



Ayrshire Valuation Joint Board

Annual Audit Plan
2015/16

Prepared for Members of Ayrshire Valuation Joint
Board

March 2016



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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.

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

Introduction

1. Our audit is focused on the identification and assessment of the risks of material misstatement in Ayrshire Valuation Joint Board's financial statements.
 2. This report summarises the key challenges and risks facing Ayrshire Valuation Joint Board and sets out the audit work that we propose to undertake in 2015/16. Our plan reflects:
 - the risks and priorities facing Ayrshire Valuation Joint Board
 - current national risks that are relevant to local circumstances
 - the impact of changing international auditing and accounting standards
 - our responsibilities under the Code of Audit Practice as approved by the Accounts Commission and Auditor General for Scotland
 - issues brought forward from previous audit reports.
- they give a true and fair view of the state of affairs of Ayrshire Valuation Joint Board as at 31 March 2016 and its income and expenditure for the year then ended
 - the accounts have been properly prepared in accordance with the Local Government (Scotland) Act 1973 and the 2015/16 Code of Practice on Local Authority Accounting in the United Kingdom (the Code)
 - a review and assessment of Ayrshire Valuation Joint Board's governance and performance arrangements in a number of key areas including: internal controls and the adequacy of internal audit

Summary of planned audit activity

3. Our planned work in 2015/16 includes:
 - an audit of the financial statements and provision of an opinion on whether:

Responsibilities

Responsibility of the appointed auditor

4. Our responsibilities, as independent auditor, are established by the Local Government (Scotland) Act 1973 and the Code of Audit Practice, and guided by the auditing profession's ethical guidance.
5. Auditors in the public sector give an independent opinion on the financial statements. We also review and report on the arrangements set in place by the audited body to ensure the proper conduct of its financial affairs and to manage its performance and use of resources. In doing this, we aim to support improvement and accountability.
6. The audit of the financial statements does not relieve management or the board of their responsibilities.

Responsibility of the Treasurer

7. It is the responsibility of the Treasurer, as the appointed "proper officer", to prepare the financial statements in accordance with relevant legislation and the Code of Practice on Local Authority Accounting in the United Kingdom (the Code). This means:
 - acting within the law and ensuring the regularity of transactions by implementing appropriate systems of internal control
 - maintaining proper accounting records

- preparing financial statements which give a true and fair view of the state of affairs of Ayrshire Valuation Joint Board as at 31 March 2016 and its expenditure and income for the year then ended.

Format of the accounts

8. The financial statements should be prepared in accordance with the Code and with due regard to other sources of guidance on good practice presentation of the annual financial statements.

Audit Approach

Our approach

9. Our audit approach is based on an understanding of the characteristics, responsibilities, principal activities, risks and governance arrangements of Ayrshire Valuation Joint Board. We also consider the key audit risks and challenges in the local government sector generally. This approach includes:
 - understanding the business of Ayrshire Valuation Joint Board and the risk exposure which could impact on the financial statements
 - assessing the key systems of internal control, and considering how risks in these systems could impact on the financial statements
 - identifying major transaction streams, balances and areas of estimation and understanding how Ayrshire Valuation Joint Board will include these in the financial statements
 - assessing and addressing the risk of material misstatement in the financial statements
 - determining the nature, timing and extent of the audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements give a true and fair view.
10. We have also considered and documented the sources of assurance which will make best use of our resources and allow us to focus audit testing on higher risk areas during the audit of the financial statements. The main areas of assurance for the audit come from planned management action and reliance on systems of internal control. Planned management action being relied on for 2015/16 includes:
 - comprehensive closedown procedures for the council and group financial statements accompanied by a timetable issued to all relevant staff
 - clear responsibilities for preparation of financial statements and the provision of supporting working papers
 - delivery of unaudited financial statements to agreed timescales with a comprehensive working papers package
 - completion of the internal audit programme for 2015/16.
11. Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. Internal audit is provided by the host authority, South Ayrshire Council. We seek to rely on the work of internal audit wherever possible and as part of our planning process we carry out an early assessment of the internal audit function. Overall we concluded that the internal audit service operates in accordance with Public Sector Internal Audit Standards (PSIAS).
12. In respect of our wider governance and performance audit work we will consider other areas of internal audit work where appropriate:

Materiality

13. 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, the failure to achieve a statutory requirement or, an item contrary to law). In the event of such an item arising, its materiality has to be viewed in a narrower context; such matters would normally fall to be covered in an explanatory paragraph in the independent auditor's report.
14. 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.
15. Based on our knowledge and understanding of Ayrshire Valuation Joint Board we have set our planning materiality at £22,000 (1% of gross expenditure).
16. We set a lower level, known as performance materiality, when defining our audit procedures. This is to ensure that uncorrected and undetected audit differences do not exceed our planning materiality. This level depends on professional judgement and is informed by a number of factors including:
 - extent of estimation and judgement within the financial statements

- nature and extent of prior year misstatements
 - extent of audit testing coverage.
17. For 2015/16 performance materiality has been set at £12,000. We will report, to those charged with governance, all misstatements identified which are greater than £5,000.

Reporting arrangements

18. The Local Authority Accounts (Scotland) Regulations 2014 require that the unaudited financial statements are submitted to the external auditor no later than 30 June each year. The board is required to consider the unaudited financial statements by 31 August.
19. The board must publish the unaudited financial statements on its website and give public notice of the statutory inspection period.
20. The board must meet by 30 September to consider whether to approve the audited financial statements. Immediately after approval, the annual accounts require to be signed and dated by specified members and officers and then provided to the auditor. The Controller of Audit requires audit completion and issue of an independent auditor's report by 30 September each year.
21. The board must publish its audited financial statements and independent auditor's report by 31 October and publish the annual audit report on its website by 31 December.
22. A proposed timetable for the audit of the 2015/16 financial statements is included at Exhibit 1 below.

Exhibit 1: Financial statements audit timetable

Key stage	Date
Testing and review of internal control systems and transactions	January to March 2016
Meetings with officers to clarify expectations of working papers and financial system reports	By 31 March 2016
Consideration of unaudited financial statements by those charged with governance	24 May 2016
Latest submission date of unaudited council financial statements with complete working papers package	By 31 May 2016
Progress meetings with lead officers on emerging issues	As required
Latest date for final clearance meeting with the Treasurer	tbc
Agreement of audited unsigned financial statements, and issue of Annual Audit Report which includes the ISA 260 report to those charged with governance	1 September 2016
Independent auditor's report signed	By 30 September 2016

23. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft reports will be issued to the Assessor and Treasurer to confirm factual accuracy. A copy of all

final agreed reports will be sent to the Assessor, the Treasurer, the Audit Services/Programme Review Manager at South Ayrshire Council, and Audit Scotland's Performance Audit and Best Value Group.

24. We will provide an independent auditor's report to Ayrshire Valuation Joint Board and the Accounts Commission that the audit of the financial statements has been completed in accordance with applicable statutory requirements. The combined ISA 260 and Annual Audit Report will be issued by 30 September.
25. All annual audit reports produced are published on Audit Scotland's website: www.audit-scotland.gov.uk.
26. Planned outputs for 2015/16 are summarised at [Appendix 1](#).

Quality control

27. International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires that a system of quality control is established as part of financial audit procedures. This is to provide reasonable assurance that those professional standards and regulatory and legal requirements are being complied with and that the independent auditor's report or opinion is appropriate in the circumstances. The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice issued by Audit Scotland and approved by the Accounts Commission. To ensure that we achieve the required quality standards, Audit Scotland conducts peer reviews and internal quality reviews and

has been subject to a programme of external reviews by the Institute of Chartered Accountants of Scotland (ICAS).

28. As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We do, however, welcome feedback at any time and this may be directed to the engagement lead, Dave Richardson.

Independence and objectivity

29. Auditors appointed by the Accounts Commission must comply with the Code of Audit Practice. When auditing the financial statements, auditors must also comply with professional standards issued by the Auditing Practices Board (APB) and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has in place robust arrangements to ensure compliance with these standards including an annual “fit and proper” declaration for all members of staff. The arrangements are overseen by the Assistant Auditor General, who serves as Audit Scotland’s Ethics Partner.
30. Auditing and ethical standards require us to communicate any relationships that may affect the independence and objectivity of audit staff. In significant cases we would change the audit team, however where there are potential issues that are not fundamental to the delivery of the audit, we advise the proper officer of the circumstances and of the steps we have taken to manage this. We are not aware of any other such relationships pertaining to the audit of South Ayrshire Council.

Audit issues and risks

Audit issues and risks

31. Based on our discussions with staff, attendance at committee meetings and a review of supporting information we have identified the following main risk areas for Ayrshire Valuation Joint Board. We have categorised these risks into financial risks and wider dimension risks. The financial statements issues and risks, which require specific audit testing, are summarised below and detail contained in [Appendix 2](#).

Financial statement issues and risks

32. **Risk 1 - Management override of controls:** In any organisation, management and those charged with governance need to implement a system of internal control designed to provide reasonable assurance about the reliability of financial reporting. The term 'management override of controls' is used in International Standard of Auditing 240 and refers to the unique position of management to manipulate accounting records and prepare fraudulent financial statements by overriding controls, even where the controls might otherwise appear to be operating effectively.
33. While we have no specific concerns at Ayrshire Valuation Joint Board, ISA 240 requires the auditor to conduct planned procedures to obtain reasonable assurance that the financial statements are free from fraud resulting from management override of controls.

34. **Risk 2 – Financial sustainability:** The board has been operating with a standstill budget since 2011/12: effectively a real terms reduction in funding. The board plans to replace the electoral registration system in 2016/17 within the resources available. Careful budgeting and long term planning will be necessary to ensure the board maintains its capacity to deliver services to the constituent councils and the citizens of Ayrshire.
35. **Risk 3 – Pension liability:** The figures for the accounts are prepared by the actuary based on the information provided by the board. 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. We will need to assure ourselves that this has been considered for the actuarial valuations included in the accounts.

Wider dimension issues and risks

36. No risks have been identified

National performance audit studies

37. Audit Scotland's Performance Audit and Best Value Group undertake a programme of studies on behalf of the Auditor General and Accounts Commission. In line with Audit Scotland's strategy to support improvement through the audit process, we will carry out work to collect relevant financial and performance information to inform Audit Scotland's national reports.

Fees and resources

Audit fee

38. Over the past four years, Audit Scotland has reduced audit fees by 24% in real terms, exceeding our 20% target. Due to further refinement of our audit approach we have been able to maintain audit fees for 2015/16 at the same level as last year. This represents an additional real terms fee reduction of 1.6%.
39. In determining the audit fee we have taken account of the risk exposure of Ayrshire Valuation Joint Board, the planned management assurances in place, and the level of reliance we plan to take from the work of internal audit. We have assumed receipt of a complete set of unaudited financial statements and comprehensive working papers package by 31 May 2016.
40. The proposed audit fee for the 2015/16 audit of Ayrshire Valuation Joint Board is £7,090. Our fee covers:
 - the costs of planning, delivering and reporting the annual audit including auditor's attendance at committees
 - your organisations allocation of the cost of national performance studies and statutory reports by the Auditor General for Scotland
 - a contribution towards functions that support the local audit process (e.g. technical support and coordination of the National

Fraud Initiative), support costs and auditors' travel and subsistence expenses.

41. Where our audit cannot proceed as planned through, for example, late receipt of unaudited financial statements or being unable to take planned reliance from the work of internal audit, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises outwith our planned audit activity.

Audit team

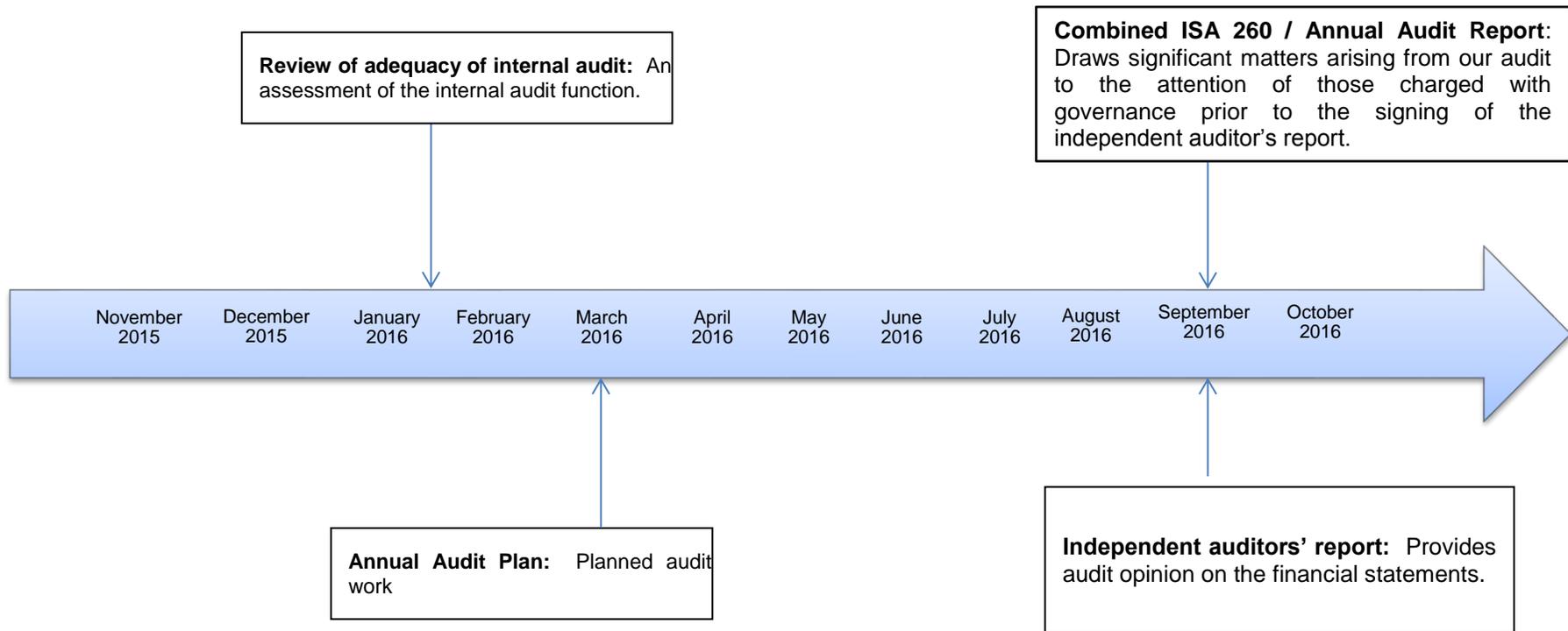
42. Dave Richardson, Senior Audit Manager, Audit Services is your appointed auditor. The local audit team will be led by Alan MacKenzie who will be responsible for day to day management of the audit and who will be your primary contact. Details of the experience and skills of our team are provided in Exhibit 2. The core team will call on other specialist and support staff as necessary.

Exhibit 2: Audit team

Name	Experience
Dave Richardson FCCA Senior Audit Manager (client manager and certifying auditor)	Dave worked in both the public and private sector prior to joining the Accounts Commission over 26 years ago. In his time with the Accounts Commission and Audit Scotland, Dave has been involved in the audit of many local authorities, NHS and central government bodies.
Alan MacKenzie Auditor	Alan has nearly 15 years experience of working in public sector audit with Audit Scotland. He has significant audit experience of both local government and NHS bodies. Prior to joining Audit Scotland, he gained many years experience in audit and financial management in the private sector.

Appendix 1: Planned audit outputs

The diagram below shows the key outputs planned for Ayrshire Valuation Joint Board in 2015/16.



Appendix 2: Significant audit risks

The table below sets out the key audit risks, the related sources of assurance received and the audit work we propose to undertake to address the risks during our audit work.

#	Audit Risk	Source of assurance	Audit assurance procedure
Financial statement issues and risks			
1	<p>Management override of controls.</p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, including the potential for management override of controls.</p> <p><i>Risk: Management manipulation of the position disclosed in the financial statements by overriding controls that otherwise appear to be operating effectively.</i></p>	<ul style="list-style-type: none"> • A sound system of budgetary control, including regular budget monitoring. • Regular updates of Standing Orders and Financial Regulations, which require approval by the board. 	<ul style="list-style-type: none"> • Detailed testing of journal entries • Review of accounting estimates for bias • Evaluating significant transactions that are outside the normal course of business
2	<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><i>Risk: The board cannot deliver to the expectations of constituent councils and the public.</i></p>	<ul style="list-style-type: none"> • Three year budget proposals prepared and updated annually 	<ul style="list-style-type: none"> • We will continue to review budget monitoring reports presented to the board and comment in our final report on the audit

#	Audit Risk	Source of assurance	Audit assurance procedure
3	<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><i>Risk: 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</i></p>	<ul style="list-style-type: none"> Actuarial report 	<ul style="list-style-type: none"> Confirm disclosures in the financial statements to the IAS 19 report from the scheme actuary Ensure details provided to the scheme actuary are accurate

Ayrshire Valuation Joint Board Equalities Scoping Template

1. Policy details

Policy Title	Lead Officer
Annual Audit Plan 2015/16	Tom Simpson

2. Which communities, groups of people, employees or thematic groups do you think will be, or potentially could be, impacted upon by the implementation of this policy? Please indicate whether these would be positive or negative impacts

Community, Groups of People or Themes	Negative Impacts	Positive Impacts
The whole community of Ayrshire	-	-
People from different racial groups, ethnic or national origin.	-	-
Women and/or men (boys and girls)	-	-
People with disabilities	-	-
People from particular age groups for example Older people, children and young people	-	-
Lesbian, gay, bisexual and heterosexual people	-	-
People who are proposing to undergo, are undergoing or have undergone a process to change sex	-	-
Pregnant women and new mothers	-	-
People who are married or in a civil partnership	-	-
People who share a particular religion or belief	-	-
Thematic Groups: Health, Human Rights, Rurality and Deprivation.	-	-

3. Do you have evidence or reason to believe that the policy will support the Board to:

General Duty and other Equality Themes	Level of Negative and/or Positive Impact (high, medium or low)
Eliminate discrimination and harassment faced by particular communities or groups	Low impact
Promote equality of opportunity between particular communities or groups	Low impact
Foster good relations between particular communities or groups	Low impact
Promote positive attitudes towards different communities or groups	Low impact
Increase participation of particular communities or groups in public life	Low impact
Improve the health and wellbeing of particular communities or groups	Low impact
Promote the human rights of particular communities or groups	Low impact
Tackle deprivation faced by particular communities or groups	Low impact

4. Summary Assessment

Is a full Equalities Impact Assessment (EIA) required? (A full EIA must be carried out on all high and medium impact policies)	YES <input type="checkbox"/> NO <input checked="" type="checkbox"/>
Rationale for decision: The report submits Audit Scotland's report on the annual audit plan, and asks Members to approve the summary assurance plan. Their decision on this has no specific equality implications.	
Tim Baulk Signed _____ Treasurer	
Date: 9 March 2016	Copy to equalities@south-ayrshire.gov.uk