

# Orkney and Shetland Valuation Joint Board

**Report to Members and the Controller of Audit  
on the 2010/11 Audit**

October 2011



 AUDIT SCOTLAND



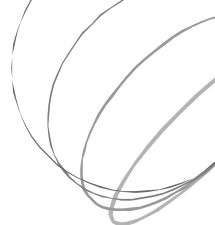
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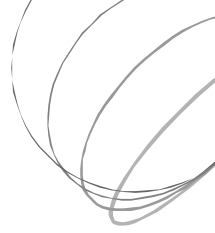
# Key Messages

We have given an unqualified opinion on the financial statements of Orkney and Shetland Valuation Joint Board.

No high level risks have been identified from the audit.

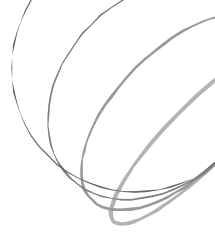


**October 2011**



# Introduction

1. This report is the summary of our findings arising from the 2010/11 audit of Orkney and Shetland Valuation Joint Board (the joint board). The report focuses mainly on the joint board's financial statements and addresses any significant findings that have arisen throughout the year. The scope of the audit was set out in our audit fee letter issued on 2 February 2011.
2. The financial statements are the means by which the joint board accounts for its stewardship of the resources made available to it and its financial performance in the use of these resources. It is the responsibility of the joint board to prepare financial statements that present a true and fair view of its financial position and the income and expenditure for the year.
3. The members and officers of the joint board are responsible for the management and governance of the organisation. As external auditors, we review and report on the arrangements in place and seek to gain assurance that:
  - the financial statements have been prepared in accordance with statutory requirements and that proper accounting practices have been observed
  - the joint board's system of recording and processing transactions provides an adequate basis for the preparation of the financial statements and the effective management of assets and interests
  - the joint board has adequate governance arrangements which reflect the three fundamental principles of openness, integrity and accountability
  - the systems of internal control provide an appropriate means of preventing or detecting material misstatement, error, fraud or corruption
  - the joint board has proper arrangements for securing best value in its use of resources.
4. This report is addressed to members and the Controller of Audit. It will be published on our website after consideration by the council. The Controller of Audit may use the information in this report for her annual overview of local authority audits to the Accounts Commission later this year. The overview report is published and it is also presented to the Local Government and Communities Committee of the Scottish Parliament.



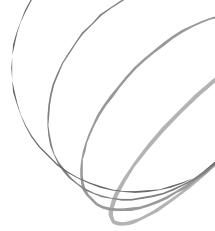
# Financial statements

## Introduction

5. In this section we summarise key outcomes from our audit of the joint board's financial statements for 2010/11.
6. We audit the financial statements and give an opinion on:
  - whether they present a true and fair view of the financial position of the joint board and its expenditure and income for the year
  - whether they have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements.
7. We also review the Statement on the System of Internal Financial Control by considering the adequacy of the process put in place by the joint board to obtain assurances on systems of governance and internal financial control and assessing whether disclosures in the statement are consistent with our knowledge.

## Audit Opinion

8. We have given an unqualified opinion that the financial statements of Orkney and Shetland Valuation Joint Board for 2010/11 give a true and fair view of the financial position and expenditure and income of the joint board for the year. We also certify that the accounts have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements.
9. We were satisfied with disclosures made in the statement on the system of internal financial control and the adequacy of the process put in place by the joint board to obtain assurances on systems of control.
10. The joint board's unaudited financial statements were submitted to the Controller of Audit by the deadline of 30 June. The accounts were certified by the target date of 31 August 2011 and are now available for presentation to members and publication. The financial statements are an essential means by which the joint board accounts for its stewardship of the resources made available to it and its financial performance in the use of those resources.



## Accounting issues

11. Local authority bodies in Scotland are required to follow the *Code of Practice on Local Authority Accounting in the United Kingdom 2010/11* (the Code). We were satisfied that the joint board prepared the accounts in accordance with the 2010 Code.

## Accounts Submission

12. 2010/11 was the first year of implementation of IFRSs and this has resulted in changes to the format of the financial statements. Partly as a result of this, the audit team identified more changes to be made to the draft accounts than they had in previous years. We were satisfied that the final set of accounts were in accordance with the Code and IFRSs.

## Audit testing

13. The joint board's financial transactions are processed through Shetland Islands Council's financial systems. As part of our work, we took assurance from a number of the council's main financial systems. We assessed the following central systems as having a satisfactory level of control for our purposes:

- Payroll
- Accounts payable
- Main accounting system
- Accounts receivable

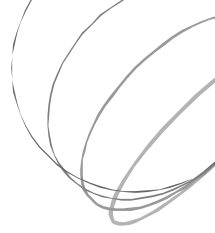
14. We also relied on the work of internal audit to support our work in these areas.

## Prevention and detection of fraud and irregularities

15. The joint board does not have in place its own arrangements for the prevention and detection of fraud and corruption, but complies with the relevant policies of Shetland Islands Council.

## Legality

16. Through our planned audit work we consider the legality of the joint board's financial transactions. In addition the Treasurer confirmed that, to the best of his knowledge and belief, and having made appropriate enquiries of other senior officers, the financial transactions of the joint board were in accordance with relevant legislation and regulations. There are no additional legality issues arising from our audit which require to be brought to members' attention.



# Use of resources

## Financial results

17. In 2010/11, Orkney and Shetland Valuation Joint board spent £366,959 on the provision of services. After accounting for sales, fees and charges and requisitions from members, the resulting surplus on the provision of services was £225,485.
18. The budget set for 2010/11 was based on planned contributions of £616,315 from the constituent authorities. The Treasurer summarises performance against budget in the Introductory Statement to the accounts. Overall there was an underspend of £26,911 before adjusting the accounts for IAS 19 entries. This was mainly due to a reduction in employee costs and joint costs for travel, subsistence and external consultants.

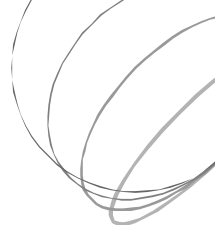
## Reserves and balances

19. The joint board does not hold a general fund balance at the year end. The joint board holds a pension reserve which shows a pension liability of £449,000, decreasing from £1,015,000 in the previous year.
20. The employee statutory adjustment account shows a liability of £10,140 (2009/10 £6,625). This is a new reserve set up to absorb the differences that would otherwise arise on the General Fund balance from accruing for compensated absences earned but not taken in the year. Statutory arrangements require that the impact on the general fund is neutralised by transfers to or from the account.

## Going concern

21. Auditing standards require auditors to consider an organisation's ability to continue as a going concern when forming an opinion on the financial statements. One of the indicators that may give rise to going concern considerations is an excess of liabilities over assets. The joint board's balance sheet at 31 March 2011 shows net liabilities of £509,410 (2009/10 £1,021,625).
22. The net liability position is due to the employee statutory adjustment account and the requirements of International Accounting Standard 19 (employee benefits). Under IAS 19 there is an obligation to recognise the joint board's full pension obligations in the year they are earned. In accounting for pensions, IAS 19 is based on the principle that an organisation should account for retirement benefits at the point at which it commits to paying them, even if the actual payment will be made years into the future. This requirement results in large future liabilities being recognised in the annual accounts. This technical accounting requirement has had no impact on the underlying basis for meeting current and ongoing pension liabilities which will be met from employer's contributions and investment

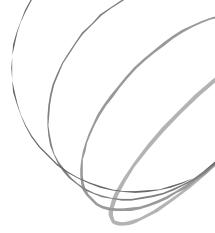




returns. In common with similar authorities, the joint board has considered it appropriate to adopt a going concern basis for the preparation of the financial statements.

## **Financial planning**

23. The budget strategy for 2010/11 to 2012/13 was presented to the joint board on 7 August 2009. It was agreed that the joint board should adopt a strategy that provides for a standstill budget for the forthcoming three year period, with every effort being made to produce efficiency savings in line with best value. The 2011/12 estimates were presented to the board on 24 January 2011 with the provisional budget set at £596,572.



# Governance and accountability

## Introduction

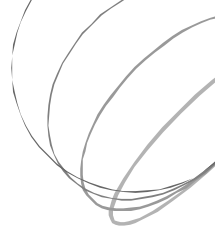
24. We believe that an effective organisation is committed to high standards of probity and can demonstrate high standards of governance and accountability. It has effective political and managerial structures and processes to govern decision-making and the exercise of authority within the organisation, supported by mature and effective relationships between members and officers.
25. In this section we comment on key aspects of the joint board's governance arrangements during 2010/11.

## Structure and policies

26. Orkney and Shetland Valuation Joint Board was established in 1996 under The Valuation Joint Boards (Scotland) Order 1996, and its primary purpose is to discharge all the functions of its two constituent authorities, Orkney Islands Council and Shetland Islands Council, as valuation authorities under the Valuation Acts.
27. The joint board is a separate public body from the two constituent authorities but draws its membership from them, each nominating 5 councillors to serve on the joint board. The joint board is responsible for appointing the Assessor for Orkney and Shetland, an independent statutory official responsible for the preparation and maintenance of the Valuation Roll and the Council Tax Valuation List. The Assessor has also been appointed as Electoral Registration Officer for both Orkney and Shetland and is, therefore, also responsible for the preparation and maintenance of the Register of Electors.

## Partnership Working

28. Through the working of the Scottish Assessors' Association, there is a large-scale exchange of information and views via committees and working parties towards the harmonisation of the Rating and Council Tax valuation processes throughout Scotland. The Assessor for Orkney and Shetland is a member of most committees of the Scottish Assessors' Association, either personally or represented by the Assistant Assessor. The Assessor is the chairman of the Association's Oil Committee.



## Public performance reporting

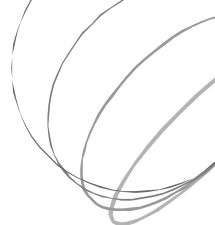
29. The joint board publishes performance indicators on their website. These provide key statistics on the council tax list and the valuation roll. There are currently no performance indicators for the electoral registration service.

## Governance and internal control

30. The joint board has a responsibility to put in place arrangements for the conduct of its affairs, ensure the legality of activities and transactions and to monitor the adequacy and effectiveness of these arrangements in practice.
31. A Statement on the System of Internal Financial Control is included within the annual financial statements, and highlights the Treasurer's view that reasonable assurance can be placed upon the adequacy and effectiveness of the joint board's internal financial control system. The statement complies with accounting requirements and is not inconsistent with the findings of our audit.

## Systems of internal control

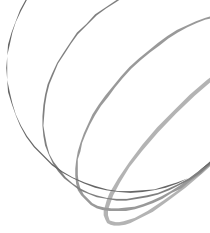
32. The joint board's financial transactions are processed through Shetland Islands Council's financial systems. It is the responsibility of the council's management to maintain adequate financial systems and associated internal controls. The auditor evaluates significant financial systems and associated internal controls both for the purpose of giving an opinion on the financial statements and as part of a review of the adequacy of governance arrangements.
33. Our review of these systems was conducted as part of the audit of Shetland Islands Council, supplemented by specific audit work on the joint board's financial statements. Overall there are no material issues of concern in relation to the operation of the main financial systems.



# Final Remarks

34. The members of Orkney and Shetland Valuation Joint Board are invited to note this report. We would be pleased to provide any additional information that members may require.
  
35. The co-operation and assistance given to us by officers of the joint board is gratefully acknowledged.





# Appendix A

## External audit reports and audit opinions issued for 2010/11

Title of report or opinion	Date of issue	Date Issued
Report on financial statements to those charged with governance	31/8/11	31/8/11
Audit opinion on the 2010/11 financial statements	31/8/11	31/8/11