CIES (note 13)	(192,000)	192,000
Employer's pension contributions and direct payments to pensioners payable in the year	123,000	(123,000)
Adjustments involving the Employee Benefits Reserve:		
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	1,132	(1,132)
Total Adjustments	**(67,868)**	**67,868**

2016/17	Usable reserves £	Unusable reserves £
Adjustments primarily involving the Pensions Reserve:		
Reversal of items relating to retirement benefits debited or credited to the CIES (note 13)	(151,000)	151,000
Employer's pension contributions and direct payments to pensioners payable in the year	113,000	(113,000)
Adjustments involving the Employee Benefits Reserve:		
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	4,960	(4,960)
Total Adjustments	**(33,040)**	**33,040**

Note 5: Specific Grant Income

2016/17 £		2017/18 £
(54,959)	Cabinet Office - Individual Electoral	(45,790)
(6,094)	Cabinet Office - EU Referendum	0
(2,121)	Scottish Government - Young Persons	0
(63,174)	**Total**	**(45,790)**

Note 6: Short-term Debtors

As at 31 March 2017 £		As at 31 March 2018 £
37,118	Central Government Bodies	0
3,187	Other Local Authorities	41,256
2,685	Other Entities and Individuals	5,346
42,990	**Total**	**46,602**

At the end of 2016/17 £37,118 was owing from the Cabinet Office and this was settled in 2017/18. At the end of 2017/18, £40,562 was owed to the Board from its constituent authorities.

Note 7: Short-term Creditors

As at 31 March 2017 £		As at 31 March 2018 £
(32,902)	Other Local Authorities	(34,202)
(10,209)	Other Entities and Individuals	(11,740)
(5,255)	Public Corporations and Trading Funds	(5,027)
(48,366)	**Total**	**(50,969)**

Note 8: Unusable Reserves

As at 31 March 2017 £		As at 31 March 2018 £
1,978,000	Pension Reserve	1,933,000
5,167	Employee Benefits Reserve	4,035
1,983,167	**Total**	**1,937,035**

Pension Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions.

The Board accounts for post-employment benefits in the CIES as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Board makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the resources set aside by the Council to meet the benefits earned by past and current employees. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

As at 31 March 2017 £		As at 31 March 2018 £
1,403,000	**Balance at 1 April**	**1,978,000**
537,000	Actuarial (gains)/losses on pensions assets and liabilities	(114,000)
151,000	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the CIES	192,000
(113,000)	Employer's pensions contributions and direct payments to pensioners payable in the year	(123,000)
1,978,000	**Balance at 31 March**	**1,933,000**

Employee Benefits Reserve

The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

As at 31 March 2017 £		As at 31 March 2018 £
(10,127)	**Balance at 1 April**	**(5,167)**
10,127	Settlement or cancellation of accrual made at the end of the preceding year	5,167
	Amounts accrued at the end of the current year:	
(5,167)	Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(4,035)
(5,167)	**Balance at 31 March**	**(4,035)**

Note 9: Nature and Extent of Risks Arising from Financial Instruments

A variety of financial risks may be faced by the Board in holding financial instruments. An assessment on their impact on the annual accounts is detailed below:

Credit risk

The possibility that other parties might fail to pay amounts due to the Board. This is considered immaterial on the basis of past experience and the fact that most debt payable to the Board is due from other public bodies.

Liquidity risk

The possibility that the Board might not have funds available to meet its commitments to make payments. Given the Board's statutory responsibility to have a balanced budget and its constituent authorities' obligations to fund its activities, this risk is considered immaterial.

Interest rate risk

The possibility that the Board might be exposed to interest rate movements on borrowing and investments. The Board did hold any borrowing or investments at 31 March 2018.

Price risk

The possibility that fluctuations in equity prices have a significant impact on the value of financial instruments held by the Board. The Board does not currently invest in equity shares.

Foreign Exchange risk

The possibility that fluctuations in exchange rates could result in losses to the Board. The Board conducts all its transactions in £ Sterling.

Note 10: Events after the Reporting Period

The annual accounts were authorised for issue on 21 September 2018. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2018, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

Note 11: External Audit costs

2016/17 £		2017/18 £
7,578	Fees payable with regard to external audit services carried out by the appointed auditor	7,387
7,578	**Total**	**7,387**

Note 12: Related Parties

The Board's related parties are those bodies or individuals that have the potential to control or significantly influence the Board, or to be controlled or significantly influenced by the Board. The Board is required to disclose material transactions that have occurred with related parties and the amount of any material sums due to or from related parties. Related party relationships require to be disclosed where control exists, irrespective of whether there have been transactions between the related parties.

To enable the Board to carry out its objectives, the member authorities of the Board have contributed requisitions in the following proportions:

- Orkney Islands Council: 51% (£303,803)
- Shetland Islands Council: 49% (£294,411)

The Board in turn pays Shetland Islands Council for property and support services. The amount paid in relation to these services for the year ended 31 March 2018 was £11,000 and £15,079 (2016/17 £11,000 and £12,000) respectively.

The Board paid Orkney Islands Council £16,910 for the year ended 31 March 2018 in respect of property services (2016/17 £17,898) and in turn Orkney Islands Council paid the Board for valuation services, amounting to £30,000 (2016/17 £25,000) for 2017/18.

Note 13: Operating Leases

The Board leases a property in Orkney from Orkney Islands Council. This lease has been renewed for three years and is due to expire in June 2021.

The minimum lease payments due under non-cancellable leases in future years are:

2016/17 £		2017/18 £
12,951	Not later than one year	13,200
2,821	Later than one year and less than five years	29,229
15,772	**Total**	**42,429**

The expenditure charged to the CIES during the year in relation to this lease was:

2016/17 £		2017/18 £
12,000	Minimum lease payments	12,943
12,000	**Total**	**12,943**

Shetland premises are provided by the Shetland Islands Council. There is no formal lease agreement. The Board's only obligation is to fund the actual running costs of their share of the building, which was £11,000 for 2017/18 (£11,000 for 2016/17).

Note 14: Retirement Benefits

The Local Government Pension Scheme, administered locally by Shetland Islands Council, is a funded defined benefit career average related earnings scheme, meaning that the authority and employees, pay contributions into a fund, calculated at a level intended to balance the pension liabilities with investment assets. The accrual rate guarantees a pension based on 1/49th of actual pay (prior to 1 April 2015 the actual rate guaranteed a pension based on 1/60th of final pensionable salary and years of pensionable service. Prior to 2009, the accrual rate guaranteed a pension based on 1/80th and a lump sum based on 3/80th of final pensionable salary and years of pensionable service).

There is no automatic entitlement to a lump sum in respect of post-2009 service. Members may however opt to give up (commute) pension for lump sum of up to 25% of their pension value at retirement. The scheme's normal retirement age is now linked to the state pension age, with the minimum age now 65. Pensions are increased annually in line with changes to the Pensions (Increases) Act 1971 and Section 59 of the Social Security Pensions Act 1975.
Shetland Islands Council Pension Fund is operated under the regulatory framework for the Local Government Pension Scheme and the governance of the scheme is the responsibility of the Pension Fund Committee of Shetland Islands Council. The Committee comprises of elected members of Shetland Islands Council.

Policy is determined in accordance with the Pensions Fund Regulations. Management of the Fund's investments is carried out by Shetland Islands Council which receives recommendations from the Pension Fund Committee. Shetland Islands Council selects and appoints a number of external investment managers/partners and periodically monitors their investment performance.

The principal risks to the authority of the scheme are the longevity assumptions, statutory changes to the scheme, structural changes to the scheme (i.e. large-scale withdrawals from the scheme), changes to inflation, bond yields and the performance of the equity investments held by the scheme. These are mitigated to a certain extent by the statutory requirements to charge to the contributing authorities the amounts required by statute as described in the Note 15: Accounting Policies on page 28.

Transactions Relating to Post-employment Benefits

The Board recognises the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions.

The charge required to be funded in the year, however, is based on the cash payable in the year, so the real cost of post-employment / retirement benefits is reversed out via the Movement in Reserves Statement.

The amount included in the Balance Sheet arising from the schemes obligation in respect of the pension fund is as follows:

2016/17 £		2017/18 £
(5,224,000)	Present value of the defined benefit obligation	(5,160,000)
3,246,000	Fair value of assets in the Local Government Pension Scheme	3,227,000
(1,978,000)	**Net liability arising from Defined Benefit Obligation**	**(1,933,000)**
(1,955,000)	Local Government Pension Scheme	(1,878,000)
(23,000)	Unfunded liabilities for Pension Fund	(55,000)
(1,978,000)	**Total Pension Reserve**	**(1,933,000)**

The following transactions have been made in the CIES via the Movement in Reserves Statement during the year:

2016/17 £	Local Government Pension Scheme	2017/18 £
	Comprehensive Income and Expenditure Statement	
	Cost of Services:	
102,000	Current service cost	137,000
	Financing and Investment Income and Expenditure:	
49,000	Net interest expense	55,000
151,000	**Total Post-Employment Benefit Charged to the Surplus or Deficit on the Provision of Services**	**192,000**
	Other Post-Employment Benefit Charged to the CIES	
(446,000)	Return on plan assets (excluding the amount included in the net interest expense)	115,000
0	Actuarial (gains) and losses arising on changes in demographic assumptions	8,000
983,000	Actuarial (gains) and losses arising on changes in financial assumptions	(395,000)
0	Actuarial (gains) and losses arising from other experience	158,000
688,000	**Total Post-Employment Benefit Charged to the CIES**	**78,000**
	Movement in Reserves Statement	
151,000	Reversal of items relating to retirement benefits debited or credited to the CIES	192,000
	Actual amount charged against the General Fund balance for pensions in the year:	
(113,000)	Employers' contributions and direct payments to pensioners payable in the year	(123,000)

Assets and Liabilities in Relation to Post-employment Benefits

Reconciliation of fair value of the scheme assets:

2016/17 £		2017/18 £
2,680,000	**Opening balance at 1 April**	**3,246,000**
94,000	Interest income	83,000
	Re-measurement gains and (losses)	
446,000	Return on assets excluding amounts included in net interest	(115,000)
113,000	Employer contributions	123,000
23,000	Contributions by scheme participants	22,000
(110,000)	Benefits paid	(132,000)
3,246,000	**Closing balance at 31 March**	**3,227,000**

Reconciliation of present value of the scheme liabilities (defined benefit obligation):

2016/17 £		2017/18 £
4,083,000	**Opening balance at 1 April**	**5,224,000**
102,000	Current service cost	137,000
143,000	Interest cost	138,000
23,000	Contributions by scheme participants	22,000
	Remeasurement (gains) and losses:	
0	Actuarial (gains) and losses from changes in demographic assumptions	8,000
983,000	Actuarial (gains) and losses from changes in financial assumptions	(395,000)
0	Actuarial (gains) and losses from other experience	158,000
(110,000)	Benefits paid	(132,000)
5,224,000	**Closing balance at 31 March**	**5,160,000**

Analysis of Pension Fund's Assets

The Board's share of the Pension Fund's assets at 31 March 2018 comprised:

2016/17 £		2017/18 £
	Quoted prices in active markets:	
0	Cash and Cash Equivalents (Liquidity Fund)	**16,100**
	Quoted prices not in active markets:	
13,000	Cash and Cash Equivalents (Bank)	**0**
	Property:	
338,000	UK Property	375,300
11,000	Overseas Property	3,500
349,000	**Sub-total Property**	**378,800**
	Investment Funds and Unit Trusts:	
2,048,000	Equities	2,027,500
281,000	Bonds	275,300
555,000	Other	529,300
2,884,000	**Sub-total Investment Funds and Unit Trusts**	**2,832,100**
3,246,000	**Total Assets**	**3,227,000**

Basis for Estimating Assets & Liabilities

The Board's share of the liabilities of Shetland Islands Council Pension Fund have been assessed on an actuarial basis using the projected unit credit method: an estimate of the pensions that will be payable in future years dependent upon assumptions about mortality rates, salary levels, etc.

The Scheme's liabilities have been assessed by Hymans Robertson, an independent firm of actuaries, and estimates are based on the latest full valuation of the Pension Fund at 31 March 2017, projected forward to 31 March 2018.

The principal assumptions used by the actuary were:

2016/17		2017/18
	Long-term expected rate of return on assets in the Scheme:	
3.50%	Investment Funds and Unit Trusts	2.57%
	Mortality Assumptions:	
	Longevity at 65 for current pensioners (in years):	
22.8	Men	22.1
23.8	Women	24.0
	Longevity at 65 for future pensioners (in years):	
24.9	Men	23.9
26.7	Women	26.1
3.40%	Rate of inflation	3.40%
4.40%	Rate of increase in salaries	3.02%
2.40%	Rate of increase in pensions	2.40%
2.60%	Rate for discounting scheme liabilities	2.70%
70.00%	Take-up of option to convert annual pension into retirement lump sum (Pre-April 2009)	50.00%
85.00%	Take-up of option to convert annual pension into retirement lump sum (Post-April 2009)	75.00%

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analyses below have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the analysed assumption changes, while all the other assumptions remain constant. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, i.e. on an actuarial basis using the projected unit credit method.

Change in assumptions as at 31 March 2018	Approximate increase to employer liability %	Approximate monetary amount £
0.5% decrease in Real Discount Rate	9%	480,000
0.5% increase in the Salary Increase Rate	2%	103,000
0.5% increase in the Pension Increase Rate	7%	369,000

The Pension Funds do not have an asset and liability matching strategy (ALM).

Impact on the Authority's Cash Flows

The objectives of the scheme are to keep the employers' contributions rate as constant as possible. The Pension Funds have agreed a strategy with the scheme's actuary to achieve a funding level of 100% in the longer term. The Fund takes account of national changes to the Local Government Pension Scheme in Scotland such as the move from 1 April 2015 to the CARE scheme for future accruals.

Employer's contributions have been set at 33.8% for 2017/18. The three years set out in the latest triennial valuation as at 31 March 2017 are as follows:

Year	Employer contributions
2018/19	31.10%
2019/20	28.30%
2020/21	25.50%

The total contributions expected to be made by the Board to the Pension Fund in the year to 31 March 2019 is £0.104m.

The weighted average duration of the defined benefit obligation for scheme members is 18.8 years for 2017/18.

Note 15: Accounting Policies

A General principles

The financial statements summarise the Board's transactions for the 2017/18 financial year and its position at the year-end of 31 March 2018. The Board is required to prepare an annual Statement of Accounts by the Local Authority Accounts (Scotland) Regulations 2014, which Section 12 of the Local Government in Scotland Act 2003 requires to be prepared in accordance with proper accounting practices.

These practices, under Section 21 of the 2003 Act, primarily comprise the Code, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under Section 12 of the 2003 Act.

The accounting convention adopted in the financial statements is principally historical cost, modified by the valuation of pension assets and liabilities where appropriate. The financial statements have been prepared on a going concern basis

B Accruals of income and expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- revenue from the sale of goods is recognised when the Board transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Board;
- revenue from the provision of services is recognised when the Board can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Board;
- expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made; and
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet.

C Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are made only when required by proper accounting practices, or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance.

Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

D Employee benefits

Benefits payable during employment

Short-term employee benefits are those due to be settled within 12 months of the year-end, such as wages, salaries, paid annual leave, paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees, and are recognised as an expense for services in the year in which employees render service to the Board.

An accrual is made for the cost of holiday entitlements (e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit.

The accrual is charged to the Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday entitlement arises.

Post-employment benefits

As part of the terms and conditions of employment of its officers, the Board makes contributions towards the cost of post-employment benefits. These benefits will not become payable until employees retire. The Board has a commitment to make the payments that need to be disclosed at the time that employees earn their future entitlement.

Current employees of the Board are members of the Shetland Islands Council Local Government Pension Scheme which is administered locally, as are all current pensioners except two who are members of the Orkney Islands Local Government Pension Scheme.

The Local Government Pension Scheme is accounted for as a defined benefits plan.

The liabilities of the Shetland Islands Council's Pension Fund attributable to the Board are included in the Balance Sheet on an actuarial basis using the projected unit method, i.e. an assessment to the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, projections of earnings for current employees, etc.

Liabilities are discounted to their value at current prices using a discount rate derived from a corporate bond yield curve constructed from yields on high quality bonds and recognising the weighted average duration of the benefit obligation determined at the most recent actuarial valuation.

The pension fund assets attributable to the Board are included in the Balance Sheet at their fair value:

- Quoted securities – current bid price;
- Unquoted securities – professional estimate; and
- Unitised securities – current bid price.

The change in the net pension liability is analysed into the following components:

- **current service cost** – the increase in defined benefit obligation as a result of employee service in the current period;
- **past service cost** – the change in defined benefit obligation arising from current year decisions whose effect relates to years of service earned in earlier years, which is debited to the Surplus or Deficit on the Provision of Services in the CIES;
- **net interest cost on the defined benefit liability, i.e. net interest expense of the Board** – the change during the period in the net defined benefit liability that arises from the passage of time charged to the CIES. This is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability at the beginning of the period, taking into account any changes in the net defined benefit liability during the period as a result of contribution and benefit payments;
- **return on plan assets** – excluding amounts included in net interest on the net defined benefit liability which are charged to the CIES;
- **actuarial gains and losses** – changes in the net pension liability that arise because events have not coincided with assumptions made at the last actuarial valuation, or because the actuaries have updated their assumptions. Actuarial gains and losses are charged to the CIES; and
- **contributions paid to the pension fund** – cash paid as employer's contributions to the pension fund in settlement of liabilities which are not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the amount payable by the Board to be the amount paid directly to pensioners in the year, not the amount calculated according to the relevant accounting standards in the CIES.

In the Movement in Reserves Statement this means that there are transfers to and from the Pension Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the Board of being required to account for retirement benefits on the basis of cash flows rather than as benefits earned by employees.

Discretionary benefits

The Board has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff are accrued in the year of the decision to make the award and accounted for using the same policies that are applied to the Local Government Pension Scheme.

E Overheads and support services

Whereby, under agreement with the Board, the constituent authorities place their own staff at the disposal of the Board, the Board pays to that authority such amounts as may be agreed for such services in accordance with the Board's arrangements for accountability and reporting financial performance. Certain support service costs are provided under a Service Level Agreement between the Board and the service provider.

F Leases

Operating Leases - Board as Lessee: rentals paid under operating leases are charged to the CIES as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease; even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

G Government grants and other contributions

Whether paid on account, by instalments or in arrears, government grants, third party contributions and donations are recognised as due to the Board when there is reasonable assurance that:

- the Board will comply with the conditions attached to the payments, and
- the grants or contributions will be received.

Amounts recognised as due to the Board are not credited to the CIES until conditions attaching to the grant or contribution have been satisfied.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the Specific Grant Income line in the CIES.

H Events After the Reporting Period

Events after the reporting period are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the financial statements are authorised for issue.

Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period, whereby the financial statements are adjusted to reflect such events; and
- those that are indicative of conditions that arose after the reporting period, whereby the financial statements are not adjusted to reflect such events; where a category or events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the financial statements.

I Value Added Tax

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.