

Orkney and Shetland Valuation Joint Board

**Report to Members and the Controller of Audit
on the 2009/10 Audit**

October 2010



 **AUDIT SCOTLAND**



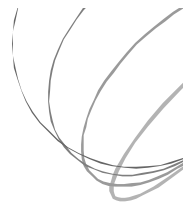
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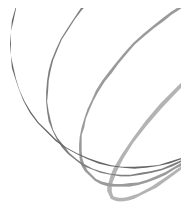
Key Messages

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

No high level risks have been identified from the audit.

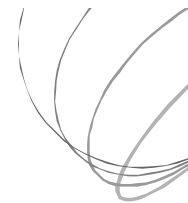


October 2010



Introduction

1. This report is the summary of our findings arising from the 2009/10 audit of Orkney and Shetland Valuation Joint Board (the joint board). The report focuses mainly on the joint board's financial statements and addresses any significant findings that have arisen throughout the year. The scope of the audit was set out in our audit fee letter issued on 29 January 2010.
2. The financial statements are the means by which the joint board accounts for its stewardship of the resources made available to it and its financial performance in the use of these resources. It is the responsibility of the joint board to prepare financial statements that present a true and fair view of its financial position and the income and expenditure for the year.
3. The members and officers of the joint board are responsible for the management and governance of the organisation. As external auditors, we review and report on the arrangements in place and seek to gain assurance that:
 - the financial statements have been prepared in accordance with statutory requirements and that proper accounting practices have been observed
 - the joint board's system of recording and processing transactions provides an adequate basis for the preparation of the financial statements and the effective management of assets and interests
 - the joint board has adequate governance arrangements which reflect the three fundamental principles of openness, integrity and accountability
 - the systems of internal control provide an appropriate means of preventing or detecting material misstatement, error, fraud or corruption
 - the joint board has proper arrangements for securing best value in its use of resources.
4. This report is addressed to members and the Controller of Audit. It will be published on our website after consideration by the council. The Controller of Audit may use the information in this report for her annual overview of local authority audits to the Accounts Commission later this year. The overview report is published and it is also presented to the Local Government and Communities Committee of the Scottish Parliament.



Financial statements

Introduction

5. In this section we summarise key outcomes from our audit of the joint board's financial statements for 2009/10.
6. We audit the financial statements and give an opinion on:
 - whether they present a true and fair view of the financial position of the joint board and its expenditure and income for the year
 - whether they have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements.
7. We also review the Statement on the System of Internal Financial Control by considering the adequacy of the process put in place by the joint board to obtain assurances on systems of governance and internal financial control and assessing whether disclosures in the statement are consistent with our knowledge.

Audit Opinion

8. We have given an unqualified opinion that the financial statements of Orkney and Shetland Valuation Joint Board for 2009/10 give a true and fair view of the financial position and expenditure and income of the joint board for the year. We also certify that the accounts have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements.
9. We were satisfied with disclosures made in the statement on the system of internal financial control and the adequacy of the process put in place by the joint board to obtain assurances on systems of control.
10. The joint board's unaudited financial statements were submitted to the Controller of Audit by the deadline of 30 June. The accounts were certified by the target date of 31 August 2010 and are now available for presentation to members and publication. The financial statements are an essential means by which the joint board accounts for its stewardship of the resources made available to it and its financial performance in the use of those resources.



Accounting issues

11. Local authority bodies in Scotland are required to follow the *Code of Practice on Local Authority Accounting in the United Kingdom – a Statement of Recommended Practice* (the SORP). No major changes were introduced by the 2009 SORP which would have an impact on the joint board's financial statements. We were satisfied that the joint board prepared the accounts in accordance with the 2009 SORP.

Audit testing

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

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

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

Prevention and detection of fraud and irregularities

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

Legality

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



Use of resources

Financial results

16. In 2009/10, Orkney and Shetland Valuation Joint board spent £559,235 on the provision of services. After accounting for miscellaneous income, pension interest and returns on pension assets the net operating expenditure in 2009/10 was £590,003. This was met by constituent authorities' contributions of £557,003 resulting in a deficit of £33,000, 6% of the net expenditure, for the year. After taking account of statutory adjustments of £33,000, there was a zero balance to be carried forward at year end,
17. The budget set for 2009/10 was based on planned contributions of £572,894 from the constituent authorities. The Treasurer summarises performance against budget in the Introductory Statement to the accounts. Overall there was an underspend of £15,658 before adjusting the accounts for FRS 17 entries. This was mainly due to a reduction in travel and training joint costs and a reduction in Orkney's repairs and maintenance costs.

Reserves and balances

18. The joint board does not hold a general fund balance at the year end. The joint board holds a pension reserve which shows a pension liability of £1,015,000, increasing from £441,000 in the previous year.

Going concern

19. Auditing standards require auditors to consider an organisation's ability to continue as a going concern when forming an opinion on the financial statements. One of the indicators that may give rise to going concern considerations is an excess of liabilities over assets. The joint board's balance sheet at 31 March 2010 shows net liabilities of £1,015,000 (2008/09 £441,000).
20. The net liability position is due to the requirements of Financial Reporting Standard 17 (retirement benefits) where there is an obligation to recognise the joint board's full pension obligations in the year they are earned. In accounting for pensions, FRS 17 is based on the principle that an organisation should account for retirement benefits at the point at which it commits to paying them, even if the actual payment will be made years into the future. This requirement results in large future liabilities being recognised in the annual accounts. This technical accounting requirement has had no impact on the underlying basis for meeting current and ongoing pension liabilities which will be met from employer's contributions and investment returns. In common with similar authorities, the joint board has considered it appropriate to adopt a going concern basis for the preparation of the financial statements.



Financial planning

21. The budget strategy for 2010/11 to 2013/13 was presented to the joint board on 7 August 2009. It was agreed that the joint board should adopt a strategy that provides for a standstill budget for the forthcoming three year period, with every effort being made to produce efficiency savings in line with best value. The 2010/11 estimates were presented to the board on 25 January 2010 at £23,766 over the target set. This was mainly due to increased employee costs of £23,755 associated with the introduction of single status.
22. There is a need for the board to adhere to its budget strategy, particularly in the current economic climate where public sector organisations are facing significant ongoing financial challenges. The board should consider reviewing its spending plans to identify efficiency savings to ensure it remains within its current budget strategy for future years.

Risk Identified: there is a risk that the board will not generate the necessary savings to remain within its current budget strategy. Any funding shortfall will have to be met from increased contributions from constituent authority budgets which are already under considerable strain.

Planned Management Action: detailed information will be presented to a future meeting of the board, establishing the base costs of providing statutory functions and measures to achieve reductions in funding requirements. A sub-committee, comprising of the convener, vice-convener, plus one additional member from Orkney and Shetland, will be established to take this forward and will report as required to the board.

Target Date: 31 January 2011



Governance and accountability

Introduction

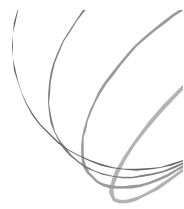
23. We believe that an effective organisation is committed to high standards of probity and can demonstrate high standards of governance and accountability. It has effective political and managerial structures and processes to govern decision-making and the exercise of authority within the organisation, supported by mature and effective relationships between members and officers.
24. In this section we comment on key aspects of the joint board's governance arrangements during 2009/10.

Structure and policies

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

Partnership Working

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



Public performance reporting

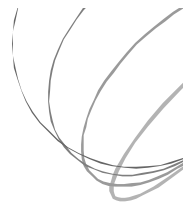
28. The joint board publishes performance indicators on their website. These provide key statistics on the council tax list and the valuation roll. There are currently no performance indicators for the electoral registration service.

Governance and internal control

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

Systems of internal control

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



Final Remarks

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





Appendix A

External audit reports and audit opinions issued for 2009/10

Title of report or opinion	Date of issue	Date Issued
Report on financial statements to those charged with governance	31/8/10	20/8/10
Audit opinion on the 2009/10 financial statements	31/8/10	23/8/10