



Orkney and Shetland Valuation Joint Board

Report to the Members of the Board and the Controller of Audit on the 2018/19 audit

Issued 16 August 2019 for the meeting on 26 September 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.

I have pleasure in presenting our final report to the Board of Orkney and Shetland Valuation Joint Board ('the VJB') for the 2018/19 audit. The scope of our audit was set out within our planning report presented to the Board in March 2019.

This report summarises our findings and conclusions in relation to:

- The audit of the **financial statements**; and
- Consideration of the wider scope requirements of public sector audit. This includes our consideration of the VJB's duty to secure best value. As set out in our plan, due to the relative size and scale of the functions delivered by the VJB, we concluded that the full wider scope audit was not appropriate. In accordance with paragraph 53 of the Code, our work in this area was restricted to concluding on:
 - The appropriateness of the disclosures in **the governance statement**; and
 - The **financial sustainability** of the Board and the services that it delivers over the medium to longer term.

Introduction (continued)

The key messages in this report (continued)

I would like to draw your attention to the key messages of this paper:

Conclusions from our testing

Based on our audit work completed to date we expect to issue an unmodified audit opinion.

The management commentary and annual governance statement comply with the statutory guidance and proper practice and are consistent with the financial statements and our knowledge of the VJB.

The auditable parts of the remuneration and staff report have been prepared in accordance with the relevant regulation.

A summary of our work on the significant risks is provided in the dashboard on page 8.

An audit adjustment arising from post balance sheet events has been made in relation to the impact of the McCloud judgement on the pension liability of the VJB, as set out on page 24. No uncorrected misstatements or disclosure deficiencies have been identified up to the date of this report.

Status of the financial statements audit

Outstanding matters to conclude the audit include:

- Finalisation of internal quality control procedures;
- Receipt of final financial statements;
- Receipt of signed management representation letter; and
- Our review of events since 31 March 2019.

Conclusions on audit dimensions

As set out on page 3, our audit work was restricted to concluding on the appropriateness of the disclosures in the governance statement and the financial sustainability of the Board. We have, however, considered 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.

Our overall conclusion on the audit dimensions is summarised on page 5.

Introduction (continued)

The key messages in this report (continued)

Conclusions on audit dimensions (continued)

Governance statement - The disclosures are appropriate and address the minimum requirements of the Scottish Public Finance Manual (SPFM).

Financial sustainability – The VJB achieved financial balance in 2018/19 and has approved a balanced budget for 2019/20, incorporating savings of £15k (2.1%). Although the VJB is aware that it faces a difficult financial position over the medium term, there is uncertainty over the impact and timing of costs from the Barclay Review and consequently no quantification of the medium term funding gap. We are aware that the VJB is now working with Shetland Islands Council to develop a Medium-Term Financial Plan ('MTFP') in 2019/20 which will help to address this point.

Our detailed findings and conclusions are included on pages 16 to 21 of this report.

Next steps

An agreed Action Plan is included at pages 25 and 26 of this report. We will consider progress with the agreed actions as part of our 2019/20 audit.

Added value

Our aim is to add value to the VJB by providing insight into, and offering foresight on, financial sustainability, risk and performance by identifying areas for improvement and recommending and encouraging good practice. In so doing, we aim to help the VJB promote improved standards of governance, better management and decision making, and more effective use of resources.

This is provided throughout the report, and in particular we have worked closely with management to ensure that medium-term financial planning is established for the VJB as a stand-alone entity.

Pat Kenny
Audit Director

Our audit explained

Area dimensions

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

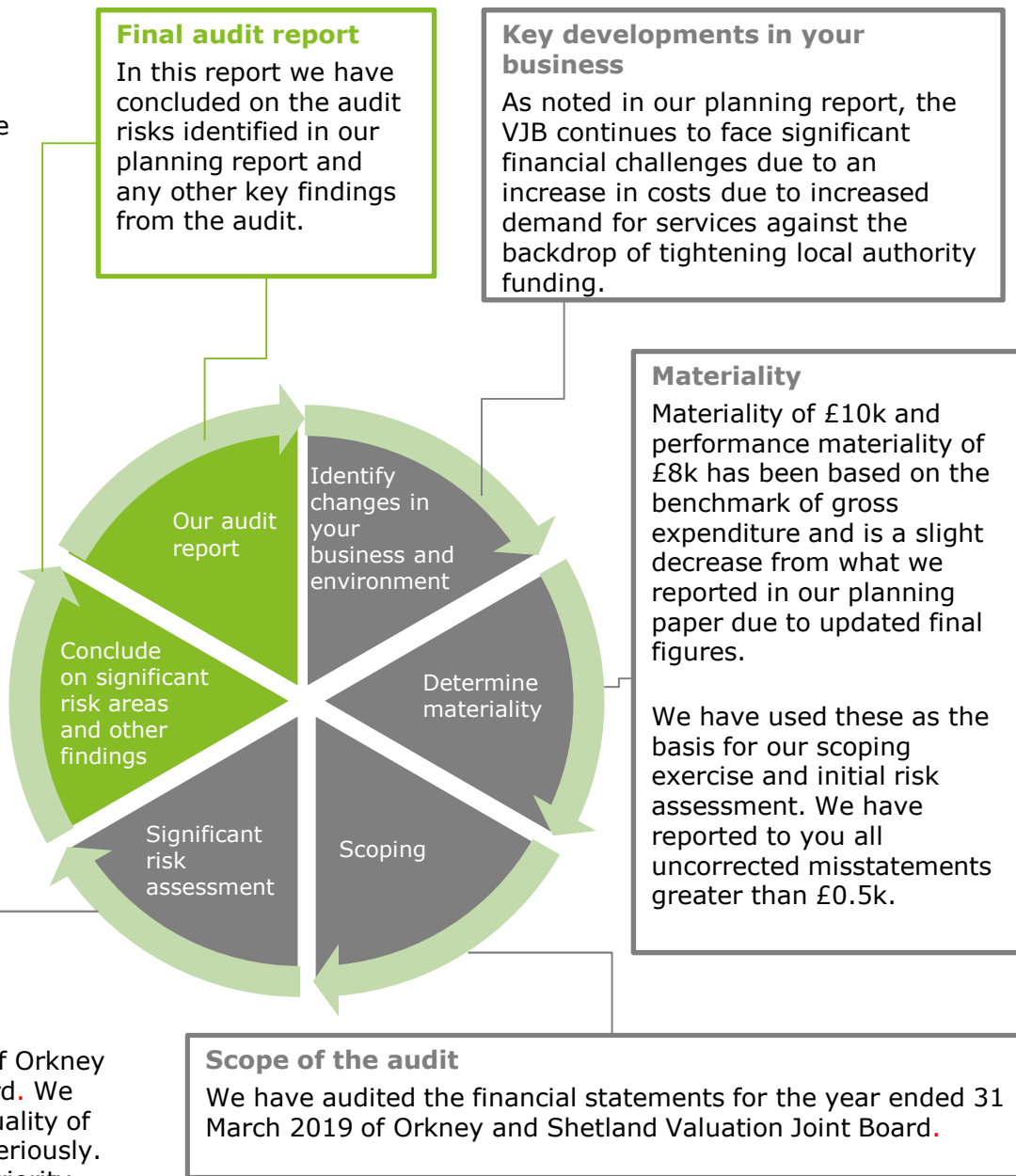
- Financial sustainability
- Governance statement

Significant risks

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

Quality and Independence

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









Timeline 2018/19



Financial statements audit



Significant risks Dashboard

Risk	Material	Fraud risk	Planned approach to controls testing	Controls testing conclusion	Consistency of judgements with Deloitte's expectations	Comments	Page no.
Occurrence of income			D+I	Satisfactory		Satisfactory	9
Management override of controls			D+I	Satisfactory		Satisfactory	10

Overly prudent, likely to lead to future credit



Overly optimistic, likely to lead to future debit.

D+I: Testing of the design and implementation of key controls

Significant risks (continued)

Risk 1 – 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 VJB 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 VJB on this income and the potential that funding partners may not provide additional income to cover overspends.



Key judgements and our challenge of them

Given the difficult financial situation faced by the VJB, there is a risk that the VJB could recognise income from OIC or SIC to fund costs prior to agreement being received from the Councils.



Deloitte response

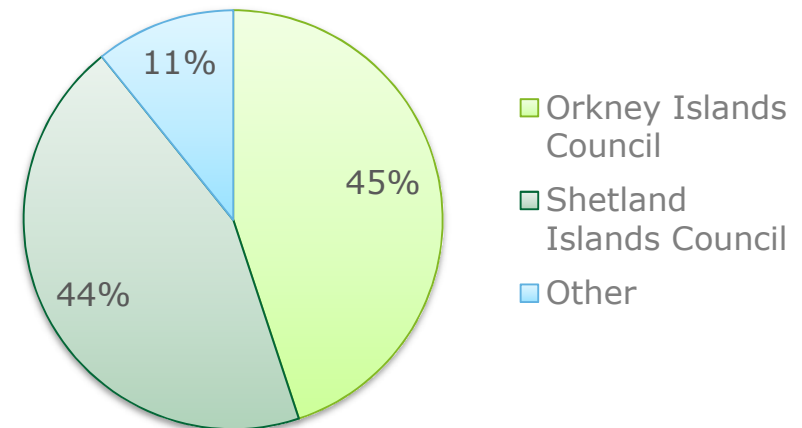
We have performed the following:

- tested 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;
- tested the reconciliations performed by the VJB at 31 March 2019 to confirm all income is correctly recorded in the ledger;
- confirmed that the reconciliations performed during 2018/19 have been reviewed on a regular basis; and
- assessed management's controls around recognition of income.

Deloitte view

We have concluded that income has been correctly recognised in accordance with the requirements of the Code of Practice on Local Authority Accounting.

2018/19 Income



Significant risks (continued)

Risk 2 - Management override of controls

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 VJB's controls for specific transactions.



Key judgements

The key judgment in the financial statements is that which we have selected to be the significant audit risk around the occurrence of income (page 9). This is inherently the area in which management has the potential to use their judgment to influence the financial statements.



Deloitte response

We have considered the overall sensitivity of judgements made in preparation of the financial statements, and note that:

- The VJB's results throughout the year were projecting underspends in operational areas. This was closely monitored and whilst projecting underspends, the underlying reasons were well understood; and
- Senior management's remuneration is not tied to particular financial results.

We have considered these factors and other potential sensitivities in evaluating the judgements made in the preparation of the financial statements.

Significant and unusual transactions

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

Journals

We have performed design and implementation testing of the controls in place for the review of management accounts.

We have used Spotlight data analytics to risk assess journals and select items for detailed follow up testing. The journal entries were selected using computer-assisted profiling based on areas which we consider to be of increased interest.

We have tested the appropriateness of journal entries recorded in the general ledger, and other adjustments made in the preparation of financial reporting. No issues were noted.

Deloitte view

We have not identified any significant bias in the key judgements made by management based on work performed.

We have not identified any instances of management override of controls in relation to the specific transactions tested based on work performed.

Accounting estimates

We reviewed the financial statements for accounting estimates which could include biases that could result in material misstatements due to fraud.

We considered any adjustments required for the transition to the new standards (IFRS 15 Revenues from contracts with customers and IFRS 9 Financial Instruments), focusing on the areas of greatest judgement and value.

Our work on the pension liability is discussed on page 11.

No issues have been identified from our testing.

Other matters

Defined benefits pension scheme

Background

The VJB participates in the Shetland Islands Council Pension Fund, administered by the Council.

The net pension liability has increased from £1,933k in 2017/18 to £2,257k in 2018/19 primarily as a result of changes arising from a slight decrease in the discount rates and a slight increase in the salary increase rate applied.



Deloitte response

- We obtained a copy of the actuarial report produced by Hymans Robertson, the scheme actuary, and agreed in the disclosures to notes in the accounts;
- We reviewed and challenged the assumptions made by Hymans Robertson, including benchmarking as shown in the table opposite;
- We assessed the reasonableness of the VJB's share of the total assets of the scheme with the Pension Fund financial statements;
- We reviewed the disclosures within the accounts against the Code of Practice on Local Authority Accounting; and
- We assessed the independence and expertise of the actuary supporting the basis of reliance upon their work.

	VJB	Benchmark	Comments
Discount rate (% p.a.)	2.40	2.40	Reasonable
Consumer Price Index (CPI) Inflation rate (% p.a.)	2.50	2.22	Prudent
Salary increase (% p.a.) (over RPI inflation)	1.0	0.5	Prudent
Pension increase in payment (% p.a.)	2.40	2.05	Reasonable, slightly prudent
Pension increase in deferment (% p.a.)	2.50	2.22	Reasonable
Mortality - Life expectancy of a male pensioner from age 65 (currently aged 65)	22.10	21.20	Reasonable
Mortality - Life expectancy of a male pensioner from age 65 (currently aged 45)	23.90	23.00	Reasonable

Deloitte view

We have reviewed the assumptions and, on the whole, the set of assumptions is reasonable and lies towards the middle of the range of assumptions when compared with the Deloitte benchmarks. The assumptions have been set in accordance with generally accepted actuarial principles and are compliant with the accounting standard requirements of IAS19.

Following the Supreme Court refusal of leave for the UK Government to appeal the McCloud judgement, an adjustment arising from post balance sheet events has been posted to the pension liability (as well as the corresponding reserve and notes to the accounts) to reflect the impact of the McCloud judgement in the annual accounts, which was recorded as a contingent liability in the unaudited accounts. This is set out on page 24.

Other matters (continued)

Implementation of IFRS 9 and IFRS 15

Matter identified

The VJB is required to adopt the new accounting standards IFRS 9 *Financial Instruments* and IFRS 15 *Revenues from contracts with customers* in the year ended 31 March 2019. In both cases, the VJB is using a modified retrospective approach to implementation where effectively the cumulative impact of transition to 1 April 2018 is posted as an adjustment to reserves. The VJB has posted no retrospective adjustments with regard to IFRS 9 or IFRS 15 as there is no material impact on the financial statements.

Response

Management held discussions with the audit team regarding the accounting impact of the new standards on the VJB for the period and determined that the impact is immaterial.

The key element impacted by IFRS 9 is the accounting for bad debt provisions, which must move to a methodology of expected credit losses. A practical expedient available for portfolios of debt is to use a matrix based on past experience, and modified in specific cases where more information is available, in order to provide at a suitable percentage.

With regard to IFRS 9, the VJB has immaterial non-local authority debtors at year-end and therefore, we agree with management's assessment that there is no material impact from transition to IFRS 9.

Regarding IFRS 15, a central analysis was prepared for the VJB's main contracts, for which no significant changes are required under IFRS 15. We have reviewed and challenged management's assumptions with no issues noted. From this, we agree with management's assessment that there is no material impact from transition to IFRS 15.

Deloitte view

We agree with management's position that the new accounting standards do not have a material impact for the VJB.

Our audit report

Other matters relating to the form and content of our report

Here we discuss how the results of the audit impact on other significant sections of our audit report.



Our opinion on the financial statements

Our opinion on the financial statements is unmodified.



Material uncertainty related to going concern

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

While the VJB is faced with financial sustainability issues (as discussed on page 19), there is a general assumption set out in Practice Note 10 (Audit of financial statements of public sector bodies in the United Kingdom) that public bodies will continue in operation, therefore it is appropriate to continue as a going concern.



Emphasis of matter and other matter paragraphs

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

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



Other reporting responsibilities

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

Our opinion on matters prescribed by the Controller of Audit are discussed further on page 14.

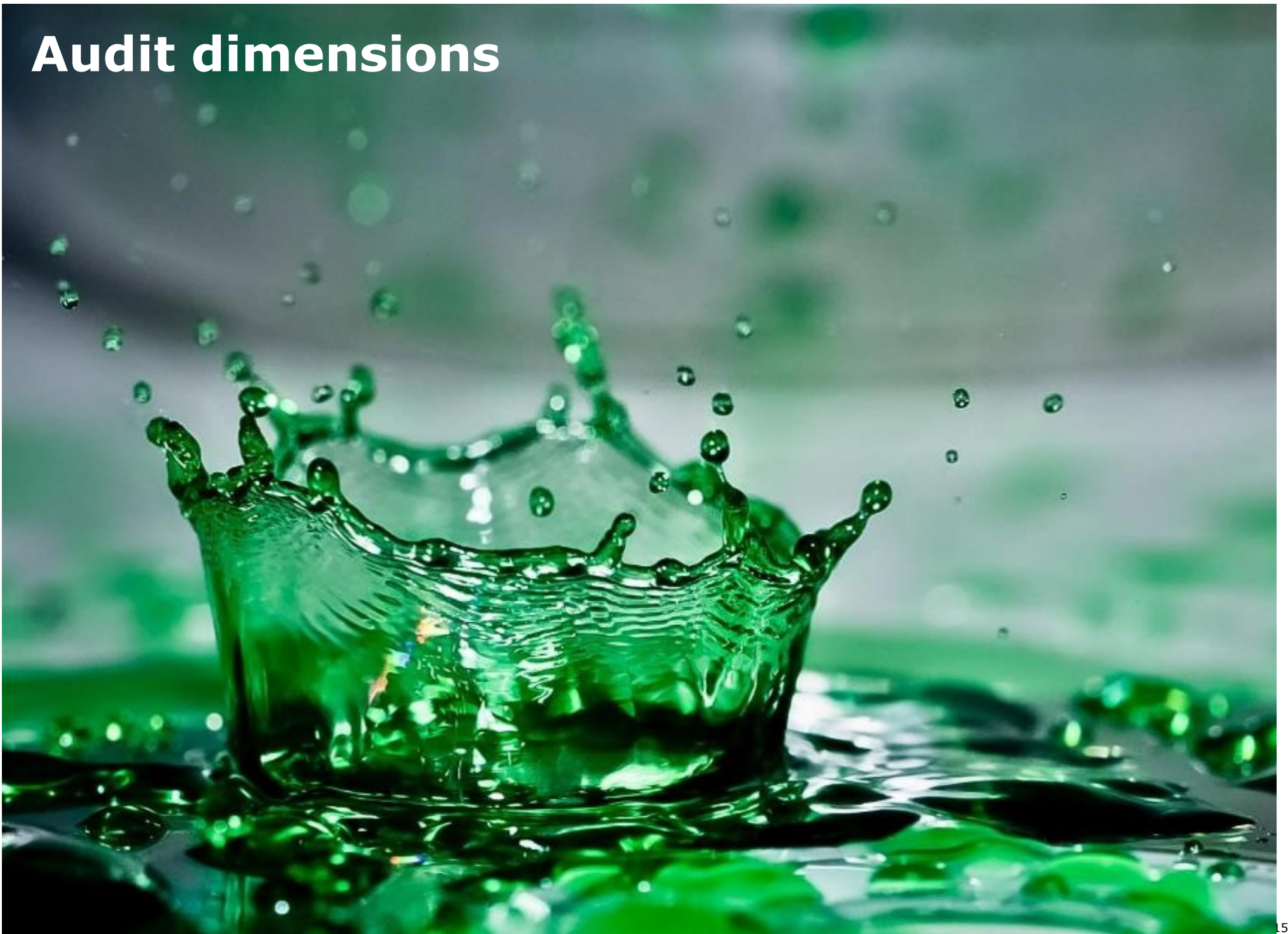


Your annual report

We are required to provide an opinion on the auditable parts of the remuneration report, the annual governance statement and whether the management commentary has been prepared in accordance with the statutory guidance..

	Requirement	Deloitte response
Management Commentary	The Management Commentary comments on financial performance, strategy and performance review and targets. The commentary included both financial and non financial KPIs and made good use of graphs and diagrams.	<p>We have assessed whether the Management Commentary has been prepared in accordance with the statutory guidance. No issues have been noted from our work.</p> <p>We have also read the Management Commentary and confirmed that the information contained within is materially correct and consistent with our knowledge acquired during the course of performing the audit, and is not otherwise misleading.</p>
Remuneration Report	The remuneration report has been prepared in accordance with the 2014 Regulations, disclosing the remuneration and pension benefits of Senior Board members and Senior Employees of the VJB.	We have audited the disclosures of remuneration and pension benefits, pay bands, and confirmed that they have been properly prepared in accordance with the regulations.
Annual Governance Statement	The Annual Governance Statement reports that the VJB's governance arrangements provide assurance, are adequate and are operating effectively.	<p>We have assessed whether the information given in the Annual Governance Statement is consistent with the financial statements and has been prepared in accordance with the accounts direction.</p> <p>Our review identified a number of areas where the annual accounts needed revising in order to comply with statutory guidance. We are pleased to note that these changes have been made.</p>

Audit dimensions



Audit dimensions

Overview

Public audit in Scotland is wider in scope than financial audit. This section of our report sets out our findings and conclusion on our audit work covering the following areas. As set out in our plan, due to the relative size and scale of the functions delivered by the VJB, we concluded that the full wider scope audit was not appropriate. In accordance with paragraph 53 of the Code, our work in this area was restricted to concluding on:

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

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

Best Value (BV)

It is the duty of the VJB to secure BV as prescribed in Part 1 of the Local Government in Scotland Act 2003.

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

Specific risks (SR)

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

SR 1 – EU Withdrawal

SR 2 – Changing landscape for public financial management

SR 3 – Dependency on key suppliers

SR 4 – Openness and transparency

Audit dimensions (continued)

Governance statement

Regulation 5 of the accounts' regulations requires local government bodies to report the results of their annual review of their system of internal control in an **annual governance statement** published as part of the annual accounts. The annual governance statement requires to be prepared in accordance with Delivering good governance in local government: framework 2016 published by CIPFA and SOLACE.

As set out in our audit plan, there is a risk that the governance statement is inconsistent with the financial statements and is not in accordance with the good governance framework. There is also a risk that the statement is inconsistent with our knowledge as auditors of the VJB or is potentially misleading.

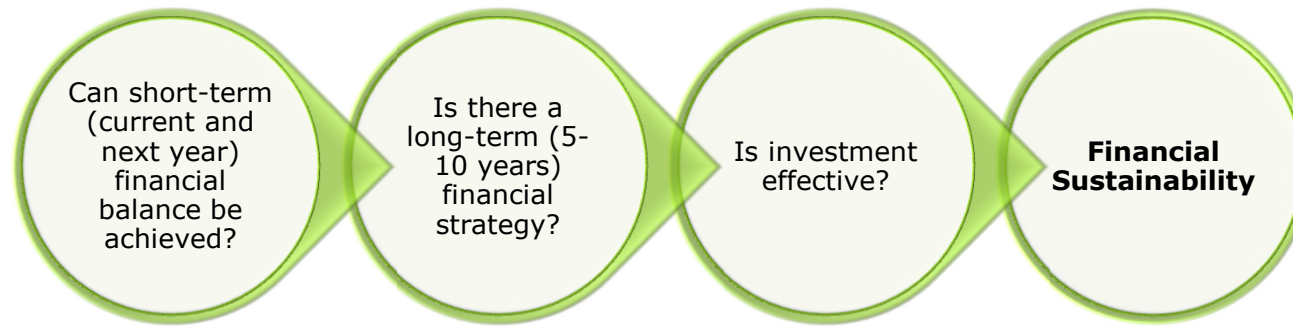
Deloitte View

We have reviewed the draft governance statement for consistency with the financial statements and our knowledge gained during the audit. Following a number of amendments identified through our work, we are pleased to note that the annual governance statement is consistent with our knowledge of the VJB and is in line with requirements.

Audit dimensions (continued)

Financial sustainability

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.



Audit risks

Within our audit plan we identified an audit risk as follows:

- the VJB's long-term financial planning could be inconsistent with the Scottish Government's five-year plan.

Audit dimensions (continued)

Financial sustainability (continued)

Short term financial balance

The VJB has achieved financial balance in 2018/19. The VJB reported an underspend of £31k (4.7%) against budget in the year. For 2019/20, the VJB has approved a balanced budget with income from Shetland Islands Council and Orkney Islands Council £35k (5.3%) higher than in 2018/19.

The VJB has identified the costs of the Barclay Review as a potential financial challenge, however, there is still substantial uncertainty surrounding both the timing and amount of these costs. The VJB has identified £15k (2.1%) of savings which need to be made to achieve the budget. We are pleased to note that these savings are clearly identified in the budget.

Medium term financial planning

The VJB has identified the impact of the Barclay Review as a key risk for the organisation. This could result in an increased demand on VJB resources. However, the VJB does not have an MTFP and has not quantified a medium term funding gap or performed sensitivity analysis or scenario planning on the impact of potential changes. We are pleased to note that following audit recommendations in the prior year, a plan is now being developed and is expected to be in place by the end of 2019/20. We will review the MTFP as part of our 2019/20 audit.

The VJB needs to ensure that the MTFP quantifies funding gaps and actions to address these over the medium term. It needs to link the MTFP to the Scottish Government Medium-Term Financial Strategy ('MTFS') and the key themes of public service reform, as well as ensuring there are links to outcomes, the VJB's corporate plan and both Shetland Islands Council's MTFP and Orkney Islands Council's MTFP.

Focus on outcomes

The VJB does not reference outcome in its annual accounts and it does not indicate what outcomes it is aiming to progress, nor does it provide any information on when these are to be achieved by, progress against them and actions taken to remediate areas where performance is not as expected. The VJB's five-year strategy does not make reference to the National Outcomes, nor are there measurable local outcomes included. The objectives set out in the Service and Corporate Plan would be improved by including a clear link against each to one of the National Outcomes or local strategic priorities, ensuring that the focus in each year is aligned with the five-year strategy.

The VJB also needs to make a clear link between the use of resources and outcomes achieved. At present, it is not clear what amount of resources are expected to be utilised in delivering each priority or National Outcome. Including the anticipated resource use in the budget - which is then itself linked to the strategic priorities - will enable the VJB to monitor which strategic priorities are receiving the most resources and improve scrutiny of performance against each priority. It will also enable the VJB to better identify areas where resources can be reallocated as priorities evolve and progress develops.

Workforce planning

The VJB does not have a workforce plan in place. Given difficulties in filling key posts, the VJB should consider whether it needs a stand-alone workforce plan or whether it will be appropriately covered within Shetland Islands Council's workforce plan which is being developed in 2019/20.

A workforce plan needs to consider the needs of the organisation and those of its workforce, ensuring it is sufficient to meet its legal obligations and objectives. Workforce planning provides a basis for understanding workforce behaviours, considering areas such as recruitment, promotion and turnover, as well as looking at causes of absenteeism and changes in productivity. Understanding these issues can allow the organisation to plan appropriately. Workforce planning is an ongoing process, and should be considered for appropriateness by the VJB on an annual basis.

Audit dimensions (continued)

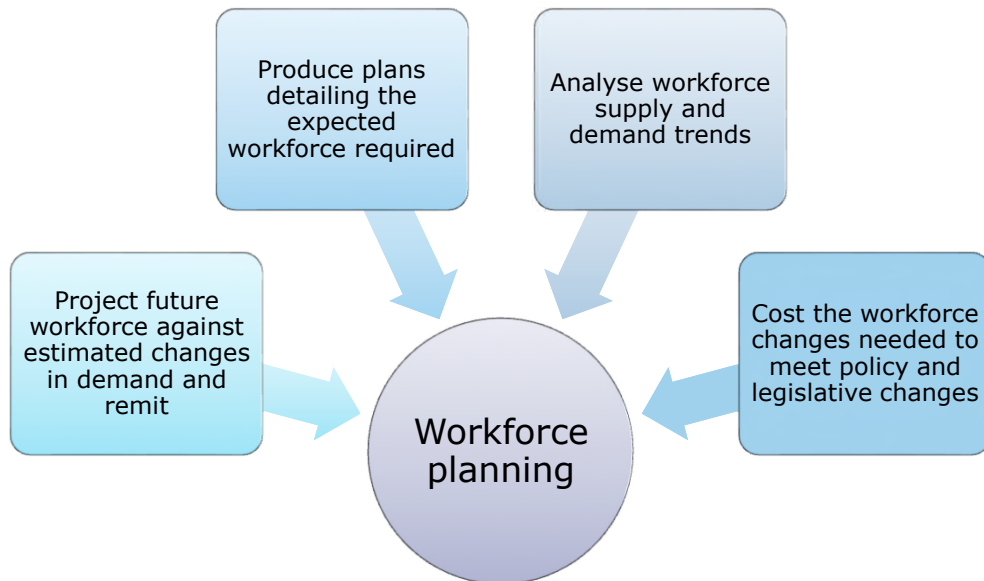
Financial sustainability (continued)

Workforce planning (continued)

Audit Scotland has produced reports on workforce planning in the NHS in Scotland, identifying key areas which need to be considered for effective workforce planning. Although not directly applicable, the overarching principles here should be used to guide the VJB's workforce planning.

Succession planning needs to be included in the workforce plan. This needs to include clear promotion opportunities within the organisation, effective delegation to staff, and tailored training plans to enable staff to carry out more senior roles.

In order to develop a meaningful workforce plan, the VJB needs to understand (i) its current workforce, (ii) the workforce it currently needs, (iii) the workforce it needs in the future, (iv) the gaps between the current workforce and the needed workforce and (v) actions to fill those gaps (recruitment, training, automation, changing service provision).



Deloitte View – Financial sustainability

The VJB achieved short term financial balance in 2018/19. A balanced budget has been set for 2019/20. The VJB does not currently have an MTFP in place (and it therefore does not reflect the Scottish Government MTFFS) but we are pleased to note progress in this area. The VJB needs to ensure that its MTFP is consistent with the MTFFS, the MTFP's of Shetland Islands Council and Orkney Islands Council, with clear links to outcomes – both national and local.

There needs to be an increased focus in the VJB on outcomes – what the use of resources is actually achieving for service users and the local community – with these embedded in the VJB's strategic, operational and financial planning documents.

Given difficulties in filling key posts in recent years, the VJB should consider whether it needs to develop a workforce plan, or whether it will be sufficiently served by relying on the workforce plan being developed by Shetland Islands Council.

Audit dimensions (continued)

Other specific risks

As set out in our Audit Plan, Audit Scotland identified a number of areas as significant risks faced by the public sector. We have considered these as part of our audit work on the four audit dimensions and summarised our conclusions below.

Risk	Areas considered	Conclusion
EU Withdrawal	We have assessed what work the VJB has done to prepare for the impact of EU withdrawal, specifically considering people and skills; finance; and rules and regulations.	<p>The VJB does not anticipate being impacted directly by EU Withdrawal to any significant degree. The VJB is reliant on the planning carried out by Shetland Islands Council for EU Withdrawal.</p> <p>Given the low direct impact anticipated and the level of uncertainty, we are satisfied that the VJB has appropriately prepared for EU Withdrawal and has appropriate arrangements in place to maintain a watching brief of developments as they occur in order to work with its partners to mitigate any risks across the wider community.</p>
Changing landscape for public financial management	As part of our audit work on financial sustainability (see pages 18 – 20) we have considered how the VJB has reviewed the potential implications of the Scottish Government's MTFS for its own finances, including long term planning.	<p>The VJB has not, as a body, considered the Scottish Government's MTFS. The MTFS has not been an agenda item at management or Board level. Going forward, revisions to the MTFS should be considered by management - and if considered appropriate, the Board - with the potential implications on the VJB discussed, with any actions arising from revisions to the MTFS (e.g. changes to the VJB's to be developed MTFP) being noted and progressed.</p> <p>It is not clear from reviewing the VJB's plans how they are consistent with the MTFS and such a link needs to be made clearer. The VJB's planning does not make reference to the key principles of public service reform - prevention, performance, partnership and people - and how these key principles contained within the MTFS are reflected in the VJB's planning, and how the VJB intends to align its resources to these key principles or monitor progress against them.</p>
Dependency on key suppliers	We obtained a detailed breakdown of expenditure by supplier and performed an analysis to identify if there were any risks of dependency on key suppliers.	No specific risks of key supplier failure have been identified. While there are a number of key suppliers, these are mainly public bodies. A key supplier for the VJB is a consultant providing assessor support, however, the VJB has filled the assistant assessor post and is likely to be less reliant on consultant support for this role going forward.
Openness and transparency	We have considered the VJB's approach to openness and transparency as part of our audit work on governance and transparency.	<p>The VJB has a generally positive attitude towards openness and transparency and is positively disposed to improving in this area. However, no improvements or changes to processes which would benefit openness and transparency have been noted in the year.</p> <p>On an annual basis, the VJB should carry out a review of how open and transparent it is, influenced by the views of the Board, staff and the wider community. Through this review, the VJB should identify improvements which can be made in the coming year, demonstrating a commitment to continuous improvement, ensuring it is always striving for more and keeping up with public expectations.</p>

Appendices



Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

Our report is designed to help the Board discharge their governance duties. It also represents one way in which we fulfil our obligations under ISA 260 (UK) to communicate with you regarding your oversight of the financial reporting process and your governance requirements. Our report includes:

- Results of our work on key audit judgements and our observations on the quality of your Annual Report.
- Our internal control observations.
- Other insights we have identified from our audit.

What we don't report

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

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

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

The scope of our work

Our observations are developed in the context of our audit of the financial statements. We described the scope of our work in our audit plan and again in this report.

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.

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



Pat Kenny

for and on behalf of Deloitte LLP
Glasgow

16 August 2019

Audit adjustments

Summary of corrected and uncorrected misstatements and disclosure deficiencies

Corrected misstatements

		Debit/(credit) in net assets £k	Debit/ (credit) in reserves £k
Adjustment arising from post balance sheet events			
Increase in pension liability	[1]	(21)	21
Total		(21)	21

[1] An adjustment arising from post balance sheet events has been identified in the pension liability, due to the McCloud judgement and subsequent Supreme Court refusal of leave to appeal. The pension liability has been recalculated in light of this ruling by the actuary and subjected to audit. An adjustment has been made to the pension liability, pension reserve and corresponding notes.

Uncorrected misstatements

No uncorrected misstatements have been identified from our audit work performed to date.

Disclosure misstatements

Auditing standards require us to highlight significant disclosure misstatements to enable the Board to evaluate the impact of those matters on the financial statements. We have noted no uncorrected material disclosure deficiencies in the course of our audit work to date.

Action plan

Recommendations for improvement

Area	Recommendation	Management Response	Responsible person	Target Date	Priority
Financial Sustainability	<p>When developing its MTFP, the VJB should make reference to the key principles of public service reform - prevention, performance, partnership and people - and how these key principles are reflected in the VJB's financial planning. There should be clear links to the Scottish Government MTFS, the VJB's corporate plan and outcomes.</p> <p>(See page 19 for details.)</p>	<p>The VJB will update its medium-term financial planning assumptions over the summer of 2019 and will present a refreshed MTFP in the autumn. The refreshed MTFP will reflect the principles and assumptions contained in both the National Performance Framework and the Scottish Government's own Medium-Term Financial Strategy.</p>	Section 95 Officer	31/3/2020	High
<i>Financial sustainability</i>	<p>The VJB should consider developing a workforce plan, setting out (i) its current workforce, (ii) the workforce it currently needs, (iii) the workforce it needs in the future, (iv) the gaps between the current workforce and the needed workforce and (v) actions to fill those gaps (recruitment, training, automation, changing service provision).</p> <p>(See page 20 for details.)</p>	<p>The VJB will work with the Council which is currently developing a workforce plan to consider, following the completion of that exercise, if a stand-alone workforce plan for the VJB is needed.</p>	Section 95 Officer	31/3/2020	High

Action plan (continued)

Recommendations for improvement (continued)

Area	Recommendation	Management Response	Responsible person	Target Date	Priority
Governance & Transparency	<p>The VJB should carry out a review of how open and transparent it is, influenced by the views of the Board, staff and the wider community. Through this review, the VJB should identify improvements which can be made in the coming year.</p> <p>(See page 21 for details.)</p>	<p>This recommendation will be incorporated into the review of Corporate Governance for the VJB. The review will proceed by way of a self-evaluation process in which openness and transparency will be addressed.</p>	Assessor	31/3/2020	Medium
General	<p>The VJB should consider the recommendations of the external audit report to Shetland Islands Council in June 2019, identifying and adopting those applicable to the VJB.</p>	<p>The VJB will consider the audit recommendations made to SIC from a VJB perspective, but would expect the majority of recommendations to be implemented or progressed as a matter of course due to the close working relationship between the VJB and the Council, and its reliance on Council systems, processes and policies.</p>	Assessor	31/3/2020	Medium

Action plan (continued)

Follow-up 2017/18 action plan

We have followed up the recommendations made in our 2017/18 annual audit report and we are pleased to note that 1 of the 2 recommendations have been implemented. One recommendation was not implemented in the year. We will continue to monitor these as part of our 2019/20 audit work.

Area	Recommendation	Management Response	Responsible person	Target Date	Priority	2018/19 Update
Financial Sustainability	We recommend that the VJB develop and implement a medium term financial plan, specifically tailored to their needs. Although the SIC and OCI are obliged to fund the VJB, the board should identify the medium term funding needs and opportunities for efficiencies and savings, so as to demonstrate value for money and sustainability at a Board level. Whilst also assisting the SIC and OIC to plan appropriately at a Council level.	<p>Due to the size and nature of VJB and its operations, there is currently no requirement for a medium/long term financial strategy.</p> <p>As with other small local authority boards, the VJB will review this in developing a medium term financial plan.</p>	Executive Manager - Finance	March 2019	Medium	<p><i>Not implemented:</i> We will continue to monitor this against our updated recommendation on page 25.</p> <p>Updated management response: Development of a specific MTFP for the VJB has not yet commenced, however, the VJB intends to implement this by 31/12/2019, thereby addressing this recommendation.</p>
Annual Accounts	We recommend that management follow any good practice guides issued by Audit Scotland and discuss with Deloitte any significant changes to the annual accounts that they plan to make year-on-year (if these are voluntary changes, as opposed to those required by the annual update to the Code) ahead of making these changes. This will allow for an agreed approach to the annual accounts prior to them being issued for public consultation and reduce the number of changes arising from the audit practices.	Management have confirmed that, going forward, any significant changes will be discussed with Deloitte ahead of issue of the annual accounts.	Executive Manager – Finance	March 2019	Low	<p><i>Fully implemented:</i> Best practice guidelines were reviewed by finance and the Lead Officer's team in order to best incorporate any recommendations into the annual report and accounts, and any in-year reporting of the VJB's financial position where relevant.</p>

Fraud responsibilities and representations

Responsibilities explained



Responsibilities:

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.



Required representations:

We have asked the Board to confirm in writing that you have disclosed to us the results of your own assessment of the risk that the financial statements may be materially misstated as a result of fraud and that you are not aware of any fraud or suspected fraud that affects the entity.

We have also asked the Board to confirm in writing their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.



Audit work performed:

In our planning we identified the completeness and accuracy of income and management override of controls as key audit risks for your organisation.

During course of our audit, we have had discussions with management and those charged with governance.

In addition, we have reviewed management's own documented procedures regarding fraud and error in the financial statements.

We have reviewed the paper prepared by management for the Board on the process for identifying, evaluating and managing the system of internal financial control.

Concerns:

No concerns have been identified regarding fraud.



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 that we comply with APB Ethical Standards for Auditors and that, in our professional judgement, we and, where applicable, all Deloitte network firms are independent and our objectivity is not compromised.												
Fees	<p>The audit fee for 2018/19, in line with the fee range provided by Audit Scotland, is £7,280 as broken down below:</p> <table><thead><tr><th></th><th>£</th></tr></thead><tbody><tr><td>Auditor remuneration</td><td>6,280</td></tr><tr><td>Audit Scotland fixed charges:</td><td></td></tr><tr><td> Pooled costs</td><td>610</td></tr><tr><td> Audit support costs</td><td>390</td></tr><tr><td>Total agreed fee</td><td>7,280</td></tr></tbody></table> <p>No non-audit fees have been charged by Deloitte in the period.</p>		£	Auditor remuneration	6,280	Audit Scotland fixed charges:		Pooled costs	610	Audit support costs	390	Total agreed fee	7,280
	£												
Auditor remuneration	6,280												
Audit Scotland fixed charges:													
Pooled costs	610												
Audit support costs	390												
Total agreed fee	7,280												
Non-audit services	In our opinion there are no inconsistencies between APB Ethical Standards for Auditors and the company's policy for the supply of non-audit services or any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.												
Relationships	<p>We are required to provide written details of all relationships (including the provision of non-audit services) between us and the organisation, its board and senior management and its affiliates, including all services provided by us and the DTTL network to the audited entity, its board and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on our objectivity and independence.</p> <p>We are not aware of any relationships which are required to be disclosed.</p>												





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