



Orkney & Shetland Valuation Joint Board

Annual Audit Report to the Members of the Board and the Controller of Audit for the year ended
31 March 2023

18 October 2023

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About this report

This report has been prepared in accordance with the responsibilities set out within the Audit Scotland's *Code of Audit Practice* ("the Code").

This report is for the benefit of Orkney and Shetland Valuation Joint Board ("the VJB") and is made available to Audit Scotland and the Controller of Audit (together "the Beneficiaries"). This report has not been designed to be of benefit to anyone except the Beneficiaries. In preparing this report we have not taken into account the interests, needs or circumstances of anyone apart from the Beneficiaries, even though we may have been aware that others might read this report. We have prepared this report for the benefit of the Beneficiaries alone.

Nothing in this report constitutes an opinion on a valuation or legal advice.

We have not verified the reliability or accuracy of any information obtained in the course of our work, other than in the limited circumstances set out in the introduction and responsibilities sections of this report.

This report is not suitable to be relied on by any party wishing to acquire rights against KPMG LLP (other than the Beneficiaries) for any purpose or in any context. Any party other than the Beneficiaries that obtains access to this report or a copy (under the Freedom of Information Act 2000, the Freedom of Information (Scotland) Act 2002, through a Beneficiary's Publication Scheme or otherwise) and chooses to rely on this report (or any part of it) does so at its own risk. To the fullest extent permitted by law, KPMG LLP does not assume any responsibility and will not accept any liability in respect of this report to any party other than the Beneficiaries.

Complaints

If at any time you would like to discuss with us how our services can be improved or if you have a complaint about them, you are invited to contact Michael Wilkie, who is the engagement leader for our services to the VJB, telephone 0141 300 5890, email: michael.wilkie@kpmg.co.uk who will try to resolve your complaint. If your problem is not resolved, you should contact Tim Cutler, either by writing to him at 1 St Peter's Square, Manchester, M2 3AE, by telephoning 0161 246 4774 or email tim.cutler@kpmg.co.uk. We will investigate any complaint promptly and do what we can to resolve the difficulties. After this, if you are still dissatisfied with how your complaint has been handled you can refer the matter to Diane McGiffen, Audit Scotland, 4th Floor, 102 West Port, Edinburgh, EH3 9DN.

Executive summary

Audit conclusions

Our work on the financial statements of the VJB is now Complete. We issued an unqualified audit opinion on the annual accounts of Orkney and Shetland Valuation Joint Board ("the VJB") on 18 October 2023, following their approval by the Orkney and Shetland Valuation Joint Board on 28 September 2023.

We identified two significant risks in the audit of the VJB, which relate to fraud risk from management override of controls and a risk of an inappropriate amount is estimated and recorded for defined benefit obligations. As documented on pages 7-9, we have concluded satisfactorily in respect of the significant risks and audit focus areas identified in the audit strategy document.

We concurred with management's assessment that the entity prepares its financial statements on a going concern basis in line with the CIPFA code of Local Authority Accounts 2022-23.

The annual accounts were received at the start of the audit fieldwork. We have no matters to highlight in respect of adjusted audit differences or our independence. We have made no recommendations on our work to date.

Wider Scope and Best Value (12-17)

We have concluded that the VJB be assessed as a less complex body for Wider scope and Best value.

We have concluded that the Board have adequate arrangements in place to provide the Board with financial sustainability and to achieve best value , we have identified two recommendations to improve these arrangements further.

Scope and responsibilities

Purpose of this report

The Accounts Commission has appointed KPMG LLP as auditor of Orkney and Shetland Valuation Joint Board (“the VJB”) under part VII of the Local Government (Scotland) Act 1973 (“the Act”). The period of appointment is 2022-23 to 2026-27, inclusive.

Our annual audit report is designed to summarise our opinions and conclusions on significant issues arising from our audit. It is addressed to both those charged with governance at the VJB and the Controller of Audit. The scope and nature of our audit are set out in our audit strategy document which was presented to the VJB on 29 June 2023.

Audit Scotland’s Code of Audit Practice (“the Code”) sets out the wider dimensions of public sector audit which involves not only the audit of the financial statements but also consideration of areas such as financial performance and corporate governance.

Accountable officer responsibilities

The Code sets out the VJB’s responsibilities in respect of:

- corporate governance;
- financial statements and related reports;
- standards of conduct for prevention and detection of fraud and error;
- financial position; and
- Best Value.

Audit status

Our audit is complete.

Auditor responsibilities

This report reflects our overall responsibility to carry out an audit in accordance with our statutory responsibilities under the Act and in accordance with International Standards on Auditing (UK) (“ISAs”) issued by the Financial Reporting Council and the Code. Appendix one sets out how we have met each of the responsibilities set out in the Code.

Scope

An audit of the financial statements is not designed to identify all matters that may be relevant to those charged with governance.

Weaknesses or risks identified are only those which have come to our attention during our normal audit work in accordance with the Code, and may not be all that exist.

Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

Under the requirements of ISA 260 *Communication with those charged with governance*, we are required to communicate audit matters arising from the audit of financial statements to those charged with governance of an entity.

This report to those charged with governance and our presentation to the Board, together with previous reports to the audit and performance committee throughout the year, discharges the requirements of ISA 260.

Audit conclusions

Audit opinion

Our work on the financial statements of the VJB is now complete. Following approval of the annual accounts by the Orkney and Shetland Valuation Joint Board, we issued an unqualified opinion on 18 October 2023 on the truth and fairness of the state of the VJB's affairs as at 31 March 2023, and of the break even position for the year then ended.

There are no matters identified on which we are required to report by exception.

Financial reporting framework, legislation and other reporting requirements

The VJB is required to prepare its annual accounts in accordance with International Financial Reporting Standards, as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2022-23 and in accordance with the Local Authority Accounts (Scotland) Regulations 2014. Our audit confirmed that the financial statements have been prepared in accordance with the CIPFA Code and relevant legislation.

Statutory reports

We have not identified any circumstances to notify the Controller of Audit that indicate a statutory report may be required.

Other communications

We did not encounter any significant difficulties during the audit. There were no other significant matters arising from the audit that were discussed, or subject to correspondence with management that have not been included within this report. There are no other matters arising from the audit, that, in our professional judgement, are significant to the oversight of the financial reporting process.

Audit misstatements

There is one unadjusted misstatement identified during the audit and we identified some minor presentational adjustments that were adjusted in the revised statements. See appendix 4.

Written representations

Our representation letter did not include any additional representations to those that are standard as required for our audit.

Materiality and summary of risk areas

Materiality

We summarised our approach to materiality in our audit strategy document. On receipt of the financial statements and following completion of audit testing we reviewed our materiality levels and concluded that the level of materiality set at planning was still relevant.

We used a materiality of £25 thousand for the VJB's financial statements. This equates to approximately 2.35% of gross expenditure. We designed our procedures to detect errors in specific accounts at a lower level of precision than our materiality. For the VJB, our performance materiality was £21.2 thousand. We report all misstatements greater than £1,250.

Forming our opinions and conclusions

In gathering the evidence for the above opinions and conclusions we:

- performed substantive procedures to ensure that key risks to the annual accounts have been covered;
- reviewed internal audit reports as issued to the Board to ensure all key risk areas which may be viewed to have an impact on the annual accounts had been considered;
- reviewed estimates and accounting judgments made by management and considered these for appropriateness;
- considered the potential effect of fraud on the annual accounts through discussions with senior management and internal audit to gain a better understanding of the work performed in relation to the prevention and detection of fraud; and
- attended Board meetings to communicate our findings to those charged with governance, and to update our understanding of the key governance processes.

Financial statements preparation

Draft financial statements were published online in line with Section 195 of Local Government (Scotland) Act 1973, this included the management commentary and annual governance statement. In advance of our audit fieldwork we issued a 'prepared by management' request setting out a list of required analyses and supporting documentation. We received working papers of good quality, and signed complete draft financial statements were provided on 28 July 2023.

We recognise the significant efforts of the finance team given the ongoing pressures to deliver a set of accounts with no identified misstatements to us in accordance with the normal timeframes.

Significant risks and other focus areas in relation to the audit of the financial statements

We summarise below the risks of material misstatement as reported within the audit strategy document.

Significant risks (page 7 of this report):

- management override of controls fraud risk.
- Fraudulent revenue recognition
- Estimated liability for defined benefit obligation

Other focus areas (page 9 of this report):

- financial sustainability and reserves (also a wider scope area).

Wider scope areas (page 12 – 16):

- Assessment of less complex body
- financial sustainability;
- Annual governance statement; and
- 2021-22 wider scope recommendation follow up

Significant risks

Significant risk	Our Response	Audit conclusion
Fraud risk from management override of controls Professional standards require us to communicate the fraud risk from management override of controls as a significant risk; as management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.	— Our audit methodology incorporates the risk of management override as a default significant risk. In line with our methodology, we evaluated the design and implementation of the controls in place for the approval of manual journals posted to the general ledger to ensure that they are appropriate. — We analysed all journals through the year using data and analytics and focus our testing on those with a higher risk, such as journals impacting revenue or expenditure recognition around year-end, or journals linked to our other recognised significant risks. — We will assess the appropriateness of changes compared to the prior year to the methods and underlying assumptions used to prepare accounting estimates. — We reviewed the appropriateness of the accounting for significant transactions that are outside the Board's normal course of business, or are otherwise unusual. — We assessed the controls in place for the identification of related party relationships and test the completeness of the related parties identified. We will verify that these have been appropriately disclosed within the financial statements.	Our work did not identify any instances of override of control, or matters that required adjustment in the annual accounts or which require to be brought to attention.
Fraud risk from income revenue recognition and expenditure Under ISA 240 there is a presumed risk that income may be misstated due to improper recognition of income. This requirement is modified by Practice Note 10, issued by the FRC, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.	— We consider that the Board's significant income streams, which include funding requisitions from both Island Councils. These are agreed in advance of the financial year, with any changes arising from changes in need, requiring approval from each body. There is no estimation or judgement in recognising this stream of income and we do not regard the risk of fraud to be significant. — The Board works with both Island Councils in order to deliver services delegated by the Board. The Board makes these decisions based on its budget agreed in advance of the financial year. There is no estimation or judgement in recognising expenditure to these bodies, and we do not regard the risk of fraud to be significant.	We have rebutted the fraud risk from income revenue and expenditure recognition in the financial statements. We have not identified any issues of fraudulent income or expenditure recognition in the accounts.

Significant risks

Significant risk	Our Response	Audit conclusion
Risk: An inappropriate amount is estimated and recorded for the defined benefit obligation The valuation of the Local Government Pension Scheme (Shetland Pension Fund) relies on a number of assumptions, most notably around the actuarial assumptions, and actuarial methodology which results in the Board's overall valuation. There are financial assumptions and demographic assumptions used in the calculation of the Board's valuation, such as the discount rate, inflation rates, mortality rates etc. The assumptions should also reflect the profile of the Board's employees, and should be based on appropriate data. The basis of the assumptions should be derived on a consistent basis year to year, or updated to reflect any changes. There is a risk that the assumptions and methodology used in the valuation of the Board's pension obligation are not reasonable. This could have a material impact on the net pension liability accounted for in the financial statements. Pension Funds in surplus pose an additional accounting risk to Boards, as the entity will need to assess the level of surplus that it can recognise. This will need to be assessed each year, and the conclusion can change from one year to the next based on facts and circumstances for each participation. <i>We do not consider there to be a significant level of estimation uncertainty over the valuation of the LGPS assets in year end valuation on the basis that this calculation is completed using an appropriate roll forward method. As a result procedures performed over this element of the valuation are not detailed in our audit plan.</i>	Control design: – We have tested the design and operating effectiveness of controls over the provision of membership information to the actuary who uses it, together with management's review of assumptions, to calculate the pension obligation. Benchmarking assumptions: – We have challenged, with the support of our own actuarial specialists, the key assumptions applied, being: the discount rate; inflation rate; and mortality/life expectancy against externally derived data. – We have challenged the rate of increase in pensionable salaries assumption, by comparing it to other evidence such as business and transformation plans and our understanding of Government and staff expectations. Assessing transparency: – We have considered the adequacy of the disclosures in respect of the sensitivity of the liabilities to these assumptions. – We have assessed if the disclosures within the financial statements are in accordance with the 2022-23 Code's requirements. – We have assessed the level of surplus that should be recognised by the Board.	We have concluded that the assumptions that the Actuary of the Pension Fund has used are balanced (See Page 11). We have identified one item in the Actuary report which was not in line with the actual values leading to an unadjusted misstatement (appendix four). The disclosures in the financial statements are complete and in line with the CIPFA code. We have concluded that the Estimated and recorded defined benefit obligation is fairly stated and appropriately disclosed in the financial statements. Management do not have a management review control for assessing and challenging the Actuary in respect of the assumptions, which is recommend however management are comfortable with the current arrangement and we understand the rationale. <i>Recommendation</i>

We set out above the significant risks identified in the audit, together with our conclusion. The audit opinion within the annual accounts includes a reference to the most significant assessed risks of material misstatement, which is the significant risk included in this annual audit report. This annual audit report does not constitute our audit opinion; the opinion is included within the annual accounts.

Other focus areas

Other focus area	Our response	Audit conclusion
Financial Sustainability Financial sustainability looks forward to the medium and longer term to consider whether the Board is planning effectively to continue to deliver its services or the way in which they should be delivered. This is inherently a risk to the Board giving the challenging environment where ongoing recruitment issues, increased employment costs are putting pressures on Council funding potentially, leading to increased efficiencies needed.	— The Board are funded by the two constituent bodies in line with the required level of funded need to allow the Board to discharge its statutory responsibilities to maintain the Valuation Roll, the Council Tax Valuation List and the Electoral Roll. — A Budget is agreed prior to the start of the year with both Council's agreeing to fund the Board in line with the required needs. — In year variances to budgets are monitored and reported into the governance arrangements at both Council's so they are sighted on the impact on any such variances — This scheme includes the need for the Board to achieve a break-even position unless there are clear plans to create or utilise reserves. — A three year strategic plan should be produced that incorporates a medium term financial plan, covering activity changes due to changes in demand, inflation, efficiency savings, the legal requirements which may impact unavoidable commitments, and identify savings required to align to funding available, and risk assess the impact of these savings. — Where recovery plans are needed, these are agreed in consultation with both parties, to address any deficits and timescales and reserves needed to return to the break-even position. — We will consider the Board's financial planning, reserves strategy, medium term financial plans including the identification and delivery of efficiencies and savings. — We will conclude on the appropriateness of these arrangements in our annual audit report in the financial sustainability wider scope work.	A medium term financial plan 2023/4 to 2025/6 has been prepared by the Board which has linked the Boards operational and workforce plans with its financial plans. This has outlined the Boards funding challenges for the medium term. The Board agree an annual budget and funding agreement with discussions ongoing between all parties to ensure that the Board is financially sustainable into the future. Financial Sustainability has been fully assessed as part of the wider scope audit (see page 13).

Management reporting in financial statements

Report	Summary observations	Audit conclusion
Management commentary	The Local Authority Accounts (Scotland) Regulations 2014 require the inclusion of a management commentary within the annual accounts, similar to the Companies Act requirements for listed entity financial statements. The requirements are outlined in the Local Government finance circular 5/2015. We are required to read the management commentary and express an opinion as to whether it is consistent with the information provided in the annual accounts. We also review the contents of the management commentary against the guidance contained in the CIPFA disclosure checklist VJB accounts.	The information contained within the management commentary is consistent with the annual accounts. We reviewed the contents of the management commentary against the guidance contained in the Local Government finance circular 5/2015 and are content with the proposed report.
Remuneration report	The remuneration report was included within the unaudited annual accounts and supporting reports and working papers were provided.	The information contained within the remuneration report is consistent with the underlying records and the annual accounts and all required disclosures have been made in line with the 2014 regulations. Our independent auditor's report confirms that the part of the remuneration report subject to audit has been properly prepared. A small presentational adjustment was made to the remuneration report. See Appendix 4.
Annual governance statement	The statement for 2022/23 outlines the corporate governance and risk management arrangements in operation in the financial year. It provides detail on the VJB's governance framework, review of effectiveness, continuous improvement agenda, and analyses the efficiency and effectiveness of these elements of the framework. We consider the annual governance statement to ensure that management's disclosure is consistent with the annual accounts, and that management have disclosed that which is required under the delivering good governance in local government framework.	We consider the governance framework and revised annual governance statement to be appropriate for the VJB and that it is in accordance with guidance and reflects our understanding of the VJB. We were satisfied with the proposed disclosure over the governance arrangements.

Qualitative aspects and future developments



Qualitative aspects

ISA 260 requires us to report to those charged with governance our views about significant qualitative aspects of the VJB 's accounting practices, including accounting policies, accounting estimates and financial statement disclosures. We consider the accounting policies adopted by the Council to be appropriate. There are no significant accounting practices which depart from what is acceptable under IFRS or the CIPFA Code. We considered the level of prudence within key estimates in the 2022-23 financial statements and accounting estimates. We set out our view below:

Subjective areas	2022-23	Commentary
Pension assumptions Net liability: £43,000 - (2021-22 £1,804,000)	3	For defined benefit obligations, the estimate is calculated under IAS 19 (as calculated by the Board's actuary, Hymans Robertson, using agreed financial assumptions). We found the assumptions and accounting for pensions to be appropriate. We consider that the discount rate used (2.8%) to be optimistic, the CPI inflation assumption (3.3%) to be balanced, and mortality – future improvements (CMI 2021 projections model, 1.5% long-term trend rate for males/females) to be balanced. Salary inflation assumptions are in line with Council expectations. We consider that the return on pension assets assumptions to be appropriate. Overall we consider pension assumptions to be balanced. Full details are in appendix nine.

Future accounting and audit developments

IFRS 16 adoption has been deferred until 1.4.2024 unless bodies want to introduce earlier.

Audit dimensions introduction and conclusions

The Code of Audit Practice sets out four audit dimensions which, alongside Best Value in the local government sector, set a common framework for all the audit work conducted for the Controller of Audit and for the Accounts Commission: financial sustainability; financial management; vision, leadership and governance; and use of resources to improve outcomes.

It remains the responsibility of the audited body to ensure that it has proper arrangements across each of these audit dimensions. These arrangements should be appropriate to the nature of the audited body and the services and functions that it has been created to deliver. We review and come to a conclusion on these proper arrangements.

The Auditor General or the Accounts Commission permits an alternative audit approach where an audited body is less complex owing to its size and its limited financial activity. Based on the consideration of the quantitative and qualitative criteria we have assessed the entity to be less complex, therefore applying reduced scope as required by the code. However as a result of a number of significant issues identified in 2020/21 audit report, the Controller of Audit reported to the Accounts Commission in March 2022 under section 102(1) of the Local Government (Scotland) Act 1973. This report drew the Commission's attention to the issues relating to governance and decision-making that were identified in 2020/21 audit. We noted that as per the 2021/22 annual audit report, status of three out of nine recommendations was reported as partially implemented with remaining being reported as complete. In view of these, we concluded that it is appropriate to apply expanded wider scope requirements to specifically follow-up on the outstanding recommendations. Our work therefore covers financial sustainability, review of annual governance statement and follow-up of recommendations relating to governance.

During our work we considered the work carried out by other scrutiny bodies to ensure our work meets the proportionate and integrated principles contained within the Code of Audit Practice.

Financial sustainability

Financial sustainability looks forward to the medium and longer term to consider whether the VJB is planning effectively to continue to deliver its services.

Budget setting

The 2022/23 budget of £956,100 was approved by the Board on 3 March 2022. Net expenditure chargeable to the Board of £986,928 represents an overspend of £30,828 or 3.2% relative to the budget of £956,100. This overspend is charged to the constituent local authorities as part of the annual requisition mechanism.

We noted that Board was provided and considered regular reports on progress against the budget clearly setting out the variances and proposed actions.

The 2023/24 budget of £1,032,200, was approved by the Board on 2 March 2023 representing an 8% increase as compared to the 2022/23 budget. The key assumption underpinning the budget include the following:

- Staff Costs include a 4% increase to reflect the 2022/23 pay settlement award and an allowance of 2% for 2023/24. The budget factors in the likelihood of a Trainee Valuer graduating this financial year and an additional 0.2FTE Technician post growth proposal. This represents a budget increase of £59,600.
- Property Costs include an additional allowance for electricity which is budgeted to increase by 40% on current costs, adding £13,800 to the budget.
- Apportioned Costs include inflation of 6% to match the allowance for the pay award.
- Fees and Charges are expected to remain at the same level
- A revenue budget of £144,000 is proposed in respect of Barclay Review Implementation costs for financial year 2023/24.

Budget setting continued

We noted that the ongoing inflationary pressures and negotiations on public sector pay continue to be the main driving factors in relation to the budget setting process with 83% of the budget relating to staff cost.

Based on the above, we are satisfied that the financial balance is achieved in the short term.

Going Concern

The annual accounts are prepared on a going concern basis. While the annual accounts demonstrate that the entity is in a net liability position and is reliant on others for the financial resources needed to cover its operating costs, the going concern concept is met by the legal framework surrounding the Board.

This obliges the two local authorities to make available the resources that are requisitioned from them by the Board.

Financial sustainability (continued)

Financial sustainability

The Board had developed a Medium Term Financial Plan (MTFP) in an attempt to look beyond the single year budget in the previous year. This has been rolled forward in the current year and to 2025/26 including projections for 10 year long term forecast to 2032/33. This was presented to the Board in the meeting dated 2nd March 2023.

The financial plan undertakes some sensitivity analysis to provide a picture of best case, worst case and likely case in terms of financial projections. This allows the Board to see the risk associated with the range of variables within the financial issues/pressures identified.

The plan also seeks to provide a longer term projection of the Board's future budget position for the next ten years. This will allow longer term risks and issues to be identified. Although it is clear that the further away from the current date that projections go the less certain the projections become, they will nevertheless allow the Board to consider longer term views and options.

Key assumptions underlying the plans and longer term forecasts are as follows:

- No further budget changes/ burdens / efficiencies have been included for 2024/25 onwards at this stage
- It is assumed that general inflationary pressures will be contained wherever possible through the generation of efficiency savings within the financial envelope of the Boards revenue budget, noting that 83% of the budget is staff costs.
- It is further assumed that constituent council's will continue to support the Board financially through the annual requisition mechanism to manage the full financial implications associated with the revised pay and grading model that was implemented in 2021, including incremental draft and career progression

The plan notes that with many activities being statutory requirements with mandatory timetables for completion, and with approximately 83% to 89% of the Board's expenditure being on staff costs, it is considered that any savings of significance would require reductions in staffing levels. This will lead to failure to meet demand, loss of experience as well as failure to fulfil statutory duties.

We note that the inflation rate for 2024/25 and beyond has been assumed as 2% which is not in line with the current inflation rate. [Recommendation raised \(page 23\)](#)

We further note that a key assumption in relation to containment of the inflationary pressure through generation of efficiency savings is premised on the reduction of staff levels which may have an adverse effect on the provision of services.

We note that the plan identifies a funding gap over the three-year period 2023/24 to 2025/26 of £42k based on a most "Likely Case" scenario as well as a larger gap over the 10 year longer term forecast period and notes that the MTFP will provide a practical framework within which choices can be identified, debated and approved. However we have not seen any quantified plans being put in place to bridge this gap. [Recommendations raised \(page 23\)](#)

Follow up of prior year recommendations

Status of recommendations made in 2021/22 annual audit report is as follows:

- The Board should re-introduce more regular financial monitoring reports to the Board, and as a minimum report on a quarterly basis - **this has been fully implemented**
- The Board should consider expanding the formal budget papers to incorporate the risks that the Board face and how these could potentially impact on the Board's financial position - **this has been fully implemented**

Conclusion

The 2023-24 budget was set in March 2023 with staff cost being the main expense category.

The entity's latest accounts are prepared on a going concern basis.

Financial balance is achieved in the short term.

The entity has rolled forward the medium term financial plan in the current year including forward looking forecast to 2032/33. A key assumption underlying the future forecasts is the ability to reduce staffing levels which may have an adverse effect on the services being provided.

Governance and transparency

Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.

The governance framework is the system by which the Board leads, directs and controls its functions and relates to the community and other stakeholders. It includes the systems, processes, cultures and values through which the Board strives to adhere to the principles of good governance of openness, inclusivity, integrity and accountability.

The Board uses the 2016 CIPFA/SOLACE framework as a guidance framework for implementing a governance environment.

Elected members and officers from both constituent authorities are expected to abide by their respective codes of conduct. In order to avoid duplication, the Board relies on the register of interests and gifts maintained by the relevant constituent authorities for elected members.

The Board reviewed its Standing Orders on 30 June 2022, while work to develop Financial Regulations specific to the Board is underway. A new Scheme of Delegation for Officers was developed and approved by the Board at its meeting on 8 December 2022.

Leadership training

On 30 June 2022, Board Members received an induction session. This session was repeated on 17 November 2022 for those Board Members unable to attend the initial session and for substitute Board Members.

On 8 December 2022, an informal seminar took place with Board Members which covered the Lessons Learned from the 2020/21 External Audit. Skills Analysis for members and a training plan were identified.

A training plan, approved by the Board on 2 March 2023, is in place for Board Members and will be updated each year..

Scrutiny, challenge and transparency

Progress and performance reports are presented to Board meetings on a regular basis. Standing Orders provide a framework for decision making, with Financial Regulations providing a scheme of delegation for financial decisions.

Audit recommendations and action points are now routinely reported to and monitored by the Board.

Key performance indicators have been established for the service and performance against these indicators are reported through the Assessor's annual report. The Assessor's annual public performance report and the annual accounts are available on the Board's website

Records of decision-making, meeting agendas, reports (and any supplementary appendices) and minutes of Board meetings are published timeously on Orkney Islands Council's website.

The Board maintains a website where users can find further information about the Board's performance and the financial accounts, including feedback from external audit in the form of the external audit report and action plan.

The Board further engages stakeholders and demonstrates continuous improvement in its journey of increasing openness and transparency, in live-streaming Board meetings following its decision to do so at its meeting on 3 March 2022.

Strategy and Risk Management

A new Service Plan was approved by the Board at its meeting on 2 March 2023 together with a new Risk Management Policy and Strategy. The Board's senior management team monitors the plan. Any review or update to the plan is reported to the Board through the 6-monthly Best Value progress report.

Governance and transparency (continued)

Internal Audit

The internal audit function is provided by Orkney Islands Council following a decision by the Board on 3 March 2022. Strategic planning, professional management and reporting for the internal audit function of Orkney Islands Council is provided by the Council's Chief Internal Auditor. An Internal Audit Strategy and Plan for 2023/24 was considered by the Board at its meeting on 2 March 2023.

The Chief Internal Auditor provides an annual internal audit opinion based on an objective assessment of the framework of governance, risk management and control. It is the opinion of the Chief Internal Auditor, on the basis of the audit work performed in 2022/23, that the Board has a framework of controls in place that provides adequate assurance regarding the organisation's governance framework, related internal controls, and the management of key risks. The actions identified during the audit work carried out did not impact on the overall governance arrangements of the Board.

Internal Audits have been completed and reported to the Board, with recommendations on:

- Corporate Governance and Risk Management
- IT Network and Security

Follow up of prior year recommendations

Status of recommendations reported as outstanding in 2021/22 annual audit report is as follows:

The VJB should undertake a comprehensive root cause analysis and 'lessons learned' review given the number and significance of the issues identified during our audit. A clear improvement plan needs to be developed to implement the findings of this Review – **this has been fully implemented**

The VJB should review its internal governance documents, ensuring that its Constitution is appropriately tailored and up to date, and supported by VJB-specific Financial Regulations, Contract Standing Orders and other governance documents as Appropriate – **partially implemented (refer action points below) – (See recommendation page 22)**

A comprehensive analysis of the skills and competencies required of the Board and leadership team should be completed and the current postholders assessed against these. A clear training plan or alternative arrangements should be put in place to address any gaps identified – **this has been fully implemented**

Conclusion

The Board has made progress to address the weaknesses in the leadership and governance arrangements that were highlighted in previous years. It is important that the Board maintains the momentum going forward.

Best Value

Local government bodies have a duty under the Local Government in Scotland Act 2003 to make arrangements which secure Best Value. Best Value is continuous improvement in the performance of the body's functions.

Auditors are required to consider and to be satisfied that bodies have made proper arrangements to secure Best Value. Work is required to be undertaken in a way that it is proportionate to the size and type of the body.

Auditors should consider how the body demonstrates that it is meeting its Best Value responsibilities, and report on the body's own arrangements for doing this in the Annual Audit Report.

In the case of Less Complex Bodies, auditors should consider how the work carried out on areas such as financial sustainability will also meet the Best Value responsibilities.

We have included our consideration and reporting of the same throughout this report and note that:

Financial balance is achieved in the short term.

The entity has rolled forward the medium term financial plan in the current year including forward looking forecast to 2032/33. A key assumption underlying the future forecasts is the ability to reduce staffing levels which may have an adverse effect on the services being provided.

The Board has made progress to address the previous year recommendations in the leadership and governance arrangements.

A new Service Plan was approved by the Board at its meeting on 2 March 2023 together with a new Risk Management Policy and Strategy. The Board's senior management team monitors the plan. Any review or update to the plan is reported to the Board through the 6-monthly Best Value progress report.

As part of review of minutes of the Board we noted evidence of consideration and sufficient challenge of the best value – progress reports being presented on a 6 monthly basis.

We further noted that in addition to above a best value – performance report is presented to the Board on annual basis for consideration. This report relating to 2022/23 was presented at the Board meeting dated 29 June 2023. The purpose of the report is to present to the Board, the annual performance related targets and outcomes in relation to the statutory valuation function.

We noted that the above information is made available on the website as part of Board minutes. Further the information is also included in the annual accounts with commentary.

Conclusion

The VJB has implemented appropriate arrangements to secure Best Value and is making good progress in implementing previous audit recommendations.

Appendices

Appointed auditor's responsibilities

AREA	APPOINTED AUDITOR'S RESPONSIBILITIES	HOW WE HAVE MET OUR RESPONSIBILITIES
Statutory duties	Undertake statutory duties, and comply with professional engagement and ethical standards.	Appendix two outlines our approach to independence.
Financial statements and related reports	Provide an opinion on audited bodies' financial statements and, where appropriate, the regularity of transactions. Review and report on, as appropriate, other information such as annual governance statements, management commentaries, and remuneration report.	Page 5 summarises the opinion we expect to provide. Page 9 reports on the other information contained in the financial statements, covering the annual governance statement, management commentary and remuneration report
Financial statements and related reports	Notify the Auditor General or Controller of Audit when circumstances indicate that a statutory report may be required.	Reviewed and concluded on the effectiveness and appropriateness of arrangements and systems of internal control, including risk management, internal audit, financial, operational and compliance controls.
Wider audit dimensions	Demonstrate compliance with the wider public audit scope by reviewing and providing judgements and conclusions on the audited bodies': - Effectiveness in the use of public money and assets; - Suitability and effectiveness of corporate governance arrangements; - Financial position and arrangements for securing financial sustainability; - Effectiveness of arrangements to achieve best value; and - Suitability of arrangements for preparing and publishing statutory performance information	We have carried out a risk assessment of the Board against the less complex wider scope guidance - Page 12 . We have concluded that the less complex approach is appropriate for the VJB in 2022-23 and we have concluded on pages (12 to 17) on the arrangements in place.

Auditor independence

Assessment of our objectivity and independence as auditor of Orkney and Shetland Valuation Joint Board ("the VJB")

Professional ethical standards require us to provide to you at the conclusion of the audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed.

This letter is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses:

- General procedures to safeguard independence and objectivity;
- Independence and objectivity considerations relating to the provision of non-audit services; and
- Independence and objectivity considerations relating to other matters.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP partners and staff annually confirm their compliance with our ethics and independence policies and procedures including in particular that they have no prohibited shareholdings. Our ethics and independence policies and procedures are fully consistent with the requirements of the FRC Ethical Standard. As a result we have underlying safeguards in place to maintain independence through:

- Instilling professional values
- Communications
- Internal accountability
- Risk management
- Independent reviews.

We are satisfied that our general procedures support our independence and objectivity

Independence and objectivity considerations relating to the provision of non-audit services

Summary of fees

Audit Scotland has completed a review of funding and fee setting arrangements for 2022-23. An expected fee is calculated by Audit Scotland to each entity within its remit. This expected fee is made up of four elements:

- Auditor remuneration (** average of Tender values)
- Audit Scotland Pooled costs
- Audit Scotland Audit Support Costs
- Audit Scotland sectoral cap adjustment

Entity	2022/23	2021/22
Auditor Remuneration **	£19,610	£6,760
Pooled Costs	£-	£700
PABV Contribution	£-	£-
Audit Support Costs	£740	£360
Sectoral Cap Adjustment	-£11,550	£-
TOTAL AUDIT FEES (Incl VAT)	£8,800	£7,820

This is our first year auditing the VJB. There were no non-audit services provided during the year to 31 March 2023.

Independence and objectivity considerations relating to other matters

There are no other matters that, in our professional judgment, bear on our independence which need to be disclosed to the VJB.

Confirmation of audit independence

We confirm that as of the date of this letter, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the partner and audit staff is not impaired.

This report is intended solely for the information of the VJB and should not be used for any other purposes.

We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

Yours faithfully,

KPMG LLP

Required communications with the VJB

Type		Response
Our draft management representation letter		We have not requested any specific representations in addition to those areas normally covered by our standard representation letter for the year ended 31 March 2023.
Adjusted audit differences		There was no adjusted audit differences. And a small number of minor presentational adjustments made
Unadjusted audit differences		There is one unadjusted audit difference.
Related parties		There were no significant matters that arose during the audit in connection with the entity's related parties.
Other matters warranting attention by the Audit Committee		There were no matters to report arising from the audit that, in our professional judgment, are significant to the oversight of the financial reporting process.
Control deficiencies		We have not identified any internal control weakness during our audit to date. Management retains the responsibility for maintaining an effective system of internal Control.
Actual or suspected fraud, non-compliance with laws and regulations or illegal acts		No actual or suspected fraud involving group or component management, employees with significant roles in internal control, or where fraud results in a material misstatement in the financial statements were identified during the audit.

Type		Response
Significant difficulties		No significant difficulties were encountered during the audit.
Modifications to auditor's report		There are no expected modifications to the auditor's report.
Disagreements with management or scope limitations		The engagement team had no disagreements with management and no scope limitations were imposed by management during the audit.
Other information		No material inconsistencies were identified related to other information in the annual report, management commentary and annual governance statement. The management commentary is fair, balanced and comprehensive, and complies with the law.
Breaches of independence		No matters to report. The engagement team have complied with relevant ethical requirements regarding independence.
Accounting practices		Over the course of our audit, we have evaluated the appropriateness of the VJB's accounting policies, accounting estimates and financial statement disclosures. In general, we believe these are appropriate.
Key audit matters discussed or subject to correspondence with management		The key audit matters (summarised on Page 5) from the audit were discussed with management.

Appendix four

Audit Differences

Under UK auditing standards (ISA (UK) 260) we are required to provide the Audit and Risk Committee with a summary of unadjusted audit differences (including disclosure misstatements) identified during the course of our audit, other than those which are 'clearly trivial', which are not reflected in the financial statements.

Unadjusted audit differences (£'000s)				
No	Detail	SOCI Dr/(cr)	SOFP Dr/(cr)	Comments
1	Cr Defined Benefit Liability	-	(39)	Being the difference between the actual and estimated entries as per VJB Actuary report
	Dr Defined Benefit Asset	-	19	
	Dr Current Service Costs	20	-	
	Total	20	(20)	

Under UK auditing standards (ISA (UK) 260) we are required to provide the Audit and Risk Committee with a summary of adjusted audit differences (including disclosures) identified during the course of our audit. The adjustments below have been included in the financial statements.

Adj	Adjusted Audit Differences
1	Remuneration report A small number of presentational amendments have been made to the detail in the remuneration report

We also identified a small number of disclosure adjustments, which were all corrected in the final version of the statement of accounts.

Recommendations – prior year follow up

Priority rating for recommendations			
1	Priority one: issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.	2	Priority two: issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.
3	Priority three: issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.		

The table below summarises the outstanding recommendations from prior years.

We have provided a summary of progress against 'in progress' actions below, and their current progress.

Grade	Finding(s) and risk(s)	Management update 2021/22	Agreed management actions
Governance and Transparency			
2	The VJB should review its internal governance documents, ensuring that its Constitution is appropriately tailored and up to date, and supported by VJB-specific Financial Regulations, Contract Standing Orders and other governance documents as appropriate.	In Progress. The Board approved its Standing Orders at its meeting on 30 June 2022.	Management response: The Board has agreed revised Standing Orders at its meeting on 30 June 2022 and a Scheme of Delegation at its meeting in December 2022. The Board formally adopted OIC's Financial Regulations and Contract Standing Orders as an interim measure. Tailored Financial Regulations and Contract Standing Orders will now be developed with a target of 31 December 2023. This action remains ongoing. Responsible officer: Karen Greaves Implementation date: 31 December 2023

Recommendations – current year

In addition to the point on page 8, the table below summarises the recommendations based on current year work.

We have provided a summary of progress against 'in progress' actions below, and their current progress.

Grade	Finding(s) and risk(s)	Recommendation	Agreed management actions
Financial Sustainability			
2	We note that the plan identifies a funding gap over the three-year period 2023/24 to 2025/26 of £42k based on a most "Likely Case" scenario as well as a larger gap over the 10 year longer term forecast period and notes that the MTFP will provide a practical framework within which choices can be identified, debated and approved. However we have not seen any quantified plans being put in place to bridge this gap.	We recommend development of quantified plans to address the identified funding gaps over medium or long term.	Management response: This will be considered when reviewing the MTFP for 2024 budget setting Responsible officer: Robert Eunson Implementation date: 1 April 2024
3	We note that the inflation rate for 2024/25 and beyond has been assumed as 2% which is not in line with the current inflation rate	We recommend sensitising inflation rate to identify and consider range of outcomes with respect to the potential funding gaps.	Management réponse: At the time of preparing the MTFP forecast inflationary figures were predicting inflation returning to government policy levels. Appropriate rates will continue to be applied when preparing forecasts. Responsible officer: Erik Knight Implementation date: 1 April 2024



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