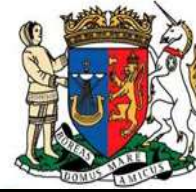
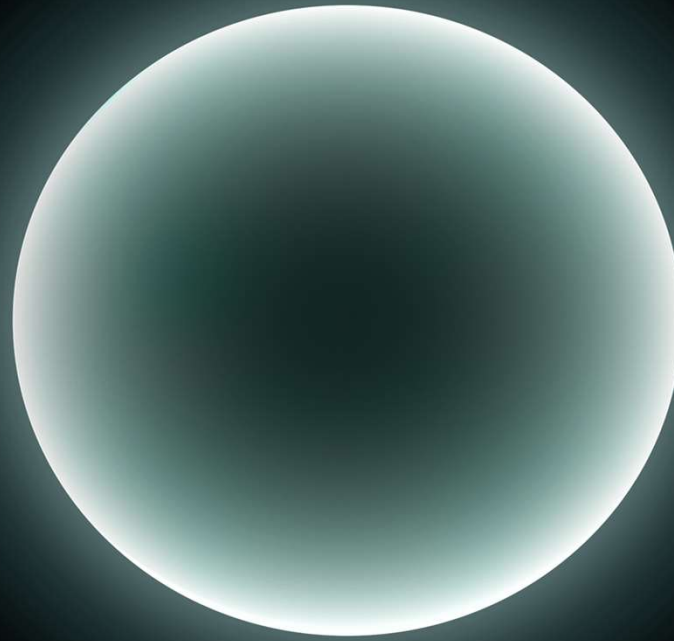


**Deloitte.**



**Orkney & Shetland  
Valuation Joint Board**



# Orkney and Shetland Valuation Joint Board

Report to the Board and the Controller of Audit on the 2021/22 audit

Issued for the meeting on 04 October 2022

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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 Annual Accounts.
- 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” “the Board”) for the year ending 31 March 2022 audit. The scope of our audit was set out within our planning report presented to the Board in March 2022.

This report summarises our findings and conclusions in relation to:

- The audit of the **annual accounts**; and
- Consideration of the **wider scope requirements** of public sector audit. As set out in our plan, as a result of the significant issues identified in our 2020/21 report in relation to governance and decision making, and the resulting report by the Controller of Audit to the Accounts Commission under section 102 (1) of the Local Government (Scotland) Act 1973, we have concluded that it remains appropriate to apply expanded wider scope requirements to specifically follow-up on the recommendations made in 2020/21 covering financial sustainability and governance and transparency.

### Conclusions from our testing

Based on our audit work completed we will 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 annual accounts and our knowledge of the Board.

The auditable parts of the Remuneration Report have been prepared in accordance with the relevant regulations.

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

We have not identified any misstatement above our reporting threshold.

# Introduction (continued)

## The key messages in this report (continued)

### Status of the Annual Accounts audit

Outstanding administrative matters include:

- Finalisation of internal quality control procedures;
- Receipt of final annual accounts;
- Receipt of signed management representation letter; and
- Our review of events since 31 March 2022.

### Conclusions on audit dimensions

**Financial sustainability** – While the Board reported an overspend in 2021/22, this has been fully funded by constituent Councils, and a balanced budget has been set for 2022/23, therefore is financially sustainable in the short term.

It is positive to see the development of a Medium Term Financial Plan (MTFP) and Workforce Plan during 2021/22 which will help the Board plan for the future. The Board currently projects a cumulative funding gap of between £93,000 and £100,000 by 2024/25, therefore is currently not financially sustainable in the medium term. It is important that, now the Board has these documents in place, work is progressed on the agreed actions to develop more detailed plans on how the funding gap is going to be addressed.

**Governance and transparency** – The Board has acted quickly to address the weaknesses in the leadership and governance arrangements highlighted in our 2020/21 report. Six of the recommendations have been assessed as fully implemented and the remaining three partially implemented. It is important that the new Board maintains the momentum during its first year. Our detailed findings and conclusions are included on pages 31 to 35 of this report.

### Next steps

An agreed Action Plan is included on pages 28-32 of this report, including a follow-up of progress against prior year actions.

### Added value

Our aim is to add value to the Board 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 Board promote improved standards of governance, better management and decision making, and more effective use of resources. This is provided throughout the report.

### Managing transition to 2022/23 audits

2021/22 is the final year of the current audit appointments. We will minimise disruption to all parties, and maximise the transfer of knowledge of the Board, by working in partnership with Audit Scotland and the incoming auditors.

We would like to put on record our thanks to the Board, management and staff for the good working relationship over the period of our appointment.

**Pat Kenny**  
Associate Partner

# Annual Accounts Audit



# Quality Indicators

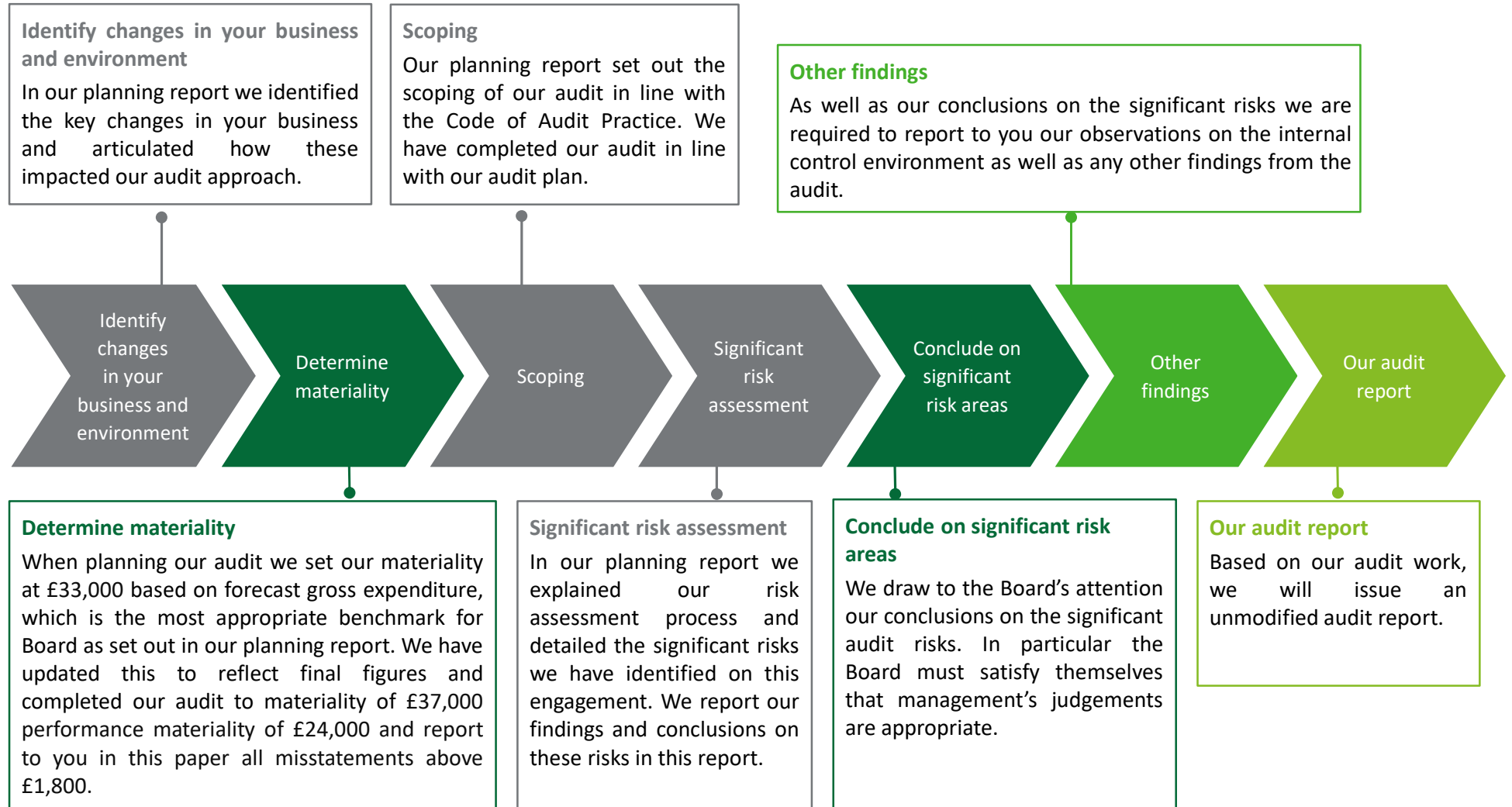
## Impact on the execution of our audit

Management and those charged with governance are in a position to influence the effectiveness of our audit, through timely formulation of judgements, provision of accurate information, and responsiveness to issues identified in the course of the audit. This slide summarises some key metrics related to your control environment which can significantly impact the execution of the audit. We consider these metrics important in assessing the reliability of your financial reporting and provide context for other messages in this report.







Area	Grading			Reason
	FY22	FY21	FY20	
Timing of key accounting judgements				There were no significant accounting judgments included within the VJB Annual Accounts, which is in line with our expectations and understanding of the VJB.
Adherence to deliverables timetable				Management provided evidence for the Annual Accounts audit in a timely manner, with 100% of deliverables provided in line with agreed deadlines. Any follow-up requests during the audit were actioned quickly.
Access to finance team and other key personnel				Deloitte and the VJB have worked together to facilitate remote communication during the audit which has been successful. There have been no issues with access to the finance team or other key personnel for the Annual Accounts audit.
Quality and accuracy of management accounting papers				Documentation provided has been of a high standard, which enabled an efficient audit. Working papers were clear and reconcilable to the Annual Accounts. This is borne out by the resubmission rate on requests for the audit being low, with the only resubmission request being in relation to the figures disclosed within the related party note within the Annual Accounts.
Quality of draft financial statements				A full draft of the Annual Accounts was received for audit in good time.
Response to control deficiencies identified				We did not identify any control deficiencies relating to the financial statements during our audit.
Volume and magnitude of identified errors				We have not identified any financial misstatements as at the date of this report.
	 Lagging	 Developing	 Mature	

# Our Audit Explained

We tailor our audit to your business and your strategy



# 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)

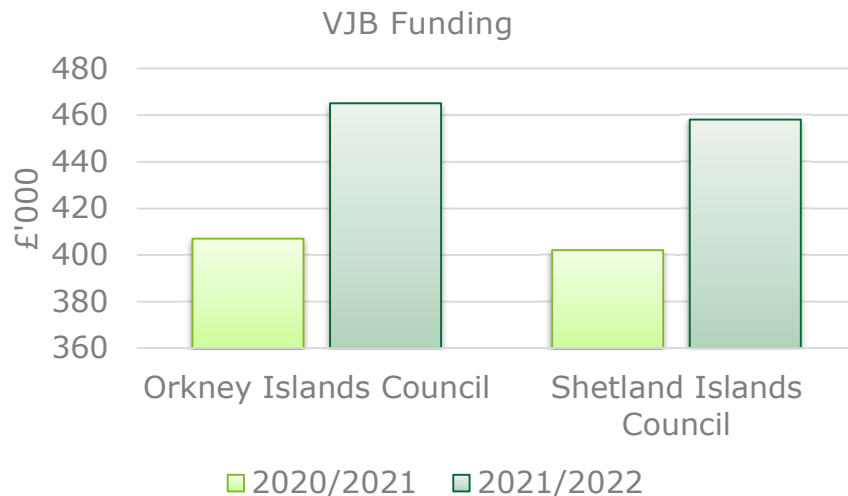
## Occurrence of income



### Risk identified and key judgements

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



### Deloitte response and challenge

We have performed the following:

- Assessed the final year-end position to establish whether an underspend or overspend has been achieved;
- 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 Board at 31 March 2022 to confirm all income is correctly recorded in the ledger;
- confirmed that the reconciliations performed during 2021/22 have been reviewed on a regular basis; and
- assessed the design and implementation of the 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.

# Significant Risks (continued)

## Management override of controls



### Risk identified

Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

Although management is responsible for safeguarding the assets of the entity, we planned our audit so that we had a reasonable expectation of detecting material misstatements to the Annual Accounts and accounting records.



### Deloitte response and challenge

In considering the risk of management override, we have performed the following audit procedures that directly address this risk:

#### Journals

We have tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the Annual Accounts. In designing and performing audit procedures for such tests, we have:

- Tested the design and implementation of controls over journal entry processing;
- Made inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments;
- Selected journal entries and other adjustments made at the end of a reporting period; and
- Considered the need to test journal entries and other adjustments throughout the period.

### Accounting estimates and judgements

We have reviewed accounting estimates for biases and evaluate whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud. In performing this review, we have:

- Evaluated whether the judgments and decisions made by management in making the accounting estimates included in the Annual Accounts, even if they are individually reasonable, indicate a possible bias on the part of the entity's management that may represent a risk of material misstatement due to fraud. From our testing we did not identify any indications of bias. We have not identified any significant accounting estimates and judgements from our testing; and
- Performed a retrospective review of management judgements and assumptions related to significant accounting estimates reflected in the Annual Accounts of the prior year.

### 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.

#### Deloitte view

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

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

# Other Areas of Audit Focus

## Transition to OIC finance team



### Risk identified

During 2021/22, the responsibility for the finance function of the Board transitioned from Shetland Islands Council (SIC) to Orkney Islands Council (OIC). There is a risk that the data transfer is incomplete or that it has been transferred in a way that does not enable accurate recording of transactions throughout the year.

The risk has been pinpointed to the completeness and accuracy of the data transfer. Given the significance to the financial reporting, this will be an area of audit focus.



### Deloitte response and challenge

We have performed the following procedures to address the risk:

- Engaged with the auditors of OIC to gain assurance over common systems;
- Gained an understanding of the data transfer process and the control in place relating to the data transfer;
- Reviewed the reconciliation from the 2020/21 closing trial balance from the SIC ledger to the opening 2021/22 opening trial balance on the OIC ledger; and
- Assess the completeness of transactions through our journal entry testing reconciliations.

### Deloitte view

No issues have been identified from our testing up to the date of this report therefore we are satisfied that the transition of data was complete and accurate.

We have received assurance from the auditors of OIC in relation to common systems.

Their findings on the OIC include that the pensionable pay figure used to calculate employer superannuation on those receiving Statutory Sick Pay (SSP) was incorrect (use of SSP instead of full basic salary plus allowances). On this they concluded that the potential maximum understatement is below their performance materiality and that they would expect this issue to impact all bodies who utilise the Orkney Payroll function. For our part, we note that if there were any instances arising from this issue affecting the OSVJB, the financial impact would not be material as the value of SSP through the OSVJB payroll was under £3,000.

# Other Areas of Audit Focus (continued)

## Defined benefits pension scheme

### Background

The Board participates in the defined benefits scheme the Shetland Islands Pension Fund, administered by Shetland Islands Council.

The net pension liability has decreased from £2.435m in 2020/21 to £1.804m in 2021/22. The decrease is combination of an increase of £483,000 in the fair value of the assets and a reduction of £148,000 in the liabilities as a result of demographic changes and financial assumptions.



### Deloitte response

- We assessed the independence and expertise of the actuary supporting the basis of reliance upon their work;
- We reviewed and challenged the assumptions made by Hymans Robertson, including benchmarking as shown the table below;
- We have requested assurance from the auditor of the pension fund over the controls for providing accurate data to the actuary;
- We assessed the reasonableness of the Council's share of the total assets of the scheme with the Pension Fund financial statements;
- We have reviewed and challenged the calculation of the impact of the McCloud and Goodwin cases on pension liabilities; and
- We reviewed the disclosures within the accounts against the Code

	Board	Comments
Discount rate (% p.a.)	2.7	Within reasonable Range
RPI Inflation (% p.a.)	3.65	
CPI Inflation (% p.a.)	3.2	
Pension increase in payment (% p.a.)	3.2	
Salary increase (% p.a.)	3.9	In line with funding valuation
Mortality - Life expectancy of a male/ female pensioner from age 65 (currently aged 65)	20.7/ 22.9	Within reasonable range
Mortality - Life expectancy of a male/ female pensioner from age 65 (currently aged 45)	22.1/ 25.1	

The Board's pension liability continues to be impacted by the ongoing legal cases – known as McCloud and Goodwin. Our pension specialists have considered the impact and concluded as follows:

- **McCloud** – this case is in respect of possible discrimination in the implementation of transitional protections following the introduction of the reformed public services pension schemes from 1 April 2014 and 2015. The actuary has advised that no allowance for McCloud has been included within the current service cost, consistent with the prior year. We have concluded that the impact of this would be below our reporting threshold
- **Goodwin** – this is a legal challenge made against the Government in respect of unequitable benefits for male dependants of female members (based on service after 1988) following the earlier Walker ruling. We have confirmed that this has been included in the actuary valuation.

### Deloitte view

We have concluded that the pension liability in relation to the defined benefits pension scheme is fairly stated. The combined impact of the ongoing legal cases is below our reporting threshold therefore we are satisfied that it is reasonable not to make any further adjustments. The pension fund audit has now been concluded with no issues arising.

# Other Significant Findings

## Financial reporting findings

Below, we set out the findings from our audit surrounding your financial reporting process.

### Qualitative aspects of your accounting practices:

The Board has prepared its Annual Accounts in line with the Code of Practice on Local Authority Accounting. We are satisfied that the Board's accounting practices are appropriate.

### Significant matters discussed with management:

Significant matters discussed with management related primarily to the impact of COVID-19 on the organisation.

### Regulatory change

IFRS 16, Leases, comes into effect mandatorily for local government bodies in Financial Year 2024/2025 but with strong encouragement for adoption in financial year 2022/23. We are satisfied that management have reviewed the potential impact of IFRS 16 and agree with management's conclusion that none of the OSVJB's current lease agreements fall under the scope of the standard.

### Other matters relevant to financial reporting:

We have not identified other matters arising from the audit that, in the auditor's professional judgement, are significant to the oversight of the financial reporting process.

We will obtain written representations from the Board on matters material to the Annual Accounts when other sufficient appropriate audit evidence cannot reasonably be expected to exist. A copy of the draft representations letter has been circulated separately.

# 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**

Based on our audit work, we will issue an unmodified audit opinion.



### **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.

Practice Note 10 provides guidance on applying ISA (UK) 570 Going Concern to the audit of public sector bodies. The anticipated continued provision of the service is relevant to the assessment of the continued existence of a particular body.



### **Emphasis of matter and other matter paragraphs**

There are no matters we judge to be of fundamental importance in the Annual Accounts 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 narrative parts of the Annual Accounts is reviewed in its entirety for material consistency with the annual accounts 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 as 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 is consistent with the disclosures in the accounts.

	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. The Board also focuses on the strategic planning context.	<p>We have assessed whether the management commentary has been prepared in accordance with the statutory guidance.</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> <p>We are satisfied that the management commentary has been prepared in accordance with guidance, is consistent with our knowledge and is not otherwise misleading.</p> <p>The Treasurer, Colin Kemp has retired subsequent to year end, as of 12 September 2022. His replacement as of the same date is Erik Knight. We are happy with the disclosure of this change in the Management Commentary.</p>
Remuneration Report	The remuneration report must be prepared in accordance with the 2014 Regulations, disclosing the remuneration and pension benefits of the Chief Officer.	We have audited the disclosures of remuneration and pension benefits, pay bands, and exit packages, and we can confirm that they have been properly prepared in accordance with the regulations.
Annual Governance Statement	The Annual Governance Statement reports that the Board governance arrangements provide assurance, are adequate and are operating effectively.	We have assessed whether the information given in the Annual Governance Statement is consistent with the financial statements and has been prepared in accordance with the Delivering Good Governance in Local Government Framework.

# Audit Dimensions





# Audit dimensions

## Overview

As set out in our Audit Plan, the Code of Audit Practice sets out four audit dimensions that frame the wider scope of the audit of the accounts. The audit dimensions provide a common framework for all the audit work conducted for the Auditor General and for the Accounts Commission.

As a result of a number of significant issues identified in our 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 our 2020/21 audit. In view of these issues, we concluded that it remains appropriate to apply expanded wider scope requirements to specifically follow-up on the recommendations made in 2020/21. Our work in this area has therefore covered:

- Financial sustainability
- Governance and transparency.

We have carried out a detailed follow up of all recommendations made in our 2020/21 report and are pleased to note that of the 9 recommendations, 6 have been fully implemented and the remaining 3 are partially. The key actions are summarised on the following pages with the full action plan included within the Appendices at pages 31 to 35 of the report.

In addition to the above, we have reviewed the Board's arrangements for the prevention and detection of fraud and irregularities. Overall we found the Board's arrangements to be effectively designed and appropriately implemented.



The internal audit function has independent responsibility for examining, evaluating and reporting on the adequacy of internal controls. During the year, we have completed an assessment of the independence and competence of the internal audit team and reviewed their work and findings. The conclusions have helped inform our audit work, although no specific reliance has been placed on the work of internal audit. As with previous years, it remains the case that there have been no VJB specific internal audits carried out, however, some reliance is placed on the internal audits carried out on OIC systems.

We are pleased to note that the Chief Internal Auditor of Orkney Islands Council has been formally appointed as the Internal Auditor for the VJB and an Internal Audit Strategy and Plan for 2022/23 to 2024/25 was approved by the Board in June 2022.

# Financial sustainability

Can short-term (current and next year) financial balance be achieved?



Is there a long-term (5-10 years) financial strategy?



Is investment effective?



**Financial Sustainability**

## Significant risks identified in our Audit Plan

In our 2020/21 annual audit report, we highlighted that the absence of medium-term financial planning and the risk to the delivery of the VJBs functions posed by vacancies at a senior level raised concerns as to the financial sustainability of the Board and its ability to continue to effectively provide its services over the medium term. This therefore remained an areas of significant risk. We have assessed the development of the 2022/23 budget and the Medium-Term Financial Plan. We have also reviewed the workforce plan, approved in September 2021.

## Short term financial planning

The 2021/22 budget of £922,600 was approved by the Board on 18 February 2021. There has been no change to this during the year with the final outturn as reported in the Annual Accounts being an overspend of £23,922 (2.4%). This has been fully funded by partner bodies. While historically the Board would receive regular reports on progress against budget, the first monitoring report in 2021/22 was not presented until March 2022. While this clearly set out the variances and proposed actions, this late reporting is not considered best practice and has not given the Board the opportunity to properly scrutinise throughout the year. We would therefore recommend that the Board re-introduce more regular financial monitoring updates to the Board, and as a minimum a quarterly basis.

The 2022/23 budget of £956,100, was approved by the Board on 3 March 2022, being a balanced budget. The key assumption underpinning the budget include the following:

- Growth in expenditure of £40,800, the most significant growth is in staff costs, where an allowance for a 2% pay award and an increase of 1.7% in National Insurance and 3.5% increase in employer contributions.
- The Board has assumed an inflation uplift on property costs of 1%, with an additional allowance for electricity of 25%.
- Transport and Administration Costs are budgeted to reduce on the basis of changing working practices following the COVID-19 pandemic.
- A revenue budget of £132,500 is proposed in respect of the Barclay Review Implementation costs, which is a 9.6% increase on 2021/22.

No specific risks have been identified within the approved budget. However, given the ongoing inflationary pressures and negotiations on public sector pay, we would expect that to be an area of focus in the Board's ongoing monitoring. The format of the budget papers could therefore be enhanced in future years to clearly set out the potential risks associated with the approval of the budget.

Based on the above, we are satisfied that the Board can achieve short term financial balance.

## Financial sustainability (continued)

### Medium-to long-term financial planning

We are pleased to note that following our recommendation, the Board has developed a Medium Term Financial Plan (MTFP) in an attempt to look beyond the single year budget.

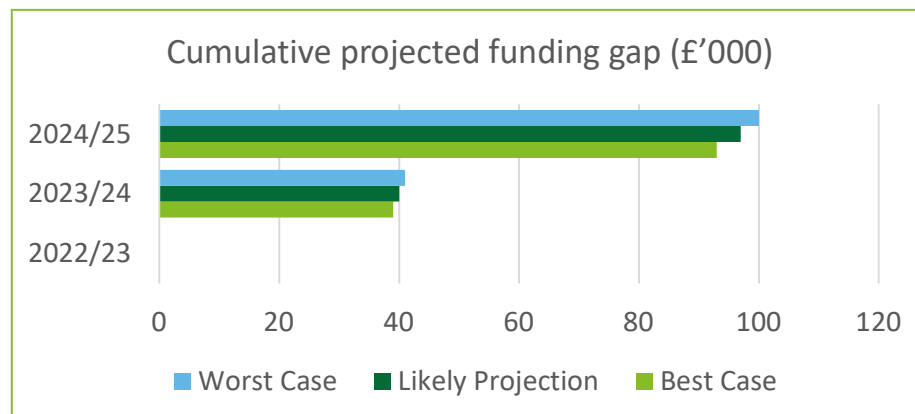
A sensitivity analysis has been undertaken on the main areas of financial pressure facing the Board to provide a range of anticipated outcomes in terms of future funding gaps, as illustrated opposite. Based on this, the Board could be faced with a cumulative funding gap of between £93,000 and £100,000 by 2024/25 if no changes are made. This is based on a number of inflationary assumptions which could increase further, but gives a useful starting point for the Board to consider.

The MTFP sets out the option available to bridge this funding gap, including:

- Reducing levels of service provision;
- Realise efficiency savings;
- Generate additional income; and
- Additional external income – Government and Constituent Councils.

The Board also recognises that a key part of MTFP is workforce planning, given staff costs make up approximately 80% of the VJBs budget. A Workforce Plan for the period 2021-2024 was approved by the Board in September 2021 setting out the VJBs current workforce and identified the process to be undertaken to identify the workforce it currently needs, the workforce it needs in the future, the gaps between the current workforce and the needed workforce and actions to fill those gaps, including recruitment, training, changing service provision.

It is important that, now the Board has a Workforce Plan and MTFP in place, work is progressed on the agreed actions to develop more detailed plans on how the funding gap is going to be addressed.



### Effective investment

From the disclosures within the Key Performance Indicators (KPIs) section of the Annual Accounts, the Board has performed above target against the majority of its non-financial KPIs during 2021/22. However, it recognises the long-term nature of the Depute Assessor vacancy, which has now been filled on a permanent basis from November 2022, and the resource focus on settling outstanding rating appeals has impacted on some of the non-financial KPIs.

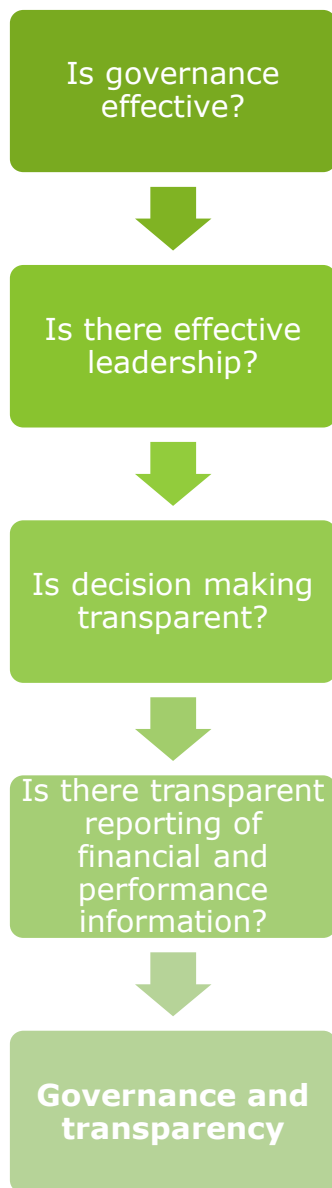
Based on the above, we are satisfied that the Board are working towards achieving its objectives as set out within its Corporate Plan.

### Deloitte view – Financial sustainability

While the Board reported an overspend in 2021/22, this has been fully funded, and a balanced budget has been set for 2022/23, therefore is financially sustainable in the short term.

It is positive to see the development of a MTFP and Workforce Plan during 2021/22 which will help the Board plan for the future. The Board is currently projecting a cumulative funding gap of between £93,000 and £100,000 by 2024/25, therefore is currently not financially sustainable in the medium term. It is important that, now the Board has these documents in place, work is progressed on the agreed actions to develop more detailed plans on how the funding gap is going to be addressed.

# Governance and transparency



## Significant risks identified in our Audit Plan

In our 2020/21 annual audit report we identified a number of significant issues relating to governance and decision-making. In particular:

- A number of actions taken by members of the VJB leadership team were ultra vires and unlawful, including incurring unlawful expenditure;
- A lack of oversight of the process for changing payments to the Depute Assessor, breakdown of controls and a lack of scrutiny or challenge by other members of the leadership team or the Board; and
- Significant deficiencies in the VJBs understanding of and adherence to the requirements of legislation, regulations and good governance principles across a number of areas.

As a result of our findings, the Controller of Audit reported these matters to the Accounts Commission in March 2022.

We have assessed the progress made by the Board on each of the recommendations made in our 2020/21 audit report.

## Status of recommendations

Recommendations made in our 2020/21 report relating to governance and transparency have been followed-up on pages 29-32, with six assessed as fully implemented and the remaining three partially implemented. In particular, we are pleased to note the following:

### **Leadership:**

- The Board held a meeting in January 2022 where it considered the timeline of changes to the Assessor's contract and agreed that the Clerk should issue a revised contract to the Assessor/ Electoral Registration Officer. This was subsequently issued.
- We recommended that the VJB undertake a comprehensive root-cause analysis and 'lessons learned' review given the number of issues identified during our 2020/21 audit. As part of the induction process for new members (discussed on page 20), the Clerk has provided the Board members with the background, with the learning points covered within the Action Plan. A further paper is planned to be provided to the November Board meeting.
- We recommended that the VJB consider whether the significant issues identified with regard to the consultant Depute Assessor were isolated or indicative of wider issues in the procurement processes.

# Governance and transparency (continued)

## Status of recommendations (continued)

### **Governance and transparency:**

- The Board is in the process of reviewing its internal governance documents to ensure 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. At its meeting in March 2022 the Board agreed that, until such time as the Board adopted its own Financial Regulations and Contract Standing Orders, Orkney Islands Council's Financial Regulations and Contract Standing Orders would be adopted. VJB tailored Standing Orders were approved by the Board in June 2022.
- The Clerk to the Board is working with the Improvement Service to develop a comprehensive analysis of the skills and competencies required of the Board and leadership team.
- Training has taken place with Members following appointment of the new Board in May 2022 with a comprehensive induction session incorporating the following:
  1. What is the VJB and what does it do?
  2. An overview of the Governance and Funding of the VJB
  3. Responsibilities of a Board member.
  4. Background information around the Accounts Commission Report
- The Board agreed a policy of live-streaming all meetings of the Board, subject to the availability of live streaming facilities, at its meeting in March 2022.

### **Deloitte view – Governance and transparency**

The Board has acted quickly to address the weaknesses in the leadership and governance arrangements that were highlighted in our 2020/21 report. Six of the recommendations have been assessed as fully implemented and the remaining three partially implemented. It is important that the Board maintains the momentum during the first year of the new Board.

# Best Value

It is the duty of the VJB to secure **Best Value** as prescribed in Part 1 of the Local Government in Scotland Act 2003. We have a statutory duty to be satisfied that the VJB have made proper arrangements for securing Best Value.

## Duty to secure Best Value

1. It is the duty of the VJB to make arrangements which secure Best Value
2. Best Value is continuous improvement in the performance of the VJB's functions
3. In securing Best Value, the VJB shall maintain an appropriate balance among:
  - a) The quality of its performance of its functions
  - b) The cost to the VJB of that performance
  - c) The cost to persons of any service provided by the VJB for them on a wholly or partly rechargeable basis
4. In maintaining that balance, the VJB shall have regard to:
  - a) Efficiency
  - b) Effectiveness
  - c) Economy
  - d) The need to make the equal opportunity requirements
5. The VJB shall discharge its duties in a way that contributes to the achievement of sustainable development
6. In measuring the improvement of the performance of the VJB's functions, regard shall be had to the extent to which the outcomes of that performance have improved

The VJB has taken steps in the year to improve medium-term planning with regards to its workforce and financial planning, although further work is needed to develop detailed plans to demonstrate how services will be delivered within the financial resources available.

The VJB's performance against KPIs remains strong, both against internal targets and by comparison to comparable bodies across Scotland.

The Board has responded positively to the recommendation made in our 2020/21 audit report and has a clear plan in place to further enhance its governance and transparency arrangements as discussed throughout this report.

## Deloitte view – Best Value

The Board has made good progress in starting to implement the recommendations and associated actions arising from the 2020/21 audit report and has a clear understanding of areas which require further development.

# 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 (UK) 260 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 Accounts;
- Our internal control observations; and
- Other insights we have identified from our audit.

### The scope of our work

Our observations are developed in the context of our audit of the annual accounts.

We described the scope of our work in our audit plan.

### Use of 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.

### 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 procedures performed in fulfilling our audit plan.

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



**Pat Kenny, CPFA**  
For and on behalf of Deloitte LLP  
Glasgow | 04 October 2022

# Sector Developments





# Local government in Scotland

## Financial overview 2020/21

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### Background and overview

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The Accounts Commission published its Local government in Scotland financial overview 2020/21 in March 2022. This covers the first full year that makes clear the impact of COVID-19. It also looks ahead to the medium-to-longer term financial outlooks for Councils. While specifically referring to Councils, a number of the key messages are equally relevant for the VJB as a local government body.

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### Key messages

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#### Local government finances 2020/21

- The Covid-19 pandemic persisted throughout 2020/21, with the Scottish Government increasing funding to councils by £1.5 billion to support them in dealing with the impacts of the pandemic.
- When Covid-19 funding is excluded, there has been a real terms underlying reduction of 4.2 per cent in local government funding since 2013/14.
- The underlying increase in Scottish Government funding of £358 million in 2020/21 was 1.1 per cent in real terms. But, over half of this increase is due to specific grants. Ring-fenced funding helps support delivery of key Scottish Government policies but constrains a proportion of the total funding and resources and removes any local discretion over how councils can use these funds.
- Councils' income from customers and clients was affected by Covid-19 restrictions and fell by £0.5 billion.
- In 2020/21, all councils reported surpluses and increased their usable reserves. The total increase in reserves was £1.2 billion (46 per cent). This increase was mainly due to late Covid-19 funding, which was unspent at 31 March 2021.
- Councils administered a further £1.4 billion of Covid-19 grants on behalf of the Scottish Government in 2020/21, putting additional pressure on finance staff across councils.

#### Medium and longer-term outlook for local government finances

- Scottish Government capital funding to councils is expected to fall again in 2021/22.
  - Uncertainty over the amount of funding available for Covid-19 recovery at the end of 2020/21 led to difficulties in setting budgets, and many councils established updated Covid-19 budgets in autumn 2021.
  - Covid-19 resulted in revised medium term financial plans, but longer-term planning will need to be updated as Covid-19 uncertainty diminishes.
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# Local government in Scotland (continued)

## Financial overview 2020/21 (continued)

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### Key observations

**Reserves** – Most of the increase in the general fund is committed to Covid-19 recovery.

**Financial management and transparency** - Management commentaries in councils accounts have improved, but many are still not complying with previous recommendations on transparency

**Budgets for 2021/22** - The uncertainty over the funding position for Covid-19 at the end of 2020/21 led to issues in budget setting and many councils established Covid-19 budgets in autumn 2021

**Medium and long-term financial planning** - Covid-19 resulted in revised medium term financial plans, but longer-term planning will need to be updated as Covid-19 uncertainty diminishes.

### Audit Scotland Recommendations

Elements of Covid-19 funding that are being carried forward in general earmarked and unearmarked reserves in the accounts should be clearly identified.

We recommend again that councils review and improve how they comply with these key expectations of transparency, in particular:

- Is the outturn against budget position for the year clearly shown, and are the reasons for significant variances obvious?
- Is the outturn reported in the narrative reconciled to the movement in the general fund contained in the financial statements, and are major differences explained?
- Is progress against agreed savings reported?

We expect councils to agree spending plans and timescales for Covid-19 recovery reserves with the relevant decision making committee.

All councils will now need to revise medium term financial plans to reflect additional financial pressures and updated funding arrangements and to account for updated savings requirements and financial assumptions. Councils should also review longer-term planning as Covid-19 uncertainty diminishes.

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### Next steps

The Board should consider each of the above recommendations (where they equally apply to VJB and Councils) and incorporate into plans where not already considered. The full report is available through the following link: [Local government in Scotland: Financial overview 2020/21 | Audit Scotland \(audit-scotland.gov.uk\)](#)

# Appendices



# Audit Adjustments

## Unadjusted misstatements

There have been no unadjusted misstatements identified

# Audit Adjustments

## Corrected misstatements

There have been no corrected misstatements identified.

# Audit Adjustments (continued)

## Disclosures

### **Disclosure misstatements**

There are no disclosure misstatements identified.

### **Other disclosure recommendations**

Although the omission of the following disclosures does not materially impact the financial statements, we are drawing the omitted disclosures to your attention because we believe it would improve the financial statements to include them or because you could be subject to challenge from regulators or other stakeholders as to why they were not included.

# Action Plan

We have identified the following recommendations from our 2021/22 audit.

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Recommendation	Management Response	Priority	Management update 2021/22
<p><b>1.1 Financial sustainability</b></p> <p>The Board should re-introduce more regular financial monitoring reports to the Board, and as a minimum report on a quarterly basis.</p>	<p>Accepted and agreed. Financial monitoring reports will follow the Orkney Islands Council financial monitoring process and calendar for quarterly reporting.</p>	<p>Medium</p>	<p>Implemented with effect from financial year 2022/23.</p>
<p><b>1.2 Financial sustainability</b></p> <p>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.</p>	<p>Accepted and agreed. The budget paper will be expanded in future to incorporate a section on the financial risks faced by the Board and how these could impact on the Board's financial position.</p>	<p>Medium</p>	<p>In progress – the budget paper for financial year 2023/24 will include a section on financial risk' as this recommendation hasn't had a chance to be implemented yet.</p>

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# Action Plan

We have followed up the recommendations made in our previous years audits. We are pleased to note that six recommendations have been fully implemented and the remaining three partially implemented.

Recommendation	Management Response	Priority	Management update 2021/22
<p><b>1.1 Leadership</b></p> <p>The Board should hold a meeting as a matter of priority to properly consider the timeline of changes to the Assessor’s contract and consider delegating signing authority to a named officer to issue an appropriately revised contract to the Assessor, implementing the earlier 30 September Board decision.</p>	<p>The report recommendations are accepted and agreed. The Board will properly consider this matter at the special meeting of the Board in January 2022.</p> <p><b>Responsible Person:</b> Clerk <b>Target Date:</b> 31/01/2022</p>	High	<p>Complete. This matter was considered at the Board meeting held on 20 January 2022. A revised contract has been issued by the Clerk.</p> <p><b>Fully implemented</b></p>
<p><b>1.2 Leadership</b></p> <p>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.</p>	<p>The report recommendations are accepted and agreed. The VJB will undertake an appropriate review.</p> <p><b>Responsible Person:</b> Clerk <b>Target Date:</b> 31/12/2022</p>	High	<p>In Progress. The Clerks primary focus since the election was getting the new Board members up to speed and getting the new Standing Orders in place.</p> <p>For this item, so far the new Board Members have had a session (as part of the Induction) on what happened – this was to give them background on the paper which was at the Board meeting in June 2022 about the Commission’s Findings. The learning points are covered in the action plan and a paper will be brought to the Board in November.</p> <p><b>Partially implemented</b></p>



## Action Plan (continued)

Recommendation	Management Response	Priority	Management update 2021/22
<p><b>2.1 Governance and transparency</b></p> <p>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.</p>	<p>The report recommendations are accepted and agreed. The VJB will review its internal governance documents.</p> <p><b>Responsible Person:</b> Clerk <b>Target Date:</b> 31/12/2022</p>	<p>High</p>	<p>In Progress. The Board approved its Standing Orders at its meeting on 30 June 2022.</p> <p><b>Partially implemented</b></p>
<p><b>2.2 Governance and transparency</b></p> <p>A comprehensive analysis of the skills and competencies required of the Board and leadership team should be completed and the current post-holders assessed against these. A clear training plan or alternative arrangements should be put in place to address any gaps identified.</p>	<p>The report recommendations are accepted and agreed. The VJB will undertake the skills analysis and appropriate training for the Board and Leadership Team.</p> <p><b>Responsible Person:</b> Clerk <b>Target Date:</b> 31/12/2022</p>	<p>High</p>	<p>In Progress. The Clerk is working with the Improvement Service to develop this. Additionally, training for Members formed part of the Induction Programme.</p> <p><b>Partially implemented</b></p>
<p><b>2.3 Governance and transparency</b></p> <p>The Board should consider how technology can be utilised to further engage stakeholders and demonstrate continuous improvement in its journey of increasing openness and transparency, including live-streaming meetings or permitting remote live-access to meetings.</p>	<p>OIC currently live-stream their main service committee meetings and are due to extend this arrangement to sub-committee meetings. These arrangements will be reviewed by the Board thereafter.</p> <p><b>Responsible Person:</b> Clerk <b>Target Date:</b> 31/03/2022</p>	<p>High</p>	<p>Complete. The Board agreed this matter at its meeting on 3 March 2022.</p> <p><b>Fully implemented</b></p>

## Action Plan (continued)

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Recommendation	Management Response	Priority	Management update 2021/22
<p><b>2.4 Governance and transparency</b></p> <p>The VJB should undertake training to ensure that the Board and management are clear in their understanding of roles and responsibilities in line with the VJB's own governing documents and good practice.</p>	<p>The VJB have not yet undertaken training for Board and Management. This was an area identified within the recommended actions of the independent governance review performed. This action has since been delayed due to competing priorities, including the need to prioritise the recruitment process for the Assessor and Depute posts.</p> <p><b>Responsible Person:</b> Chief Executive – Shetland Islands Council Chief Executive – Orkney Island Council</p> <p><b>Target Date:</b> 31/03/2022</p>	High	<p>Complete for previous Board Members. An informal seminar on the Barclay Review took place in November 2021 and a seminar on roles and responsibilities was delivered, with the Improvement Service, on 25 Feb 2022. A new programme was developed for new Board members following the elections in March 2022</p> <p><b>Fully Implemented</b></p>
<p><b>3.1 Financial Management</b></p> <p>The Board should consider the provision of internal audit services to the VJB, ensuring that internal audit coverage is sufficient and appropriate for the VJB.</p>	<p>Internal audit services are to be provided by OIC. These arrangements will be reviewed during the year.</p> <p><b>Responsible Person:</b> Treasurer</p> <p><b>Target Date:</b> 31/12/2022</p>	High	<p>Complete - This was considered and agreed by the Board at its meeting on 3 March 2022</p> <p><b>Fully implemented</b></p>

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# Action Plan (continued)

Recommendation	Management Response	Priority	Management update 2021/22
<p><b>4.1 Procurement</b></p> <p>The VJB should consider whether the significant issues identified with regards to the consultant Depute Assessor are isolated or indicative of wider issues in the VJB's procurement processes. This review should assess the robustness of the VJB's processes and controls, compliance with them, and whether relevant individuals have sufficient training to implement them.</p>	<p>The report recommendations are accepted and agreed. The VJB will undertake an appropriate review and make sure senior staff are aware of Procurement law and regulations in all future instances.</p> <p><b>Responsible Person:</b> Assessor <b>Target Date:</b> 31/12/2022</p>	High	<p>Complete. Senior management of the VJB will follow and reflect Procurement law and regulations in all future instances. In place for 01-02-2022</p> <p><b>Fully implemented</b></p>
<p><b>5.1 Financial sustainability</b></p> <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 reflect in the VJB's financial planning. There should be clear links to the Scottish Government medium term financial strategy.</p>	<p>The Board has agreed a revised pay and grading model and will develop a MTFP. Development of the MTFP has been delayed due to the revised pay and grading model only being implemented in June 2021. This has been further exacerbated by staffing issues within the OIC Finance Team.</p> <p><b>Responsible Person:</b> Treasurer <b>Target Date:</b> 31/03/2022</p>		<p>Complete - the Board considered the MTFP at its meeting on 3 March 2022.</p> <p><b>Fully implemented</b></p>

# Our Other Responsibilities Explained

## Fraud responsibilities and representations



### 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 auditor, 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 have disclosed to us all information in relation to fraud or suspected fraud that you are aware of and 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 risk of fraud in relation to occurrence of income and management override of controls as a key audit risk for your organisation.

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

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

# 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:

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## Independence confirmation

We confirm the audit engagement team, and others in the firm as appropriate, Deloitte LLP and, where applicable, all Deloitte network firms are independent of the OSVJB and our objectivity is not compromised.

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## Fees

The audit fee for 2021/22, in line with the expected fee range provided by Audit Scotland, is £9,172, as analysed below:

	£
Auditor remuneration	8,112
Audit Scotland fixed charges:	
Pooled costs	700
Contribution to AS Costs	360
<b>Total fee</b>	<b>9,172</b>

No non-audit services fees have been charged for the period.

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## Non-audit services

In our opinion there are no inconsistencies between the FRC's Ethical Standard and the organisation'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.

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## Relationships

We are required to provide written details of all relationships (including the provision of non-audit services) between us and the organisation, its board and senior management and its affiliates, including all services provided by us and the DTTL network to the audited entity, its board and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on our objectivity and independence.

We are not aware of any relationships which are required to be disclosed.

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