



Ayrshire Valuation Joint Board

Annual audit report to
Members and the
Controller of Audit

September 2015

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)

The Accounts Commission has appointed Dave Richardson as the external auditor of Ayrshire Valuation Joint Board for the period 2012/13 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.

This report will be published on our website after it has been considered by the council. 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.

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Key messages

Audit of financial statements	<ul style="list-style-type: none">• Unqualified independent auditor's report on the 2014/15 financial statements.
Financial management and sustainability	<ul style="list-style-type: none">• Net underspend against budget of £0.109 million for the year.• General fund balance increased by £0.160 million to £0.361 million.
Governance and transparency	<ul style="list-style-type: none">• The Joint Board has sound governance arrangements.• Systems of internal control operated effectively.
Best Value	<ul style="list-style-type: none">• The Joint Board has a formal framework in place for monitoring and reporting against key performance indicators. In 2014/15 the Joint Board again reported improved performance and performance now compares favourably to other boards.
Outlook	<ul style="list-style-type: none">• There is little prospect of relief from the funding pressures faced by the Joint Board. However, given the Joint Board's reserve position it is in a strong position to deliver its services while modernising its systems and delivering the 2017 revaluation exercise. Continued 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 2014/15 audit of Ayrshire Valuation Joint Board (AVJB) 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 identified during the course of the audit. The Assessor has 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 Joint Board 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 2014/15 financial statements

Audit opinion	<ul style="list-style-type: none">• We have completed our audit and issued an unqualified independent auditor's report.
Other information	<ul style="list-style-type: none">• We review other information published with the financial statements, including the management commentary, statement of internal financial control and the remuneration report. We have nothing to report in respect of these statements.

Submission of financial statements for audit

9. We received the unaudited financial statements on 19 May 2015, in accordance with the agreed timetable. The working papers were of a good standard and the Treasurer provided good support to the audit team which assisted the delivery of the audit to deadline.

Overview of the scope of the audit of the financial statements

10. 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 Joint Board on 31 March 2015.
11. 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 2014/15

agreed fee for the audit was set out in the Annual Audit Plan and, as we did not carry out any work additional to our planned audit activity, the fee remains unchanged.

12. 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 effort. 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 financial statements 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 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 2014/15 at £23,000 (1% of gross expenditure). We report all misstatements greater than £1,000. Performance materiality was calculated at £10,000 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 have been amended in the financial statements.
19. A number of presentational and monetary adjustments were identified during the course of our audit. These were discussed with relevant officers who agreed to amend the unaudited financial statements. The effect of these adjustments is to reduce the surplus for the year by £4,000.

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 the Joint Board recognised its share of the net liabilities of the pension fund on the balance sheet.
23. As at 31 March 2015 the Joint Board's pension liability stood at £1.864 million compared to £0.620 million as at 31 March 2014.
24. The pension liability represents the difference between expected future payments to pensioners and the underlying value of pension fund assets available to meet this cost.
25. Hymans Robertson LLP, the pension fund actuary has provided commentary which helps to explain the reasons for the significant increase to the liability calculated as at 31 March
2015. In preparing their report, various assumptions are made about the demographics, financial components and discount rate applied.
26. The variable which has had the most impact is the reduction in the discount rate applied. The discount rate is the rate which is used to calculate future returns on pension fund assets. Discount rates are calculated by reference to the return available on government and AA rated corporate bonds. During the latter part of the financial year the yield on such bonds reached an historic low. As a consequence the calculated returns on the Strathclyde Pension Fund fell short of the calculated liabilities of the fund.
27. In year payments made to the pension fund by the Joint 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 12 year funding strategy in place to address the deficit.

Future accounting and auditing developments

28. There are no accounting or auditing developments which will have a significant impact on the Joint Board's accounts in 2015/1

Financial management and sustainability

Financial management

29. In this section we comment on the Joint Board's financial outcomes and assess the financial management arrangements.
30. The Joint 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

31. The Joint Board's budget for 2014/15 was set on the basis of gross expenditure of £2.348 million and income of £2.399 million leaving a surplus of £0.051 million. Actual income (£2.456 million) exceeded expenditure (£2.296 million) by £0.160 million resulting in a net underspend of £0.109 million for the year.
32. The most significant underspends from budget were
 - £0.023 million underspend on employee costs as a result of long term sick leave
 - £0.031 million overspend on payments to other bodies as a result of engaging external experts to represent the Joint

Board over appeals to the 2010 non-domestic rates valuation appeals process

- £0.047 million underspend in other costs, resulting, in the main from costs associated with the Scottish referendum

33. Expenditure variances were offset by additional grant income received relating to the individual electoral registration process.
34. The outturn against budget is, broadly, satisfactory. However, there are a small number of variances where underspending/overspending against budget lines requires attention and adjustments made to ensure that the budget approved is up to date and reflects the underlying cost approved by members.

Action Plan 1

Financial management arrangements

35. As public sector auditors, we need to consider whether audited bodies have established adequate financial management arrangements. We reviewed the Joint Board's documentation, minutes of meetings and attended a number of meetings throughout the year. We also form judgements from our interactions with the Assessor and Treasurer.
36. Financial monitoring activity includes the preparation of budget monitoring reports which are submitted to scheduled Joint Board meetings for members' consideration. These reports include forecasts of year end outturn position, including reasons for over/underspends across the business units. In addition,

performance information is presented to the Joint Board at each meeting.

37. The Joint Board has a Scheme of Delegation in place and this is available on its website. The Scheme of Delegation has not been reviewed since 2012. To ensure it reflects the current Joint Board’s structure and management arrangements, this should be reviewed and updated regularly.

Action Plan 2

38. We have concluded that, overall, the Joint Board’s financial management arrangements support the review and scrutiny of financial performance and the achievement of financial targets.

Financial sustainability

39. Financial sustainability is concerned with whether the Joint Board has the capacity to meet the current and future needs of its stakeholders. In assessing financial sustainability we are concerned with the Joint Board’s financial planning.
40. In January 2014 the Joint Board approved its budget for 2014/15 and the two years to 2016/17. We consider such medium term financial planning to be good practice. In January 2015 the 2015/16 budget was approved and the 2016/17 budget was revised in the light of new information. No draft budget was set for 2017/18. The Joint Board have, however, requested that the Assessor and Treasurer submit a requisition and reserve strategy for the two year period 2017/19.

Reserves

41. The overall level of usable reserves held by the Joint Board has increased over the last year to £0.368m representing 15% of budgeted expenditure, exhibit 1.

Exhibit 1: Reserve balances

Description	31 March	31 March	31 March
	2013	2014	2015
	£ million	£ million	£million
General Fund	0.219	0.201	0.361
Capital Reserve Fund	0.003	0.003	0.003
Total Usable Reserves	0.222	0.204	0.364

Source: Ayrshire Valuation Joint Board financial statements

42. The underspend against budget £0.109 million, means that reserves are now £0.109 million in excess of the estimation used to set the 2015/16 budget.
43. The stated strategy of the Joint Board is to amass a reserve balance sufficient to fund anticipated increased workloads arising from the 2017 revaluation exercise while maintaining the current contribution levels from constituent councils. The unanticipated increased reserve balance now requires that

longer term financial planning is revised to take account of this significant change.

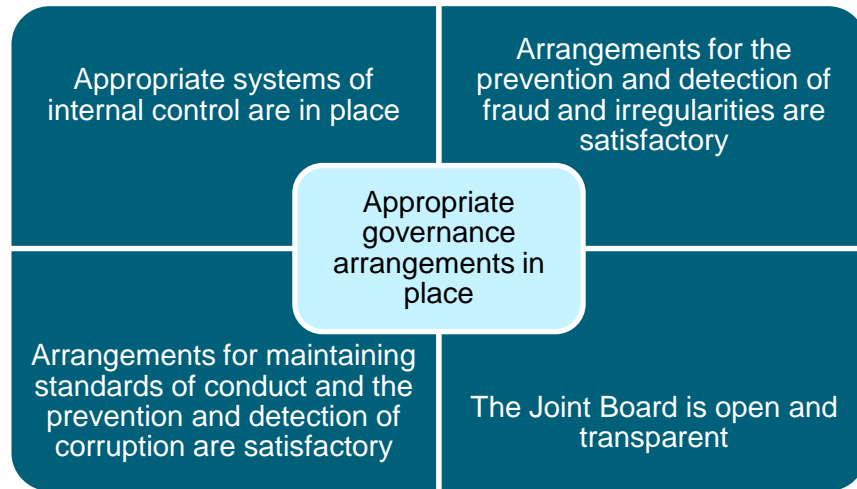
Acton plan 1

44. The Joint Board has a substantial reserve balance and is containing its expenditure within annual budgets. Overall we conclude that the financial position is sustainable currently and in the foreseeable future.

Outlook

45. In common with the constituent authorities, the Joint Board faces continuing financial challenges. The Joint Board is planning for additional costs relating to:
- 2017 revaluation exercise
 - replacing the current electoral registration system
 - outstanding appeals proceeding to the Lands Tribunal for Scotland
 - increased national insurance contributions.

Governance and transparency



- 46. Members and management of the Joint 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.
- 47. Based on our observations and audit work performed during 2014/15, our overall conclusion is that governance arrangements within the Joint Board are operating effectively.

Governance and internal control

Internal control

- 48. South Ayrshire Council, as host authority, provides support in some key areas of business, particularly in finance, legal and information technology.
- 49. 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 Joint Board.
- 50. 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

- 51. 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.
- 52. 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.

Service level agreement

53. South Ayrshire Council provides the administration function to by way of a service level agreement (SLA). It is now a considerable time since the SLA was reviewed. To ensure clarity and a common understanding of mutual obligations, we consider it important that this SLA is regularly reviewed and clearly sets out the cost, standard and level of support required. Management should review the SLA, in partnership with South Ayrshire Council, to ensure that support function expectations and associated costs remain appropriate and are adequately documented.

Action Plan 3

Arrangements for the prevention and detection of fraud

54. The Joint Board's arrangements in relation to the prevention and detection of fraud and irregularities were satisfactory.
55. 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 Joint Board continues to participate through South Ayrshire Council, no matches have been identified from the current exercise.

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

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

Transparency

57. The public should be able to hold the Joint Board to account for the services it provides. Transparency means that the public has access to understandable, relevant and timely information about how the Joint Board is taking decisions and how it is using its resources.
58. While minutes of Joint Board meetings are published on its website, reports submitted to the Joint Board for consideration are not. The Joint Board should consider enhancing transparency by publishing reports on its website. Where papers include confidential information these can be withdrawn or redacted as appropriate.

Action Plan 4

59. It had previously been the practice to publish (redacted as appropriate) minutes of management team meetings on the board's website. This no longer happens. Management should consider whether resumption of publication would be of assistance to users.

Action plan 4

60. Overall, we concluded that the Joint Board is open and transparent although we have made a recommendation for enhancement to the current arrangements.

Outlook

61. 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

- 62. Local authorities, including joint boards, have a statutory duty to provide best value in the services they provide.
- 63. The Joint 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

- 64. No specific work was undertaken at the Joint Board during 2014/15.

Overview of performance targets in 2014/15

- 65. The Joint 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 Scottish Independence Referendum
 - 2010 Non-Domestic Rates Revaluation Appeal process has been largely completed, with only a small number of appeals outstanding which will be determined by the Lands Tribunal for Scotland.

Performance management

- 66. The Joint Board publishes an annual performance report, which is available on its website.

Service planning

- 67. The Joint Board's Service Plan was reviewed and updated during 2014/15 and approved for the three year period 2014-2017. The plan sets out how work will be dealt with, responsible staff and the processes that are in place.

Performance indicators

- 68. The Accounts Commission places great emphasis on councils' and boards' 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.
- 69. 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 Joint Board is now operating at a level last seen five years ago and with the exception of three month council tax additions indicator is operating at the same level as comparator boards.

Exhibit 2: Comparison of performance – council tax additions

Council Tax - New houses added				
	Board A	Board B	AVJB	AVJB
	2014/15	2014/15	2013/14	2014/15
Achievement	%	%	%	%
Within 3 months	98	97	79	88
Within 6 months	98	99	92	99
Targets				
Within 3 months	95	95	60	80
Within 6 months	99.5	98	85	95

Source: Valuation boards' published performance data

Exhibit 3: Comparison of performance – council tax additions

Non-domestic rates -Alterations to the valuation roll				
	Board A	Board B	AVJB	AVJB
	2014/15	2014/15	2013/14	2014/15
Achievement	%	%	%	%
Within 3 months	89	82	67	83
Within 6 months	94	91	84	91
Targets				
Within 3 months	80	80	50	70
Within 6 months	95	94	80	90

Source: Valuation boards' published performance data

Equalities

70. The Equality Act 2010 introduced a new public sector 'general duty' which encourages equality to be mainstreamed into public bodies' core work. The Act requires that by no later than 30 April 2015 and every two years thereafter, public bodies must publish a report on the progress made to achieve the quality of outcomes it has set.

71. The Joint Board published its "Public Sector Equality Duty Progress Report 2015" on its website on 27 April 2015.

Outlook

72. AVJB met the challenge of implementing Individual Electoral Registration in 2014. Planning is already underway for the 2017 non domestic rates revaluation, with additional resource requirements being approved to cover a programme of updating survey records to facilitate the exercise.

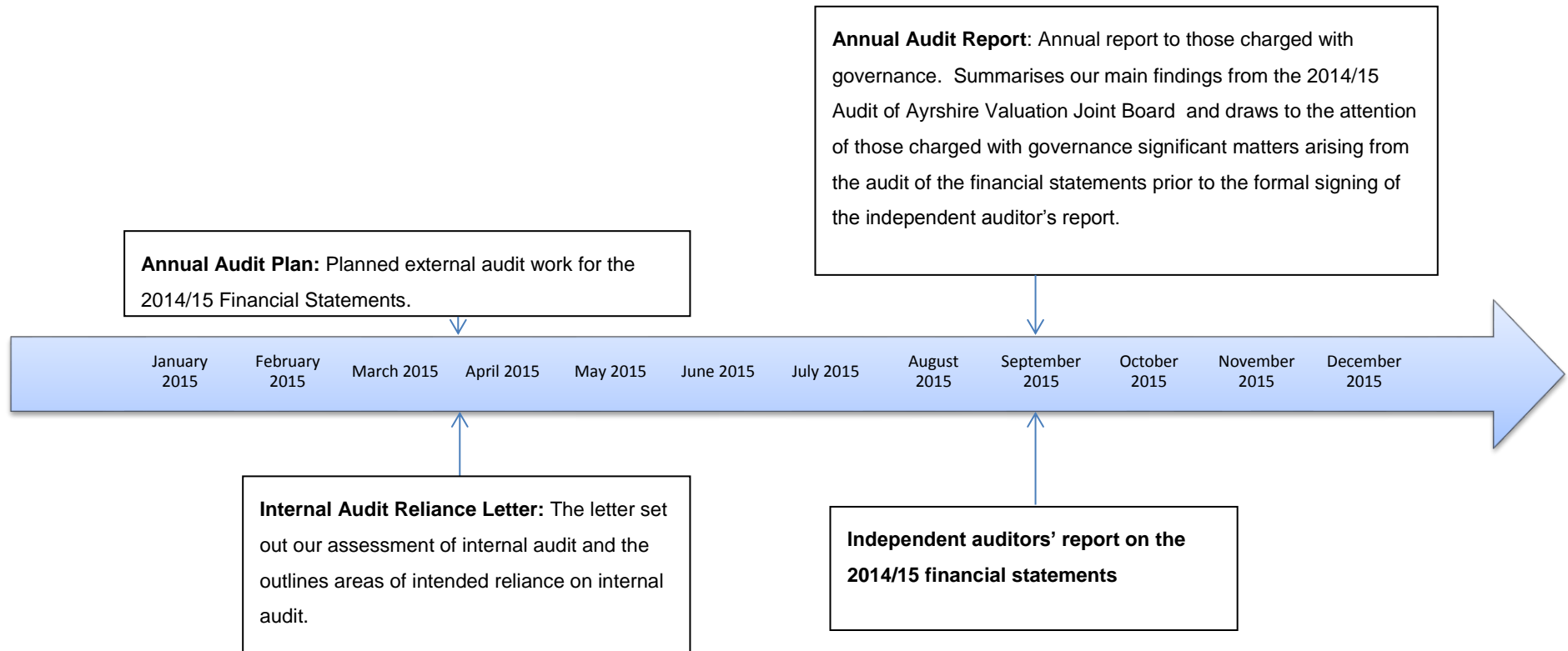
73. In common with other public sector organisations, Ayrshire Valuation Joint Board faces the key challenges of reducing real terms budgets, and meeting the public expectation of high quality services. Savings have been made in recent years largely through reductions to the management team. However, as the options on how to address funding gaps reduce, the Joint Board will have to focus on making the very best use of available resources and to challenge existing ways of doing things. A strong and effective performance management framework will be critical to the success of the Joint Board achieving its key priorities and achieving best value.

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
<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>Risks identified from the auditor’s wider responsibility under the Code of Audit Practice</p>		
<p>Use of Resources</p> <p>The 3 year indicative budgets prepared project a reduction in usable reserves to achieve the balance recognised as good practice of between 2 – 4% of gross expenditure.</p> <p>Risk</p> <p>Continuing the use of reserves to fund revenue expenditure is not sustainable.</p>	<ul style="list-style-type: none"> • Preparation of 3 year indicative budgets • Assurance of funding commitment from constituent authorities 	<ul style="list-style-type: none"> • The Joint Board increased its general reserves in 2014/15. • No three year budget yet set.

Summary of Ayrshire Valuation Joint Board local audit reports 2014/15



Action plan

No. Page/para	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
1 9/14 10/43	<p>Budget Variances</p> <p>There remain a small number of budget variances which require review to ensure the budget approved reflects the Joint Board's requirements.</p> <p>Risk</p> <p>Continued accumulation of reserves and reduced contributions.</p> <p>Recommendation</p> <p>Budget lines displaying consistently significant variance from actual should be reviewed and adjusted as necessary.</p>	<p>Budgets were reviewed and some adjustments made prior to approval of the 2015/16 and 2016/17 budget. A further review will take place prior to approval of the 2016/17 and beyond budget.</p>	Assessor/ Treasurer	March 2016

No. Page/para	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
<p>2 10/37</p>	<p>Scheme of delegation</p> <p>The scheme of delegation has not been reviewed for some time.</p> <p>Risk</p> <p>The documentation does not reflect current requirements.</p> <p>Recommendation</p> <p>The Joint Board reviews the scheme of delegation to ensure that it reflects accurately current structures and processes.</p>	<p>In preparation of the Board's submission of its Records Management Plan to the Keeper of the Records of Scotland, the Scheme of Delegation, and a number of other key Policies, Procedures and Guidance documents are currently under review.</p> <p>The revised Scheme of Delegation will reflect recent changes to structures and processes.</p>	<p>Assessor</p>	<p>January 2016</p>
<p>3 13/53</p>	<p>Service level agreement</p> <p>The Joint Board's agreement with South Ayrshire Council to provide support services has not been updated for some time.</p> <p>Risk</p> <p>The service provided does not meet the Joint Board's requirements.</p> <p>Recommendation</p> <p>The Joint Board updates the agreement with South Ayrshire Council.</p>	<p>Review of service level agreement will be concluded and the agreement updated where appropriate.</p>	<p>Clerk/ Treasurer. Assessor</p>	<p>March 2016</p>

No. Page/para	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
4 13/58 13/59	<p>Publication of documents</p> <p>Reports submitted to the Joint Board for consideration are not routinely made available on the website.</p> <p>Risk</p> <p>The Joint Board is perceived as lacking in transparency and openness.</p> <p>Recommendation</p> <p>The Joint Board should consider enhancing transparency by publishing reports on its website.</p>	<p>The Joint Board’s website is in the final stages of being updated and modernised. When launched, the refreshed website will include up to date Management Team Minutes and Joint Board Reports suitably redacted or withdrawn for confidentiality reasons.</p>	<p>Assessor</p>	<p>January 2016</p>