



Ayrshire Valuation Joint Board

Annual report on the 2013/14 audit

Prepared for the members of Ayrshire Valuation Joint Board and the Controller of Audit

October 2014



Contents

Key messages	3
Introduction	4
Financial statements	6
Financial position	8
Governance and accountability	10
Best Value, use of resources and performance.....	12
Appendix I – Significant audit risks.....	16

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)
8 Nelson Mandela Place
Glasgow
G2 1BT

Telephone: 0131 625 1500

Website: www.audit-scotland.gov.uk

Key messages

Financial statements

- Unqualified auditor's report on the 2013/14 financial statements.

Financial position

- Net underspend against budget of £0.050 million for the year
- The general fund balance has reduced by £0.018 million to £0.201million

Governance and accountability

- The board had sound governance arrangements in place.
- Systems of internal control operated effectively during the year.

Best Value, use of resources and performance

- The board has a formal framework in place for monitoring and reporting performance.
- In 2013/14 the board improved on its key performance indicators.

Outlook

- The board continues to operate in a funding environment which is subject to sustained pressure to deliver more with less. Effective arrangements for Best Value will be essential for efficient use of available resources, and strong governance and leadership will be needed to achieve continuous improvement.

Introduction

1. This report is a summary of our findings arising from the 2013/14 audit of Ayrshire Valuation Joint Board. The purpose of the annual audit report is to summarise the auditor's opinions and conclusions, and to report any significant issues arising from the audit.
2. The report also reflects our overall responsibility to carry out an audit in accordance with the public sector audit model which is based on the Code of Audit Practice issued by Audit Scotland (May 2011). This sets out the wider dimensions of the public sector audit which involves not only the audit of the financial statements but also consideration of areas such as financial performance and corporate governance.
3. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined in the Annual Audit Plan presented to the Ayrshire Valuation Joint Board on 11 March 2014 and follow the requirements of the Code of Audit Practice.
4. 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. The 2013/14 agreed fee for the audit was disclosed in the Annual Audit Plan and, as it was not necessary to carry out any work additional to our planned audit activity, this fee remains unchanged.
5. Our responsibility, as the external auditor of Ayrshire Valuation Joint Board, is to undertake our audit in accordance with International Standards on Auditing (UK and Ireland) and the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011.
6. 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.
7. This report is addressed to the members of Ayrshire Valuation Joint Board and the Controller of Audit and should form the basis of discussions with the board as soon as possible after it has been issued. Reports should be made available to stakeholders and the public, as audit is an essential element of accountability and the process of public reporting.
8. This report will be published on our website after it has been considered by the board.
9. The concept of audit risk is of key importance to the audit process. During the planning stage of our audit we identified a

Introduction

number of key audit risks which involved the highest level of judgement and impact on the financial statements. We set out in our annual audit plan the related source of assurances and the audit work we proposed to undertake to secure appropriate levels of assurance. **Appendix I** sets out the significant audit risks identified at the planning stage and how we addressed each risk in arriving at our opinion on the financial statements.

10. We have identified no issues which warrant an action plan point as members and officers are already taking action to address the issues we have recorded in this report.
11. 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.
12. The cooperation and assistance afforded to the audit team during the course of the audit is gratefully acknowledged.

Financial statements

Audit opinion

13. We have given an unqualified opinion that the financial statements of Ayrshire Valuation Joint Board for 2013/14 give a true and fair view of the state of the affairs of the board as at 31 March 2014 and of the income and expenditure for the year then ended.

Other information published with the financial statements

14. Auditors review and report on other information published with the financial statements, including the explanatory foreword and the remuneration report. We have nothing to report in respect of these statements.

Legality

15. We considered the legality of the board's business by way of a range of procedures, including the review of board papers and minutes, sample testing of transactions and obtaining written assurances from the Treasurer. There are no legality issues arising from our audit which require to be reported.

Accounting issues arising

Presentational and monetary adjustments

16. A number of presentational and monetary adjustments were identified in the financial statements during the course of our audit. These were discussed with the Treasurer who agreed to amend the unaudited financial statements. The effect of these adjustments was to increase expenditure and decrease net assets by £0.002 million as a result of an error in the accrual of holiday pay.
17. There were no unadjusted errors identified during the course of the audit.

Report to those charged with governance

18. We presented to the board, on 23 September 2014, our report to those charged with governance (ISA 260). The primary purpose of that report is to communicate the significant findings arising from our audit prior to finalisation of the independent auditor's report. There were no significant findings to report.

Outlook

19. The financial statements of the board are prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom (the Code). The main new standards adopted in 2014/15 are unlikely to have any effect on the preparation of the financial statements of the board.

Financial statements

20. The revised Local Authority Accounts (Scotland) Regulations 2014 apply for financial years 2014/15 onwards. The regulations set out in more detail what is required in respect of financial management and internal control, and in respect of the annual financial statements. While the board is currently mostly compliant with the amended regulations consideration will need to be given to the regulations to ensure full compliance in 2014/15.

Financial position

21. The board's budget for 2013/14 was set on the basis of gross expenditure of £2.297 million and income of £2.229 million leaving £0.068 million to be funded from reserves. Actual expenditure (£2.264 million exceeded) income (£2.246 million) by £0.018 million resulting in a net underspend of £0.050 million for the year.
22. The most significant variances from budget were:
 - £0.118 million underspend as a result of long term sick leave and the resignation of the previous Assessor early in the financial year
 - £0.031 million overspend on payments to other bodies of as a result of engaging external experts as part of the valuation appeals process
 - £0.047 million overspend other costs, resulting, in the main from extra canvassing costs.
23. Expenditure variances were offset, to a degree, by extra income generated from requests for electoral roll data (£0.008 million) and government grant (£0.010 million) towards the Scottish Assessors' portal costs.
24. The overall level of usable reserves held by the board have remained at a similar level over the past three years, exhibit 1.

Exhibit 1: Reserve balances

Description	31 March 2012	31 March 2013	31 March 2014
	£ million	£ million	£million
General Fund	0.210	0.219	0.201
Capital Reserve Fund	0.003	0.003	0.003
Total Usable Reserves	0.213	0.222	0.204

Source: Ayrshire Valuation Joint Board financial statements

25. Reserves remain in excess of the CIPFA best practice guidance of 2%-4% of revenue expenditure. The three year budget proposals recognise the need to draw on reserves in year 3 to meet the cost of the additional resources required for the 2017 non-domestic rates revaluation.
26. In January 2014 the board approved its budget for 2014/15 and the two years to 2016/17. The net expenditure budget set for 2014/15 is £ 2.228 million. This represents a real terms decrease of around 12% since the contributions from constituent authorities were frozen.
27. Over the next 2 years, the board plans to increase reserves by £ 0.130million. Reserves will be used to address the funding

Financial position

gap between the contributions from the constituent authorities and the cost of delivering the valuation board's services, particularly in respect of the revaluation exercise, in 2017.

Outlook

28. The board continues to operate in a funding environment which is subject to sustained pressure to deliver more with less. The level of flexibility within expenditure budgets is considerably reduced through the real terms reduction in funding as a result of the freeze on constituent authority contributions. Inevitably there will be a tension between the funding available and the level of service expectation. The board and its constituent councils will have to make challenging decisions on the level of service delivery they are prepared to accept and the amount of funding they are prepared to make available.
29. The board is also undergoing a restructuring exercise which aims to reduce management positions and release funding to provide additional operational staff. This has been necessary to meet the demands of the recent non-domestic rates revaluation appeal process, the additional workloads as a result of the Scottish referendum and the introduction of individual electoral registration.

Governance and accountability

30. The board and management are responsible for establishing arrangements for ensuring the proper conduct of the affairs of Ayrshire Valuation Joint Board and for monitoring the adequacy and effectiveness of these arrangements.
31. Based on our observations and audit work carried out during 2013/14 our overall conclusion is that the governance arrangements within the board have operated effectively throughout the year. At each meeting of the board a number of standing reports are submitted which update progress on key aspects of governance and performance.

Internal control

32. South Ayrshire Council, as host authority, provides support in some key areas of business, particularly in finance, legal and information technology.
33. As part of our audit we reviewed the high level controls in a number of the systems administered by South Ayrshire Council that impacted on the financial statements of the board.
34. 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

35. Internal audit is an important element of the Ayrshire Valuation Joint Board's governance structure. Internal audit is provided by the host authority, South Ayrshire Council.
36. 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

37. The board's arrangements in relation to the prevention and detection of fraud and irregularities were satisfactory.
38. Ayrshire Valuation Joint Board participates in the National Fraud Initiative (NFI). 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. The most recent exercise produced no matches. A new round of NFI matching will commence shortly.

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

39. 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.

Correspondence referred to the auditor by Audit Scotland

40. No correspondence was received.

Best Value, use of resources and performance

41. Local authorities, including joint boards, have a statutory duty to provide best value in the services they provide.

Arrangements for securing Best Value

42. No specific work was undertaken at the board during 2013//14.
43. The board publishes an annual performance report, which is available on its website.

Use of resources

Service plan

44. An improved three year service plan was approved by the board in May 2014. The service plan incorporates a number of key areas previously absent from the board's service plan.

Sections on:

- Corporate Governance
- Accountability
- Best Value

- Equal opportunities
- Staffing
- Finance and budgeting
- Information technology
- Freedom of information

Part three of the service plan includes a comprehensive “Key Activities and Outcomes” matrix.

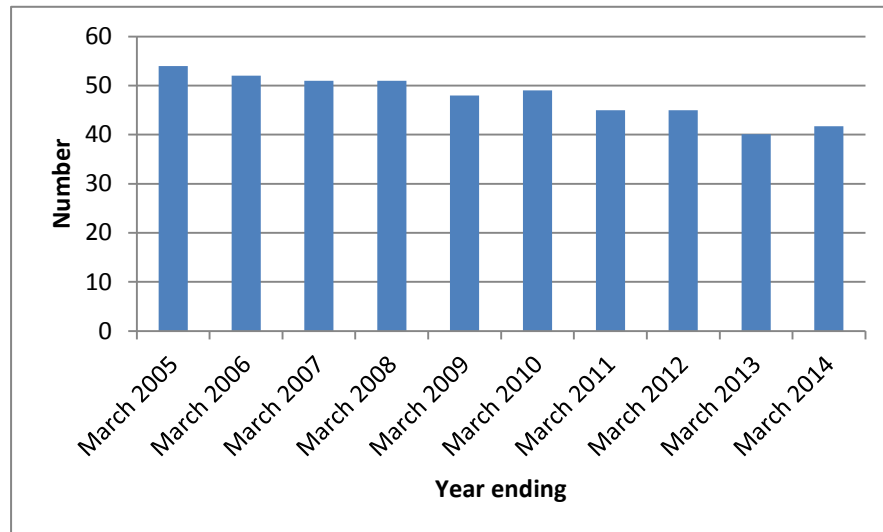
Workforce planning and management

45. The board approved a workforce plan in March 2014. The plan identifies the areas which have been improved and those which require improvement to meet the needs and aspirations of all stakeholders over the coming years.
46. The board's short term absence statistics exhibit a clear and consistent downward trend over the past six years. Long term absence remains a challenge for the board. To tackle the issues management have gained access to South Ayrshire Council's Healthy Working Lives Team and have adapted the council's Maximising Attendance at Work framework for use by the board.
47. The number of whole time equivalent staff employed by the board has decreased by some 23% from 54 (31 March 2005) to 41.71 (31 March 2014), exhibit 2. The reduction in staff costs has been the main element in achieving a reduced budget and consequent freezing of contributions by constituent councils.

Best value, use of resources and performance

The Assessor and board should assure themselves that the current staffing levels are adequate to deliver the boards services.

Exhibit 2: Ten year staffing level trend



Source: Ayrshire Valuation Joint Board data

Performance

48. The board successfully achieved a number of targets during the year, including:
- completion and publication of the electoral registers by 10 March 2014
 - absent voter refresh completed

- successful delivery of East Ayrshire by-election
- 2010 Non-Domestic Rates Revaluation Appeal process has been largely completed.

49. The Electoral Commission assessment of the board's performance, for 2013, in relation to household registration standards concluded that the board was performing above the standard in four measures and meeting the standard for the remaining six measures.
50. The management team has responsibility for performance management. A number of improvement actions have /are to be taken which will assist in delivering the best use of resources, including:
- a refreshed three year service plan
 - communications strategy
 - workload management system
 - review of the electoral management system.
51. Appropriate performance monitoring arrangements were in place within the board during 2013/14.

Overview of performance targets in 2013/14

52. Performance, as measured by standard performance indicators has improved over 2012/13. The performance indicators, agreed between the Scottish Government and the Scottish Assessors' Association, do not incorporate financial data. The

Best value, use of resources and performance

absence of the financial component does not permit the unit cost of activities to be compared. Subject to this limitation, exhibits 3 and 4 set out the standard performance measures comparing performance to two similar valuation boards and to the previous year.

Exhibit 3: Comparison of performance – council tax additions

Council Tax - New houses added				
	Board A 2013/14	Board B 2013/14	AVJB 2012/13	AVJB 2013/14
Achievement	%	%	%	%
Within 3 months	99	95	69	79
Within 6 months	100	98	89	92
Targets				
Within 3 months	95	93	70	60
Within 6 months	99.5	98	90	85

Source: Valuation boards' published performance data

Exhibit 4: Comparison of performance – non-domestic rates additions

Non-domestic rates -Alterations to the valuation roll				
	Board A 2013/14	Board B 2013/14	AVJB 2012/13	AVJB 2013/14
Achievement	%	%	%	%
Within 3 months	86	78	53	67
Within 6 months	96	91	80	84
Targets				
Within 3 months	80	80	50	50
Within 6 months	95	94	80	80

Source: Valuation boards' published performance data

53. Performance indicators for both council tax additions and non-domestic rates additions show considerable improvement from previous years. Although the board's performance still lags behind the comparators the results for 2013/14 are an encouraging sign. The most recent performance report, covering the four months to 31 July, indicates that performance is now on par with comparator boards.

Outlook

54. In common with other public sector organisations, the board faces the key challenges of real term reductions in budgets and the public expectation of high quality services. Efficiencies have been achieved in recent years, largely through reductions to senior management positions.
55. However as the choices available on how to address funding gaps becomes increasingly difficult, the board will have to focus on making the best use of all available resources and to challenge existing ways of doing things. Recent reports presented to the board indicate there has been progress, recognising that old solutions to new problems are no longer sufficient. Change will be necessary, but it may take time for this new approach to become embedded. A strong and effective performance management framework is critical to the success of the board achieving its priorities and delivering services to the public.

Appendix I – Significant audit risks

The table below sets out the key audit risks identified at the planning stage and how we addressed each risk in arriving at our opinion on the financial statements.

Audit Risk	Assurance procedure
<p>Budget constraints</p> <p>Funding allocated to the board for 2013/14 is £2.223 million. This represents a standstill position based on constituent authority contributions for 2011/12 and 2012/13.</p> <p>Risk: The board may not be able to absorb these real term reductions while still meeting key performance targets.</p>	<p>Reviewed board papers and minutes to identify any potential areas of risk.</p> <p>Monitored revenue monitoring reports throughout the year to identify any significant variances between budgeted and actual spend to identify any potential issues.</p> <p>Substantive testing of transactions as part of our final accounts work.</p>

Appendix I – Significant audit risks

Audit Risk	Assurance procedure
<p>Reserves</p> <p>The board continue to hold reserves at around 10% of cost of service expenditure, through a trend of continuing underspend and the accumulation of unplanned reserves.</p> <p>Risk: The board is continuing to build reserves whilst resources may be required to improve performance and meet the challenges of individual electoral registration.</p>	<p>Reviewed board papers and minutes to identify any potential areas of risk.</p> <p>Monitored revenue monitoring reports throughout the year to identify any significant variances between budgeted and actual spend to identify any potential issues.</p> <p>Substantive testing of transactions as part of our final accounts work.</p>