



Orkney & Shetland Valuation Joint Board



Clerk to the Board: Jan-Robert Riise

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Louise Adamson
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Date: 22 February 2019

Dear Sir/Madam

You are invited to the following meeting:

Orkney and Shetland Valuation Joint Board
Council Chamber, Council Offices, Kirkwall
Wednesday 27 February 2019 at 3pm

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

Yours faithfully

J R Riise
Clerk to the Board

AGENDA

- (a) Hold circular calling the meeting as read.
- (b) Apologies for absence, if any.
- (c) Confirm the minutes of the meeting held on 5 December 2018 (attached).

1.	Orkney and Shetland Valuation Joint Board – Progress Report
2.	Management Accounts for Orkney and Shetland Valuation Joint Board 2018/19 – Outturn as at Period 10
3.	Annual Audit Plan 2018/19
4.	2019/20 Budget Proposal – Orkney and Shetland Valuation Joint Board
<i>The following Item contains Exempt Information</i>	
5.	Staffing – Assistant Assessor's Post



Orkney & Shetland Valuation Joint Board



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**Orkney and Shetland Valuation Joint Board
Council Chamber, Town Hall, Lerwick
Wednesday 5 December 2018 at 2pm**

B - Public

Present:

Orkney Members

A Drever
S Clackson
D Dawson
H Johnston
J R Scott

Shetland Members

A Cooper
A Duncan
J Fraser
T Smith
B Wishart

In Attendance:

D Stevenson, Assessor and Electoral Registration Officer
J Riise, Clerk to the Board
J Manson, Treasurer to the Board
M Gordon, Team Leader - HR
M Forrester, Senior Assistant Accountant, SIC
L Adamson, Committee Officer, SIC

Apologies:

B Foulkes

Circular

The circular calling the meeting was held as read.

Chairperson

Mr A Drever, Convener of the Board, chaired the meeting.

The Chair welcomed Mr Manson, the new Treasurer to the Board, to the meeting.

Minutes

The Board confirmed the minutes of the meeting held on 26 June 2018 on the motion of Mr T Smith, seconded by Mr Dawson.

The Board confirmed the minutes of the meeting held on 13 September 2018 on the motion of Ms Wishart, seconded by Mr Scott.

The Board confirmed the minutes of the meeting held on 21 September 2018 on the motion of Mr Fraser, seconded by Mr Scott.

13/18 **Orkney and Shetland Valuation Joint Board – Progress Report**

A report by the Assessor and Electoral Registration Officer presented the six monthly Progress Report since the Board's meeting on 9 February 2018, as required by the Board's Best Value Regime [Appendix 1].

The Assessor and Electoral Registration Officer summarised the main terms of the report.

In responding to a question on proposals to reform the current cumbersome and complex annual Household canvass as reported at Section 4.8, the Assessor and Electoral Registration Officer advised on the benefit for Electoral Registration Officers to have local control and discretion on how the canvass is carried out, which could be by email and phone rather than door-to-door visits.

In referring to Section 4.4, and the additional work to update the Register under IER when responses are not returned, it was questioned whether these occupants could be individuals with additional support needs, where it was suggested that in such circumstances contact should be made with the relevant support agency or carer. The Assessor and Electoral Registration Officer advised that generally non-responses do not relate to any particular demographic group, however should any unrepresented group be highlighted during the electoral canvass contact arrangements could be made as suggested.

In referring to the update on Council Tax Proposals/Appeals at Section 5.2, the Assessor and Electoral Registration Officer advised that a recent decision by the Valuation Appeal Committee in Shetland has been appealed to the Court of Session. He reported that the Assessor has 21 days to answer the grounds for appeal and Legal Counsel has been engaged to represent the Assessor. The approximate cost to process the case could be between £6k - £10k, and while the process could take 6 to 8 months the timescale will depend on the business of the Court. The Board also noted that the Assessor would be taking further advice on the prospects of recovering legal costs on success.

In response to a question relating to printing costs associated with Individual Electoral Registration (IER) as reported at Section 4.2, the Assessor and Electoral Registration Officer advised on the practise whereby bulk printing is undertaken by external printers, while day to day forms are printed in-house.

During the discussion, reference was made to the update on the hearings to cover industrial subjects at Section 6.5, "2017 Revaluation Appeals". A comment was made that with the increase in decommissioning activity at Sullom Voe Terminal there was a need to be mindful that there could be additional appeals work for the Assessor.

Decision:

The Board noted the contents of the report.

14/18 **Orkney and Shetland Valuation Joint Board – Risk Register**

A report by the Assessor and Electoral Registration Officer presented the Risk Register, which ensures operations in relation to the Board's functions can operate effectively under all assessable and identifiable risks [Appendix 2].

In introducing the report, the Assessor and Electoral Registration Officer highlighted the red risk relating to the Barclay Report recommendations in terms of staffing resources in place to implement the move to 3 yearly Revaluations. In that regard, reference was made to the "Barclay Review Recommendation" report later on today's agenda, and it was agreed that any questions on the Barclay Review would be raised during that discussion.

Decision:

The Board noted the contents of the report and risk register.

15/18 **Management Accounts for Orkney and Shetland Valuation Joint Board 2018/19 - Outturn at Period 7**

A report by the Treasurer to the Board enabled the Board to note the Management Accounts showing the projected outturn position as at Period 7 [Appendix 3].

The Treasurer to the Board summarised the main terms of the report.

In response to a question, the Board were informed that the closing date for applications for the re-advertised Assistant Assessor post is 20 December 2018.

Decision:

The Board noted the contents of the report.

On the motion of Mr Drever, seconded by Mr Dawson, the Board resolved in terms of subsection 4 of Section 50A of the Local Government (Scotland) Act 1973 to exclude the public from this meeting during consideration of the

following item of business on the grounds that it was likely that, if the public were present, there would be disclosure of exempt information as defined in paragraph 1 of Part 1 of Schedule 7A to the said Act.

16/18 **Barclay Review Recommendations Report.**

A report by the Assessor and Electoral Registration Officer presented to the Board the recommendations from the Barclay Review, and the potential impact on the statutory valuation service and the financial implications associated with each recommendation made.

The Assessor and Electoral Registration Officer summarised the main terms of the report.

During the discussion, the Assessor and Electoral Registration Officer responded to questions from Members. Following consideration of the Options set out in Section 14 of the report, in terms of staff costs and structures, Mr T Smith moved and Mr D Dawson seconded that the Board approve Option 2.

Following consideration of the options at Section 14.2 of the report, in terms of the supported valuation system, on the motion of Mr Scott, seconded by Ms Wishart, the Board approved Option 1.

Decision:

The Board RESOLVED to approve:

- 14.1, Option 2, and,
- 14.2, Option 1.

The meeting concluded at 3.15pm.

Chair

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Orkney & Shetland Valuation Joint Board



Agenda Item

1

To: Orkney and Shetland Valuation Joint Board

27 February 2019

From: Assessor & Electoral Registration Officer

BEST VALUE REGIME - PROGRESS REPORT

1. PURPOSE OF REPORT

To present to the Board a six-monthly Progress Report since the Board's meeting on 5 December 2018 as required by the Board's Best Value Regime.

2. BACKGROUND

In the Board's Best Value submission provision, it states that the Assessor and Electoral Registration Officer would produce six monthly Progress Reports for presentation to meetings of the Board.

3. INTRODUCTION

The statutory duties of the Assessor and Electoral Registration Officer is to prepare, maintain and publish the Valuation Roll, the Council Tax Valuation List and the Register of Electors. This report describes these 3 duties in more detail and presents to the Board details of the main tasks completed in the last six months between August 2018 and February 2019 since the Board's full meeting on 5 December 2018.

4. ELECTORAL REGISTRATION SERVICE OVERVIEW AND PRIORITIES

4.1 Individual Electoral Registration (IER)

Individual Electoral Registration came into force on the 19 September 2014 and continues to operate as it has done since that date. Monthly updates to the registers are published from January to September each year and the latest Orkney & Shetland revised Register of Electors were published on 1st December 2018.

To support the move to IER and assist those electors who receive new application forms, the Cabinet Office created an on-line registration system which is accessed through the government web site, www.gov.uk/register-to-vote. This site is continually being improved by the Cabinet Office and is the most popular method of registration used by the public.

In order to deal with the more complex time consuming IER process the Board agreed to employ two 0.5 FTE Admin Assistants, one in each office. Both posts were filled on 1 April 2015. At the Board meeting on 17 February 2017 it was agreed to extend these posts in tandem with Cabinet Office funding until the end of the projected Parliament, at that time, to 2020 (Min Ref 10/17).

4.2 Cabinet Office Funding for IER & overall costs/income

The main Cabinet Office funding awarded in the current financial year 2018-2019 has been set at £31,137.03 (previously £45,790 in 2017-2018).

A further Justification Led Bid (JLB) can be made if there is a shortfall in Cabinet Office funding between the amount received and the evidenced identified extra costs of undertaking IER. A JLB was submitted on 9th January 2019 for an identified shortfall of £11,108.32 as detailed below.

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

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

Summary Calculation of IER Cost Pressure 2018-2019 (Revised 09-01-2019)				
Two 0.5 FTE Staff				£ 29,278.00
Canvass Door to Door requirement under Section 9A (HEF)				£ -
Rolling Door to Door ITR costs (ITR's)				£ 4,733.35
Increase in Postage Costs				£ 5,134.00
Increase in Printing Costs				£ 2,000.00
Contribution to IER National Publicity Campaigns				£ 500.00
Increase in Stationary/In house Printing Costs				£ 600.00
Total Estimated Cost				£42,245.35
Cabinet Office IER Funding for 2018-2019				£ 31,137.03
JLB Claim submitted to Cabinet Office 09-01-2019				£ 11,108.32
			Total	£42,245.35

4.3 Election Management Systems (EMS)

As reported at the Board meeting in October 2017, at that time six Electoral Registration Officers in Scotland, including Orkney and Shetland, used the same Electoral Management System (EMS) and while the general consensus held is that our current supplier does not necessarily provide the most up to date or complete package available on the market, reliability has improved over previous years. Since October 2017 two ERO's have moved to a new EMS supplier leaving four ERO's remaining on our current EMS. In addition to Orkney & Shetland these are Highland & Western Isles VJB, Glasgow and Fife.

Our current EMS supplier's parent company has now acquired one of its main competitors, giving it two systems in the same market. As noted in previous reports, should the remaining ERO's using our current EMS choose to migrate to the alternative system now acquired by our existing supplier, or a different supplier, we would be placed in a position of having to do likewise.

Electoral registration software requires a number of Scottish specific solutions to be built in to it. The most significant of these has been the registration of 14 and 15 year olds. Software development costs are considerable and if the Board were left in the position of being the only Scottish customer of a particular EMS provider we may have to consider an alternative EMS supplier or system. This situation is currently being monitored.

4.4 Updating the Register under IER

The fourth annual canvass under IER commenced in August 2018, which required the issuing of a Household Enquiry Form (HEF) to each property within each local authority area. Each HEF requires a response be made to it, even if there has been no change to household occupancy. A total of 23,467 HEF's were issued on 10 August 2018. A combined total of 7,382 first HEF reminders were issued on 13 September. The third phase of the process was the production of a combined total of 4,246 second reminder HEF's which were used in tandem with our door-to-door canvasser visits.

Under IER, if new electors are added on a returned HEF the potential elector is issued with an Invitation to Register (ITR) which requires the elector to provide additional personal information including their nationality, national insurance number and date of birth. As an alternative to a paper return they can use the government's website and make an online return providing their personal identifiers. Either way, when received by the ERO, the elector's details are required to be verified via the Department of Work and Pensions (DWP) database. Only then can the elector's application be processed by the ERO. If the verification fails the check with DWP records further evidence is required from the applicant to verify their identity e.g. copy of passport etc.

This process can be time consuming and confusing for the elector and requires additional input of office resources.

Out with the annual canvass period all individuals who can be identified as having changed address using Council Tax records, Council Housing Tenancy records and Housing Association records etc. are targeted with HEFs or ITRs.

Where no response is received to the annual HEF during the canvass period, or additional HEFs or personal ITR forms throughout the year, legislation requires a personal visit to the property to obtain the required response. This continues to be carried out by existing staff and additional part time canvassers. These comprise of 4,246 HEF property visits and 1349 ITR property visits.

4.5 Absent Vote Signature Refresh

Each year, electors on a 5 year rolling cycle are required to submit a refreshed specimen signature where an absent vote is in place (e.g. Postal Vote). For the applicable electors this year, this initial issue has been undertaken on the Scotland wide agreed timetable to be commenced on 11th January 2019. This resulted in the issue of 804 letters in Shetland and 854 in Orkney. Where forms remain outstanding, all electors will receive a reminder and a further final removal letter with a new application form enclosed. At the

first reminder stage on 1st February approximately 85% of letters had been returned.

4.6 Elections and Referendums

While 2018 has saw no planned elections or referendums taking place, the ERO's legislative responsibilities remain unchanged and the requirement to have an up to date, complete and accurate register is essential as the snap general election in June 2017 illustrated.

4.7 The main service priorities for – February 2019 – August 2019

- Manage and process Postal Vote signature refresh correspondence as detailed above.
- Continue to process HEF & IER application forms whether that be paper forms or on-line applications;
- Continue to canvass all properties and electors where an outstanding HEF or ITR response is required through door-to-door visits;
- As part of our Electoral Registration Public Awareness – Issue ITR forms to all individuals who can be identified as having changed address using other records available to the ERO
- All of the above Electoral Registration functions are to be undertaken with reference to the guidance produced by the Electoral Commission and within legislative timetables.
- Carry out the Electoral Registration function in accordance with electoral Commission performance standards.
- Plan, prepare and action the 2019 annual canvass.

4.8 Proposals for the reform of the annual canvass

Since the introduction of IER it has become apparent to EROs that the current annual canvass of households is outdated and cumbersome. It is heavily paper based, expensive and complex to administer. A number of pilot projects were conducted through 2017/18 and the results of these have helped to inform the Government on making proposals to reform the annual canvass. The new model included in their proposals allows the opportunity for greater discretion for EROs to shape a canvass more suited to their local areas. National and local datasets would be used to confirm existing entries on the register to allow reduced contact with these static electors and allow resources to be targeted at required changes to the register. These proposals are currently subject to a public consultation process. If Legislation is laid and improved reforms are introduced these could result in reduced demand on ERO's resources. However, this will also see a reduced level, or an end, of additional Cabinet Office funding for the electoral registration function. These reforms are planned to be in place for the annual canvass in autumn 2020.

5. COUNCIL TAX

5.1 Council Tax - New Entries

As at 1 August 2018 there were 11,252 chargeable dwellings in Orkney and 11,253 in Shetland which has risen to 11,317 in Orkney and 11,294 in Shetland, as at 1 February 2019. These figures include the addition of 70 new dwellings in Orkney and 46 in Shetland over the 6 month period.

5.2 Council Tax - Proposals/Appeals

The numbers of Council Tax proposals/appeals remain at very low levels in Orkney and Shetland. Proposals to alter bands are dealt with as business as usual queries in the first instance and it is unusual that any proceed before the Valuation Appeal Committee. At 1 February there is 1 outstanding proposal in Orkney and none in Shetland.

5.3 Council Tax – Court of Session Appeal

The Board was informed at the December 2018 meeting that a Valuation Appeal Committee decision has been appealed to the Court of Session. A Court timetable has been issued, with a procedural hearing to take place on 8th March 2019, at which the appeal hearing date should be established.

5.4 Council Tax - Service Priorities February 2019 – August 2019

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

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

6. NON-DOMESTIC RATING

6.1 Valuation Roll Statistics

As at 1 August 2018 there were 2,600 entries in the Orkney Valuation Roll with a Rateable Value of £29,088,805 and 2,384 in Shetland Valuation Roll with a Rateable Value of £61,789,110 which has been amended to 2593 entries in Orkney with a Rateable Value of £29,126,390 and 2,382 in Shetland with a Rateable Value of £61,850,245 as at 1 February 2019.

6.2 2010 Revaluation Appeals

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

6.3 2010 Running Roll Appeals

There are no outstanding running roll appeals Orkney and Shetland.

6.4 2017 Revaluation

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

6.5 2017 Revaluation Appeals

Appeals against the new valuations were lodged between 1st April and 30th September 2017. The number of appeals lodged by 30th September was 181 in Orkney and 246 in Shetland. Two Valuation Appeal Committee Hearings have been held in both Orkney and Shetland. Further hearings are set for 19th February in Shetland and 26th February in Orkney mainly to cover hospitality subjects. At 1st February the number of 2017 Revaluation appeals settled and agreed were 61 in Orkney and 68 in Shetland.

6.6 2017 Revaluation Running Roll Appeals

The number of running roll appeals received against the 2017 Valuation Roll stands at 21 for Orkney and 46 for Shetland. Most of the running roll appeal activity is the result of the implementation of The Land Reform (Scotland) Act 2016 where it re-introduced the valuation of shootings and deer forests into the Valuation Roll with effect from 1st April 2017. The number of running roll appeals which relate to shooting entries stands at 10 for Orkney and 35 for Shetland. These subjects had been exempt since 1st April 1995. Since exemption, no records had been held or information gathered by the Assessor relating to these subjects. However, since the above Act has been introduced it required the issue of a shooting rights form to all known land holders to enable analysis of rental information. Throughout Scotland Assessors issued over 25,000 shooting rights forms and locally over 1000 were issued in Shetland and up to 800 in Orkney. Due to the late laying of Act, the amount of time taken receiving and collating the information and the subsequent analysis and production of Scottish Assessors guidance no entries for shooting rights were made by 1st April 2017. However, entries were made by 30th September 2017 and resulted in 666 Valuation Roll entries in Orkney and Shetland, which represents 372 in Orkney and 294 in Shetland. This exercise increased the number of subjects in the Orkney & Shetland Valuation Rolls by over 16%. No additional funding from the Scottish Government has been available for the introduction of the above Act.

In an effort to address the concerns of the crofting community in Shetland, resources were directed to individually contacting and discussing the appeals lodged in relation to shooting rights. Of the 35 appeals lodged, 23 have been settled with the remaining 12 outstanding appeals mainly relating to larger estates

which are now in the process of being addressed hopefully without the need for formal citation to the Valuation Appeal Committee.

6.7 Barclay Review on Non-Domestic Rating

The Barclay review group was set up to make recommendations that seek to enhance and reform the business rates system in Scotland to better support business growth and long-term investment and reflect changing marketplaces. The Barclay report was published on 22nd August 2017 and made 30 recommendations. These recommendations and the estimated cost implications on the Boards future budgets were the subject of a separate report to the 5 December 2018 meeting.

6.8 Non-Domestic Rating - Service Priorities February 2019 - August 2019

The current service priorities are summarised as follows: -

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

7. STAFFING

7.1 Assistant Assessors Post

The vacant Assistant Assessors post was re-advertised for the fifth time from 19th October 2018 with a closing date of 20th December. As agreed at the October 2017 meeting this post was subject to an assessment as to whether market forces would apply, which was confirmed at the Boards meeting on 13th September 2018.

7.2 Essential Car Users Allowance (ECUA)

In December 2017 Shetland Islands Council agreed to make changes to the mileage rates that apply to Council employees who travel as part of their work in order to make sure these are fair and equal across employee groups. From 1 April 2018, all business mileage claimed will be paid at the HMRC mileage rates, replacing the previous Essential Car Users (ECU) mileage rate and casual car user mileage.

No posts advertised after December 2017 have attracted ECUA. However, existing employees who are currently designated as an ECU will continue to receive the lump sum while negotiations take place between Trade Unions and the Chief Executive, or her nominee, on how the Council will manage the transition to remove the allowance by no later than 1 April 2019.

Options to increase availability of business travel, such as pooled vehicles are being explored as part of the transition. It is understood staff in the Board's Shetland office may gain access to pooled vehicles operated by Shetland Islands Council. Orkney based staff will not have access to pooled vehicles so alternative provision will have to be considered, this may extend to short term hire of vehicles on a daily basis from existing commercial operators.

8. FINANCIAL IMPLICATIONS

8.1 Any financial implications arising from 4.3 and 7.2 will be reported to the Board.

9. RECOMMENDATIONS

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

Dennis M Stevenson
Assessor and Electoral Registration Officer
8 February 2019



Orkney & Shetland Valuation Joint Board



Agenda Item

2

Meeting(s):	Orkney & Shetland Valuation Joint Board	27 February 2019
Report Title:	Management Accounts for Orkney & Shetland Valuation Joint Board 2018/19 - Outturn as at period 10	
Reference Number:	VF-001-F	
Author / Job Title:	Treasurer to the Board	

1.0 Decisions / Action required:

- 1.1 That the Orkney & Shetland Valuation Joint Board ("the Board") considers the Management Accounts showing the projected outturn position as at period 10: the end of January (Appendix 1).

2.0 High Level Summary:

- 2.1 The report sets out the Board's financial position as at the end of period 10. This shows that expenditure on services is expected to be £632k against a budget of £659k; a projected outturn underspend of £27k.
- 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 On 13 September 2018 (O&SVJB Min Ref: 10/18), the Board approved the application of a 30% Market Forces enhancement to the salary scale of the Assistant Assessor post and that this be reviewed within two years of a successful appointment. A recent recruitment exercise of the post was unsuccessful, the details of this and options for the way forward is the subject of a report by the Assessor on this agenda.

4.3	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 £42k.
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:	<p>The Board is wholly funded by its constituent authorities: Orkney Islands Council and Shetland Islands Council.</p> <p>The Board's outturn position at Period 10 is £632k against a budget of £659k, an outturn underspend of £27k.</p> <p>This results in a reduced requisition to each authority: Shetland Islands Council by £12k and Orkney Islands Council by £15k.</p>
6.6 Assets and Property:	None arising from this report.
6.7 ICT and new technologies:	None arising from this report.
6.8 Environmental:	None arising from this report.
6.9 Risk Management:	<p>From a financial management perspective, risks are an integral part of future planning, as assumptions must be made. These can be affected by many internal and external factors, such as demand, which could have a significant financial impact.</p> <p>The Board maintains a Risk Register and its primary risk is a lack of sufficient funding that could result in the Board not meeting statutory duties.</p> <p>This report is part of the framework that provides assurance, or recognises any deviation from the budget that could put the Board in a financially challenging position and require remedial action.</p>

	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,
07 February 2019

Appendices:

Appendix 1 – Revenue Outturn Position 2018/19 as at Period 10

Background Documents:

9 February 2018 – Orkney & Shetland Valuation Joint Board Proposed Budget 2018/19
13 September 2018 – Report on Staffing – Assistant Assessors Post

Orkney and Shetland Valuation Joint Board

1. Revenue Outturn Position 2018/19 as at Period 10

Income & Expenditure Summary	2018/19 Revised Annual Budget £	2018/19 Outturn at Period 10 £	Budget v Outturn Variance (Adv) / Pos £
EXPENDITURE:			
Basic Pay	377,502	333,269	44,233
Vacancy factor	(12,000)	(12,000)	-
Overtime	500	500	-
National Insurance	39,896	32,333	7,563
Pension Costs	125,410	110,456	14,954
Allowances	28,027	28,573	(546)
Liability Insurance	3,100	2,594	506
Employee Costs	562,435	495,725	66,710
Administration	86,602	89,719	(3,117)
Agency Payments	8,854	13,154	(4,300)
Property and Fixed Plant	31,600	31,178	422
Supplies and Services	2,870	41,620	(38,750)
Transport and Mobile Plant	30,500	21,300	9,200
Recharges for Shetland Islands Council	13,797	15,000	(1,203)
Operating Costs	174,223	211,971	(37,748)
TOTAL EXPENDITURE	736,658	707,696	28,962
INCOME:			
Sales/Agency Income	(33,000)	(33,250)	250
IER Funding	(44,347)	(42,245)	(2,102)
TOTAL INCOME	(77,347)	(75,495)	(1,852)
NET EXPENDITURE	659,311	632,201	27,110
CHARGE TO CONSTITUENT AUTHORITIES:			
Orkney Islands Council	(334,775)	(319,695)	(15,080)
Shetland Islands Council	(324,536)	(312,506)	(12,030)
TOTAL CHARGE TO CONSTITUENT	(659,311)	(632,201)	(27,110)

An explanation for the main variances for Period 10 are set out below.

1.1 Employee Costs – projected outturn underspend £66,710 (11.9%)

The projected employee costs underspend includes the application of the (£12k) vacancy factor. The remaining projected underspend relates to three main items: a £66k projected saving following the unsuccessful recruitment to the Assistant Assessor post and a £10k projected saving from a job evaluation review not increasing the pay grade, as had been anticipated in the budget. The third projected underspend is 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 £3k projected underspend here.

The Assessor is to report to the Board details of the recent recruitment exercise and options for a way forward to secure an appointment to the post.

1.2 Operating Costs – projected outturn overspend of (£37,748) (21.7%)

This projected overspend relates predominately to the anticipated full year use of a consultant Valuer in lieu of an Assistant Assessor (£38k). Other overspends of (£9k) relate to one-off costs in the year, including a purchase of a photocopier, Counsel Opinion on the 2017 Revaluation and a prior year pension report from the Board's actuary for the 2017/18 annual accounts. Savings in mileage and travel of £9k, because of the Assistant Assessor vacancy, have offset these one-off costs.

1.3 Projected Requisition outturn

The overall projected underspend of £27k equates to a reduction in requisition expected from the constituent authorities, as outlined in the table above.



Orkney & Shetland Valuation Joint Board



Agenda Item

3

Meeting(s):	Orkney & Shetland Valuation Joint Board	27 February 2019
Report Title:	Annual Audit Plan 2018/19	
1Reference Number:	VF-002-F	
Author / Job Title:	Treasurer to the Board	

1.0 Decisions / Action required:

- 1.1 That the Orkney & Shetland Valuation Joint Board ("the Board") NOTE the contents of the Audit Plan 2018/19 (Appendix 1) from external auditors, Deloitte LLP.

2.0 High Level Summary:

- 2.1 The Annual Plan detailed at Appendix 1 provides information on the work that external auditors will undertake to review and assess the governance and performance of the Orkney & Shetland Valuation Joint Board in 2018/19.

3.0 Corporate Priorities and Joint Working:

- 3.1 The audit process plays a key role in helping the Board to maintain good governance, accountability and provides assurance around financial stewardship.

4.0 Key Issues:

- 4.1 The Annual Audit Plan presents the planned audit work by the Board's external auditors, Deloitte LLP, for the 2018/19 financial year; the third year of a five-year appointment. The core audit work includes:
- perform an ISA (UK) compliant audit of the annual accounts;
 - audit and report on the audit dimensions of financial sustainability, financial management, governance and transparency and value for money;
 - contribute to performance audits (including performance audit reports, overview reports and impact reports);
 - share audit intelligence with Audit Scotland including highlighting potential statutory reports;
 - carry out preliminary enquiries into referred correspondence (issues of concern raised with Audit Scotland);
 - provide information on cases of fraud;
 - provide information on cases of money laundering; and
 - contribute to technical guidance notes.

5.0 Exempt and/or confidential information:	
5.1	None.
6.0 Implications :	
6.1 Service Users, Patients and Communities:	None arising from this report.
6.2 Human Resources and Organisational Development:	None arising from this report.
6.3 Equality, Diversity and Human Rights:	None arising from this report.
6.4 Legal:	The Orkney & Shetland Valuation Joint Board is required to prepare accounts in accordance with Local Government (Scotland) Act 1973 and the Code of Practice on Local Authority Accounting 2018/19.
6.5 Finance:	The Audit fee for 2018/19 is £7,280.
6.6 Assets and Property:	None arising from this report.
6.7 ICT and new technologies:	None arising from this report.
6.8 Environmental:	None arising from this report.
6.9 Risk Management:	The annual audit work is focused on identifying and assessing the key challenges and risks to the Orkney & Shetland Valuation Joint Board in order to mitigate future risks.
6.10 Policy and Delegated Authority:	The Board has terms of reference to be consulted on the external audit strategy and plan, review reports from the Council's external advisors and review action on external audit recommendations.
6.11 Previously considered by:	n/a

Contact Details:

Maria Forrester, Senior Assistant Accountant, Maria.Forrester@shetland.gov.uk,
13 February 2019

Appendices:

Appendix 1 – Orkney & Shetland Valuation Joint Board Annual Audit Plan for 2018/19



Orkney and Shetland Valuation Joint Board

Planning report to the Board on the audit for the year ending 31 March 2019

Issued 5 February 2019 for the meeting on 27 February 2019

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Introduction

The key messages in this report:

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

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

We have pleasure in presenting our draft planning report to the Orkney and Shetland Valuation Joint Board (the Board) for the year ending 31 March 2019 audit. We would like to draw your attention to the key messages of this draft audit plan:

Audit Plan

We have updated our understanding of the Board including discussion with management and review of relevant documentation from across the Board.

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

Key Risks

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

In accordance with auditing standards, we have identified a significant risk associated with income. This risk is pinpointed to the occurrence of income received from Orkney and Shetland Islands Councils given the reliance of the Board on this income and the potential that funding partners may not provide additional income to cover overspends.

In accordance with auditing standards, management override of controls has also been identified as a significant audit risk.

Audit Dimensions

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

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

Our audit work on the audit dimensions will incorporate the specific risks highlighted by Audit Scotland, in particular, the impact of EU withdrawal, the changing landscape for public financial management, dependency on key suppliers and increased focus on openness and transparency.

Introduction (continued)

The key messages in this report (continued):

Regulatory Change

New accounting standards on revenue and financial instruments will apply for 2018/19, and for leases from 2020/21. While we do not expect these standards to have a significant impact on the Board, we recommend that the Board review the impact of IFRS 9 and 15 in the year, including calculating any adjustments that will be required as at 31 March 2018 for transition. We would suggest that the Board receive reporting from management on the implementation of the new standard, and we will report specifically on the findings from our audit work in this area.

We have reported on other regulatory changes on pages 27 - 28.

Our Commitment to Quality

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

Adding value

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

Pat Kenny
Audit director

Responsibilities of the Board

Helping you fulfil your responsibilities

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

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

We use this symbol throughout this document to highlight areas of our audit where the Board need to focus their attentions.



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

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

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

Oversight of external audit

Integrity of reporting

- Make an impact assessment of key judgements and the level of management challenge.

- Review the external audit findings, key judgements and level of misstatements.

- Assess the quality and capacity of the internal audit team.

- Assess the completeness of disclosures, including consistency with disclosures on business model and strategy and, where requested by the Board, provide advice in respect of the fair, balanced and understandable statement.

- Assess and advise on the appropriateness of the Annual Governance Statement.

- Review the internal control and risk management systems.

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

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

Internal controls and risks

Oversight of internal audit

Whistleblowing and fraud

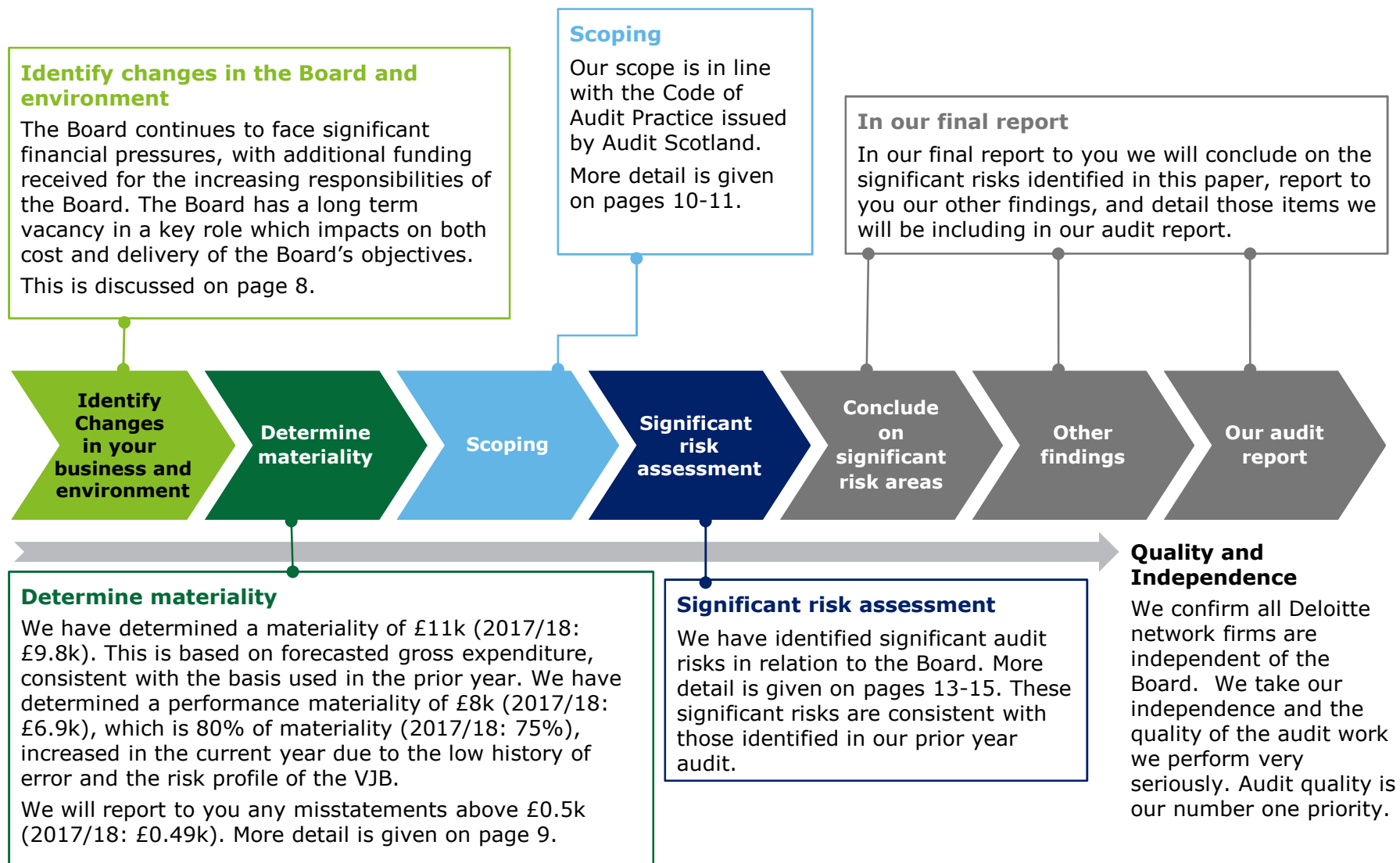
- Ensure that appropriate arrangements are in place for the proportionate and independent investigation of any concerns that are raised by staff in connection with improprieties.

- Consider annually whether the scope of the internal audit programme is adequate.

- Monitor and review the effectiveness of the internal audit activities.

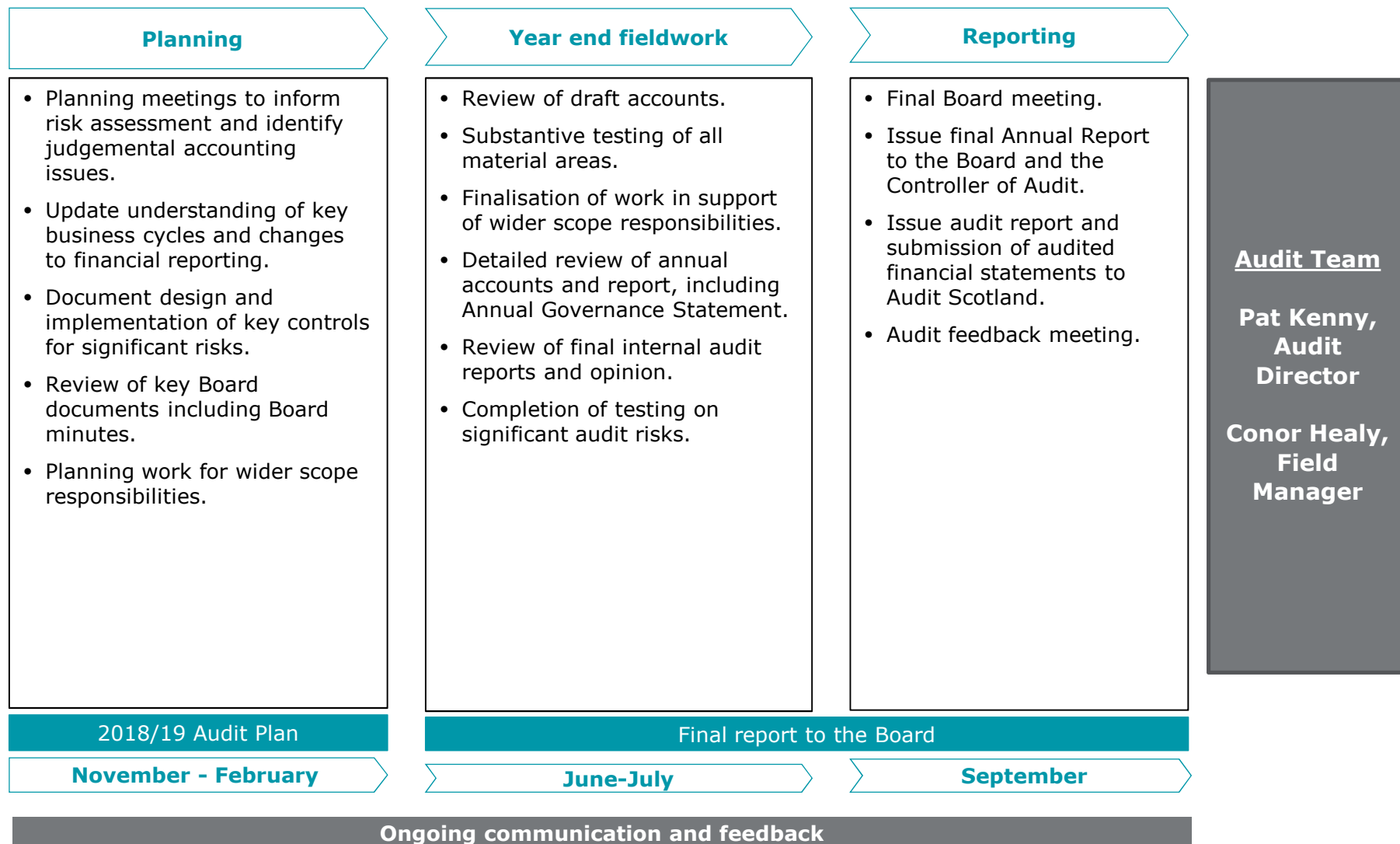
Our audit explained

We tailor our audit to your Board and your strategy



Continuous communication and reporting

Planned timing of the audit



An audit tailored to you

Focusing on your business and strategy

Impact on our audit

Future financial strategy and sustainability



We note that as at 31 October 2018, the VJB is forecasting an underspend against budget of £7k (1%). The forecast spend in the current year (£652.3k) is an increase of 9% on the £598.2k incurred in 2017/18. This increased spend – whilst remaining within budget – more fully utilises the funding available to the VJB and allows the VJB to meet the additional responsibilities it has absorbed in recent years.

This is particularly important in relation to implementing the recommendations of the Barclay Review going forward. We will consider the impact of these additional responsibilities (e.g. Individual Electoral Registration) and the Barclay Review on the resources of the VJB and consider whether it is budgeting appropriately for these areas and addressing any impacts these areas may have on the VJB's short to medium term financial sustainability.

Workforce planning



The VJB has had a long term vacancy for an Assistant Assessor, which has both cost and delivery implications, with various attempts at filling the post being unsuccessful. We note that a decision to apply a market rate to the post has been taken, which will have obvious cost implications but may resolve the longstanding vacancy, improving the ability of the VJB to achieve its corporate and strategic objectives.

We will review arrangements for filling this vacant post, the cost implications and the anticipated wider benefits to the VJB as part of our audit. We will also consider the wider workforce planning implications of the long term vacancy.



New significant risk



Continuing significant risk



Considered as part of wider scope audit requirements

Materiality

Our approach to materiality

Basis of our materiality benchmark

- The audit director has determined materiality as £11k (2017/18: £9.8k) and a performance materiality of £8k (2017/18: £6.9k), based on professional judgement and risk factors specific to the Board, the requirement of auditing standards and the financial measures most relevant to users of the financial statements.
- We have used 1.6% of forecasted gross expenditure as the benchmark for determining materiality and applied 80% (2017/18: 75%) as performance materiality.
- This approach is consistent with our prior year materiality calculation. We have increased the percentage applied as performance materiality given the low history of error and the level of risk faced by the Board.

Reporting to those charged with governance

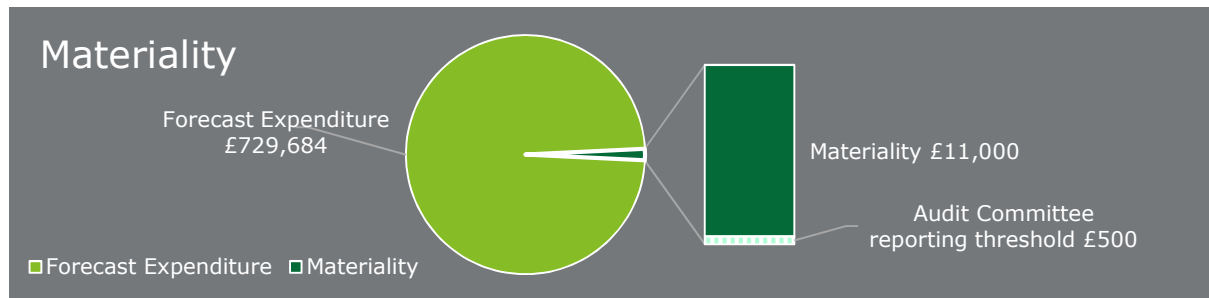
- We will report to you all misstatements found in excess of our clearly trivial threshold which is £0.5k (2017/18: £0.49k).
- We will report to you misstatements below this threshold if we consider them to be material by nature.

- Our approach to determining the materiality benchmark is consistent with Audit Scotland guidance which states that the threshold for clearly trivial above which we should accumulate misstatements for reporting and correction to audit committees must not exceed £250k.

Our annual audit report

We will:

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



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

Scope of work and approach

Our key areas of responsibility under the Code of Audit Practice

Core audit work	Planned output	Timeline
Perform an ISA (UK) compliant audit of the annual accounts	<ul style="list-style-type: none"> Annual audit plan Independent auditor's report 	<ul style="list-style-type: none"> February 2019 September 2019
Audit and report on the audit dimensions	<ul style="list-style-type: none"> Annual audit plan Annual audit report 	<ul style="list-style-type: none"> February 2019 September 2019
Contribute to performance audits (including performance audit reports, overview reports and impact reports)	<ul style="list-style-type: none"> Data returns 	<ul style="list-style-type: none"> As required
Share audit intelligence with Audit Scotland including highlighting potential statutory reports	<ul style="list-style-type: none"> Current issues returns 	<ul style="list-style-type: none"> January, March, August and October 2019
Carry out preliminary enquiries into referred correspondence	<ul style="list-style-type: none"> None 	<ul style="list-style-type: none"> N/A
Provide information on cases of fraud	<ul style="list-style-type: none"> Fraud returns 	<ul style="list-style-type: none"> November 2018, February, May and August 2019
Provide information on cases of money laundering	<ul style="list-style-type: none"> Audit Scotland to advise 	<ul style="list-style-type: none"> As required
Contribute to technical guidance notes	<ul style="list-style-type: none"> Consultation comments on draft technical guidance notes 	<ul style="list-style-type: none"> As required

Scope of work and approach (continued)

Our approach

Liaison with internal audit

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

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

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

Approach to controls testing

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

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

Promoting high quality reporting to stakeholders

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

We will utilise the Code of Practice on local authority accounts in the UK disclosure checklist to support the Board in preparing high quality drafts of the annual report and financial statements, which we would recommend the VJB complete during drafting.

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

Audit Scotland has published good practice guides in relation to the Annual Accounts to support the Board in preparing high quality drafts of the Annual Report and financial statements, which we would recommend the Board consider during drafting.

Obtain an understanding of the Board and its environment including the identification of relevant controls.

Identify risks and controls that address those risks.

Carry out D&I work on relevant controls.

If considered necessary, test the operating effectiveness of selected controls.

Design and perform a combination of substantive analytical procedures and tests of details that are most responsive to the assessed risks.

Significant risks

Our risk assessment process

We consider a number of factors when deciding on the significant audit risks. These factors include:

- the significant risks and uncertainties previously reported in the annual report and financial statements;
- the IAS 1 critical accounting estimates previously reported in the annual report and financial statements;
- our assessment of materiality;
- the changes that have occurred in the business and the environment it operates in since the last annual report and financial statements; and
- the VJB's actual and planned performance on financial and other governance metrics compared to its peers.

Principal risk and uncertainties

- Implementation of Barclay Review
- Vacancies in key posts

IAS 1 Critical accounting estimates







- Pension liability

The next page summarises the significant risks that we will focus on during our audit. All the risks mentioned in the prior year Board report are included as significant risks in this year's audit plan.



Significant risks (continued)

Dashboard

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



Some degree of management judgement



Limited management judgement

Significant risks (continued)

Risk 1 – Occurrence of income

Risk identified

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

The main components of income for the Board are requisitions from the Orkney Islands Council (OIC) and Shetland Islands Council (SIC). The significant risk is pinpointed to the recognition of this income, being occurrence of income received from the Councils given the reliance of the Board on this income and the potential that funding partners may not provide additional income to cover overspends.

Our response

We will perform the following:

- test the income to ensure that the correct contributions have been input and received in accordance with that agreed as part of budget process and that any reductions have been appropriately applied;
 - test the reconciliations performed by the Board as at 31 March 2019 to confirm all income is correctly recorded in the ledger;
 - confirm that the reconciliations performed during 2018/19 have been reviewed on a regular basis; and
 - assess management's controls around recognition of income.
-

Significant risks (continued)

Risk 2 – Management override of controls

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

Risk identified

In accordance with ISA 240 (UK) 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 judgements in the financial statements are those which we have selected to be the significant audit risk around occurrence of income. This is inherently the area in which management has the potential to use their judgment to influence the financial statements.

Planned audit challenge

In considering the risk of management override, we plan to perform the following audit procedures that directly address this risk:

Journal testing

- We will test the design and implementation of controls over journal entry processing.
- Using our Spotlight data analytics tool, we will risk assess journals and select items for detailed follow up testing. The journal entries will be selected using computer-assisted profiling based on areas which we consider to be of increased interest.
- We will test the appropriateness of journal entries recorded in the general ledger, and other adjustments made in the preparation of financial reporting.

Accounting estimates

- We will test the design and implementation of controls over key accounting estimates and judgements.
- We will review accounting estimates for biases that could result in material misstatements due to fraud. This will include both a retrospective review of 31 March 2018 estimates and a review of the corresponding estimates as at 31 March 2019.

Significant and unusual transactions

- We will obtain an understanding of the business rationale of significant transactions that we become aware of that are outside of the normal course of business for the entity, or that otherwise appear to be unusual, given our understanding of the entity and its environment.

Wider scope requirements

Audit dimensions

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

Audit dimension	Areas to be considered	Impact on the 2018/19 Audit
The appropriateness of the disclosures in the governance statement .	<ul style="list-style-type: none">• The completeness of the disclosures in meeting the requirements of the guidance note issued by CIPFA <i>Delivering good governance in local government: framework 2016</i>.• Inconsistencies between the disclosures or information that is materially incorrect and audit knowledge.	<p>We will review the draft governance statement and assess whether there are any inconsistencies or omissions based on other audit evidence obtained throughout the audit. In the prior year, we made a number of recommendations for improvement of the governance statement in line with best practice.</p> <p>Audit Risk: The governance statement is not consistent with the wider disclosures in the accounts or compliant with the CIPFA guidance note.</p>
Financial sustainability looks forward to the medium and longer term to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.	<ul style="list-style-type: none">• The financial planning systems in place across the shorter and longer terms.• The arrangements to address any identified funding gaps.• The affordability and effectiveness of funding and investment decisions made.• Workforce planning.	<p>In view of the Scottish Government's Medium Term Financial Strategy (MTFS) (discussed further on page 18) we will consider the extent to which the Board has reviewed the potential implications of the MTFS for its own financial planning and whether it is taking these into account in its arrangement for financial management and financial sustainability.</p> <p>Audit Risk: The Board's long-term financial planning is inconsistent with the Scottish Governments five-year plan.</p>

Wider scope requirements (continued)

Specific risks

As part of the 2018/19 planning guidance, Audit Scotland have identified the following areas as significant risks faced by the public sector. Any specific risks in relation to these areas for the VJB have been included in our audit risk under the audit dimensions, discussed on the previous pages. We will continue to monitor these areas as part of our audit work.

Risk	
EU withdrawal	<p>There are uncertainties surrounding the terms of the UK's withdrawal from the European Union in March 2019. Some arrangements have been provisionally agreed, such as a transition period to the end of 2020, although they are dependent on a final deal being reached between the UK Government and the remaining EU countries. The outcome of negotiations should become clearer in the weeks up to March 2019.</p> <p>Whatever the outcome, EU withdrawal will inevitably have implications for devolved government in Scotland and for audited bodies. Audit Scotland has identified three areas where EU withdrawal may have the most significant impact as summarised below:</p> <ul style="list-style-type: none">• Workforce – Many public services are dependent on workers from EU countries, including health, social care and education. A decline in migration from the EU could potentially result in vacancies and skills gaps in some areas of the public sector. There is a risk that this could impact on some public bodies' ability to deliver 'business as usual' particularly given existing workforce and service pressures.• Funding – Funding from the EU makes an important contribution to the Scottish public sector. The main sources of funding provide support to farmers and rural businesses, projects to encourage economic growth and support for research and education. The UK Government has made guarantees to meet some funding commitments to the end of existing programmes, but there are uncertainties about what any replacement funding may look like.• Regulation – The EU Withdrawal Bill will transpose existing EU law into UK law immediately after the UK leaves the EU. Legislation in many devolved areas will transfer to the Scottish Parliament. The UK government has identified 24 devolved policy areas where it seeks to retain temporary control until UK-wide common legislative frameworks are developed. This is currently an area of contention between the Scottish and UK Governments and is under consideration by the Supreme Court. <p>In addition, some public bodies may be affected directly by changes to trade and customs rules, which could impact on supply chains and the procurement of goods or services from EU countries. This could influence the availability and cost of supplies and services (e.g. specialist medical equipment or drugs) with potential implications for public bodies' finances and their ability to deliver specific services.</p> <p>While there are considerable uncertainties about the detailed implications of EU withdrawal, at a minimum by the end of 2018/19, we would expect public bodies to have assessed the potential impact of EU withdrawal on their operations and identified any specific risks and how they will respond to them. We will assess how the VJB has prepared for EU withdrawal and how it continues to respond to any emerging risk after March 2019. Some suggested key questions for the Audit Committee are included on page 25.</p> <p>In addition, in accordance with the FRC guidance, the VJB should consider the disclosure within its annual report, distinguish the specific and direct challenges that it faces from the broader economic uncertainties. In some circumstances this may mean recognising or re-measuring certain items in the Balance Sheet. A comprehensive post balance sheet events review must be reflected in accounts and disclosures.</p>

Wider scope requirements (continued)

Specific risks (continued)

Risk	
Changing landscape for public financial management	<p data-bbox="318 389 1831 504">Scottish public finances are fundamentally changing, with significant tax-raising powers, new powers over borrowing and reserves, and responsibility for 11 social security benefits worth over £3 billion a year. This provides the Scottish Parliament with more policy choices but also means that the Scottish budget is subject to greater volatility, uncertainty and complexity.</p> <p data-bbox="318 532 1831 646">Parliamentary scrutiny of the public finances is increasingly important in this changing landscape. A new Scottish budget process has been introduced, which is based on a year-round continuous cycle of budget setting, scrutiny and evaluation. This involves parliamentary committees looking back to explore what public spending has achieved, looking forward to longer-term objectives and challenges, and considering what this should mean for future budgets.</p> <p data-bbox="318 675 1831 818">As part of the new budget process, the Scottish Government published an initial five-year Medium Term Financial Strategy (MTFS) in May 2018. This five-year outlook for the Scottish budget provides useful context for audited bodies' financial planning. As part of our wider scope audit work on financial management and financial sustainability (discussed further on page 16), we will consider how the VJB has reviewed the potential implications of the MTFS for its own finances, including longer-term financial planning.</p> <p data-bbox="318 846 1831 1103">The new budget process places greater emphasis on assessing outcomes and the impact of spending. There is an expectation that the Scottish Government and public bodies will report on their contributions towards the national outcomes in their published plans and performance reports, including their annual reports. Increased complexity and volatility is also likely to mean that the Scottish Government will be increasingly active in managing its overall budget position in-year, engaging with public bodies closely on their anticipated funding requirements. As part of our wider scope audit work on financial sustainability (discussed further on page 16) we will consider the extent to which the VJB's performance report provides an accessible account of the body's overall performance and impact of its public spending. We will also confirm that underlying financial performance, including any in-year changes to funding agreed with the Scottish Government, is transparently presented.</p>

Wider scope requirements (continued)

Specific risks (continued)

Risk	
Dependency on key suppliers	<p>It has become clear that the collapse of Carillion has had a significant impact across the public sector. This has brought into focus the risk of key supplier failure and the risk of underperformance in suppliers that are experiencing difficult trading conditions. The risk exists on two levels:</p> <ul style="list-style-type: none">• Individual public sector bodies are dependent on key suppliers; and• The Scottish public sector as a whole is subject to significant systematic risk. <p>We will determine as part of our detailed risk assessment the extent to which the VJB is dependent on key supplier relationships. Where dependency is significant, we will consider this as part of our audit work and report back to the Board.</p> <p>We will also be requested to complete a short questionnaire to establish the extent, value and nature of key supplier dependencies that can inform the national position.</p>
Openness and transparency	<p>There is an increasing focus on how public money is used and what is achieved. In that regard, openness and transparency supports understanding and scrutiny. We will consider this as part of our wider scope work on governance (discussed further on page 16).</p> <p>We would expect to see public bodies reviewing their approach to openness and transparency to ensure they are keeping pace with public expectations and good practice. Evidence of progress might include:</p> <ul style="list-style-type: none">• increased public availability of board papers;• more insight into why some business is conducted in private; and• Development of the form and content of annual reports.

Wider scope requirements (continued)

Other responsibilities

Performance Audits

In accordance with Audit Scotland planning guidance, we will be requested to provide information to support performance audits that Audit Scotland intends to publish during 2018/19 and 2019/20. There are no specific reports planned, other than the overview report, which directly impact on the Board. We will provide an update to the Board if there are any changes to this plan.

Impact reports

We will also be requested to provide information to support assessing the impact of previously published performance audit reports. There are no specific impact reports which directly relate to the Board. We will provide an update to the Board if there are any changes to this plan.

Anti-money laundering

The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 came into force on 26 June 2017 and replace the Money Laundering Regulations 2007. The regulations impose an obligation of the Auditor General to inform the National Crime Agency if she knows or suspects that any person has engaged in money laundering or terrorist financing. As part of our audit work, we will ensure we are informed of any instances of money laundering at the Board so that we can advise the Auditor General.

Audit Quality

Our commitment to audit quality



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

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

- We will apply professional scepticism on material issues and significant judgements identified, by using our expertise in the local government sector and elsewhere to provide robust challenge to management.
- We have obtained a deep understanding of your business, its environment and of your key business processes, enabling us to develop a risk-focused approach tailored to the Board.
- Our engagement team is selected to ensure that we have the right subject matter expertise and industry knowledge. We will involve specialists to support the audit team in our work.

In order to deliver a quality audit to you, each member of the core audit team will receive tailored learning to develop their expertise in audit skills, delivered by Pat Kenny and other sector experts. This includes sector specific matters, and audit methodology updates.



Engagement Quality Control Review

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

Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

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

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

What we don't report

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

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

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

Other relevant communications

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

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

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



Pat Kenny, CPFA

for and on behalf of Deloitte LLP

Glasgow

5 February 2019

Sector developments



The State of the State

Government beyond Brexit

Overview

Now in its seventh year, **The State of the State** has once again brought together Deloitte LLP and Reform to reflect on the most pressing public sector issues along with new, exclusive research. Central to the report is our citizen survey, which provides a platform for the most important voices of all in the public sector: that of the public. Also exclusive to the report is our research with the people who know the public sector's challenges best: the people who run it.

This year, we interviewed fifty senior figures including civil servants, police leaders, NHS directors and Council Chief Executives, producing the most extensive qualitative research of its kind in the sector.

This year's *The State of the State* finds the UK government amid the complex and politically-charged challenge of leaving the EU. But while Brexit may dominate daily headlines, our report finds a wider set of challenges – and opportunities – for government and the public services as they gear up for a Spending Review.

Key findings	
Scotland's government has now been led by the Scottish National Party for three consecutive terms in office	- In those eleven years, the administration has taken forward the possibilities of devolution to shape a Scottish public sector landscape that now differs substantially from the rest of the UK – in its public finances, its policy priorities and its ethos.
Austerity has flipped public attitudes to tax and spending	- As austerity began in 2010, more than half of the public backed spending cuts to restore the public finances. In 2018, as the Prime Minister calls a formal end to the austerity years, our exclusive citizen survey finds that support has dwindled to less than one fifth of the public.
People are increasingly concerned about public services and their future provision	- Our survey finds that the public is increasingly concerned about public services. It suggests that the past four years have seen a decline in the number of people who think that public bodies understand their needs, listen to their preferences and involve them in decisions – perhaps driven by perceptions of austerity. Looking to the future, the number of people who are worried that the state will provide too little support for them in the years ahead has risen from fifty per cent in 2010 to seventy per cent this year.
Citizen views differ significantly across the UK's four countries	- Recent years have seen an acceleration in the public policy differences between the devolved administrations, and our survey finds that citizen attitudes also differ. For example, people in Scotland are more likely to believe that taxes should be higher to pay for more public services, people in Northern Ireland are less likely to say they have felt the effects of austerity, and people in Wales are the most likely to say that public services listen to their needs. These differing views underscore the diverging political and policy landscapes across the UK.
The public back penalty fines for wasting public sector time	- Our citizen survey explored the circumstances in which the public would find charges reasonable, and found that the most acceptable would be penalty fines for wasting public sector time, like missing NHS appointments or wrongly calling out the emergency services.

Next steps

The report is available at <https://www2.deloitte.com/content/campaigns/uk/the-state-of-the-state/the-state-of-the-state-of-the-state.html>. The VJB should consider the findings of this report when formulating its budget and whilst determining its objectives and developing strategies to achieve those objectives.

UK exit from the EU

Navigating uncertainty – key questions for the Board

Whilst nobody can predict the outcome of negotiations, we can be sure that Brexit will require all organisations to take some big decisions. As we have seen, some will require lengthy and complicated preparations, and we advise keeping track of the negotiations and thinking what this means for the VJB sooner rather than later.



Is the Board set up to navigate the change?

Have you assessed the impact of potential changes and identified key decision points?

Does your assessment include how Brexit could impact on your customers, supply chain and people?

Have you defined the options there are to respond? E.g. scenario or contingency planning?

Are you monitoring developments and are you ready to act proportionately at the right time?

Are all the right people involved? Does this include discussion with key stakeholders?

Are channels of communication clear, both internally and externally, and have company spokespeople been fully briefed?



Impact on internal planning, forecasting and strategy

Is management using forward-looking indicators such as forward bookings, contact conversion rates and supplier forward pricing?

Have cash reserves, financing requirements and longer-term viability all been assessed?

Have opportunities as well as risks been considered?



Impact on internal and external audit

Should the scope and plan for internal audit be amended to include contingency planning, or testing key risk indicators?

Should internal audit be asked to perform work on longer term viability?

Is there an impact on critical accounting judgments and areas of estimation uncertainty that need to be discussed with the external auditor?



Impact on external reporting

Will disclosures on principal risks and uncertainties need to be revisited now Article 50 has been triggered and be revisited based on the current status of negotiations?

Have you developed a plan for appropriately detailed disclosure in management commentary?

"We encourage companies to provide disclosure which distinguishes between the specific and direct challenges to their business model and operations from the broader economic uncertainties which may still attach to the UK's position when they report. Where there are particular threats, for example the possible effect of changes in import/export taxes or delays to their supply chain, we expect these to be clearly identified and for management to describe any actions they are taking, or have taken, to manage the potential impact. In some circumstances this may mean recognising or remeasuring certain items in the balance sheet.

The broad uncertainties that may still attach to Brexit when companies report will require disclosure of sufficient information to help users understand the degree of sensitivity of assets and liabilities to changes in management's assumptions."

(FRC Letter to CFOs and Audit Committee Chairs, October 2018)

FRC areas of focus for 2018/19 Annual Reports

Clear, concise, informative disclosures that are specific to your Board

In October 2018 the FRC sent a letter to the Audit Committee Chairs and Finance Directors of listed companies to outline the areas of reporting that the FRC would like companies to focus on for the 2018/19 reporting season, and to highlight changes in reporting requirements. It also published its annual review of corporate reporting and supporting technical findings. While not directly applicable to local government bodies, a number of the themes are relevant for consideration when drafting the VJB's Annual Accounts, to take into account wider best practice. The key areas included in the publications are set out below.

Critical judgements and estimates

Key judgements and estimates disclosures remain a key FRC focus area. The FRC expects to see:

- judgements other than those involving estimates and sources of estimation uncertainty shown separately;
- disclosure of sensitivity of carrying amounts to assumptions and estimates or the range of reasonably possible outcomes within the next year; and
- voluntary disclosure of longer-term estimation uncertainties distinguished from those required where the risk of material adjustment within the next year is significant.

Brexit

The FRC encourages disclosures which distinguish between specific and direct challenges to a business model and broader economic uncertainties attached to Brexit. The FRC reminds entities that a comprehensive post-balance sheet review must be reflected in accounting and disclosure.

New accounting standards on revenue and financial instruments

The FRC is encouraging entities to invest sufficient time to ensure:

- explanations of the impact of transitioning to IFRS 9 and IFRS 15 are comprehensive and linked to other relevant information, including the impact on performance metrics where comparatives are not restated;
- changes to policies are clearly described and explained;
- relevant assumptions, judgements and sources of estimation uncertainty are explained;
- performance obligations are identified and explained, with a focus on how they have been determined and timing of delivery to the customer;
- the extended scope of IFRS 9 impairment requirements is taken into account; and
- new disclosure requirements are properly and meaningfully addressed.

These areas are discussed further on pages 27 of this report.

Strategic report

The strategic report remains a frequent area for FRC challenge. For the report to be fair, balanced and comprehensive, the FRC expects the narrative to explain significant amounts in the financial statements.

New Accounting Standards

IFRS 9 *Financial Instruments*

In a nutshell

- In July 2014, the IASB published a final version of IFRS 9. This version supersedes all previous versions.
- IFRS 9 *Financial Instruments* will replace IAS 39 *Financial Instruments: Recognition and Measurement*, and has three main impacts:
 - *Classification and measurement* - introduces new approach for the classification of financial assets driven by cash flow characteristics and the business model in which an asset is held. This classification determines how financial assets are accounted for in financial statements and, in particular, how they are measured on an ongoing basis.
 - *Amortised cost and impairment of financial assets* – introduces an “expected losses” impairment model where entities are required to account for expected credit losses from when financial instruments are first recognised.
 - *Hedge accounting* - introduces new general hedge accounting model that aligns the accounting treatment with risk management activities and allows for better reflection of the hedging activities in the financial statements.
- HM Treasury has adopted IFRS 9 from 2018/19 onward, with a number of interpretations and adaptations for the public sector, generally simplifying the requirements.
- The key practical change in IFRS 9 for most local government bodies is the introduction of a new approach to recognising impairments of debtors and other financial instruments.
 - The key change to IFRS 9 affecting the VJB will be the movement from an incurred losses model for receivables to an expected credit losses (ECL) model. The move is intended to reflect that there is always a risk of late/non-payment when granting credit and that this should be reflected in the value of receivables upon recognition.
 - If the debt is later repaid in full, the ECL creditor can be reversed. ECL creditors should be set up on a portfolio rather than arrangement-by-arrangement basis.
 - A further change from IAS 39 to IFRS 9 will be that all financial assets are recognised as Fair Value through Profit or Loss, unless where there are specific business cases to designate alternative treatment.

Effective date

The Standard has a mandatory effective date for annual periods beginning on or after 1 January 2018, with earlier application permitted.

HM Treasury have decided that on transition there will be no restatement of comparatives, and any impact of transition will be recognised as a reserves movement in 2018/19.

The 2018/19 accounting code requires bodies to disclose information in 2018/19 on the transition to IFRS 9.



Find out more on our UK Accounting Plus website www.iasplus.com/en-gb by following the links to Standards -> IFRS 9

Potential impact on the VJB

Given the historically low levels of debtors and other financial instruments held by the VJB, IFRS 9 is expected to have relatively limited impact. However, it will nevertheless affect the process of assessing impairment of debtors and other financial assets as noted above.

As part of the process of adoption, the VJB will need to consider the impact on policies, processes, systems and people. This may include reviewing how entries are posted for impairment of assets, given the requirement to provide on initial recognition for lifetime expected credit losses. We would recommend that the VJB review the impact of IFRS 9 in the year, including calculating any adjustments that will be required as at 31 March 2018 for transition. We would suggest that the Board receive reporting from management on the implementation of the new standard, and we will report specifically on the findings from our audit work in this area.

Appendix: New Accounting Standards

IFRS 16 *Leases*

In a nutshell

- The new Standard supersedes IAS 17 *Leases* and its associated interpretative guidance.
- For lessees the distinction between operating and finance leases disappears.
- A lease conveys the right to control an identified asset for a period of time in exchange for consideration.
- The accounting for all leases is similar to finance lease accounting in IAS 17, which means all leases are recognised on the balance sheet (with some exceptions).
- The lease liability is measured at the present value of the future lease payments, using a lease term that includes periods covered by extension options if exercise is reasonably certain. Variable lease payments are only included in the liability if based on an index or rate.
- That right-of-use asset is initially measured at the amount of the lease liability, plus initial direct costs and adjustments for lease incentives, payments at or prior to commencement and dilapidations provisions.
- The right-of-use asset is subsequently accounted for by applying IAS 16 *Property, Plant and Equipment*, at cost less depreciation and impairment (unless it is an investment property that is fair valued or it belongs to a class of property, plant and equipment that is revalued).
- A lessee can elect to keep the following leases off-balance sheet and typically straight line the expense:
 - leases with a lease term of 12 months or less and containing no purchase option – this election is made by class of underlying asset; and
 - leases where the underlying asset has a low value when new, such as personal computers or small office furniture – this election is made on a lease-by-lease basis.
- Operating lease expenses, typically straight line, will be replaced with interest on the liability and depreciation of the asset, producing a front-loaded expense profile.
- Although any individual lease will have a front-loaded expense, portfolios of leases containing both new and mature leases may produce an overall expense profile similar to straight line expensing.
- HM Treasury has consulted across government and is considering specific interpretations and adaptations for consistency across the public sector, but which will follow the overall principles of IFRS 16.

Effective date

Periods commencing on or after 1 January 2019. It was announced by CIPFA/LASAAC that implementation in the public sector will be delayed until 2020/21.



Find out more on our UK Accounting Plus website www.iasplus.com/en-gb by following the links to Standards -> IFRS 16

Potential impact on the VJB

CIPFA/LASAAC announced in 2018/19 that the implementation of IFRS 16 would be delayed until 2020/21. We would recommend that the Board review the impact of IFRS 16 during 2019/20, so that the impact can be understood and reflected in budgeting for 2020/21. We do not anticipate any material impact on the VJB given that its lease portfolio consists purely of premises and this expires in June 2021. The Board should consider if agreeing a 12 month lease, renewable each year, would be beneficial as this would allow the VJB to maintain the lease off-balance sheet and straight line the expense as at present.

We would suggest that the Board receive reporting in year from management on expected impact of the new standard, to support the disclosure in the financial statement on accounting standards not yet effective. We will report to the Board on any observations on the VJB's approach in 2018/19, and on findings from our audit work in 2019/20 onwards.

Appendices



Fraud responsibilities and representations

Responsibilities explained



Your responsibilities:

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.



Our responsibilities:

- We are required to obtain representations from your management regarding internal controls, assessment of risk and any known or suspected fraud or misstatement.
- As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.
- As set out in the significant risks section of this document, we have identified the risk of fraud in the recognition of requisition income and management override of controls as a key audit risk for your organisation.



Fraud characteristics:

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

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

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

Fraud responsibilities and representations (continued)

Inquiries

We will make the following inquiries regarding fraud:



Management

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

Internal audit and local counter fraud specialist



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

Those charged with governance



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

Independence and fees

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

Independence confirmation	We confirm the audit engagement team, and others in the firm as appropriate, Deloitte LLP and, where applicable, all Deloitte network firms are independent of the Board and will reconfirm our independence and objectivity to the Board for the year ending 31 March 2019 in our final report to the Board.	
Fees	The audit fee for 2018/19, in line with the fee range provided by Audit Scotland, is £7,280 as analysed below:	
		£
	Auditor remuneration	6,280
	Audit Scotland fixed charges:	
	Pooled costs	610
	Performance Audit and Best Value	-
	Audit support costs	390
	Total proposed fee	7,280
	There are no non-audit services fees proposed for the period.	
Non-audit services	In our opinion there are no inconsistencies between the FRC's Ethical Standard and the VJB'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 have no other relationships with the VJB, its members, senior managers and affiliates, and have not supplied any services to other known connected parties.	



Our approach to quality

AQR team report and findings

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

In June 2018 the Financial Reporting Council ("FRC") issued individual reports on each of the eight largest firms, including Deloitte, on Audit Quality Inspections which provides a summary of the findings of its Audit Quality Review ("AQR") team for the 2017/18 cycle of reviews.

We take the findings of the AQR seriously and we listen carefully to the views of the AQR and other external audit inspectors. We remediate every finding regardless of its significance and seek to take immediate and effective actions, not just on the individual audits selected but across our entire audit portfolio. We are committed to continuously improving all aspects of audit quality in order to provide consistently high quality audits that underpin the stability of our capital markets.

We have improved the speed by which we communicate potential audit findings, arising from the AQR inspections and our own internal reviews to a wider population, however, we need to do more to ensure these actions are embedded. In order to achieve this we have launched a more detailed risk identification process and our InFlight review programme. This programme is aimed at having a greater impact on the quality of the audit before the audit report is signed. Consistent achievement of quality improvements is our aim as we move towards the AQR's 90% benchmark.

All the AQR public reports are available on its website: <https://www.frc.org.uk/auditors/audit-quality-review/audit-firm-specific-reports>

The AQR's 2017/18 Audit Quality Inspection Report on Deloitte LLP

"The overall results of our reviews of the firm's audits show that 76% were assessed as requiring no more than limited improvements, compared with 78% in 2016/17. Of the FTSE 350 audits we reviewed this year, we assessed 79% as achieving this standard compared with 82% in 2016/17. We are concerned at the lack of improvement in inspection results. The FRC's target is that at least 90% of these audits should meet this standard by 2018/19."

"Where we identified concerns in our inspections, they related principally to aspects of group audit work, audit work on estimates and financial models, and audit work on provisions and contingencies. During the year, the firm has continued to develop the use of "centres of excellence", increasing the involvement of the firm's specialists in key areas of the audit. We have no significant issues to report this year in most of the areas we reported on last year."

"The firm has revised its policies and procedures in response to the revised Ethical and Auditing Standards. We have identified some examples of good practice, as well as certain areas for improvement."

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

- Increased use of centres of excellence ("CoE") involving the firm's specialists, including new CoEs focusing on goodwill impairment (established in response to previous inspection findings) and corporate reporting, to address increasing complexity of financial reporting.
- Further methodology updates and additional guidance issued to the audit practice including the audit approach to pension balances, internal controls, data analytics, group audits and taxation.
- A new staff performance and development system was implemented with additional focus on regular timely feedback on performance, including audit quality.
- Further improvements to the depth and timeliness of root cause analysis on internal and external inspection findings.

Our key findings in the current year requiring action by the firm:

- Improve the group audit team's oversight and challenge of component auditors.
- Improve the extent of challenge of management's forecasts and the testing of the integrity of financial models supporting key valuations and estimates.
- Strengthen the firm's audit of provisions and contingencies.

Review of firm-wide procedures. The firm should:

- Enhance certain aspects of its independence systems and procedures.



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Orkney & Shetland Valuation Joint Board



Agenda Item

4

Meeting(s):	Orkney & Shetland Valuation Joint Board	27 February 2019
Report Title:	2019/20 Budget Proposal – Orkney & Shetland Valuation Joint Board	
1Reference Number:	VF-003-F	
Author / Job Title:	Treasurer to the Board	

1.0 Decisions / Action required:

- 1.1 That the Orkney & Shetland Valuation Joint Board (“the Board”) APPROVE the 2019/20 Proposed Budget, as set out in this report and shown in Appendix 1.

2.0 High Level Summary:

- 2.1 The 2019/20 proposed Valuation Joint Board budget results in a requisition of £694,555 from the constituent authorities, an increase of £35,244 (5.3%) on the previous year.
- 2.2 The proposed budget cost to each constituent authority is as follows:

Cost to Each Constituent Authority	19/20 Proposed Budget £
Shetland Islands Council	(342,774)
Orkney Islands Council	(351,781)
TOTAL COST	(694,555)

- 2.3 Appendix 1 of this report show the detailed proposed budget for 2019/20 split between core activities, which are wholly funded by the two constituent authorities: Orkney Islands Council and Shetland Islands Council, and Individual Elector Registration (IER) activities, which are wholly funded by a central government grant. Detail includes the prior year budget and budget movement on a line-by-line basis.
- 2.4 The current budget strategy is based on a standstill position, subject to pay and inflationary costs pressures. Due to the uncertainty and timing of Barclay Review costs and funding implications at the time of formulating the 2019/20 budget, a revised budget strategy report has not been presented to the Board. This will be prepared once there is a greater understanding of the cost implications for the Board.

3.0 Corporate Priorities and Joint Working:

- 3.1 The Assessor has prepared Corporate and Service plans for 2016-2019 to support the planning and performance management of the functions, which are the responsibility of the Board; the proposed budget is aligned to these plans.

4.0 Key Issues:

4.1 The Assessor and the Treasurer have prepared the 2019/20 Proposed Budget based on both 2018/19 budget and the projected outturn position as follows:

Budget Position	£
2018/19 Budget	659,311
Pay and inflationary cost pressures	6,044
Growth	44,010
Savings	(14,810)
2019/20 Proposed Budget	694,555

4.2 The budget has been prepared taking account of the following:

- estimated pay award of 3% (plus an additional anticipated shortfall in the pay award for 2018/19 of 0.5%);
- contribution pension rate for the Board of 28.3% - a reduction from 31.1% in 2018/19;
- vacancy factor, estimated at 0.5% of core staff costs. This is to capture, in the budget, savings from staff turnover that occur year-on-year; and
- Members' allowance increase of 2.8%.

4.3 Explanation of growth items:

- The 30% Market Forces enhancement approved to the salary scale of the Assistant Assessor post;
- Relocation costs attributable to the recruitment of the Assistant Assessor post;
- Reduced vacancy factor, the 2018/19 budget is not expected to be achievable in 2019/20;
- Inclusion of unfunded pension costs omitted in the 2018/19 budget ; and
- Redundancy costs – IER funding from the Cabinet Office is secure until 31 March 2020. No extension of funding have been announced, potential IER staff redundancy costs have been factored into the budget.

4.4 Explanation of savings items:

- Job evaluation review, budgeted for in 2018/19, did not increase the pay grade; and
- Removal of the annual mileage lump sum allowance in line with the approved revision to the Essential Car User payment.

4.5 On 5 December 2018 (O&SVJB Min Ref: 16/18), the Assessor presented a report on the potential impact on the statutory valuation service and financial implications of the Barclay Review. In considering the options detailed in the report, the Board approved the following:

- “while maintaining a Senior Valuer position within the structure in each area office seek to fill the aspirational future structure by employing two Graduate Apprenticeships in order to address both the Barclay Report Recommendations and succession planning” and,
- “to authorise the Assessor and Electoral Registration Officer to procure the Corona Service Ltd supported valuation system, or investigate any others that may be available to the market, with a view to migrating the existing systems

preferably onto a joint server either located in Orkney or Shetland. Estimated annual support costs are £14,600 per annum plus development costs of £6,000 per annum, total £20,600 per annum”	
4.6	The Scottish Government have announced funding for the Barclay Review, an indicative allocation of £3.3 million is included in the Local Government Finance Settlement for 2019/20. The exact distribution to Valuation Joint Boards’ still has to be confirmed.
4.7	Any shortfall between the Scottish Government funding and actual Barclay Review costs incurred in 2019/20 will be met by the contingency budgets of the constituent authorities’.
4.8	On 25 January 2010 (O&SVJB Min Ref: 05/10) the Board approved: <ul style="list-style-type: none"> Increases to the retainer paid to the Secretary and Assistant Secretary (£1,750 and £1,500 respectively) and to the hourly attendance rate (£70 per hour) starting from 1 April 2010; and delegated authority to the Treasurer to the Board to increase the hourly rate and retainer on 1 April 2011 and each year thereafter, in line with CPI.
4.9	The annual retainer paid to the Secretary and Assistant Secretary will be increased to £2,000 and £1,750 respectively, and hourly rate to £100, effective from 1 April 2019. This does not affect the 2019/20 budget, as the existing budget is sufficient to cover this increase.
5.0 Exempt and/or confidential information:	
5.1	None.
6.0 Implications :	
6.1 Service Users, Patients and Communities:	A clear Corporate and Service plan aligned to the budget enables better evidence of governance and performance management and provides assurance to the constituent authorities that the functions and services of the Board meet expectation and achieve best value.
6.2 Human Resources and Organisational Development:	None arising from this report.
6.3 Equality, Diversity and Human Rights:	None arising from this report.
6.4 Legal:	The Orkney and Shetland Valuation Joint Board is required to set a balanced budget and to determine the level of requisition to be sought from its constituent authorities.
6.5 Finance:	The Budget 2019/20 amounts to £694,555 and represents an increase of £35,244 since 2018/19.
6.6 Assets and Property:	None arising from this report.

6.7 ICT and new technologies:	None arising from this report.
6.8 Environmental:	None arising from this report.
6.9 Risk Management:	If a realistic, affordable budget is not set, there is a risk that the Board will be unable to fulfil its statutory duties should insufficient funding be requisitioned from constituent authorities.
6.10 Policy and Delegated Authority:	Overall stewardship of the Board's 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,
12 February 2019

Appendices:

Appendix 1 – Orkney & Shetland Valuation Joint Board Proposed Budget 2019/20

Background Documents:

25 January 2010 – Remuneration and Training

5 December 2018 – Barclay Review Recommendations Report

Orkney & Shetland Valuation Joint Board Proposed Budget 2019/20

Income & Expenditure Summary	2018/19 Budget £	2019/20 Proposed Core Budget £	2019/20 Proposed IER Budget £	2019/20 Proposed Total Budget £	Budget Movement (Adv)/Pos £
EXPENDITURE:					
Basic Pay	377,502	375,494	22,219	397,713	(20,211)
Vacancy factor	(12,000)	(2,495)	-	(2,495)	(9,505)
Overtime	500	500	-	500	-
National Insurance	39,896	41,846	771	42,617	(2,721)
Pension Costs	125,410	117,569	6,421	123,990	1,420
Allowances	31,027	38,468	3,378	41,846	(10,819)
Liability Insurance	3,100	2,670	-	2,670	430
Employee Costs	565,435	574,052	32,789	606,841	(41,406)
Administration	83,602	73,888	7,234	81,122	2,480
Agency Payments	8,854	7,985	-	7,985	869
Property and Fixed Plant	31,600	30,850	-	30,850	750
Supplies and Services	2,870	2,350	-	2,350	520
Transport and Mobile Plant	30,500	23,630	1,300	24,930	5,570
Recharges for Shetland Islands Council	13,797	15,000	-	15,000	(1,203)
Operating Costs	171,223	153,703	8,534	162,237	8,986
TOTAL EXPENDITURE	736,658	727,755	41,323	769,078	(32,420)
INCOME:					
Sales/Agency Income	(33,000)	(33,200)	-	(33,200)	200
IER Funding	(44,347)	-	(41,323)	(41,323)	(3,024)
TOTAL INCOME	(77,347)	(33,200)	(41,323)	(74,523)	(2,824)
NET EXPENDITURE	659,311	694,555	-	694,555	(35,244)
CHARGE TO CONSTITUENT AUTHORITIES:					
Orkney Islands Council	(334,775)	(351,782)	-	(351,781)	17,006
Shetland Islands Council	(324,536)	(342,774)	-	(342,774)	18,238
TOTAL CHARGE TO CONSTITUENT AUTHORITIES	(659,311)	(694,555)	-	(694,555)	35,244