



Ayrshire Valuation Joint Board

2015/16 Annual audit
report to Members and
the Controller of Audit

September 2016

Key contacts

Dave Richardson, Senior Audit Manager
drichardson@audit-scotland.gov.uk

Alan MacKenzie, Auditor
amackenzie@audit-scotland.gov.uk

Audit Scotland
4th floor (South Suite)
The Athenaeum Building
8 Nelson Mandela Place
Glasgow
G2 1BT

Telephone: 0131 625 1500

Website: www.audit-scotland.gov.uk

The Accounts Commission is a statutory body which appoints external auditors to Scottish local government bodies (www.audit-scotland.gov.uk/about/ac/). Audit Scotland is a statutory body which provides audit services to the Accounts Commission and the Auditor General (www.audit-scotland.gov.uk/about/).

The Accounts Commission has appointed Dave Richardson as the external auditor of Ayrshire Valuation Joint Board for the period 2011/12 to 2015/16.

This report has been prepared for the use of Ayrshire Valuation Joint Board and no responsibility to any member or officer in their individual capacity or any third party is accepted.

The information in this report may be used for the Accounts Commission's annual overview report on local authority audits published on its website and presented to the Local Government and Regeneration Committee of the Scottish Parliament.

Contents

Key messages	3
Introduction	4
Audit of the 2015/16 financial statements.....	5
Financial management and sustainability	9
Governance and transparency	13
Best Value.....	15
Appendix I: Significant audit risks	17
Appendix II: Summary of local audit reports 2015/16	19
Appendix III: Action plan.....	20

Key messages

Audit of financial statements

- Unqualified independent auditor's report on the 2015/16 financial statements.

Financial management and sustainability

- The Board has sound financial management arrangements in place.
- The Board is sustainable currently and in the foreseeable future although the reduction in funding from constituent authorities will place a strain on the Board's capacity to deliver services at the current levels.

Governance and transparency

- The Board has sound governance arrangements in place.
- Systems of internal control operated effectively.
- Minutes and papers for meetings of the Board are available on its website.

Best Value

- The Board has a formal framework in place for monitoring and reporting against key performance indicators.
- In 2015/16 the Board reported a continuing trend of improved performance.

Outlook

- There is little prospect of relief from the funding pressures faced by the Board. However, the Board's strong reserves position provides a good foundation to continue to deliver its services whilst modernising systems and processes.

Introduction

1. This report is a summary of our findings arising from the 2015/16 audit of Ayrshire Valuation Joint Board. The report is divided into sections which reflect our public sector audit model.
2. The management of Ayrshire Valuation Joint Board is responsible for:
 - preparing financial statements which give a true and fair view
 - implementing appropriate internal control systems
 - putting in place proper arrangements for the conduct of its affairs
 - ensuring that the financial position is soundly based.
3. Our responsibility, as the external auditor of Ayrshire Valuation Joint Board, is to undertake our audit in accordance with International Standards on Auditing, the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011 and the ethical standards issued by the Auditing Practices Board.
4. An audit of financial statements is not designed to identify all matters that may be relevant to those charged with governance. It is the auditor's responsibility to form and express an opinion on the financial statements; this does not relieve management of their responsibility for the preparation of financial statements which give a true and fair view.
5. Plans and reports were issued during the course of the year. These are summarised at [appendix II](#).
6. [Appendix III](#) is an action plan setting out our recommendations to address the high level risks we have identified during the course of the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "Management action/response". We recognise that not all risks can be eliminated or even minimised. What is important is that Ayrshire Valuation Joint Board understands its risks and has arrangements in place to manage these risks. The Board and executive officers should ensure that they are satisfied with proposed action and have a mechanism in place to assess progress and monitor outcomes.
7. We have included in this report only those matters that have come to our attention as a result of our normal audit procedures; consequently, our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.
8. The cooperation and assistance afforded to the audit team during the course of the audit is gratefully acknowledged.

Audit of the 2015/16 financial statements

Audit opinion	<ul style="list-style-type: none"> We have completed our audit and issued an unqualified independent auditor’s report.
Going concern	<ul style="list-style-type: none"> The financial statements of the Board have been prepared on the going concern basis. We are unaware of any events or conditions that may cast significant doubt on the Board’s ability to continue as a going concern.
Other information	<ul style="list-style-type: none"> We review and report on other information published with the financial statements, including the management commentary, the annual governance statement and the remuneration report. We have nothing to report in respect of these statements.

Submission of financial statements for audit

- We received the unaudited annual accounts on 24 May 2016. The working papers were of a good standard and staff provided good support to the audit team which contributed to the completion of the audit to deadline.

Overview of the scope of the audit of the financial statements

- Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined in our Annual Audit Plan presented to the Board on 10 March 2016.

- As part of the requirement to provide full and fair disclosure of matters relating to our independence, we can confirm that we have not undertaken non-audit related services or any work additional to our planned audit activity. The 2015/16 agreed fee, set out in the Annual Audit Plan, is unchanged.
- The concept of audit risk is of central importance to our audit approach. During the planning stage of our audit we identified a number of key audit risks which involved the highest level of judgement and impact on the financial statements and consequently had the greatest effect on the audit strategy, resources and activity. We set out in our Annual Audit Plan the audit work we proposed to undertake to secure appropriate levels of assurance. [Appendix I](#) sets out the significant audit risks

identified during the course of the audit and how we addressed each risk in arriving at our opinion on the financial statements.

13. Our audit involved obtaining evidence about the amounts and disclosures in the annual accounts sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.

Materiality

14. Materiality can be defined as the maximum amount by which auditors believe the financial statements could be misstated and still not be expected to affect the perceptions and decisions of users of financial statements. A misstatement or omission, which would not normally be regarded as material by amount, may be important for other reasons (for example, an item contrary to law).
15. We consider materiality and its relationship with audit risk when planning the nature, timing and extent of our audit and conducting our audit programme. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.
16. We summarised our approach to materiality in our Annual Audit Plan. Based on our knowledge and understanding of Ayrshire Valuation Joint Board we set our planning materiality for 2015/16 at £23,000 (1% of gross expenditure). We report all misstatements greater than £1,000. Performance materiality was calculated at £11,000, to reduce to an acceptable level the

probability of uncorrected and undetected audit differences exceeding our planning materiality level.

17. On receipt of the financial statements and following completion of audit testing we reviewed our materiality levels and concluded that our original calculation remained appropriate.

Evaluation of misstatements

18. All misstatements identified during the audit, which exceeded our misstatement threshold, have been amended in the financial statements.
19. A number of presentational and monetary adjustments were identified within the annual accounts during the course of our audit. These were discussed with relevant officers who agreed to amend the unaudited annual accounts. The effect of the monetary adjustments is to increase the short-term creditors balance by £13,993, with a corresponding increase to the cash and cash equivalents.

Significant findings from the audit

20. International Standard on Auditing 260 requires us to communicate to you significant findings from the audit, including:
 - The auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures.
 - Significant difficulties encountered during the audit.

- Significant matters arising from the audit that were discussed, or subject to correspondence with management.
 - Written representations requested by the auditor.
 - Other matters which in the auditor's professional judgment, are significant to the oversight of the financial reporting process.
21. With the exception of pension liabilities, there are no matters, other than those set out elsewhere in this report, to which we wish to draw your attention.

Pension liability

22. Ayrshire Valuation Joint Board is a member of Strathclyde Pension Fund. The valuation of pension fund assets and liabilities is assessed by professional actuaries each year and is dependent on a number of external variables, including; projected rates of return on assets, interest rates and mortality estimates. As required by international accounting standards an estimate of the Board's share of the net liabilities of the pension fund has been recognised on the balance sheet.
23. The net pension liability represents the difference between expected future payments to pensioners and the projected value of pension fund assets available to meet this cost.
24. At 31 March 2016 the Board's estimated pension liability stood at £0.421 million compared to £1.864 million at 31 March 2015.
25. Hymans Robertson LLP, the pension fund actuary, has indicated that the variable which had the greatest impact on the calculation

of the 31 March 2016 liability was the increase in the discount rate applied to investments. The discount rate is the rate which is used to calculate future returns on pension fund assets.

26. In-year payments made to the pension fund by the Board comprise employer and employee contributions. At the last triennial valuation (31st March 2014) the Strathclyde Pension Fund was 94.3% funded and had assets of £15.8 billion. The pension fund has a funding strategy in place to address the deficit.

Future accounting and auditing developments

Audit appointment for 2016/17

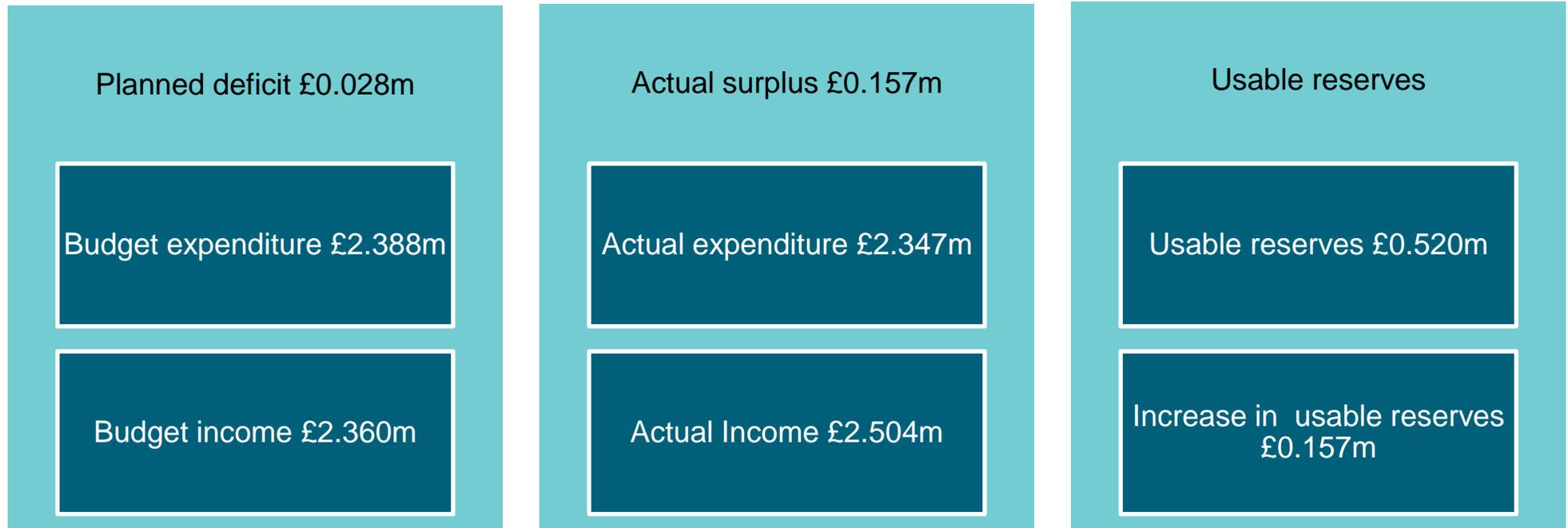
27. The Accounts Commission is responsible for the appointment of external auditors to Scottish local government bodies. External auditors are appointed, for a five year term, either from Audit Scotland's Audit Services Group or private firms of accountants. The financial year 2015/16 is the last year of the current audit appointment and we would like to thank members, executive officers and staff for their assistance during the last five years.
28. The procurement process for the five year period commencing 2016/17 was completed in March 2016. For 2016/17 and the succeeding four years Deloitte LLP will be the appointed auditor to the Ayrshire Valuation Joint Board.

Code of Audit Practice

29. A new Code of Audit Practice applies to public sector audits for financial years starting on or after 1 April 2016. It replaces the Code issued in May 2011. It outlines the objectives and principles to be followed by auditors. It is part of the overall framework for the conduct of public audit in Scotland.
30. The new Code increases the transparency of our work by making more audit outputs available on Audit Scotland's website. Presently only annual audit reports are published on Audit Scotland's website. In future, for all audited bodies, Audit Scotland will publish all annual audit plans and other significant

audit outputs, irrespective of whether the body meets in public or makes documents such as audit committee papers routinely available on its own website.

Financial management and sustainability



Financial management

31. In this section we comment on the Board's financial outcomes and assess its financial management arrangements.
32. The Board sets an annual budget to meet its service and other commitments for the forthcoming financial year. Regular

monitoring of expenditure and income against agreed budgets is central to effective financial management.

Financial outcomes

33. The Board's budget for 2015/16 was set on the basis of gross expenditure of £2.388 million and income of £2.360 million, the

deficit of £0.028 million to be funded from general reserves. Actual income (£2.504 million) exceeded expenditure (£2.347 million) by £0.157 million. The total unanticipated surplus was therefore £0.185 million.

34. During 2015 /16 the Board had to undertake a significant amount of extra statutory work in relation to individual electoral registration (IER). At the start of the financial year it was not clear how much, if any, additional central funding would be made available to the Board to complete this work. During the year management action was taken to cut back on core activity expenditure to ensure that adequate funding was available for statutory IER activities.
35. An unanticipated late (March 2016) allocation of funding from the Cabinet Office of £124,000 offset actual IER expenditure incurred during the year. The result of this was to produce an underspend against core activities. The most significant variances from the 2015/16 budget were as follows:

Underspend salary costs	£0.124 million
Underspend postage costs	£0.046 million
Overspend overtime	£0.041 million

On the face of it the results for 2015/16 continue the trend of recent years of underspending against budget. However, in view of the circumstances, and making adjustments for the IER funded work, the Board have in fact delivered a much improved budget v actual outturn on its activities for 2015/16.

Financial management arrangements

36. As public sector auditors, we need to consider whether audited bodies have established adequate financial management arrangements. We do this by considering a number of factors, including whether:
- reports monitoring performance against budgets are accurate and provided regularly to the Board
 - monitoring reports do not just contain financial data but are linked to information about performance
 - members provide a good level of challenge and question significant variances from budget.
37. Financial monitoring reports are presented to each meeting of the Board. Reports are comprehensive and well laid out. Significant variances from budget are explained in terms of the impact on year end financial position. Although budget monitoring reports do not contain service performance information, separate performance information reports are presented at each board meeting.
38. We attend a number of board meetings each year. Members of the Board provide a good level of challenge on significant variances and service performance issues.

Conclusion on financial management

39. We have concluded that the Board's financial management arrangements are broadly satisfactory; however, continued

unplanned budget surpluses have significantly contributed to the level of reserves.

Financial sustainability

40. Financial sustainability is concerned with whether the Board has the capacity to meet the current and future needs of its stakeholders.
41. In assessing financial sustainability we are concerned with whether:
 - there is an adequate level of reserves
 - spending is being balanced with income in the short term
 - long term financial pressures are understood and planned for
 - investment in services and assets is effective.
42. Effective long-term financial planning, asset management and workforce planning are crucial to sustainability.
43. The Board had prepared a 3 year budget covering the period 2013/14 to 2016/17. This has not been updated beyond the current financial year. In common with the constituent councils, one of the challenges for the Board is the short term financial planning cycle of the Scottish Government and the resulting difficulty in preparing medium to long term funding strategies to address work programmes and priorities. While this is an obstacle to precise financial planning the Board should take steps to prepare a further 3-5 year rolling budget using what

information is available and incorporating sensitivity analysis and scenario planning.

Recommendation 1

44. The Board approved a modernisation and transformation programme in 2014/15 setting out future asset and resourcing requirements, including proposals for improved IT systems and office accommodation. While the Board have identified expenditure of a capital nature which will be undertaken, no capital programme has been prepared to set out funding requirements and funding sources. The preparation of capital budgets will assist in delivering on the objectives of the modernisation and transformation programme.

Recommendation 2

Reserves

45. The principal purpose of holding a reserve is to provide a contingency fund to meet unexpected events and as a working balance to help cushion the impact of uneven cash flows.

Exhibit 1: Usable reserves

Description	31 March	31 March	31 March
	2014	2015	2016
	£ million	£ million	£ million
General fund	0.201	0.361	0.518
Capital fund	0.003	0.003	0.003

Description	31 March 2014 £ million	31 March 2015 £ million	31 March 2016 £ million
Total usable reserves	0.204	0.364	0.521
% Gross Expenditure	8.9%	15.8%	22.2%

Source: Ayrshire Valuation Joint Board financial statements

- 46. The overall level of usable reserves held by the Board has increased by £0.157 million to £0.521 million, exhibit 1. This represents 22% of budgeted expenditure.
- 47. The reserves position is largely the result of an accumulation of unplanned surpluses in recent years.
- 48. The budget presented to the Board in March 2016 included a planned contribution from reserves of £0.151 million for 2016/17.
- 49. The Board agreed during the year that reserves should be retained until the modernisation and transformation programme is complete.

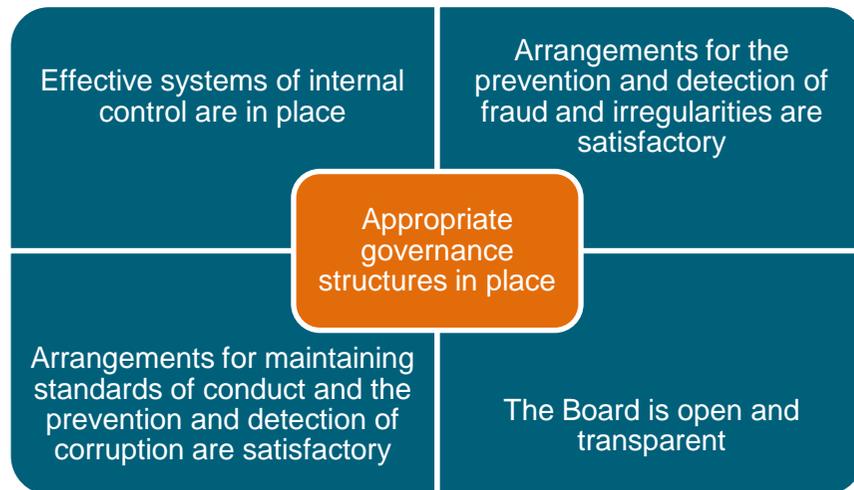
Conclusion on financial sustainability

- 50. Overall we conclude that the financial position is sustainable currently and in the foreseeable future.

Outlook

- 51. In common with the constituent authorities, the Board faces continuing financial challenges. Increased costs and real terms reductions in contributions will continue to place a strain on the Board's capacity to deliver services at the current levels.

Governance and transparency



52. Members and management of the Board are responsible for establishing arrangements to ensure that its business is conducted in accordance with the law and proper standards, that public money is safeguarded and for monitoring the adequacy and effectiveness of these arrangements.
53. Based on our observations and audit work performed during 2015/16, we concluded that the Board has effective overarching and supporting governance arrangements which provide an appropriate framework for organisational decision-making.

Governance and internal control

Internal control

54. South Ayrshire Council, as host authority, provides support in some key areas of business, particularly in finance, legal and information technology.
55. As part of our audit we reviewed the high level controls in a number of the systems used by South Ayrshire Council for the processing and recording of transactions and the preparation of the financial statements of the Board.
56. Our overall conclusion was that the key controls within the council's main financial systems were operating satisfactorily, and no significant risks were identified.

Internal audit

57. Internal audit is an important element of the Ayrshire Valuation Board's governance structure. Internal audit is provided by the host authority, South Ayrshire Council.
58. Our review of internal audit concluded that the internal audit service operates largely in accordance with the Public Sector Internal Audit Standards and has sound documentation standards and reporting procedures in place.

Arrangements for the prevention and detection of fraud

59. The Board updated the Code of Conduct in November 2015, revised the Fraud, Financial Regulations and Standing Order procedures and introduced a new anti-fraud and anti-bribery strategy.
60. The Board continues to participate in the National Fraud Initiative (NFI) through South Ayrshire Council. The NFI uses electronic data analysis techniques to compare information held on individuals by different public sector bodies and different financial systems, to identify data matches that might indicate the existence of fraud or error. No matches have been identified from the current exercise.
61. The Board's arrangements in relation to the prevention and detection of fraud and irregularities were satisfactory.

Arrangements for maintaining standards of conduct and the prevention and detection of corruption

62. The arrangements for maintaining standards of conduct and the prevention and detection of corruption in the Board are satisfactory and we are not aware of any specific issues that we need to record in this report.

Transparency

63. The public should be able to hold the Board to account for the services it provides. Transparency means that the public has ready access to understandable, relevant and timely information

about how the Board is taking decisions and how it is using its resources.

64. Minutes from each of the meetings along with reports presented for consideration by the Board are published on the website.
65. Information available from the Board website includes:
 - Financial statements
 - Budget monitoring reports
 - Annual performance report
 - Access to non-domestic rates, council tax and electoral registration processes.
66. The Board website lists members by council area and ward. Members' interests information is not displayed on the website. Management have agreed that links to individual council registers of interest will be provided on the Board website.
67. Overall, we concluded that the Board is open and transparent.

Outlook

68. Local government bodies continue to operate in a changing environment within continuing financial constraints. Under these circumstances organisations will be obliged to consider the delivery of services by different means. Good governance will be particularly important to ensure that the quality of service delivery is maintained at an acceptable level.

Best Value

- 69. Local government bodies, including boards, have a statutory duty to provide best value in the services they provide.
- 70. The Board should have systems and processes to ensure that it can demonstrate that it is delivering best value by assessing and reporting on the economy, efficiency, effectiveness and equality in service provision.

Best Value audit

- 71. No specific work was required or undertaken at the Ayrshire Valuation Joint Board during 2015/16.

Public performance reporting

- 72. The Board publishes an annual performance report, which is available from its website.

Overview of performance in 2015/16

- 73. The Board successfully achieved a number of targets during the year, including:
 - Completion of first full individual electoral registration canvass and the issue of household enquiry forms.
 - Successful delivery of UK Parliamentary election in June 2015.

- Non-domestic rates revaluation 2010 appeal process completed, with only a small number of appeals outstanding.
- Submitted records management plans for approval to Keeper of Records of Scotland.
- Improvement sustained on key performance indicators.

Performance indicators

- 74. The Accounts Commission places great emphasis on local government bodies' responsibility for public performance reporting. The Commission does not prescribe how they should report but expects them to provide citizens with fair, balanced and engaging performance information reporting.
- 75. Service performance is measured by standard performance indicators agreed between that Scottish Government and the Scottish Assessors' Association.
- 76. Performance indicators for both council tax additions (exhibit 2) and non-domestic rates additions (exhibit 3) have again shown considerable improvement from previous years. The Board is now operating at the same level as comparator boards.

Sickness absence

- 77. Our previous annual audit reports have included comment on the Board's levels of sickness absence, long term absences were a particular challenge for the Board. It is appropriate to note that

the Board has, not only continued the trend of reducing sickness absence, but achieved a substantial reduction during 2015/16.

funding gaps become increasingly difficult, the Board will have to focus on making the very best use of all available resources and to challenge existing ways of doing things.

Exhibit 2: Comparison of performance – Council tax additions

Council Tax - New houses added				
	Board A	Board B	AVJB	AVJB
	2015/16	2015/16	2014/15	2015/16
Achievement	%	%	%	%
Within 3 months	97	97	88	95
Within 6 months	98	99	99	99
Targets				
Within 3 months	95	95	80	90
Within 6 months	99.5	98	95	95

Source: Valuation boards' published performance data

Exhibit 3: Comparison of performance – Non-domestic rates

Non-domestic rates - Alterations to the valuation roll				
	Board A	Board B	AVJB	AVJB
	2015/16	2015/16	2014/15	2015/16
Achievement	%	%	%	%
Within 3 months	88	82	67	81
Within 6 months	92	95	84	95
Targets				
Within 3 months	80	80	70	75
Within 6 months	95	94	90	95

Source: Valuation boards' published performance data

Outlook

78. In common with other public sector organisations, the Board faces the key challenges of reducing budgets and the public expectation of high quality services. Savings have been made in recent years largely by restructuring the senior management team and workforce. However, as choices on how to address

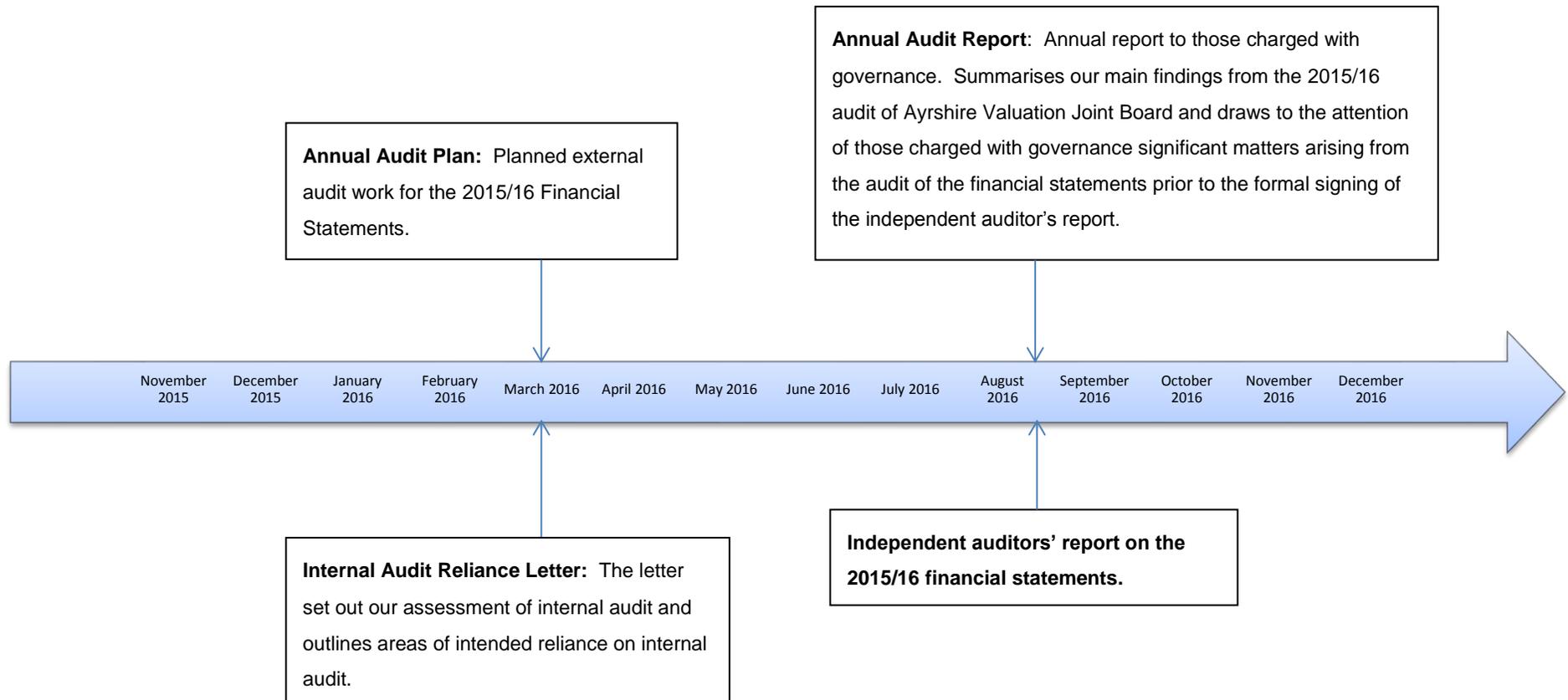
Appendix I: Significant audit risks

The table below sets out the financial statement audit risks we identified during the course of the audit and how we addressed each risk in arriving at our opinion on the financial statements.

Audit Risk	Assurance procedure	Results and conclusions
Risk of material misstatement		
<p>Risk of management override of control</p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit.</p> <p>Risk</p> <p>Management's ability to manipulate accounting records and prepare fraudulent or biased financial statements by overriding controls that otherwise appear to be operating effectively.</p>	<ul style="list-style-type: none"> • Detailed testing of journal entries • Review of accounting estimates. • Evaluating significant transactions that are outside the normal course of business. • Focused testing of accruals and prepayments. 	<ul style="list-style-type: none"> • We did not identify any issues regarding the potential for management override of controls.
<p>Financial sustainability</p> <p>The board has been operating with a standstill budget since 2011/12, effectively a real terms cut to resources.</p> <p>Risk</p> <p>The board cannot deliver to the expectations of constituent councils and the public.</p>	<ul style="list-style-type: none"> • Assurance of funding commitment from constituent authorities. 	<ul style="list-style-type: none"> • Review of budget monitoring reports confirms financial sustainability in the short term. • The Board increased its reserves in 2015/16.

Audit Risk	Assurance procedure	Results and conclusions
<p>Pension liability</p> <p>The figures for the accounts are prepared by the actuary based on the information provided by the board.</p> <p>Risk</p> <p>If the information does not accurately reflect the year end position in terms of staff numbers, staff severances etc, there is a risk that the figures included in the accounts are materially mis-stated.</p>	<ul style="list-style-type: none"> • Reviewed Actuarial report. . 	<ul style="list-style-type: none"> • Confirmed disclosures in the financial statements to the IAS 19 report from the scheme actuary • Confirmed details provided to the scheme actuary are accurate

Appendix II: Summary of local audit reports 2015/16



Appendix III: Action plan

No. Page/para	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
1 10/42	<p>Medium/Long Term Financial Planning</p> <p>2016/17 is the final year of a 3 year budget plan.</p> <p>Risk</p> <p>The financial risks facing the Board over the medium to longer term are not understood.</p> <p>Recommendation</p> <p>The Board should prepare financial plans covering the medium to long term.</p>	An indicative medium term financial plan will be incorporated within the 2017/18 budget setting process using available information and a scenario planning approach.	Assessor/ Treasurer	March 2017
2 11/43	<p>Capital programme</p> <p>There is no capital programme to support the Board's modernisation and transformation programme.</p> <p>Risk</p> <p>Monitoring and scrutiny of delivery of the modernisation and transformation programme by members and executive officers is impeded.</p> <p>Recommendation</p> <p>The Board should prepare a capital programme setting out capital expenditure and funding sources over the medium to long term.</p>	As part of its reserves strategy, potential capital investment programmes will be considered by the Board. Where approved, this will translate into an appropriately funded capital programme.	Assessor/ Treasurer	March 2017

No. Page/para	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date