

Orkney and Shetland Valuation Joint Board

Report to the Members of the Board and the Controller of Audit
on the 2019/20 audit

Issued on 23 September for the meeting on 28 September 2020

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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 2019/20 audit. The scope of our audit was initially set out within our planning report presented to the Board in March 2020. Following the identification of additional audit risks through the course of our audit, we have concluded, in agreement with management and Audit Scotland, that it would no longer be appropriate to apply the ‘small bodies exemption’ from the full wider scope audit. Our 2019/20 audit therefore covers all four audit dimensions.

This audit was carried out under unusual circumstances, being a remote audit conducted during the national lockdown in response to COVID-19. We recognise the extra pressure faced by the VJB in preparing the annual report and in preparing for the audit. We engaged early with management on the potential implications of COVID-19 for the preparation of the annual report as well as the audit, and management confirmed their desire to stick to the original reporting timetable. While the shift to remote working placed pressure on the original timetable for preparation of the annual report and completion of the audit, we have worked closely with management to mitigate this whilst maintaining audit quality as our number one focus.

This report summarises our findings and conclusions in relation to:

- The audit of the **financial statements**; and
- Consideration of the **four audit dimensions** that frame the wider scope of public sector audit requirements as illustrated in the following diagram. This includes our consideration of the Accountable Officers’ duty to secure best value.



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

We will be issuing an unmodified audit opinion.

Following amendments made as a result of the audit, 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 Board.

The auditable parts of the remuneration 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 10.

One financial adjustment in excess of our reporting threshold of £0.6k has been identified up to the date of this report, relating to a change in the pension liability as a result of an event after the balance sheet date. We have identified no disclosure deficiencies during the course of our audit.

Status of the financial statements audit

Outstanding matters to conclude the audit include:

- Receipt of the signed management representation letter; and
- Our review of events since 31 March 2020

Conclusions on audit dimensions

As set out on page 3, our audit work covered the four audit dimensions. Our audit work was risk based and proportionate, covering each of the four dimensions.

The outbreak of COVID-19 has brought unprecedented challenges to organisations around the country. It is not yet known what long term impacts these will have on populations and on the delivery of public services, but they will be significant and could continue for some time. While this report makes reference to COVID-19 where relevant in each of the dimensions, we have not considered the full impact of COVID-19 on the VJB at this stage.

Introduction (continued)

The key messages in this report (continued)

Conclusions on audit dimensions (continued)

Financial Management

There is a significant risk that the VJB will not have sufficient financial capacity in place throughout 2020/21 to perform effective financial monitoring or develop a robust budget, Medium Term Financial Plan (MTFP) and workforce plan following the resignation of Shetland Islands Council's Executive Manager – Finance from the position as Proper Officer for Finance for the VJB and the decision of the Council to review the services provided to the VJB. The VJB continues to be exposed to a significant risk in this area as there remains substantial uncertainty surrounding plans for future arrangements more than five months after the issues were identified.

The VJB has not received a Board-specific internal audit report in at least a decade. Given the anticipated changes in service provision and the Proper Officer for Finance role, in addition to the VJB's distinct governance arrangements, the VJB's reliance on Shetland Islands Council's internal audit opinion for assurance is no longer appropriate.

Financial sustainability

The VJB achieved short term financial balance in 2019/20 and has set a balanced budget for 2020/21. The VJB is faced with financial challenges in the medium to longer term, with the impact of COVID-19 increasing this risk.

The VJB is faced with a significant risk that it will have vacancies in all four of its senior positions due to resignations during the year and difficulties filling posts. The severity of this risk has been increased by the actions of the Board. We have serious concerns about the Board's ability to address this risk in the short-term, exposing the VJB to substantial difficulties in 2020/21.

The VJB is reliant on Orkney Islands Council and Shetland Islands Council for a number of support services, with the latter continuing to provide these services on an interim basis only. The VJB has not taken sufficient steps to effect alternative, permanent arrangements. In so doing, the VJB continues to expose itself to an unnecessary level of risk.

Governance and Transparency

Leadership within the VJB is neither robust nor effective, as evidenced by the fact that the VJB is faced with a significant risk that it could effectively have no leadership in place later in 2020/21 if effective action is not taken now and the need for a substantial increase in involvement in VJB affairs by the Chief Executives of Orkney Islands Council and Shetland Islands Council.

There have been six resignations (three from the Board, three from management) at the end of 2019/20 and into 2020/21 as a result of concerns with governance. This indicates that there are significant weaknesses within the governance framework of the VJB.

While there is a lack of clarity surrounding roles and responsibilities of Board members and management, in addition to at times ineffective communication between relevant parties, we are satisfied that the matters identified do not indicate an underlying issues with regards to the Board's attitude to openness and transparency or relationships within the VJB.

Introduction (continued)

The key messages in this report (continued)

Value for money

Performance has declined significantly between 2018/19 and 2019/20, with the VJB failing to achieve over half of its KPIs in the year. Given the anticipated impact of COVID-19 and the issues identified throughout this report, there is a significant risk that performance in 2020/21 will decline further.

The VJB has effectively utilised business cases to underpin its approach to recruitment for the Depute Assessor position over a number of years. Similarly, the position taken by the Board in 2020/21 to engage an external review of the pay and grading model in place is appropriate. However, a decision taken by the Board in April 2020 contradicted the evidence contained in the report presented to the Board, with there being a reasonable perception that this decision was driven by personal feeling and judgement rather than an objective assessment of the evidence provided. The consequences of this approach to decision making have been set out throughout this report.

Emerging issues

Deloitte's wider public sector team prepare a number of publications to share research, informed perspective and best practice across different sectors. Most recently, a number of articles have been published focusing on the impact of COVID-19. We have provided a summary of those most relevant to the VJB as an Appendix on pages 34 and 35 of this report.

Next steps

An agreed Action Plan is included as an Appendix on pages 39 to 42 of this report which includes a follow up of progress on previous years agreed actions. We will consider progress with the agreed actions as part of our 2020/21 audit.

Many of the issues identified in our report relate to the provision of leadership and governance. The VJB will need committed leadership and strong governance arrangements to address these.

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. In addition, as information emerges as a result of the COVID-19 pandemic, we have shared guidance with management on areas to consider in relation to internal controls, fraud risks and annual reporting. In addition, invites have been issued to our weekly webinar "Responding to COVID-19: Updates and practical steps" which are open to anyone to join.

We have also included conclusions on the Board's Best Value arrangements, which are discussed on page 32.

Pat Kenny
Audit Director








Financial statements 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
Timing of key accounting judgements		Key accounting judgements, such as the net defined benefit pension asset support, was provided on time and was of good quality.
Adherence to deliverables timetable		With regards to the financial statements, we were informed about and accepted a delay to production of the annual accounts and supporting evidence, which did not have a significant impact on our ability to meet the reporting timetable. Additional information required for the full wider scope audit was provided in a timely manner.
Access to finance team and other key personnel		Deloitte and the VJB have worked together to facilitate effective remote communication during the audit.
Quality and accuracy of management accounting papers		On the whole documentation provided has been a good standard. This included documentation that easily reconciled to the draft financial statements.
Quality of draft financial statements		A full draft of the annual accounts was received for audit on the 7 July 2020. The draft was of a high standard, displaying numerous areas of good practice with limited changes required.
Response to control deficiencies identified		No control deficiencies were identified.
Volume and magnitude of identified errors		We have identified one financial adjustment above our reporting threshold to date, which relates to an event after the balance sheet date rather than management error. We identified no disclosure deficiencies.



Lagging



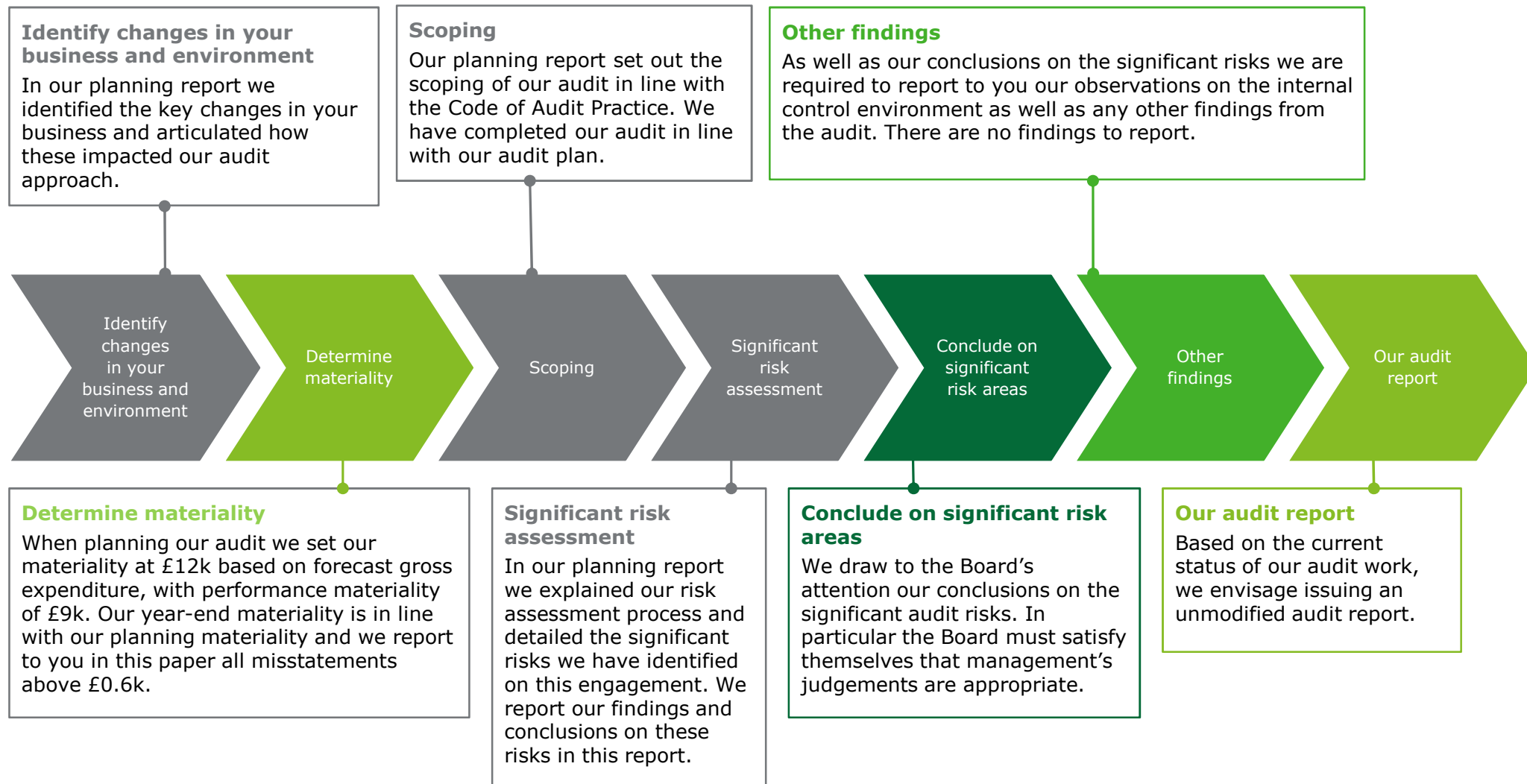
Developing









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	11
Management override of controls			D+I	Satisfactory		Satisfactory	12

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 Board are requisitions from the 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.



Key judgements and our challenge of them

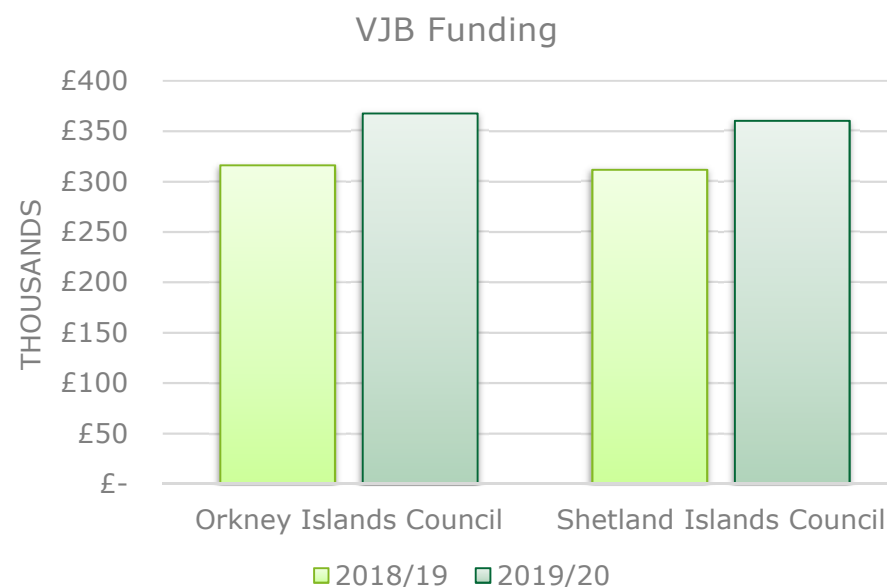
Given the year-end deficit projected by the VJB, there is a risk that overspends could be funded by funding partners in the year following their approval, and therefore contributions could differ from the approved budget.



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 amendments have been appropriately applied;
- tested the reconciliations performed by the VJB at 31 March 2020 to confirm all income is correctly recorded in the ledger;
- confirmed that the reconciliations performed during 2019/20 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.

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 Board's controls for specific transactions.



Key judgements

The key judgement in the financial statements is that which we have selected to be the significant audit risk around the occurrence of income (page 11). This is inherently the area in which management has the potential to use their judgement 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 Board'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.

Accounting estimates and judgements

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

We have not identified any significant accounting estimates and judgements from our testing.

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.

Other areas of audit focus (continued)

Defined benefits pension scheme

Background

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

The net pension liability has decreased from £2.257m in 2018/19 to £1.925m in 2019/20. The decrease is combination of a reduction of £0.249m in the fair value of the assets and a reduction of £0.581m in the liabilities as a result of demographic changes and financial assumptions. This total includes the impact of the McCloud adjustments.

The VJB's pension liability continues to be affected by the McCloud legal case in respect of potential discrimination in the implementation of transitional protections following changes in public sector pension schemes in 2015. Following recent consultation published by the SPPA subsequent to the year end, the actuary has amended its estimate of the impact of McCloud to only include members that were in service before 1 April 2012. This has resulted in a reduction of £16k to the liability disclosed in the draft accounts which has been updated in the final accounts. The actuary has made this adjustment to past service costs, but has not made any allowance within the current service costs for the impact of McCloud, therefore does not fully represent the cost of the benefits accruing for current service. The VJB's actuary has estimated that the potential impact of this is a £1.93k understatement of the liability. This is an estimate and the actual cost could be different. As this amount is not material, management have not made this adjustment to the accounts and this has been reported as an uncorrected misstatement at page 38.

In the current year there was an additional legal case - the Goodwin judgement - that has an impact on the scheme. The judgement, subsequent to the year-end, is in respect of a Teacher's Pension case where there was deemed to be discrimination in spousal transfer on death of the member (where a male widower was deemed to be discriminated against through receiving a different level of benefits than a female widow). The actuary has amended its estimates to take into account this case, which has resulted in an increase in liability of £4k to the liability disclosed in the draft accounts which have been updated in the final accounts.



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 obtained assurance over the controls for providing accurate data to the actuary.
- We assessed the reasonableness of the VJB'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.
- We reviewed the disclosures within the accounts against the Code.

	VJB	Comments
Discount rate (% p.a.)	2.3	Prudent and reasonable
Consumer Price Index (CPI) Inflation rate (% p.a.)	1.9	Prudent end of reasonable range
Salary increase (% p.a.)	2.4%	Real salary increases 0.5% above CPI inflation
Pension increase in payment (% p.a.)	1.9	Reasonable
Pension increase in deferment (% p.a.)	1.9	Reasonable
Mortality - Life expectancy of a male pensioner from age 65 (currently aged 65)	21.4	Prudent
Mortality - Life expectancy of a male pensioner from age 65 (currently aged 45)	22.7	Prudent

Deloitte view

Following receipt of the updated accounts to reflect the changes to the liability for both McCloud and Goodwin arising from events after the balance sheet date (net impact was a reduction in liability of £12k), we are satisfied that the net pension liability disclosed in the accounts is materially correct. The VJB's actuary has estimated the potential impact of McCloud on the current service cost as £1.93k which has been recorded as an uncorrected misstatement on page 38.

Other significant findings

Financial reporting findings

Below are the findings from our audit surrounding your financial reporting process.

Qualitative aspects of your accounting practices:

The VJB accounts have been prepared in accordance with the Local Authority Code of Practice (the Code). The accounting policies adopted are in line with the Code. The VJB's annual accounts include numerous areas of good practice, including the use of graphics, tables and signposting; additional narrative explaining key estimates and judgements; useful narrative on significant governance issues and COVID-19, and overall providing a fair and balanced overview of performance in the year.

Significant matters discussed with management:

Significant matters discussed with management related primarily to the impact of COVID-19 on the organisation, the need to review medium to long term plans and the significant governance issues affecting the VJB which resulted in the small bodies exemption from the full wider scope audit requirements no longer being applied.

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 financial statements when other sufficient appropriate audit evidence cannot reasonably be expected to exist. A copy of the draft representations letter has been circulated separately.

COVID-19 outbreak

Impact on the annual accounts and audit

The current crisis is unprecedented in recent times. The local government sector is directly exposed to the practical challenges and tragedies of the pandemic, and is undergoing major, rapid operational changes in response.

The uncertainties and changes to ways of working also impact upon the reporting and audit processes, and present new issues and judgements that management and Boards need to consider. We summarise below the key impacts on reporting and audit:

Impact on VJB annual accounts

The VJB needs to consider the impact of the outbreak on the annual report and financial statements including:

- Principal risk disclosures;
- Change in the funding regime for 20/21;
- Onerous contracts and any potential provisions;
- Going concern; and
- Events after the end of the reporting period.

Impact on our audit

COVID-19 has fundamentally changed the way we have conducted our audit this year including:

- Teams are primarily working remotely with some challenges in accessing 'physical' documentation and with availability of some staff.
- The teams have had regular status updates to discuss progress and facilitate the flow of information.
- Timetable of the audit has been shorter given the initial accounts delay whilst working towards the same reporting timetable.
- Consideration of impacts on the areas of the financial statements and annual accounts listed has been included as part of our audit work in the current year and comments have been included where appropriate within this report.
- In conjunction with the Board, we will continue to consider any developments for potential impact up to the finalisation of our work on 24 September 2020.

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 completed to date we expect to 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.

While the Board has been faced with financial sustainability issues (as discussed on page 23), it achieved a balanced budget in 2019/20 and has agreed a balanced budget for 2020/21. There is also 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 accounts are reviewed in their 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 17.

Your annual accounts

We are required to provide an opinion on the auditable parts of the remuneration report, the annual governance statement and whether the management commentaries are 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. Minor amendments were required as a result of our audit 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> <p>Following minor amendments made during the course of the audits, 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>
Remuneration Report	The remuneration report has been prepared in accordance with the 2014 Regulations, disclosing the remuneration and pension benefits of Senior Councillors and Senior Employees of the VJB.	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.	<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 regulations.</p> <p>Based on the work completed during our audit, the VJB has made amendments to the Annual Governance Statement to appropriately refer to the impacts of the resignation of the Treasurer and Clerk, in addition to the resignation of several members of the Board.</p>

Audit dimensions and best value



Audit dimensions

Overview

As set out in our Audit Plan, public audit in Scotland is wider in scope than financial audits. This section of our report sets out our conclusions on our audit work covering the following areas. Our report is structured in accordance with the four **audit dimensions**, and specifically covers the risks identified in our planning report and the additional risks identified through the course of our audit.

Financial management

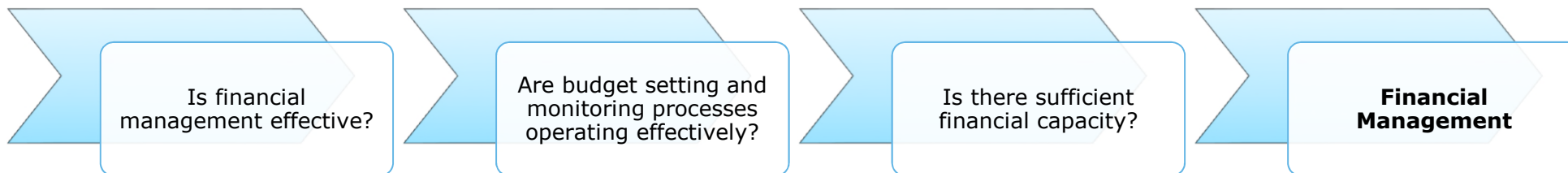
Financial sustainability

Value for money

Governance and transparency

Financial management

Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.



Areas considered

Our approach to the audit dimensions is risk focused. We did not identify any risks in our audit plan. Through the course of our audit, we identified a risk surrounding financial capacity within the VJB.

Financial capacity

Background: Historically, the VJB has obtained financial support services from Shetland Islands Council. Budgets, financial monitoring reports, payroll and the annual accounts are prepared by Council staff for the VJB. The Executive Manager – Finance for the Council has also acted as the Proper Officer for Finance and Treasurer for the VJB.

Given the size and scale of the VJB’s operations, we have not previously identified any risks around financial capacity and considered the arrangements in place to be sufficient for the VJB’s purposes. Budgets and financial monitoring reports are prepared by Council staff following Council processes, with recommendations for improvement made to the Council in these areas being picked up as appropriate by the VJB. We have audited the annual accounts for the past three years and not noted any significant concerns related to the capacity of the finance team.

Developments: On 1 May 2020, the Executive Manager – Finance resigned from his position as Treasurer to the Board (including his position as Proper Officer for Finance). This occurred due to a conflict which arose for the Executive Manager – Finance between his position acting for the Council and his position in the VJB, namely that the VJB was adopting a position which it was felt would not enable the Board to fulfil its duties under Best Value requirements. At this time, the Council also indicated that the arrangements under which it provides financial services to the VJB would continue only on an interim basis until new arrangements can be agreed and a new Treasurer appointed.

On 29 June 2020, we highlighted to the VJB that it needed to appoint a Proper Officer for Finance under the Local Authority Accounts (Scotland) Regulations 2014 in order to issue the unaudited annual accounts and submit them for audit. The VJB subsequently re-appointed the Executive Manager – Finance from the Council to the position on a temporary basis, which was accepted by the Executive Manager – Finance on the basis that this was purely for the purposes of completing the annual accounts process.

An updated report with plans for a replacement permanent Proper Officer for Finance and the provision of ongoing financial services was due to be presented to the VJB in August 2020. This did not occur.

Conclusion: At the time of issuing this report, it remains unclear what provisions will be put in place by the VJB to ensure it has sufficient financial capacity. It is also unclear what plans are being made to appoint a permanent Proper Officer for Finance. The annual accounts process ends at the end of September 2020 and the VJB will then need to turn its focus to updating its budget, preparing an MTFP and workforce plan (page 23) and reviewing financial performance in 2020/21 to date. No financial monitoring has taken place during 2020/21 to date, although we note the inclusion of the VJB management accounts as at period 4 will be reported at the end of September 2020.

As interim arrangements remain in place and as the VJB appointed a temporary Proper Officer for Finance to enable the annual accounts process to be finalised, there has not yet been a significant impact on the VJB from the issues identified. However, there remains a significant and growing risk of such impact given the continuing uncertainty over future provisions.

Financial management (continued)

Internal audit

Background: In 2017/18 and 2018/19, we noted that Shetland Islands Council's Chief Internal Auditor did not carry out any internal audits for the VJB. The internal audit opinion given for the VJB relied entirely on internal audits carried out over Council systems. In late 2018/19, the internal audit service for the Council was outsourced to Audit Glasgow, with the Chief Internal Auditor for Glasgow City Council taking this position for Shetland Islands Council and the VJB.

The VJB places no reliance on internal audits carried out for Orkney Islands Council given that it does not use their systems, policies and procedures and does not receive support services from them.

Developments: In 2019/20, there were no internal audits carried out for the VJB. Discussions were held between the VJB and internal audit in March 2020 to consider a review of governance within the VJB, although this was superseded by the risks identified during the external audit. We have liaised closely with internal audit throughout this process to avoid duplication of work.

Conclusion: 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 for the Council to identify areas of relevance for the VJB. Their conclusions have helped inform our audit work, although no specific reliance has been placed on the work of internal audit. We note that internal audit have not provided an overall opinion as to the VJB's system of internal control for 2019/20.

There is no evidence of any specific internal audits being carried out for the VJB for at least a decade. Although the VJB has relied on Council systems and processes, it has its own governance arrangements and policies which should be subject to review. The VJB needs to ensure that it develops a robust annual audit plan with internal audit that provides sufficient assurance for the Board in key areas. Given the anticipated changes in service provision (page 20 and 25) and issues identified throughout this report, it is our view that it is no longer appropriate for the VJB to rely solely on the Council's internal audit programme to provide assurance to the VJB.

Standards of conduct for prevention and detection of fraud and error

We have reviewed the VJB's arrangements for the prevention and detection of fraud and irregularities. Overall we found the VJB's arrangements to be designed effectively and implemented appropriately.

Deloitte view – Financial management

We did not identify any issues with financial management in 2019/20. However, in early 2020/21, we identified a significant risk that the VJB will not have sufficient financial capacity in place to perform effective financial monitoring or develop a robust budget, MTFP and workforce plan following the resignation of Shetland Islands Council's Executive Manager – Finance from the position as Proper Officer for Finance for the VJB and the decision of the Council to review the services provided to the VJB. Temporary arrangements were put in place in July 2020 to enable the annual accounts process to be completed and these issues have not yet significantly impacted the VJB, which is a result of timing. There remains substantial uncertainty surrounding plans for future arrangements five months after the issues were identified.

The VJB has not received a Board-specific internal audit report in at least a decade. The VJB has previously relied on Shetland Islands Council internal audits to provide assurance to the VJB given the VJB's reliance on Council staff and systems. Given the anticipated changes in service provision and the Proper Officer for Finance role, in addition to the VJB's distinct governance arrangements, this approach is no longer appropriate.

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.



Areas considered

Our approach to the audit dimensions is risk focused. We identified the following risk in our audit plan:

"There is a risk that the Board cannot effectively plan for the medium to longer term if they do not know how to prioritise resources based on their corporate plan and outcomes, and how any potential funding gaps are to be met."

Through the course of our audit, we have identified additional risks around the sustainability of the workforce and the resources available to the VJB through services provided by Shetland Islands Council.

Short-term financial balance

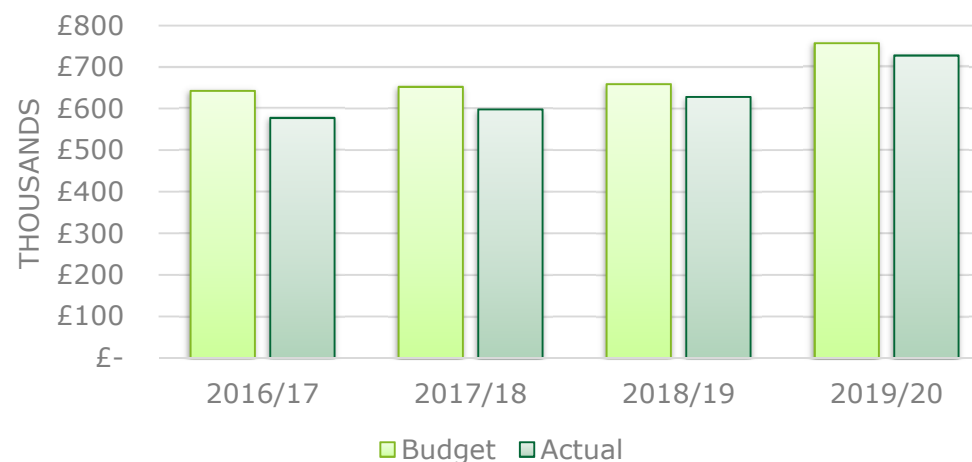
Background: The VJB achieved financial balance in 2018/19, reporting an underspend of £31k (4.7%) against budget in the year. The VJB identified £15k (2.1%) worth of savings in the 2019/20 budget.

Developments: In 2019/20, the VJB again achieved financial balance, reporting an underspend of £29k (3.8%) against budget. In March 2020, the VJB set its 2020/21 budget, totalling £809k. This represents an 11.1% increase on total expenditure in 2019/20. The VJB has again included savings within the budget, representing £22k (2.7%) of expenditure in the year.

In setting the budget, which was approved on 12 March 2020, the VJB could not have anticipated the impact that COVID-19 would subsequently have on the 2020/21 position. The VJB may need to consider emergency budget measures as the impact, financially and operationally, of mobilisation and response to COVID-19 are better understood.

Conclusion: The VJB achieved financial balance in 2019/20. A balanced budget has been set for 2020/21, with a significant uplift in funding from Orkney Islands Council and Shetland Islands Council. However, the impact of COVID-19 remains a significant risk which could impact on the VJB achieving short term financial balance in 2020/21.

Expenditure: Budget vs Actual



Financial sustainability (continued)

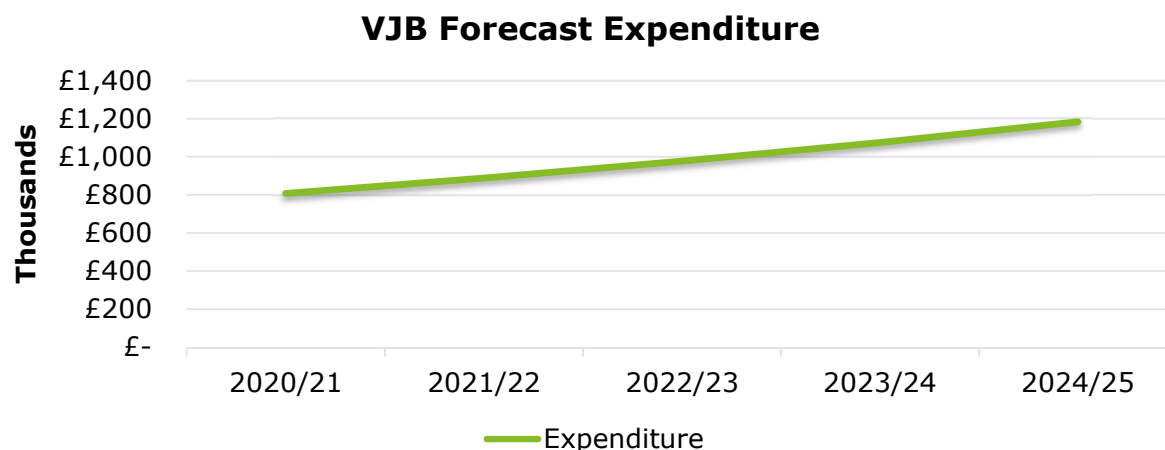
Medium term financial planning

Background: In 2018/19, we noted that the VJB did not have an MTFP and had not quantified a medium-term funding gap. No sensitivity analysis or scenario planning had been carried out. We noted that the VJB does not set out in its five-year strategy, budget or reporting (either internal or external) how it is linking its resources to its priorities or the outcomes it is aiming to progress.

Developments: An MTFP has not been prepared in the year, with delays as a result of the 2020/21 budget settlement process and COVID-19. The VJB has confirmed it intends to prepare an MTFP in 2020/21, although there are risks surrounding this given the identified risks regarding financial capacity (page 20).

While the VJB has not quantified a medium-term funding gap, we have noted from the graph on page 22 that expenditure within the VJB has grown by 26% between 2016/17 and 2019/20. The approval of the budget of £809k for 2020/21 takes this growth to 40%, which equates to 10% growth per year. If this level of growth continues, the VJB will effectively double its expenditure from its 2016/17 position by the end of the MTFP period. This growth in expenditure is driven partly by the implementation of the Barclay review and the impact of multi-year pay awards on staff costs, which are largely outwith the control of the VJB.

The VJB has not reviewed its five-year strategy in the year to improve links to outcomes, nor has there been any improvement in internal reporting of outcomes, reference to outcomes in the annual accounts or linking of resources to priorities and outcomes achieved.



Conclusion: The VJB receives funding from Orkney Islands Council and Shetland Islands Council to enable it to set a balanced budget. Expenditure is expected to grow by 40% between 2016/17 and 2020/21. At a time when both constituent authorities are facing wider economic issues as a result of COVID-19 and with both authorities requiring significant savings within the Council, the VJB needs to ensure that it can demonstrate that financial planning is robust and that effective efforts are being made to address expenditure growth.

To enable the VJB to effectively monitor the medium-term position and plan appropriately, an MTFP should be developed, as recommended in 2018/19.

We reiterate our view that the VJB should align its resources to its priorities and set out the outcomes being achieved in order to demonstrate what is being delivered with the resources available to the VJB.

Workforce planning

Background: In 2018/19, we noted that the VJB did not have a standalone workforce plan. We recommended that the VJB consider the development of a workforce plan given ongoing difficulties in recruiting to key posts (such as the Depute Assessor position).

Developments: The VJB did not develop a workforce plan in the year and it is not adequately considered within the workforce plans of the constituent authorities. There was no reporting in the year to the Board on workforce planning.

During the year and up to the date of this report, there were a number of high-profile changes to the workforce. As set out on page 20, the Proper Officer for Finance resigned his position within the VJB in May 2020. This post remains unfilled.

Financial sustainability (continued)

Workforce planning (continued)

On 30 April 2020, for the same reason, the Clerk (who is also Executive Manager – Governance and Law for Shetland Islands Council) resigned his position within the VJB. This post again remains unfilled.

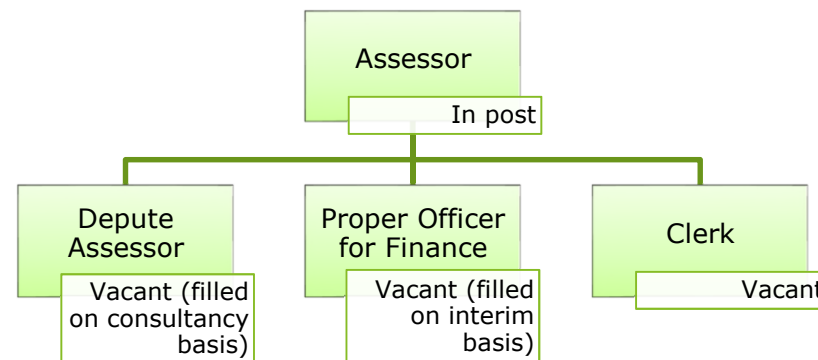
The Assessor submitted their resignation to the Board in February 2020, citing concerns regarding the ongoing Depute Assessor vacancy and salary for both the Depute Assessor and Assessor roles, with his notice period expiring at the end of May 2020. The Assessor offered to withdraw his resignation – with conditions – on 12 March 2020, subject to the Board approving an immediate increase to the Assessor and Depute Assessor salaries. On 29 April 2020, the Board rejected this but also decided not to begin a recruitment exercise or consider alternative options for the position. The Board requested that the Assessor ‘extend’ his notice period, “on a rolling monthly basis, until such time as the review of salary, terms and conditions has been completed and presented to the Board.” This has been accepted by the Assessor and we note that the Assessor remains in post at the time of issuing this report, albeit on a significantly reduced notice period.

The Depute Assessor position remained vacant throughout 2019/20. The VJB applied a permanent uplift to the previously advertised salary and the position was advertised again, with a candidate applying and receiving an offer. This offer was subsequently rejected by the candidate and the position remains unfilled at the time of writing this report. Services continue to be provided on a consultancy basis by an external consultant to address resourcing issues as a result of having a vacant Depute Assessor post. The consultant position costs 80% of the equivalent full-time Depute Assessor position, although the extent of services provided are not directly comparable.

The Board has commissioned an independent review of the pay and grading model for the VJB which reported its initial findings to a Board meeting on 20 August. The Board anticipates the review to conclude by November 2020, at which point a proposal for a new pay and grading model for the VJB will be presented to the Board for their consideration. Formal consultation with trade unions will be required before a new pay and grading model can be implemented.

No effective action has been agreed between the Board and management since March 2020 to address the risk that it faces a potentially vacant Assessor position – with one month’s notice – and a vacant Depute Assessor position (albeit with support continuing to be provided on a consultancy basis).

Conclusion: Given resignations and difficulties in recruitment, the VJB is now faced with vacancies in three of its four most senior positions, with the fourth position continuing on a rolling monthly basis. The VJB is faced with a significant risk that it will not have sufficiently qualified and competent personnel to deliver its responsibilities.



VJB Leadership Team

The Board agreed to a position whereby the Assessor is continuing in post on a rolling monthly basis. Concerns were raised with the Convener by Shetland Islands Council that the ‘rolling’ notice period proposed had no effect in employment law. Separate advice was provided by the Orkney Islands Council which contradicted this view, but the existence of this contradiction was never communicated to the wider Board, nor were the concerns raised responded to, with the contradiction not being known until it was identified through our audit in September 2020. It is unusual that the Board was not made aware of the concerns raised, the contradicting advice available and the overall conclusion reached prior to proceeding with the proposed course of action. It is also unclear why the Convener sought and relied upon legal advice relating to VJB matters from Orkney Islands Council, when support services for the VJB are currently and have historically been provided by Shetland Islands Council. It is concerning that communication between the Councils, VJB and Board was not sufficient to identify and address these issues prior to our audit.

Financial sustainability (continued)

Workforce planning (continued)

The Board has exposed itself to a high level of risk in taking the approach it has to the Assessor's position: namely, it has not begun any recruitment exercises despite the fact that the Assessor has indicated his desire to resign from post, it has not progressed any recruitment exercise for the Depute Assessor since that time, it has wasted the Assessor's notice period (three months) and is now in a position whereby it has at best a one month notice period and potentially has entered into an amendment to an employment contract about which concerns were raised and contradictory advice exists, without appropriate resolution of those issues.

In agreeing to the position it has taken, the Board knowingly took actions which contradicted advice from officers without any appropriate consideration to justify that position and knowingly put itself in a position whereby the VJB would be faced with the resignation of the Proper Officer for Finance and the Clerk and the loss of services from Shetland Islands Council.

In order to reduce the level of risk to which the VJB is exposed, the Board should ensure an appropriate notice period that is enforceable is agreed with the Assessor. If such an arrangement cannot be agreed, the Board should ensure it puts plans in place to deal with a sudden departure.

Our recommendation from 2018/19 that the VJB needs to develop a workforce plan remains in place. This should be informed by the pay and grading review currently underway. This should have clear succession planning and recruitment plans set out to help the VJB avoid the difficulties it currently finds itself faced with.

Resourcing

Background: The VJB receives services from Orkney Islands Council and Shetland Islands Council. It leases property from both authorities, at a cost of £16.3k and £11k respectively in 2019/20. The VJB similarly receives IT services from both authorities, at a cost of £4k and £8.5k respectively. In addition, the VJB receives support services – being human resources, legal and administrative support – from Shetland Islands Council, at a cost of £20.5k in 2019/20.

Developments: As indicated on page 20, Shetland Islands Council has indicated that the support services it provides to the VJB remain in place on an interim basis only, until revised arrangements can be agreed. At the time of issuing this report, five months after the matter arose, it remains unclear what arrangements will be put in place to provide sufficient support services to the VJB in these areas.

Conclusion: The risk to the VJB regarding support services is mitigated by Shetland Islands Council's commitment to continue to provide these services on an interim basis. However, there is a risk that these services could be reduced or withdrawn if the VJB does not sufficiently prioritise identifying these alternative arrangements. It appears logical that either Shetland Islands Council or Orkney Islands Council – as the constituent authorities – would be approached by the VJB to provide these services to the Board. The Board needs to determine its preferred approach as a matter of priority and progress the agreement of new arrangements to address the risk posed by the interim arrangements in place.

Deloitte view – Financial sustainability

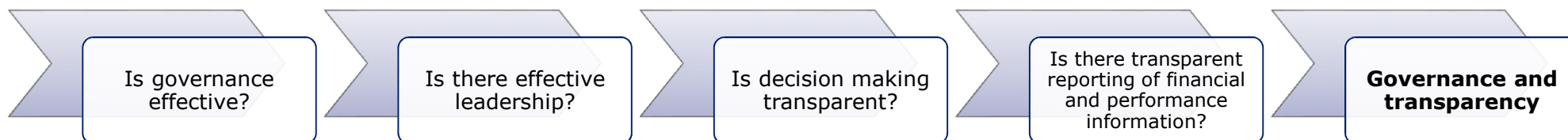
As noted on page 22, the VJB achieved short term financial balance in 2019/20 and has set a balanced budget for 2020/21. However, the VJB has not developed an MTFP in the year and has not quantified its position over the medium-term. Despite this, it is clear that the VJB is faced with financial challenges in the medium to longer term, with the impact of COVID-19 increasing this risk.

The VJB is faced with a significant risk that it will have vacancies in all four of its senior positions due to resignations during the year and difficulties filling posts. The Depute Assessor position is currently vacant (and filled on a consultancy basis), with the Proper Officer for Finance position filled on an interim basis until the annual accounts process is complete, with the Clerk position vacant and the Assessor position currently in doubt and with the Board facing a one month notice period. The severity of this risk has been increased by the actions of the Board. We have serious concerns about the Board's ability to address this risk in the short-term, exposing the VJB to substantial difficulties in 2020/21.

The VJB is reliant on Orkney Islands Council and Shetland Islands Council for a number of services. The majority of these are provided by Shetland Islands Council. These services, as with financial services, continue to be provided on an interim basis only. The VJB has not taken sufficient steps to make it clear what future arrangements will be sought or to put those into effect. In so doing, the VJB continues to expose itself to an unnecessary level of risk.

Governance and transparency

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



Areas considered

Our approach to the audit dimensions is risk focused. We identified the following risk in our audit plan:

"The governance statement is not consistent with the wider direction of the accounts or compliant with the CIPFA guidance note."

This risk is addressed through our review of the annual governance statement, set out on page 17.

Through the course of our audit, we have identified additional risks covering leadership, openness and transparency, the effectiveness of governance, the adherence to roles and responsibilities and the effectiveness of relationships.

Leadership

Background: The current Assessor has been in post since 2015/16. The Clerk had been in post since the VJB's inception in 1996/97. The Proper Officer for Finance had been in post since 2018/19. The VJB has unsuccessfully attempted to recruit to the Depute Assessor position since 2015/16, with these services being obtained on a consultancy basis since December 2015.

Developments: As set out earlier in this report, the Proper Officer for Finance resigned his post on 1 May 2020, with this position now filled on an interim basis until the annual accounts process is complete. The Clerk resigned his position on 30 April 2020, with this post remaining vacant. There has been no further progress in recruiting to the Depute Assessor position, with the consultancy arrangement continuing in place.

The Assessor has committed to remain in post until the pay and grading review is complete.

The Assessor's initial resignation was triggered by concerns surrounding attempts to recruit to the Depute Assessor post (considered on page 24) and salary for both the Depute Assessor and Assessor positions. These concerns are attributable in part to decisions of the Board taken on the recommendations of the Proper Officer for Finance and the Clerk, with which the Assessor did not agree.

Similarly, the Proper Officer for Finance and the Clerk both resigned following the Board taking a decision based on the recommendation of the Assessor, with which they did not agree.

Conclusion: The VJB currently has vacancies within two of its leadership positions, with interim arrangements in place for one other and the position being precarious (a conditional withdrawal of a resignation with a one month notice period) for the remaining position. The VJB is faced with a situation that it could effectively have no leadership in place later in 2020/21 if effective action is not taken. Leadership within the VJB is, therefore, not robust.

Leadership within the VJB has been disjointed, with contradictory views presented to the Board which resulted in the Board being faced with a position that regardless of the decision it took, it would be going against the advice of at least some of its leadership. A number of the issues which have arisen, as set out in this report, could and should have been addressed through collective action of the leadership team within the VJB.

Governance and transparency (continued)

Leadership (continued)

Given the significance of the issues facing the VJB, there has been a substantial increase in the level of involvement in VJB affairs by the Chief Executives of Orkney Islands Council and Shetland Islands Council, with a noticeable increase in the level of involvement in what are essentially operational matters by the Board also. All of this indicates that leadership within the VJB is not effective.

Effectiveness of governance

Background: The VJB has a Board which consists of 10 members, five being from Orkney Islands Council and five from Shetland Islands Council. Orkney Islands Council also has two substitute members, while Shetland Islands Council has five substitute members.

Developments: On 29 April 2020, following concerns regarding the decision taken by the Board, Councillor M Bell resigned his position as a substitute member on the Board.

On 20 August 2020, following concerns regarding the process through which the pay and grading review was progressing, Councillor S Clackson resigned from the Board. On the same date, Councillor J R Scott also resigned from the Board.

As set out earlier in this report, the Clerk and the Proper Officer for Finance resigned on 30 April and 1 May 2020 respectively.

The Assessor resigned on 24 February 2020, although the Assessor remains in post on a rolling monthly contract.

In each of these resignations, a concern surrounding the effectiveness of governance was raised in some way. These concerns range from whether the Board was effectively resourcing and prioritising key roles, to whether the Board was taking decisions in accordance with good governance principles and Best Value requirements, to whether processes adopted by the Board to address the aforementioned issues themselves demonstrated non-compliance with good practice.

In March and April 2020, the Board took decisions which directly contradicted advice received from the Proper Officer for Finance and the Clerk, both of whom advised it would not represent Best Value or good governance and indicated that they would resign rather than implement the decisions. While the Scottish Public Finance Manual is not applicable to local authorities, the requirements within it helps to underline how unusual this position is – for bodies which are within its scope, any decision which a body takes which the appropriate officer has explained would breach Best Value or governance requirements must be immediately reported to the Scottish Government and the Auditor General for Scotland. As noted, this requirement does not apply to the VJB, however, it does underline the significance of taking a decision which contradicts the formal advice received in this area.



Governance and transparency (continued)

Effectiveness of governance (continued)

Conclusion: The Board has found itself in an unenviable position with difficulties recruiting to a Depute Assessor position for a number of years in addition to dealing with the resignation of the Assessor, Proper Officer for Finance and Clerk. From our review of reports and communications covering the relevant period, in addition to discussions with those attending the relevant meeting, there is a reasonable perception that decisions reached were based primarily on personal feeling and loyalty towards relevant officers rather than being based on a reasonable assessment of the risks posed to the VJB. We accept that there were other factors which also will have impacted on the decision reached – such as the risk posed by the loss of the Assessor post while the Depute Assessor position remained vacant – however, it is clear from our review that the decisions reached were not based solely on these objective considerations.

In total, there have been six resignations (three from the Board, three from management) at the end of 2019/20 and into 2020/21 as a result of concerns with governance. These resignations occurred for a variety of reasons and came from different areas of the organisation. This clearly indicates that there are significant weaknesses within the governance framework of the VJB. In our view, the VJB should engage an independent and comprehensive review of the governance arrangements in place within the organisation to ensure that they are fit for purpose. The benefits of regular evaluations of governance are clear and set out for ease of reference on page 27.

Roles and responsibilities

Background: Board members are appointed to the VJB by Orkney Islands Council and Shetland Islands Council to provide strategic direction to the Board and scrutinise performance and management actions. The Assessor, Proper Officer for Finance and Clerk are appointed by the Board to carry out the day-to-day operations of the VJB and to ensure that the VJB has arrangements in place to carry out its functions effectively.

Developments: From our review of reports to the VJB covering the ongoing recruitment difficulties with regards to the Depute Assessor position, the Assessor's resignation and the ongoing pay and grading review, we noted numerous instances whereby Board members ventured quite clearly into operational matters, including for example suggesting a rate of pay for the consultant currently providing services to the VJB. Such issues are matters for management, not the Board, which should be respected.

We also noted that the Chair of the Board intended to issue a letter to the Assessor to give effect to the Board's decision to ask the Assessor to renegotiate his resignation and thus his employment status. As set out in guidance issued by the Standards Commission, a Board member should not be involved in operational matters, with such matters being matters for management.

We note from review of the minutes of the relevant Board meeting and discussion with those attending that there was a lack of clarity as to who was being given authority to action the decision of the Board given the resignation of the Treasurer and Clerk, which clearly highlights the lack of the clarity regarding roles and responsibilities in the VJB and underlines the risk posed to the VJB by this lack of clarity.

These are two examples identified and not exhaustive. We did note that these issues were identified by relevant officers at the appropriate time and communicated appropriately to the Board.

Conclusion: While the issues identified were resolved prior to the Board taking actions which would be against good practice, the examples do highlight a risk that there is a lack of clarity surrounding roles and responsibilities of Board members and management. The Board should undertake training on best practice in this area and refresh its understanding by reference to its own governing documents.

Openness and transparency

Background: There is a general expectation that public bodies conduct their business in public and restricted only where there is a clear reason to do so and only to the extent required.

Developments: We have reviewed reporting to the Board regarding the ongoing staffing issues, in addition to reporting in the annual accounts.

Conclusion: We are satisfied that the information restricted from the public concerned specific staffing matters which it is appropriate to exempt from publication. We are similarly satisfied that in a number of cases it would be potentially commercially damaging for the VJB to disclose information which has been presented to it (for example, in relation to the ongoing pay and grading review).

Governance and transparency (continued)

Effectiveness of relationships

Background: The VJB is constituted from members appointed by Orkney Islands Council and Shetland Islands Council. The VJB has its own staff, in addition to support services received from the constituent authorities. Relationships across the Councils, between the Councils and the VJB and within the VJB itself are all of importance.

Developments: As set out throughout this report, there have been numerous resignations from the Board and management. We have noted contradictory positions being presented to the Board, with the Board's decisions resulting in these resignations.

We have noted an increased involvement by the Chief Executives of the constituent authorities, and an increased involvement by the Board in operational areas.

Conclusion: The fact that the VJB has reached the position it has suggests that relationships and communication were not working as effectively as they should have been. We have identified particular issues with regards to the effectiveness of communication on page 24, relating to the concerns raised Shetland Islands Council with the Convener regarding the proposed amendment of the Assessor's terms of employment and the subsequent contradictory advice provided by Orkney Islands Council to the Convener, with those contradictions not being made known between the parties and being left unaddressed until identified through our audit.

Although we have noted disagreements between the relevant parties, with strongly held and occasionally diverging views as to the appropriate way to proceed to address the issues facing the VJB, we have not noted any instances of unprofessional or deliberately damaging behaviour, which suggests that relationships remain effective to a degree. It is clear from our work that all parties involved want to resolve the issues facing the VJB, albeit with differences in approach. Maintaining relationships in place will be key to this.

We note from our discussions with the relevant parties that there are concerns that the approach preferred by the other parties are unreasonable, misguided or pose unnecessary risks to the VJB. It is pivotal that these concerns are reported appropriately and that any contradictions and differences in view are appropriately considered and addressed prior to proceeding with a particular course of action, in order to avoid a repeat of the issues identified above relating to the amendment of the Assessor's terms of employment.

This can be addressed to some degree by clarifying roles and responsibilities through the training recommended on page 28 and ensuring that the overall governance framework within the VJB is effective, as recommended on page 27.

Deloitte view – Governance and transparency

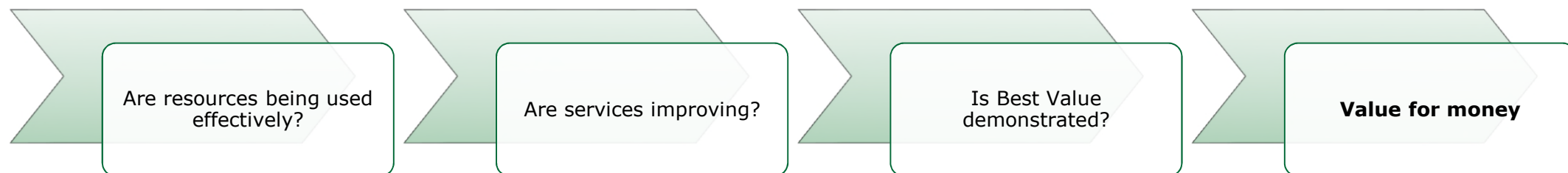
Leadership within the VJB is not robust. The VJB is faced with a significant risk that it could effectively have no leadership in place later in 2020/21 if effective action is not taken now. The issues identified throughout our report and the substantial increase in involvement in VJB affairs by the Chief Executives of Orkney Islands Council and Shetland Islands Council indicate that leadership within the VJB is not effective.

There have been six resignations (three from the Board, three from management) at the end of 2019/20 and into 2020/21 as a result of concerns with governance. This indicates that there are significant weaknesses within the governance framework of the VJB. We also note the highly unusual nature of the Board adopting positions which contradict advice received from officers without a detailed assessment, particularly given that relevant officers highlighted concerns that the Board would be failing to deliver its obligations under Best Value and good governance principles.

While there is a lack of clarity surrounding roles and responsibilities of Board members and management, we are satisfied that the matters identified do not indicate an underlying issues with regards to the Board's attitude to openness and transparency or relationships within the VJB.

Value for money

Value for money is concerned with using resources effectively and continually improving services.



Areas considered

We did not identify any risks in our audit plan. Through the course of our audit, we identified risks surrounding whether decisions are underpinned by appropriate evidence and business cases and whether performance is impacted or likely to be impacted by the other issues identified through our work.

Evidence based decision making

Background: In line with good practice, public bodies should take decisions based on evidence and where appropriate through the use of business cases to clearly set out the justification and considerations behind decisions taken.

Developments: Between 2015 and 2019, a total of 17 reports were presented to the Board regarding the Depute Assessor position. This included a number of detailed reports on staffing structure and cost implications, in addition to reports on proposed changes to the Depute Assessor salary, terms and conditions to encourage applications for the position. The position has been advertised a total of seven times in that period.

In April 2020, the Board took a decision which contradicted the report received from officers. From review of the minutes of the meeting, the decision reached was primarily based on personal judgement rather than evidence based.

The Board engaged an independent, external review of the pay and grading model in place within the VJB, which reported its preliminary findings in August 2020 and which is currently in the process of completing its final report, following which there will be a required period of consultation before further decisions are reached.

Conclusion: The VJB has expended a significant amount of time and resources in attempting to recruit to the Depute Assessor position. We are satisfied that the approach adopted by the VJB to this process – being advertisement of the position, subsequent assessment of the position, readvertising with a temporary uplift in salary and subsequently readvertising with a permanent uplift in salary – has been reasonable and has been underpinned by appropriate evidence based reports and business cases.

The position taken by the Board – being an external review of the pay and grading model in place – is appropriate given the difficulties the VJB has faced with recruitment. The initial report presented to the Board in August 2020 was robust and had a clear evidence base to justify the progression to a final report in November 2020.

The decision taken by the Board in April 2020, however, was neither evidence based nor underpinned by a business case. The decision contradicted the evidence contained in the report presented to the Board, with no clear rationale for this set out by the Board other than personal judgement. The consequences of this approach to decision making have been set out throughout this report, including the loss of key personnel and exposing the VJB to unnecessary risks.

Value for money (continued)

Performance

Background: In 2018/19, the VJB achieved its targets in all seven of its non-financial KPIs, although a decline in performance was noted in all seven areas from 2017/18 to 2018/19.

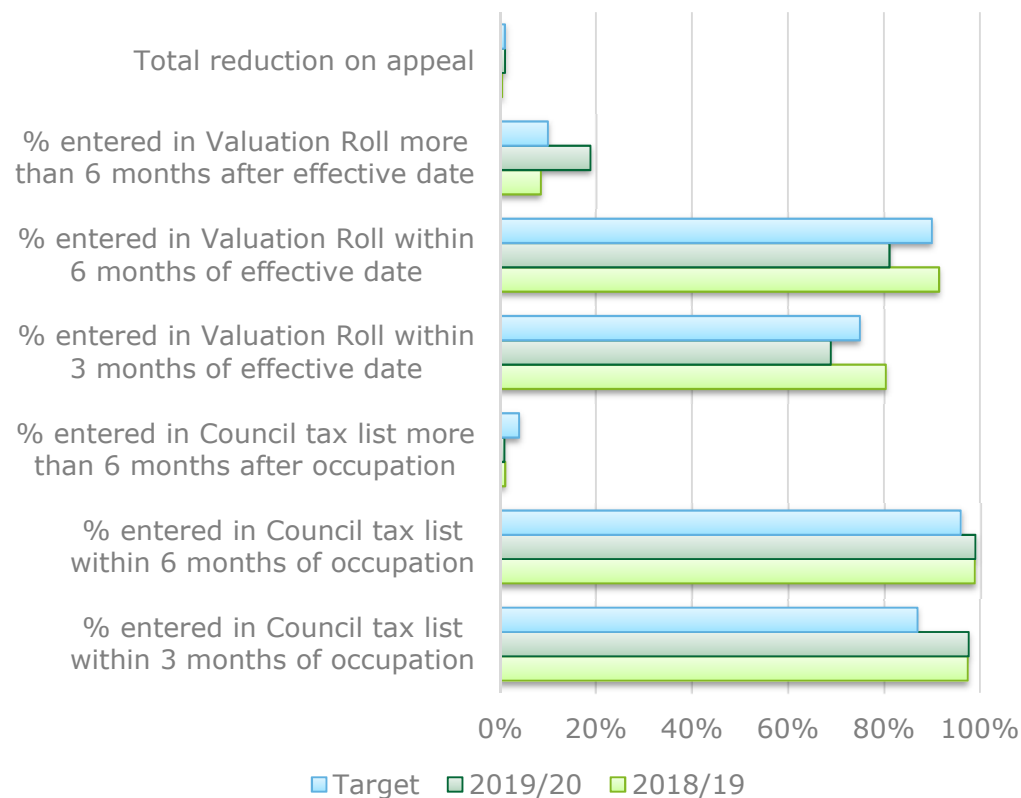
Developments: The VJB's targets for 2019/20 remained unchanged from 2018/19. In 2019/20, the VJB achieved three targets and missed four targets, a significant deterioration on the 2018/19 position. All four KPIs relating to the Valuation Roll were missed, whereas the three KPIs relating to the Council tax list were achieved.

Performance improved marginally in all three KPIs relating to the Council tax list, whereas there were significant declines in performance in all four KPIs relating to the Valuation Roll.

There has been no reporting to the Board on performance subsequent to 2019/20.

Conclusion: Performance has declined significantly between 2018/19 and 2019/20, with the VJB failing to achieve over half of its KPIs in the year. The VJB have noted that this is primarily as a result of staff vacancies. These performance issues primarily predate the issues identified throughout this report and the impact COVID-19. There is therefore a significant risk that performance in 2020/21 will be worse than 2019/20, which already was failing to achieve the VJB's targets. The Board will need to closely monitor performance in 2020/21 to ensure that further deteriorations in performance are addressed promptly.

VJB Performance



Deloitte view – Value for money

Performance has declined significantly between 2018/19 and 2019/20, with the VJB failing to achieve over half of its KPIs in the year. These performance issues primarily predate the issues identified throughout this report and the impact COVID-19. There is therefore a significant risk that performance in 2020/21 will be worse than 2019/20, which already was failing to achieve the VJB's targets.

The VJB has effectively utilised business cases to underpin its approach to recruitment for the Depute Assessor position over a number of years. We are satisfied that the approach adopted has been reasonable and has been underpinned by appropriate evidence. Similarly, the position taken by the Board in 2020/21 to engage an external review of the pay and grading model in place is appropriate given the difficulties the VJB has faced with recruitment. However, a decision taken by the Board in April 2020 contradicted the evidence contained in the report presented to the Board, with no clear rationale for this set out by the Board other than personal judgement. The consequences of this approach to decision making have been set out throughout this report, including the loss of key personnel and exposing the VJB to unnecessary risks.

Best Value

It is the duty of the Board to secure **Best Value (BV)** as prescribed in Part 1 of the Local Government in Scotland Act 2003.

Duty to secure best value

1. It is the duty of the Board 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; and
 - 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; and
 - 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 an VJB's functions, regard shall be had to the extent to which the outcomes of that performance have improved.

BV arrangements

The VJB receives six monthly reporting on progress with Best Value. The report does not cover in any level of detail the themes of Best Value set out in statutory guidance. The reports are essentially performance reports for the VJB covering electoral registrations, the Valuation Roll, the Council tax list, staffing and other issues. These reports contain significant narrative but insufficient information on targets and historical performance to enable an understanding of whether performance is improving. The effectiveness of this monitoring regime is undermined as the risks and implications inherent in the progress report are not clearly set out.

As noted on page 31, performance has declined significantly against the VJB's KPIs in 2019/20.

Through our work, we have identified weaknesses in the VJB's financial capacity, insufficient engagement with internal audit, ineffective workforce planning, non-existent medium-term financial planning, risks to resourcing of the VJB, weaknesses in leadership and governance, a lack of clarity in roles and responsibilities and reactive decision making which is not evidence based and which exposes the VJB to an unnecessary level of risk.

As set out throughout this report, it is not clear that the VJB has plans in place or the capacity to address these issues in the short term.

Deloitte view – Best Value

It is not clear that the VJB has sufficient arrangements in place to ensure continuous improvement and deliver Best Value.

Sector developments



Sector developments

Responding to COVID-19

As part of our “added value” to the audit process, we are sharing our research, informed perspectives and best practice from our work across the wider public sector.

An emerging legacy

How COVID-19 could change the public sector

While governments and public services continue to respond at scale and pace to the COVID-19 pandemic, its leaders have begun to consider how the crisis might permanently change their agencies – and seven legacies are emerging.

The COVID-19 pandemic has been uncharted territory for governments. Elected representatives, officials and public service leaders around the world are making profound decisions with no precedent to draw upon and little certainty around when the crisis will end. As French President Emmanuel Macron observed, this is a kinetic crisis – in constant motion with little time to make far-reaching decisions.

In the UK and across much of Europe, government responses have been radical and exhaustive. Health services have mobilised at scale, finance ministries have acted fast to support businesses, and the full spectrum of departments have made rapid adjustments to ensure public needs continue to be met.

While leaders across the public sector remain focused on the immediate COVID-19 threat, they are increasingly mindful of its longer-term implications – and for some, the crisis could be an inflection point for their agency. This paper explores the pandemic’s likely legacy on governments, public services and the debates that shape them.

Seven emerging legacies:

1. Our view of resilience has been recast;
2. Governments could be left with higher debt after a shock to the public finances;
3. Debates around inequality and globalisation are renewed;
4. Lines have blurred between organisations and sectors;
5. The lockdown has accelerated collaborative technologies;
6. Civil society has been rebooted and citizen behaviour may change; and
7. The legacy that still needs to be captured.

Read the full article at:

<https://www2.deloitte.com/uk/en/pages/public-sector/articles/an-emerging-legacy-how-corona-virus-could-change-the-public-sector.html>

Sector developments (continued)

Responding to COVID-19 (continued)

COVID-19: Preparing for the 'next normal'

As the COVID-19 pandemic continues to unfold there is unlikely to be a rapid or decisive transition from crisis to recovery. Organisations are more likely to face a sequence of operational environments that oscillate between restriction and relaxation, before a final end-state of relative normality.

The first phase of COVID-19 response has been characterised by significant and rapid changes in the way people live their lives and how organisations operate. Many of these changes have been government-mandated. The next phase will be an opportunity for organisations to reflect and plan for a period of uncertainty and disruption. During this period businesses will need to maintain their responsibilities to their customers and staff while modifying operations to meet changes in demand and supply as government restrictions change. They will need to ensure that their recovery is sustainable in terms of resource use and flexible enough to meet change.

Copies of this report can be accessed through the following link:

<https://www2.deloitte.com/uk/en/pages/risk/articles/preparing-for-the-next-normal.html>

COVID-19: Impact on the workforce

It's likely that the way we work will be forever changed as a result of COVID-19. All of us are seeking answers to guide the way forward. That's why Deloitte's Global and UK Human Capital practice have produced a series of articles to inform business leaders on their path to respond, recover, and thrive in these uncertain times. These articles explore the impact of COVID-19 on the workforce and are aimed at supporting HR teams as they navigate their organisation's response to the pandemic.

HR leaders, in particular, have been at the centre of their organisation's rapid response to COVID-19, and have been playing a central role in keeping the workforce engaged, productive and resilient. Understandably, recent priorities have been focused almost exclusively on the respond phase. As progress is made against respond efforts, another reality is forming quickly. Now is the time for HR leaders to turn their attention toward recovery to ensure their organisations are prepared to thrive.

The latest thinking from our UK Human Capital practice is "**COVID-19 CHRO Lens: Work, Workforce and Workplace Considerations**". This workbook provides a framework to enable leaders to plan for recovery. It sets out a series of key questions across the dimensions of work, workforce and workplace, enabling organisations to plan for multiple scenarios and time horizons, as they shift from crisis response to recovery.

The workbook can be found at the following link, along with links to other articles which we would encourage you to explore.

<https://www2.deloitte.com/uk/en/pages/human-capital/articles/COVID-19-impact-on-the-workforce-insight-for-hr-teams.html>

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 and 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 Report;
- 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 financial statements.

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 | 23 September 2020

Audit adjustments

Uncorrected misstatements

The following uncorrected misstatements have been identified up to the date of this report. The uncorrected misstatements have no impact on the overall General Fund position.

		Debit/ (credit) CIES £k	Debit/ (credit) MIRS £k	Debit/ (credit) in net assets £k	Debit/ (credit) reserves £k	If applicable, control deficiency identified
Pension Liability – McCloud current service costs	[1]	1.93	(1.93)	(1.93)	1.93	N/A
Total						

[1] As discussed on page 13, the actuary has not made any allowance within the current service costs for the impact of McCloud, therefore does not fully represent the cost of the benefits accruing for current service. The VJB's actuary has estimated that the potential impact of this is a £1.93k understatement of the liability. As the pension liability is fully mitigated by statutory adjustments, this misstatement has no impact on the overall General Fund position.

Action plan

Recommendations for improvement

Area	Recommendation	Management Response	Responsible person	Target Date	Priority
<i>Governance and transparency</i>	The VJB should engage an independent review of its governance framework and the effectiveness of governance within the organisation.	The Board acknowledges this recommendation and will seek to commission a review of its governance arrangements. Any review can only take place following the appointment of substantive Proper Officers to the Board which is the immediate priority for the Board.	Chief Executive – Shetland Islands Council Chief Executive – Orkney Island Council	31/03/2021	High
<i>Governance and transparency</i>	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.	The Board acknowledges this recommendation and commits to provide training to elected members and officers. The Board will seek to progress this recommendation once substantive Proper Officers have been appointed to the Board, which is the Board’s immediate focus. The Board will consider the benefits of addressing this recommendation in parallel with the review of the Board’s governance arrangements, or to progress once the governance review has been concluded.	Chief Executive – Shetland Islands Council Chief Executive – Orkney Island Council	30/06/2021	High
<i>Value for money</i>	The robustness of performance reporting and reporting against Best Value should be improved by clearly setting out historical performance and targets in addition to current performance, to enable monitoring of improvement. Reporting on Best Value should be clearly linked to the themes of Best Value set out in statutory guidance.	The Board acknowledges this recommendation and will seek to incorporate the suggested changes into its regular performance reports.	Assessor	30/06/2021	Medium

Action plan (continued)

Follow up on 2018/19 Action Plan

We have followed up the recommendations made in our previous year reports and note that only 1 of the total 4 recommendations made have been fully implemented. We will continue to monitor the 3 that have not been fully implemented as part of our 2020/21 audit work.

Area	Recommendation	Management Response	Responsible person	Target Date	Priority	2019/20 Update
Financial Sustainability	When developing it's 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.	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.	Section 95 Officer	31/3/2020	High	<p><i>Not implemented:</i> The MTFP has not been revised in the year.</p> <p>Updated management response: The Board is committed to developing its own MTFP, which has been delayed during the last year due to delays in the 2020/21 annual budgeting cycle and the COVID-19 pandemic.</p> <p>The Board has commissioned the development of its own pay and grading model, which may have a considerable impact on the future resource requirements of the Board if approved by the Board. The development of the MTFP will need to factor in the pay and grading model.</p> <p>Updated target date: 30/06/2021</p>

Action plan (continued)

Follow up on 2018/19 Action Plan (continued)

Area	Recommendation	Management Response	Responsible person	Target Date	Priority	2019/20 Update
<i>Financial sustainability</i>	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).	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.	Section 95 Officer	31/3/2020	High	<p><i>Not implemented:</i> There has been no progress in the development of a workforce plan in the year.</p> <p>Updated management response: The Board is committed to developing its own workforce development plan, however the Board consider it prudent to progress this recommendation once the outcome of a new pay and grading model is known, if approved by the Board.</p> <p>Work on the pay and grading model is currently being developed, at pace, by the Board in conjunction with an independent HR consultant.</p> <p>Updated target date: 31/07/2021</p>

Action plan (continued)

Follow up on 2018/19 Action Plan (continued)

Area	Recommendation	Management Response	Responsible person	Target Date	Priority	2019/20 Update
Governance & Transparency	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.	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.	Assessor	31/3/2020	Medium	<p><i>Not implemented:</i> There is no evidence that the VJB has carried out such a review in the year.</p> <p>Updated management response: This recommendation has not been addressed during the year as the Board has been focused on addressing other priorities.</p> <p>The Board acknowledges the new recommendation to undertake a review of its governance arrangements and considers it reasonable to address this recommendation as part of the commitment to review its governance arrangements.</p> <p>Updated target date: 31/3/2021</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 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 or group.

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.

Concerns:

No issues to report.



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

Fees The audit fee for 2019/20, increased from that communicated in our planning paper due to the application of the full wider scope requirements, is £20,198, as analysed below:

	£
Auditor remuneration	19,178
Audit Scotland fixed charges:	
Pooled costs	630
Contribution to PABV	0
Audit support costs	390
Total fee	20,198

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

Non-audit services In our opinion there are no inconsistencies between the FRC's Ethical Standard 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 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.

Quality of public audit in Scotland

Annual report 2018/19

Audit Scotland published its annual assessment of audit quality carried out on the audit work delivered by Audit Scotland and appointed firms. A copy of the full report is available: <https://www.audit-scotland.gov.uk/report/quality-of-public-audit-in-scotland-annual-report-201819>

Public audit in Scotland

Recent high-profile corporate collapses in the private sector have led to considerable scrutiny of the audit profession. The Brydon review is looking into the quality and effectiveness of the UK audit market. The Kingman review, the Competition and Markets Authority market study of the audit services market and the Business, Energy and Industrial Strategy Committee's report on the Future of Audit have all reported on structural weaknesses in the private sector audit regime. The reviews are placing a strong focus on the need for independence of auditors from the bodies they audit.

The public audit model in Scotland is fundamentally different to the private sector audit regime and is well placed to meet the challenges arising from the reviews of the auditing profession. Public audit in Scotland already operates many of the proposed features to reduce threats to auditor independence including:

- independent appointment of auditors by the Auditor General for Scotland and Accounts Commission
- rotation of auditors every five years
- independent fee-setting arrangements and limits on non-audit services
- a comprehensive Audit Quality Framework.

The Audit Scotland Audit Quality and Appointments (AQA) team will continue to develop its activities to provide the Auditor General for Scotland and Accounts Commission with assurance about audit quality. The Audit Quality Framework will be refreshed to take account of the findings from the first two years of its application and to reflect on the developments in the wider audit environment. Further development is planned over the following year to include:

- enhancing stakeholder feedback
- reviewing the structure and transparency of audit quality reporting.

Key messages

The programme of work carried out under the Audit Quality Framework provides evidence of compliance with auditing standards and the Code of audit practice (the Code), together with good levels of qualitative performance and some scope for improvements in audit work delivered in the period 1 April 2018 to 31 March 2019.

Independent external reviews of audit quality carried out by The Institute of Chartered Accountants of Scotland (ICAS) show evidence of compliance with expected standards:

- ICAS did not identify any concerns with audit opinions
- 55 per cent of financial audit files reviewed by ICAS over the last two years were graded as limited improvement required, the remaining reviews were graded as improvement required (*100% of Deloitte files – limited improvement*)
- ICAS noted considerable improvements in the documentation of performance audits and Best Value assurance reports.

Other performance measures showing good performance include:

- 78 per cent of internal reviews of financial audits in the last two years required only limited improvements (*100% of Deloitte internal reviews graded as no improvement required*)
- all audit providers have a strong culture of support for performing high-quality audit
- stakeholder feedback shows audit work has had impact
- non-audit services (NAS) are declining in number and value and requests made complied with the Auditor General for Scotland and Accounts Commission's NAS policy.

AQA monitors progress against areas for improvement. A common area for improvement in the last two years has been the need for better documentation of audit evidence. In 2018/19 further areas for improvement were identified in:

- the use of analytical procedures
- the application of sampling.



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