

## **Item: 10**

**Orkney and Shetland Valuation Joint Board: 27 March 2025.**

**Internal Audit of Budget Setting and Budgetary Control.**

**Report by Chief Internal Auditor.**

### **1. Purpose of Report**

To present the Budget Setting and Budgetary Control Internal Audit Report for Members' scrutiny.

### **2. Recommendations**

**It is recommended:**

#### **2.1.**

That the Board scrutinises the findings of the internal audit reviewing the adequacy of the controls and procedures in place around budget setting and budgetary control, attached as Appendix 1 to this report, in order to obtain assurance that action has been taken or agreed where necessary.

### **3. Background**

#### **3.1.**

Effective budget setting and budgetary control ensures resource availability, helps set and report on internal goals and prioritises the actions necessary to achieve key objectives of the Orkney and Shetland Valuation Joint Board.

#### **3.2.**

The objective of the audit was to obtain assurance that processes and controls around budget setting and budgetary control are operating effectively.

### **4. Audit Findings**

#### **4.1.**

The audit provides substantial assurance that the processes and procedures relating to budget setting and budgetary controls are well controlled and managed.

#### **4.2.**

The internal audit report, attached as Appendix 1 to this report, does not include any recommendations.

## **5. Financial Implications**

There are no financial implications associated directly with this report.

## **6. Governance Aspects**

The content and implications of this report have been reviewed and, at this stage, it is deemed that the Board **DOES NOT** require external legal advice in consideration of the recommendations of this report.

## **7. Contact Officer**

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## **8. Appendix**

Appendix 1: Internal Audit Report: Budget Setting and Budgetary Control.



# Orkney & Shetland Valuation Joint Board



## Internal Audit

### Audit Report

### O&SVJB – Budget Setting and Budgetary Control

Draft issue date: 28 February 2025

Final issue date: 17 March 2025

Distribution list:	O&SVJB Assessor
	O&SVJB Treasurer
	O&SVJB Clerk

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## Audit Opinion

Based on our findings in this review we have given the following audit opinion.

### Substantial

**The framework of governance, risk management and control were found to be comprehensive and effective.**

A key to our audit opinions and level of recommendations is shown at the end of this report.

## Executive Summary

Effective budget setting and budgetary control ensures resource availability, helps set and report on internal goals and prioritises the actions necessary to achieve key objectives of the O&SVJB. The objective of the audit was to obtain reasonable assurance that processes and controls around budget setting and budgetary control are operating effectively.

Our audit has identified that processes and controls around budget setting and budgetary control are operating effectively. Specifically:

- The budget setting process, the relevant deadlines and roles and responsibilities for budget preparation, approval and monitoring are all clearly set out within the O&SVJB's Financial Regulations and Service Plan.
- Budget setting and budget monitoring are undertaken in accordance with the intended processes.
- Officers have a good understanding of the causes of variations from budget and take timely action to address these as appropriate.
- There is clear reporting to the Board throughout the financial year of the performance against budget targets, and regular opportunities for the Board to ask questions on this.

Accordingly, the report includes no recommendations which have arisen from the audit. The assistance provided by officers contacted during this audit is gratefully acknowledged.

## Introduction

The Orkney and Shetland Valuation Joint Board (the Board / O&SVJB) was established in 1996, under The Valuation Joint Boards (Scotland) Order 1995, and its primary purpose is to discharge all the functions of its two constituent authorities, Orkney Islands Council (OIC) and Shetland Islands Council (SIC) as valuation authorities under the Valuation Acts.

The Board is responsible for appointing the Assessor for Orkney and Shetland, an independent statutory official responsible for the preparation and maintenance of the Non-Domestic Rates Valuation Roll and the Council Tax Valuation List. The Assessor has also been appointed as Electoral Registration Officer for both Orkney and Shetland and is, therefore, also responsible for the preparation and maintenance of the Register of Electors or Electoral Roll.

Effective budget setting and budgetary control ensures resource availability, helps set and report on internal goals and prioritises the actions necessary to achieve key objectives of the O&SVJB.

The objective of the audit was to obtain assurance that processes and controls around budget setting and budgetary control are operating effectively, and focussed on the period from 1 April 2024 to date.

This review was conducted in conformance with the Public Sector Internal Audit Standards.

## Audit Scope

The scope of this audit included, but was not limited to, a review of the following:

- Setting and approval of budgets in accordance with the Financial Regulations and Procedures.
- Controlling and monitoring of budgets in accordance with the Financial Regulations and Procedures.
- The quality and availability of information available to management.
- Reporting of variances and resulting actions.
- The process of oversight of the overall financial position by senior management and the Board.

# Audit Findings

## 1.0 Setting and Approval of Budgets

- 1.1 The O&SVJB Budget Planning Process is set out in the O&SVJB Financial Regulations which were approved in June 2024. The Regulations establish that the format of the budget, together with the revenue estimates, information required and prescribed timetable for the budget are determined by the Treasurer.
- 1.2 The steps within the Budget Planning Process are set out within the O&SVJB Service Plan 2023 – 2026 approved in March 2023, at heading 3.9.2 Budget Preparation. This document matches the steps back to the O&SVJB's objectives, sets out the responsibility for, and establishes the deadline date or recurrence for, each of the relevant steps.
- 1.3 The budget covers all areas of revenue income and expenditure, and is calculated initially on a 'standstill' position based on the prior financial year, subject to pay and inflationary pressures. Once a proposed budget has been established, the Treasurer and the Assessor are required to seek approval from the Board. Details of factors involved in budget growth, e.g., staff cost increases to reflect pay settlement awards, increased utility costs etc., are highlighted in the report to the Board.
- 1.4 Audit work confirmed that the process of setting and obtaining approval for the financial year (FY) 2024-25 budget was in accordance with the procedure noted in paras 1.1 to 1.3 above. In addition, controls in place around authorisation of adjustments or virements applied to the budget once approved by the Board appear satisfactory. Since there were no amendments or virements in respect of the FY 2024-25 budgets, these controls could not be tested.
- 1.5 The review of the budget working papers used to arrive at the draft FY 2024-25 budget confirmed that the budget covered all areas of income and expenditure, was prepared based on past financial information and had been prepared using realistic assumptions. In addition, specific known events, e.g. O&SVJB office properties now being subject to non-domestic rates, were suitably reflected within the budget itself.

## No Recommendation

## 2.0 Controlling and Monitoring of Budgets

- 2.1 The Financial Regulations set out the policy and procedures in respect of budget control, including the establishment of the budget management and control framework, and the requirement to submit regular budget monitoring reports.
- 2.2 Following the transfer of the provision of financial services from SIC to OIC with effect from April 2021, there is ongoing interaction with the Finance Service of OIC throughout the financial year. The approved budget is notified to OIC Finance, which issues guidance to the 'Budget Holders', e.g. the 2023/24 Year End Financial Procedures, and the Back to Basics Budget Training. Currently, the Assessor is budget holder for all cost centre codes except those relating to the amounts to be requisitioned from the constituent authorities, where the budget holder is the Treasurer.
- 2.3 Budget Holders receive monthly Cost Centre Statements from OIC Finance, which set out for the component ledger codes the actual expenditure and anticipated expenditure to date (based on the budget and the budget profile selected for those costs). In addition, these reports extrapolate to a year end position of actual and budgeted spend. This system allows

the budget holder to clearly see if expenditure and income is 'on track' with budget expectations.

- 2.4 Audit work confirmed that the process of controlling and monitoring the 24-25 budget was operating satisfactorily.

**No Recommendation**

### **3.0 Data Sources and Financial Monitoring by the Board**

- 3.1 Following the transfer of financial services to OIC, the O&SVJB is able to use OIC's Integra system, which gives an updated statement of expenditure recorded to date. The budget holders can access relevant details within the financial system and drill down into details as required.
- 3.2 The Financial Regulations set out that the Treasurer, in consultation with the Assessor, is responsible for the submission of regular budget monitoring reports to the Board, in a format prescribed by the Treasurer. This is achieved by quarterly Revenue Expenditure Monitoring (REM) reports throughout the financial year, and the Financial Year Outturn report at the end of the year, together with the annual accounts presented to the Board. In these reports, material variances between budgeted and actual expenditure are identified automatically as 'Priority Actions' and highlighted to the Board. The covering report for each quarter sets out what is meant by a material variance, i.e. one where there is:
- Variance of £10,000, and more than 110% or less than 90% of the anticipated position (type 1B), and
  - Not more than 110% or less than 90% of the anticipated position but variance greater than £50,000 (type 1C).
- 3.3 Where material variances are identified in a period, the Board is also provided with a Budget Action Plan setting out any action required to address the variance, together with the Responsible Officer and a deadline.
- 3.4 There were no material variances within the quarterly REM reports for the FY 2024-25 issued to date. As part of the audit we reviewed the REM reports for the FY 2023-24, and confirmed that, where material variances were identified, a Budget Action Plan had been prepared in line with the procedure at para. 3.3 above. In addition, actions to address the cause of the variance had been implemented in a timely manner.

**No Recommendations**

## Key to Opinion and Priorities

### Audit Opinion

Opinion	Definition
<b>Substantial</b>	The framework of governance, risk management and control were found to be comprehensive and effective.
<b>Adequate</b>	Some improvements are required to enhance the effectiveness of the framework of governance, risk management and control.
<b>Limited</b>	There are significant weaknesses in the framework of governance, risk management and control such that it could be or become inadequate and ineffective.
<b>Unsatisfactory</b>	There are fundamental weaknesses in the framework of governance, risk management and control such that it is inadequate and ineffective or is likely to fail.

### Recommendations

Priority	Definition	Action Required
<b>High</b>	Significant weakness in governance, risk management and control that if unresolved exposes the organisation to an unacceptable level of residual risk.	Remedial action must be taken urgently and within an agreed timescale.
<b>Medium</b>	Weakness in governance, risk management and control that if unresolved exposes the organisation to a significant level of residual risk.	Remedial action should be taken at the earliest opportunity and within an agreed timescale.
<b>Low</b>	Scope for improvement in governance, risk management and control.	Remedial action should be prioritised and undertaken within an agreed timescale.