

Final Report to the Board and the Controller of Audit on the 2016/17 audit

September 2017

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Director introduction

The key messages in this report

Audit quality is our number one priority. We plan our audit to focus on audit quality and have set the following audit quality objectives for this audit:

- A robust challenge of the key judgements taken in the preparation of the financial statements.
- A strong understanding of your internal control environment.
- A well planned and delivered audit that raises findings early with those charged with governance.

I have pleasure in presenting our final report to the Board for the 2016/17 audit.

As detailed in our plan presented to the Board in March 2017, the new Code of Audit Practice, which came into force for the 2016/17 audits, sets out our responsibilities under core audit and wider scope requirements. A reminder of the requirements is set out below.

- *Opinion on the financial statements and regularity*
- *National performance audits and Best Value audits*



- *Opinion on management commentaries, remuneration reports and governance statements*

As set out in our plan, due to the relative size and scale of the functions delivered by AVJB, we concluded that the full wider scope audit was not appropriate. In accordance with paragraph 53 of the Code, our work in this area was restricted to concluding on:

- the appropriateness of the disclosures in the governance statement; and
- the financial sustainability of the board and the services that it delivers over the medium to longer term.

- *Public reporting and audit findings*
- *Wider scope reporting*

Director introduction (continued)

The key messages in this report (continued)

I would like to draw your attention to the key messages of this paper:

Statutory audit

Conclusions from our testing

- The significant risks, as identified in our audit plan, related to:
 - Revenue recognition; and
 - Management override of controls.
- A summary of our work on the significant risks is provided in the dashboard on page 9.
- We have identified no audit adjustments from our procedures to date.
- Based on our audit work, we have issued an unmodified audit opinion.

Status of the audit

- The audit is complete.

Director introduction (continued)

The key messages in this report (continued)

Best Practice

Overall conclusion

- We have reviewed the management commentary with reference to the statutory guidance set out in Regulation 8(2) of The Local Authority Accounts (Scotland) Regulation 2014 and Finance circular 5/2015 The Local Authority Accounts (Scotland) Regulations 2014 – management commentary. We have confirmed that the management commentary complies with the statutory guidance requiring local authorities, and bodies such as AVJB, to include in the management commentary those matters which companies are required to disclose in a strategic report, with some modification to interpret for local authorities.
- As a new requirement in 2016/17, we are required to provide an opinion on whether:
 - information given in the management commentary is consistent with the financial statements;
 - the management commentary has been prepared in accordance with the statutory guidance;
 - information given in the annual governance statement is consistent with the financial statement; and
 - the annual governance statement has been prepared in accordance with proper practice.
- Based on our audit work, we have issued unmodified opinions on the above.
- In addition to the opinion, we have read the management commentary and confirmed that the information contained is materially correct and consistent with our knowledge acquired during the course of performing the audit, and is not otherwise misleading.
- We have also audited the auditable parts of the remuneration report and confirmed that it has been prepared in accordance with the Regulation 8(2) of The Local Authority Accounts (Scotland) Regulation 2014.

Director introduction (continued)

The key messages in this report (continued)

Adds Value	
Governance Statement	<p>From our review, the Annual Governance Statement was consistent with the financial statements and had been prepared in accordance with the Local Authority Accounts (Scotland) Regulations 2014 and the requirements under the Delivering Good Governance in Local Government: Framework (2016).</p> <p>Evidence has been seen of those charged with governance’s review of key aspects of the Boards activities and performance.</p> <p>We have reviewed the work of internal audit and found it to be appropriate with no findings relating to matters we identified as significant.</p>
Financial Sustainability	<p>The AVJB had a deficit in the CIES of £170,777 for 2016/17, after statutory adjustments this was a deficit of £35,235 and this compares to a budgeted deficit of £151,202. This was a planned use of reserves and was an approved approach by the Board.</p> <p>From our review of the 2017/18 Budget we note there is a 2.5% reduction in requisitions received by the Board from the constituent authorities which reflects the reduction in funding received by the councils from the Scottish Government.</p> <p>The Board has in place a reserves policy of maintaining a level of uncommitted reserves of at least 2 percent of net annual expenditure. Currently the AVJB’s reserves are higher than this and it is intending to use reserves to fund expenditure in 2016/17. We note however that the AVJB has insufficient reserves to be able to support ongoing deficits after their planned use in 2016/17.</p> <p>We recommend that the AVJB develop a medium term Financial Strategy that covers 2 to 5 years, see page 23 for recommendations. Additionally to assist in this process we recommend that the Corporate Plan is updated as the current version will only run to 2018.</p>

RC(-E31)
RN(-N7)

Pat Kenny
Audit Director

Slide 6

RC(-E31

Tom: These figures are not comparable - £170,777 is the accounting basis, not the funding basis of £35,235. Funding basis is the figure that should be compared with budget.

Ridley, Chloe (UK - Edinburgh), 23/08/2017

RN(-N7

updated

Rayner, Nick (UK - Newcastle), 29/08/2017

Responsibilities of the Board

Helping you fulfil your responsibilities

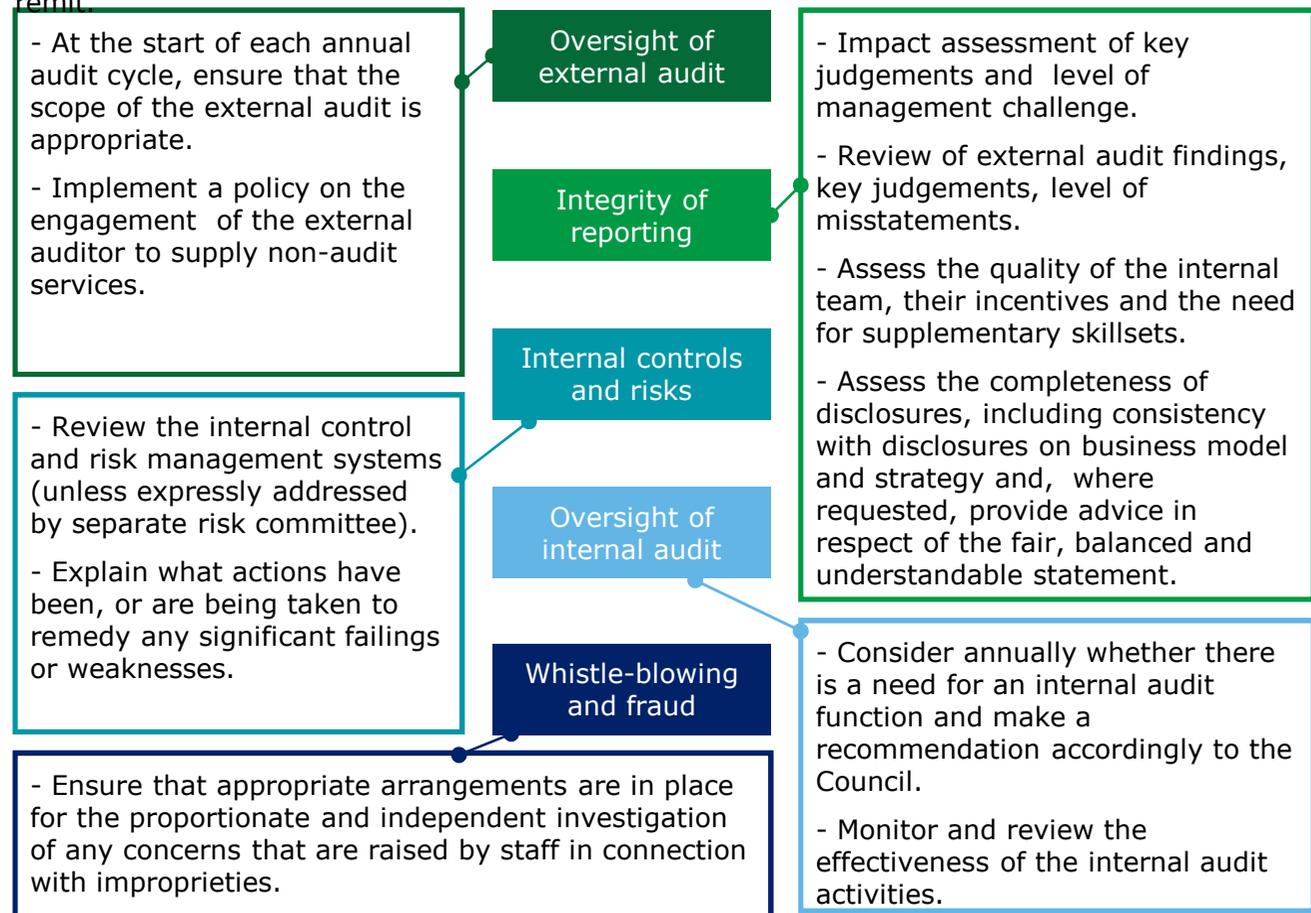
The primary purpose of the Auditor's interaction with the Board:

- Clearly communicate the planned scope of the financial statements audit
- Provide timely observations arising from the audit that are significant and relevant to the Board's responsibility to oversee the financial reporting process
- In addition, we seek to provide the Board with additional information to help them fulfil their broader responsibilities

We use this symbol throughout this document to highlight areas of our audit where the Board need to focus their attentions.



As a result of regulatory change in recent years, the role of the Audit Committee has significantly expanded. As the AVJB does not have an Audit Committee this role is fulfilled by the Board. We set out here a summary of the core areas of responsibility for those charged with governance to provide a reference in respect of these broader responsibilities and highlight throughout the document where there is key information which helps the Board in fulfilling its remit.



Our audit explained

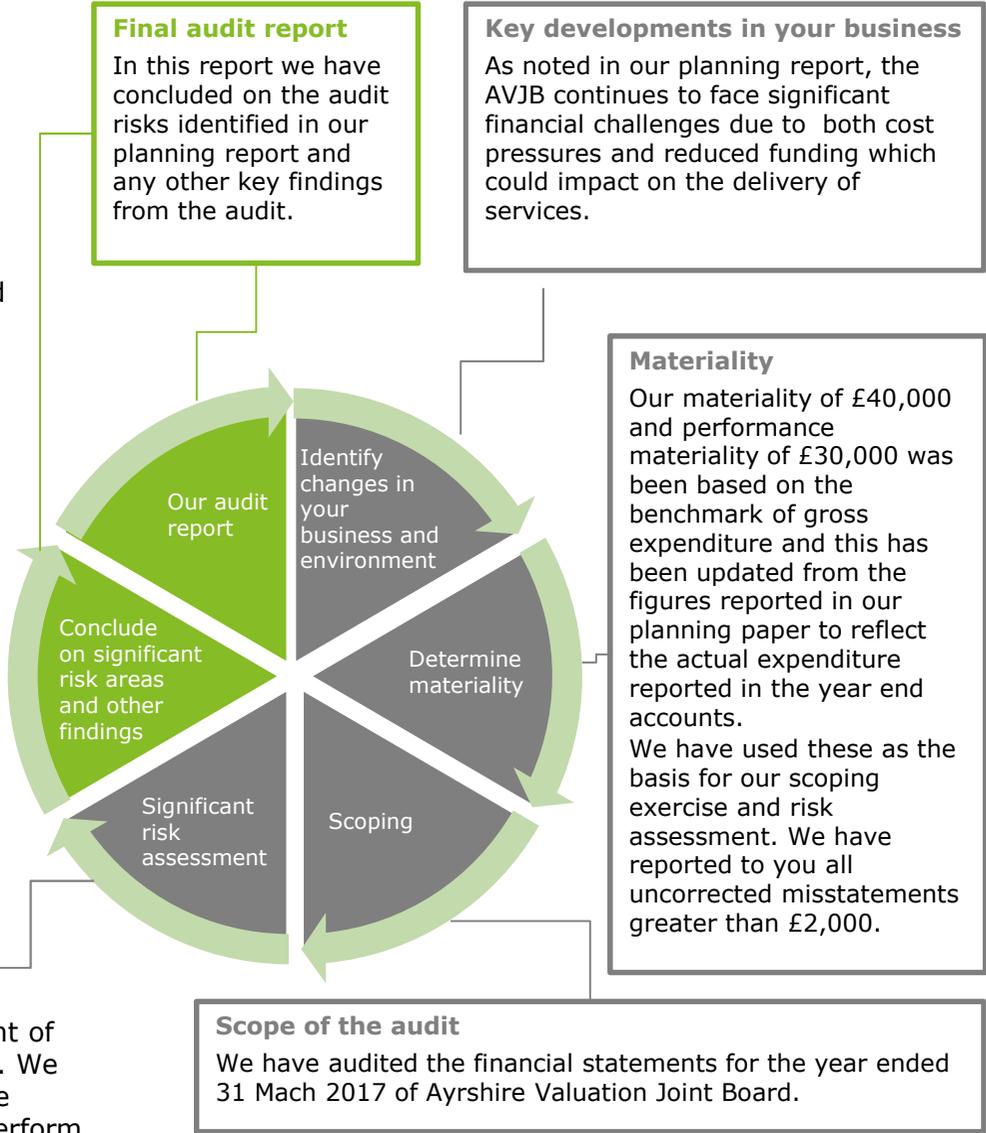
Area dimensions

In accordance with the 2016 Code of Audit Practice, we have considered:

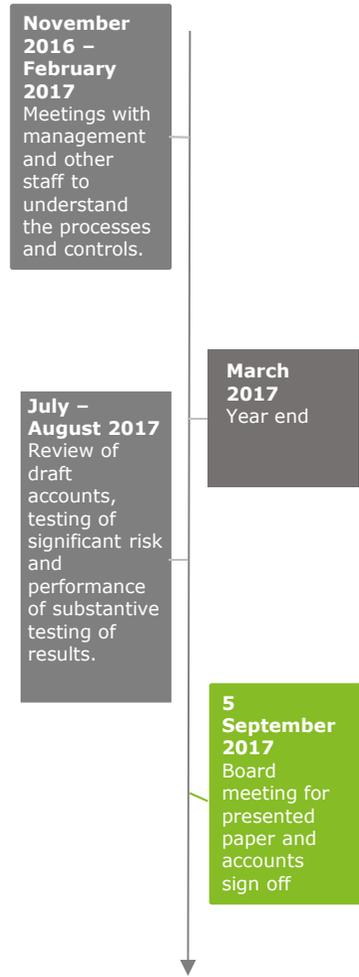
- The appropriateness of the disclosures in the governance statement; and
- Financial sustainability

Significant risks
Our risk assessment process is a continuous cycle throughout the year. Page 9 provides a summary of our risk assessment of your significant risks.

Quality and Independence
We confirm we are independent of Ayrshire Valuation Joint Board. We take our independence and the quality of the audit work we perform very seriously. Audit quality is our number one priority.



Timeline 2017



Significant risks Dashboard

Risk	Material	Fraud risk	Planned approach to controls testing	Controls testing conclusion	Consistency of judgements with Deloitte's expectations	Comments	Slide no.
Completeness and accuracy of income			D+I	Satisfactory		No issues identified	10
Management override of controls			D+I	Satisfactory		No issues identified	11



Overly prudent, likely to lead to future credit Overly optimistic, likely to lead to future debit.

D+I: Testing of the design and implementation of key controls

Significant risks (continued)

Completeness and accuracy of income

Risk identified

ISA 240 states that when identifying and assessing the risks of material misstatement due to fraud, the auditor shall, based on a presumption that there are risks of fraud in revenue recognition, evaluate which types of revenue, revenue transactions or assertions give rise to such risks.

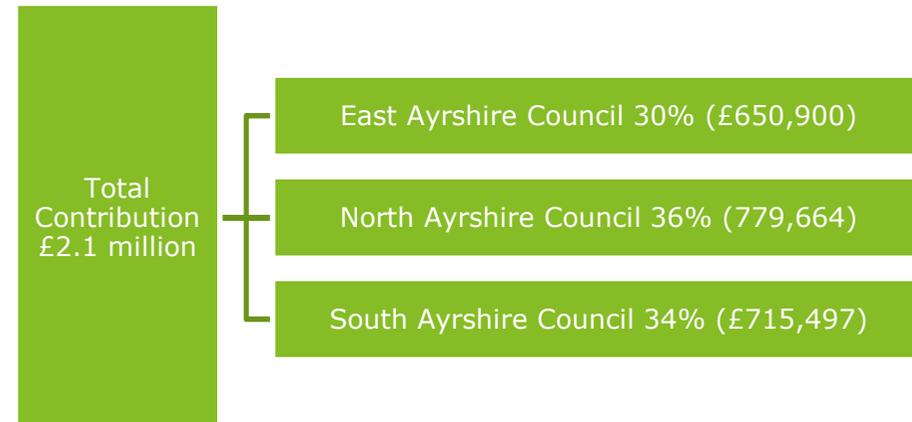
The main components of income for the VJB are requisitions received from South Ayrshire Council, North Ayrshire Council and East Ayrshire Council. The significant risk is pinpointed to the recognition of requisition income, being completeness and accuracy of income received from the Councils



Deloitte response

We have performed the following:

- tested the requisition income to ensure that the correct amounts have been input and received in accordance with the amounts agreed as part of the budget process;
- tested the reconciliations performed by the VJB at 31 March 2017 to confirm all income is correctly recorded in the ledger;
- compared income recorded with expectations, based on amounts agreed as part of budget process;
- confirmed that the reconciliations performed during 2016/17 have been reviewed on a regular basis; and
- assessed management's controls around recognition of income.



Deloitte view

We have concluded that income has been recognised in accordance with the requirements of the CIPFA Code of Practice on Local Authority Accounting.

Significant risks (continued)

Management override of controls

Risk identified

International Standards on Auditing requires auditors to identify a presumed risk of management override of control. This presumed risk cannot be rebutted by the auditor. This recognises that management may be able to override controls that are in place to present inaccurate or even fraudulent financial reports.



Deloitte response

We have considered the overall sensitivity of judgements made in preparation of the financial statements, and note that:

- the AVJB's results throughout the year were projecting overspends in operational areas but this was closely monitored with confidence that the AVJB would be able to meet its overall financial targets; and
- senior management's remuneration is not tied to particular financial results.

We have considered these factors and other potential sensitivities in evaluating the judgements made in the preparation of the financial statements.

Journals

We have made inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments. We tested a sample of journals, based upon identification of items of potential audit interest, with no issues noted.

Accounting estimates

In addition to our work on key accounting estimates discussed above, our retrospective review of management's judgements and assumptions relating to significant estimates reflected in last year's financial statements has been completed with no issues noted.

Significant transactions

We have not identified any significant transactions outside the normal course of business or transactions where the business rationale was not clear.

Deloitte view

- The control environment is appropriate for the size and complexity of the Board.
- We have not identified any significant bias in the key judgements made by management

Other matters

Defined benefits pension scheme

Background

The Board participates in the Strathclyde Pension Fund, a funded defined benefit scheme.

The net pension liability has increased from £421k in 2015/16 to £1,683k in 2016/17 as a result of an decrease in the discount rates applied, offset to some extent by a slight increase in some inflation adjustments.



Deloitte response

- we obtained a copy of the actuarial report produced by Hymans Robertson, the scheme actuary, and agreed to the disclosures to notes in the accounts;
- we reviewed and challenged the assumptions made by Hymans Robertson;
- we assessed the reasonableness of the Board's share of the total assets of the scheme with the Draft Pension Fund financial statements;
- we reviewed the disclosures within the accounts against the Code;
- we assessed the independence and expertise of the actuary supporting the basis of reliance upon their work; and
- we liaised with our in-house actuary regarding their assessment of the key assumptions.

	AVJB	Benchmark	Comments
Discount rate	2.6%	2.5%	Reasonable, slightly prudent
Retail Price Index (RPI) inflation rate	3.4%	3.2%	Reasonable, slightly prudent
Consumer Price Index (CPI) Inflation rate	2.4%	2.2%	Reasonable, slightly prudent
Life expectancy of a male pensioner from age 65 (currently aged 65)	22.1	21.2	Reasonable, though slightly prudent
Life expectancy of a male pensioner from age 65 (currently aged 45)	24.8	23	Reasonable, though slightly prudent

Deloitte view

We have reviewed the assumptions and, on the whole, the set of assumptions is reasonable and lies towards the prudent end of the reasonable range of assumptions when compared with the Deloitte benchmarks. The assumptions have been set in accordance with generally accepted actuarial principles and are compliant with the accounting standard requirements of IAS19.

Your annual report

We welcome this opportunity to set out for the Board our observations on the annual report. We are required to provide an opinion on the remuneration report, the annual governance statement and whether the management commentary has been prepared in accordance with the statutory guidance.

	Disclosure in annual report	Deloitte response
Management Commentary	The Management Commentary comments on financial performance, strategy and performance review and targets. Deloitte note that the Management Commentary has been prepared in line with issued guidance. The commentary included both financial and non financial KPIs and also focusses on the strategic planning context.	<p>We have assessed whether the management commentary has been prepared in accordance with the statutory guidance. No exceptions noted.</p> <p>We have also read the management commentary and confirmed that the information contained within is materially correct and consistent with our knowledge acquired during the course of performing the audit, and is not otherwise misleading.</p> <p>The Board could make better use of graphs and diagrams to break up the text.</p>
Remuneration Report	The remuneration report has been prepared in accordance with the 2014 Regulations, disclosing the remuneration and pension benefits of the Chair, Vice Chair and Assessor and ERO of the Board.	We have audited the disclosures of remuneration and pension benefit, pay bands, and exit packages and confirmed that they have been properly prepared in accordance with the regulations.
Annual Governance Statement	The Annual Governance Statement reports that Board governance arrangements provide assurance, are adequate and are operating effectively.	We have assessed whether the information given in the Annual Governance Statement is consistent with the financial statements and has been prepared in accordance with the accounts direction. No exceptions noted.

Wider scope requirements

Governance statement disclosures

Audit dimension

As part of the annual audit of the financial statements, we have considered the appropriateness of the disclosures in the governance statement.

Areas considered



- The completeness of the disclosures in meeting the requirements of the essential features, as specified in the good governance framework.
- Inconsistencies between the disclosures or between the disclosures and audit knowledge.

Deloitte response



South Ayrshire Council's Internal Audit team also provide the internal audit function to the AVJB. We have reviewed their Valuation Roll report and note there were no negative findings.

In the year, there were changes in governance with the Clerk, Valerie Andrews being replaced by Wynne Carlaw and following the local elections in May 2017, there have been significant changes to the Elected Members who were appointed to serve on the Board.

Changes in AVJB Councillors

East Ayrshire Council		North Ayrshire Council		South Ayrshire Council	
2016/17	2017/18	2016/17	2017/18	2016/17	2017/18
George Mair	Gordon Jenkins	John Easdale	John Easdale	Andy Campbell	Andy Campbell
John McFadzean (Vice-Chair)	John McFadzean (Chair)	John Ferguson	Margaret George	John Hampton	Siobhian Brown
William Menzies	Maureen McKay	Donald Reid (Chair from Sept 2016)	Donald Reid	Rita Miller	Chris Cullen (Vice-Chair)
Jim Roberts	Jim Roberts	Matthew Brown (Chair until Sept 2016)	John Glover	Alec Oates	Martin Dowey
Elena Whitham	Jim McMahon	Catherine McMillan	Jean McClung	Robin Reid	
			Donald L Reid		

Deloitte view

The Governance Statement meets the requirements of the Scottish Public Finance Manual (SPFM) and we have noted no inconsistencies.

Wider scope requirements

Financial sustainability

Audit dimension

As part of the annual audit of the financial statements, we have considered the appropriateness of the use of the going concern basis of accounting. Going concern is a relatively short-term concept looking forward 12 to 18 months from the end of the financial year. Financial sustainability interprets the requirements and looks forward to the medium (two to five years) and longer term (longer than five years) to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.

Areas considered



- The financial planning systems in place across the shorter and longer terms.
- The arrangements to address any identified funding gaps.
- The affordability and effectiveness of funding and investment decisions made.

Deloitte response



We have reviewed the AVJB's actions in respect of its short, medium and longer term financial plans to assess whether short term financial balance can be achieved, whether there is a long-term (5-10 years) financial strategy and if investment is effective.

We have also assessed the AVJB's performance in undertaking transformational change, reliance on reserves and achievement of savings targets.

Wider scope requirements (continued)

Financial sustainability (continued)

Revenue budget

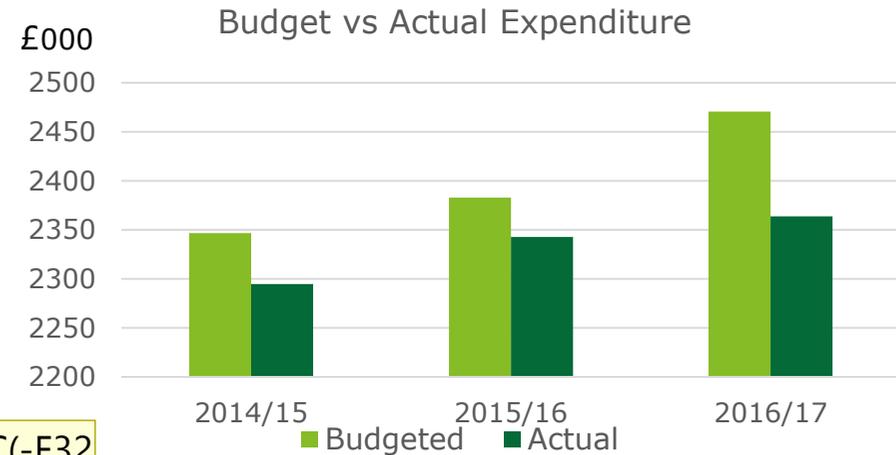
The 2016/17 budget was approved by the Board on 29 March 2016. This budgeted gross expenditure of £2.3million and incorporated a 3.5% reduction in requisitions from constituent authorities. This is as a result of the consequential impact of the Council's receiving reduced funding from the Scottish Government.

Reserves

The AVJB had a deficit in the CIES of £171k, and after statutory adjustments a deficit of £35k, this compares to a planned deficit of £151k. The Board approved the use of reserves to cover a £151k deficit. The AVJB's expenditure in the year was slightly larger than anticipated, however the AVJB has sufficient reserves to cover this.

The Board aims to follow best practice which indicates a level of uncommitted reserves of between 2 and 4 per cent of annual net expenditure i.e. between £45,945 and £91,891. The AVJB currently has higher reserves than this and is therefore able to use them to fund expenditure in 2016/17 and 2017/18.

We note however the use of reserves to fund deficits is an unsustainable practice, and is not sustainable over the long-term.



RC(-E32)
RN(-N6)

Financial Planning

From our financial sustainability work we note that the AVJB creates a 1 year budget on a rolling basis. To assist with financial planning, we recommend that the AVJB creates a medium term Financial Strategy, which includes scenario planning, sensitivity analysis and a capital plan.

We also note that the Corporate Plan finishes in 2018, therefore we recommend this be updated as part of the same process.

RC(-E33)
RN(-N8)

Slide 16

- RC(-E32)** Tom: £35k on funding basis, which is comparable with budget. £170k is accounting basis and includes statutory adjustments, which is not comparable with budget in context of financial sustainability.
Ridley, Chloe (UK - Edinburgh), 23/08/2017
- RN(-N6)** updated
Rayner, Nick (UK - Newcastle), 29/08/2017
- RC(-E33)** Tom: These figures appear to come from CIES, but 2015/16 looks incorrect. Again, in the context of financial sustainability I think this comparison is misleading, would be better with funding basis (not accounting basis).
Ridley, Chloe (UK - Edinburgh), 23/08/2017
- RN(-N8)** do management account figures
Rayner, Nick (UK - Newcastle), 29/08/2017

Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

Our report is designed to help the Board discharge its governance duties. It also represents one way in which we fulfil our obligations under ISA 260 (UK and Ireland) to communicate with you regarding your oversight of the financial reporting process and your governance requirements. Our report includes:

- Results of our work on key audit judgements and our observations on the quality of your Annual Report.
- Our internal control observations.
- Other insights we have identified from our audit.

What we don't report

As you will be aware, our audit was not designed to identify all matters that may be relevant to the Board.

Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.

Finally, our views on internal controls and business risk assessment should not be taken as comprehensive or as an opinion on effectiveness since they have been based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

We welcome the opportunity to discuss our report with you and receive your feedback.

The scope of our work

Our observations are developed in the context of our audit of the financial statements.

We described the scope of our work in our audit plan and the supplementary "Briefing on audit matters" circulated separately.

This report has been prepared for the Board, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose.

Deloitte LLP

Deloitte LLP

Glasgow

11 September 2017

Technical update



National performance reports

Summary of reports issued over the past year

How councils work (HCW) – Roles and working relationships in Councils: Are you still getting it right?

Published November 2016

Headline messages

The Accounts Commission revisits the themes in its 2010 HCW report on roles and working relationships. It highlights issues that are important to the governance of Councils in the current climate.

The messages highlighted in this report centre on the main themes of the original HCW of:

- clear roles and responsibilities and arrangements for governance that are up to date
- effective working relationships, with councillors and officers demonstrating appropriate behaviours
- councillors having the skills and tools to carry out their complex and evolving role

Impact on Ayrshire Valuation Joint Board

The AVJB should consider whether this report and the checklists, although produced for councils, provide relevant guidance for its Members in their difficult and challenging role. It may also help Members to consider their current governance arrangements and make any necessary changes, including their preparations for the new intake of councillors following the May 2017 local government election.

Local Government in Scotland: Financial Overview 2015/16

Published November 2016

Headline messages

Councils have remained within their overall budgets, increased their reserves slightly and reduced their debt in 2015/16. Each Council has its own particular challenges but all Councils face financial shortfalls requiring further savings or using reserves. They need to change the way they work if they are to make the savings needed.

Impact on Ayrshire Valuation Joint Board

Throughout the report, Audit Scotland identify questions that AVJB members may wish to consider to help them better understand the Councils' financial position, given its importance of them as the funding bodies for the AVJB.

National performance reports (continued)

Summary of reports issued over the past year (continued)

Local Government in Scotland: Performance and Challenges 2017

Published March 2017

Headline messages

Councils overall have maintained or improved their performance in the face of a long-term decline in Scottish Government real term funding and continued increasing pressures on services. However, public satisfaction is declining and complaints are increasing. Looking ahead, they need to better involve their communities in service design and delivery.

There are wide variations between Councils. Some have grasped the nettle in finding new ways to provide services more efficiently. Others have been slower off the mark. Councils have made savings by cutting jobs but half of them still don't have organisation-wide workforce plans.

Impact on Ayrshire Valuation Joint Board

The report was focused on Councils but also makes general recommendations on good practice (copied here for reference), that the AVJB may find worth considering when setting priorities and budgets for future periods.

Recommendations

The AVJBs should:

- Set **clear priorities** supported by **long-term strategies** and **medium-term plans** covering finances, services, performance and workforce. These plans should inform all Board decision-making, service redesign, savings and investment decisions.
- Ensure that **budgets are clearly linked** to their medium-term financial plans and long-term financial strategies. Budgets should be revised to reflect true spending levels and patterns. This requires good financial management and real-time information to ensure spending is accurately forecast and monitored within the year.
- Have an **organisation-wide workforce plan** to ensure the Board has the people and skills to manage change and deliver services in the future.
- Ensure **workforce data** allows thorough analysis of changes to the workforce at an organisation-wide and departmental level. This will allow better assessment of the opportunities and risks in staff changes.
- Thoroughly **evaluate all options for change and service redesign**, including options for investing to save, and monitor the impact of change on Board priorities and desired outcomes
- **Support communities** to develop their ability to fully participate in setting Board priorities and making decisions about service redesign and use of resources.
- Ensure **councillors** get support to develop the right **skills and knowledge** to fulfil their complex and evolving roles
- Ensure there is clear **public reporting of performance** linked to Board priorities to help communities gauge improvements and understand reduced performance in lower priority areas.
- Continue to work to understand the **reasons for variations in unit costs and performance**, and **collaborate** to identify and adopt good practice for each other.

Appendices



Audit adjustments

There are no uncorrected misstatements or disclosure deficiencies identified from our audit work.

Action plan

Recommendations for improvement

Area	Recommendation	Management Response	Responsible person	Target Date	Priority
Financial Planning	The implementation of a medium term Financial Strategy (2-4 years) which includes a Capital Plan, scenario planning and sensitivity analysis	Financial planning has been incorporated into the 2017/18 budget setting process. However this has not been formally recorded at the Board meeting. Scenario planning and capital planning has been incorporated in the 2017/18 budget setting process.	Tim Baulk	31 March 2018	
Corporate Plan	We note the Corporate Plan finishes in 2018, therefore we recommend this is updated	A new 4 year Corporate Plan will be written up and implemented for 2018	Helen McPhee	31 March 2018	

Key:

-  High Priority
-  Medium Priority
-  Low Priority

Fraud responsibilities and representations

Responsibilities explained



Responsibilities:

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.



Required representations:

We have asked the Board to confirm in writing that you have disclosed to us the results of your own assessment of the risk that the financial statements may be materially misstated as a result of fraud and that you are not aware of any fraud or suspected fraud that affects the entity or group.

We have also asked the Board to confirm in writing their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.



Audit work performed:

In our planning we identified the risk of fraud in the completeness and accuracy of income and management override of controls as a key audit risk for your organisation.

During course of our audit, we have had discussions with management and those charged with governance.

In addition, we have reviewed management's own documented procedures regarding fraud and error in the financial statements

We have reviewed the paper prepared by management for the Board on the process for identifying, evaluating and managing the system of internal financial control.

Concerns:

From our year-end audit procedures and discussions with management we have noted no cause for concern around the fraud arrangements in place



Independence and fees

As part of our obligations under International Standards on Auditing (UK and Ireland) and the Companies Act, we are required to report to you on the matters listed below:

Independence confirmation	We confirm that we comply with APB Ethical Standards for Auditors and that, in our professional judgement, we and, where applicable, all Deloitte network firms are independent and our objectivity is not compromised.
Fees	<p>The audit fee for 2016/17 is £6,970 as detailed in our Audit Plan.</p> <p>No non-audit fees have been charged by Deloitte in the period.</p>
Non-audit services	In our opinion there are no inconsistencies between APB Ethical Standards for Auditors and the company's policy for the supply of non-audit services or any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.
Relationships	<p>We are required to provide written details of all relationships (including the provision of non-audit services) between us and the organisation, its Board and senior management and its affiliates, including all services provided by us and the DTTL network to the audited entity, its Board and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on our objectivity and independence.</p> <p>We are not aware of any relationships which are required to be disclosed.</p>





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