

# Scottish Borders Council

Annual Audit Plan 2019/20



 AUDIT SCOTLAND

Prepared for Scottish Borders Council

February 2020

## Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



## About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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# Risks and planned work

1. This annual audit plan contains an overview of the planned scope and timing of our audit which is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and [guidance on planning the audit](#). This plan sets out the work necessary to allow us to provide an independent auditor's report on the annual accounts and meet the wider scope requirements of public audit including the audit of Best Value.

2. The wider scope of public audit contributes to assessments and conclusions on financial management, financial sustainability, governance and transparency and value for money.

## Adding value

3. We aim to add value to the Scottish Borders Council ("the council") through our external audit work by being constructive and forward looking, by identifying areas for improvement and by recommending and encouraging good practice. In so doing, we intend to help the Scottish Borders Council promote improved standards of governance, better management and decision making and more effective use of resources.

## Audit risks

4. Based on our discussions with officers, attendance at committee meetings and review of supporting information we have identified the following significant risks for Scottish Borders Council. We have categorised these risks into financial statements risks and wider dimension risks. The key audit risks, which require specific audit testing, are detailed in [Exhibit 1](#).

## Exhibit 1 2019/20 Significant audit risks

 Audit Risk	Source of assurance	Planned audit work
<b>Financial statements risks</b>		
<p>1 <b>Risk of management override of controls</b></p> <p>Although we have not identified any specific risks of management override relating to the council, 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. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable.</p>	<ul style="list-style-type: none"> <li>• Detailed testing of journal entries.</li> <li>• Review of accounting estimates.</li> <li>• Focused testing of accruals and prepayments.</li> <li>• Evaluation of significant transactions that are outside the normal course of business.</li> </ul>

 <b>Audit Risk</b>	<b>Source of assurance</b>	<b>Planned audit work</b>
<p><b>2 Risk of fraud over income</b></p> <p>Scottish Borders Council receives a significant amount of income in addition to Scottish Government funding. The extent and complexity of income means that, in accordance with ISA240, there is an inherent risk of fraud.</p>	<p>Regular budget monitoring and reporting.</p> <p>Effective internal controls in financial systems to mitigate risks of error or manipulation.</p> <p>Internal audit coverage of internal financial controls.</p> <p>Participation in the National Fraud Initiative.</p> <p>Council's Counter Fraud Steering Group agrees and monitors counter fraud improvement actions.</p>	<ul style="list-style-type: none"> <li>Analytical procedures on income streams.</li> <li>Detailed testing of revenue transactions focusing on the areas of greatest risk.</li> </ul>
<p><b>3 Risk of fraud over expenditure</b></p> <p>Practice Note 10 (Audit of financial statements of public sector bodies in the UK) and the Code of Audit Practice expands the ISA assumption on fraud over income to aspects of expenditure. The council incurs significant expenditure in areas such as welfare benefits, social care payments and grants.</p>	<p>Regular budget monitoring and reporting.</p> <p>Effective internal controls in financial systems to mitigate risks of error or manipulation.</p> <p>Internal audit coverage of internal financial controls.</p> <p>Participation in the National Fraud Initiative.</p> <p>Council's Counter Fraud Steering Group agrees and monitors counter fraud improvement actions.</p>	<ul style="list-style-type: none"> <li>Review of management's progress on analysing National Fraud Initiative matches.</li> <li>Review of internal audit work on systems of internal control.</li> <li>Assessing the overarching controls in grant schemes.</li> <li>Detailed testing of expenditure including housing benefit transactions.</li> </ul>
<p><b>4 Estimation and judgements</b></p> <p>There is a significant degree of subjectivity in the measurement and valuation of the material account areas of non-current assets and provisions. This subjectivity represents an increased risk of misstatement in the financial statements.</p>	<p>Valuation and impairment review of non-current assets by professional valuer in line with 5 year rolling programme.</p> <p>Confirmation from legal services of all potential litigation cases together with an assessment of potential liability and likelihood of settlement.</p>	<ul style="list-style-type: none"> <li>Completion of 'review of the work of an expert' for the professional valuer and actuary.</li> <li>Focused substantive testing of key areas.</li> </ul>
<p><b>5 SB Cares</b></p> <p>The council took the decision in September 2019 to bring its subsidiary, SB Cares, back inhouse from December 2019. This involves the council taking direct responsibility for the services provided by SB Cares and includes almost 600 SB Cares staff being transferred back to the council. SB Cares has been included in the council's group</p>	<p>Reintegration of SB Cares managed by a group of senior council and SB Cares officers who have met regularly throughout the process.</p> <p>Detailed project plan in place and Internal Audit providing assurances on the transfer of balances.</p>	<ul style="list-style-type: none"> <li>Review arrangements for the transfer of all balances.</li> <li>Review arrangements for completeness of liabilities at point of change and at year end.</li> </ul>

	Audit Risk	Source of assurance	Planned audit work
	<p>accounts as a subsidiary in previous years.</p> <p>There is a risk that the transfer is not correctly accounted for in the group or single-entity financial statements.</p>		
<b>Wider dimension risks</b>			
<b>6</b>	<p><b>Management team changes</b></p> <p>One of the council's two Executive Directors retired at the end of December 2019 and the Service Director – Regulatory Services retired at the end of January 2020. The responsibilities of these officers are being shared amongst other members of the council's Corporate Management Team (CMT).</p> <p>There is a risk that the capacity of the CMT is stretched and that this impacts on the effective delivery of services.</p>	<p>Organisational review of senior management structure of the council to ensure work-loads are manageable, and service delivery is not impacted.</p> <p>Staff structures and responsibilities realigned where appropriate.</p>	<ul style="list-style-type: none"> <li>Review adequacy of governance arrangements during the year.</li> <li>Comment in the Annual Audit Report.</li> </ul>
<b>7</b>	<p><b>Transformation programme</b></p> <p>The council has an ambitious transformation programme, 'Fit for 2024', which began in 2019. The aim of the programme is to improve how the council is managed as well as achieving savings of £30m over the five year period. This programme was also commented on in our Best Value Assurance Report.</p> <p>There is a risk that the council is unable to achieve the required improvements and savings and that this impacts on the delivery of council services.</p>	<p>Updates on progress with the programme provided to members on a regular basis during the year.</p> <p>Internal audit review of arrangements in place.</p>	<ul style="list-style-type: none"> <li>Monitor updates provided during the year.</li> <li>Comment in Annual Audit Report.</li> <li>BVAR follow up work (see paragraph 36)</li> </ul>

Source: Audit Scotland

## Reporting arrangements

**5.** Audit reporting is the visible output for the annual audit. All annual audit plans and the outputs as detailed in [Exhibit 2](#), and any other outputs on matters of public interest will be published on our website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

**6.** Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the relevant officer(s) to confirm factual accuracy.

**7.** We will provide an independent auditor's report to the council and Accounts Commission setting out our opinions on the annual accounts. We will also provide the council and Controller of Audit with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

## Exhibit 2

### 2019/20 Audit outputs

Audit Output	Target date	Committee Date
Annual Audit Plan	31 January 2020	10 February 2020
Interim Management Report	1 May 2020	11 May 2020
National Fraud Initiative (NFI) return	28 February 2020	N/A
Bus Operators grant certification	30 June 2020	N/A
Education Maintenance Allowance grant certification	31 July 2020	N/A
Annual Audit Report	11 September 2020	21 September 2020
Signed Independent Auditor's Report	25 September 2020	N/A
Whole of Government Accounts return certification	30 September 2020	N/A
Non Domestic Rate return certification	2 October 2020	N/A
Housing Benefits return certification	30 November 2020	N/A

Source: Audit Scotland

**8.** The Charities Accounts (Scotland) Regulations 2006 require charities to prepare annual accounts and require an accompanying auditor's report where legislation requires an audit. The Local Government (Scotland) Act 1973 specifies the audit requirements for any trust fund where some or all members of a council are the sole trustees. The council administers six trusts with charitable status. The council also prepares group accounts which incorporate six subsidiaries, one associate and one joint venture. We will perform the audit of the council's charitable trusts and group accounts in parallel with the audit of Scottish Borders Council's financial statements. There are no specific risks for these audits which we require to bring to your attention.

### Audit fee

**9.** The audit fee for the 2019/20 audit of Scottish Borders Council is £280,360, which includes £6,000 for the audit of the trusts (2018/19: £275,170 including £6,000 for the audit of the trusts). In determining the audit fee we have taken account of the risk exposure of Scottish Borders Council, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit. Our audit approach assumes receipt of the unaudited annual accounts, with a complete working papers package on 29 June 2020.

**10.** Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual accounts or being unable to use 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.

## Responsibilities

### Audit and Scrutiny Committee

**11.** Audited bodies have the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to successfully deliver their objectives.

**12.** The audit of the annual accounts does not relieve management or the Audit & Scrutiny Committee as those charged with governance, of their responsibilities.

### Appointed auditor

**13.** Our responsibilities as independent auditors are established by the 1973 Act for local government and the Code of Audit Practice (including supplementary guidance) and guided by the Financial Reporting Council's Ethical Standard.

**14.** Auditors in the public sector give an independent opinion on the financial statements and other information within the annual accounts. We also review and report on the arrangements within the audited body to manage its performance and use of resources. In doing this, we aim to support improvement and accountability.

# Audit scope and timing

## Annual accounts

**15.** The annual accounts, which include the financial statements, will be the foundation and source for most of the audit work necessary to support our judgements and conclusions. We also consider the wider environment and challenges facing the public sector. Our audit approach includes:

- understanding the business of Scottish Borders Council and the associated risks which could impact on the financial statements
- assessing the key systems of internal control, and establishing how weaknesses in these systems could impact on the financial statements
- identifying major transaction streams, balances and areas of estimation and understanding how Scottish Borders Council will include these in the financial statements
- assessing the risks of material misstatement in the financial statements
- determining the nature, timing and extent of audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements are free of material misstatement.

**16.** We will give an opinion on whether the financial statements:

- give a true and fair view of the state of affairs of the council and its group as at 31 March 2020 and of the income and expenditure of the council and its group for the year then ended;
- have been properly prepared in accordance with the financial reporting framework.



characteristics



responsibilities



principal activities



risks



governance arrangements

## Statutory other information in the annual accounts

**17.** We review and report on statutory other information published within the annual accounts including the management commentary, annual governance statement and the remuneration report. We give an opinion on whether these have been compiled in accordance with the appropriate regulations and frameworks in our independent auditor's report.

**18.** We also review the content of the annual accounts for consistency with the financial statements and with our knowledge. We report any uncorrected material misstatements in statutory other information.

## Materiality

**19.** We apply the concept of materiality in planning and performing the audit. It is used in evaluating the effect of identified misstatements on the audit, and of any uncorrected misstatements, on the financial statements and in forming our opinions in the independent auditor's report.

**20.** We calculate materiality at different levels as described below. The calculated materiality values for Scottish Borders Council are set out in [Exhibit 3](#).

## Exhibit 3

### Materiality values

Materiality	Amount
<b>Planning materiality</b> – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. It has been set at 1% of gross expenditure for the year ended 31 March 2019 based on the latest audited accounts for 2018/19.	£3.70 million
<b>Performance materiality</b> – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement, we have calculated performance materiality at 50% of planning materiality.	£1.85 million
<b>Reporting threshold</b> – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. This has been calculated at 2% of planning materiality.	£75,000

Source: Audit Scotland

## Timetable

**21.** To support the efficient use of resources it is critical that the annual accounts timetable is agreed with us to produce the unaudited accounts. We have included an agreed timetable at [Exhibit 4](#).

## Exhibit 4

### Annual accounts timetable

 Key stage	 Date
Consideration of unaudited annual accounts by Audit & Scrutiny Committee	23 June 2020
Latest submission date of unaudited annual accounts with complete working papers package	30 June 2020
Confirmation of audited figures for components included in the group accounts	by 31 August 2020
Latest date for final clearance meeting with Chief Finance Officer	4 September 2020
Issue of Letter of Representation and proposed independent auditor's report (including our Annual Audit Report) to management	11 September 2020
Issue of Annual Audit Report to Audit & Scrutiny Committee	21 September 2020 (TBC)
Agreement of audited unsigned annual accounts by the council	24 September 2020 (TBC)
Independent auditor's report signed	25 September 2020
Latest date for signing of WGA return	30 September 2020

## Internal audit

**22.** Internal audit is provided by a team of Scottish Borders Council staff overseen by the Chief Officer Audit & Risk. As part of our planning process we carry out an annual assessment of the internal audit function to ensure that it operates in accordance with Public Sector Internal Audit Standards (PSIAS). This includes:

- the extent to which the internal audit function's organisational status and relevant policies and procedures support the objectivity of the internal auditors
- the level of competence of the internal audit function
- whether the internal audit function applies a systematic and disciplined approach, including quality control.

**23.** Our review of internal audit concluded that the internal audit function operates in accordance with the PSIAS and has sound documentation standards and reporting procedures in place.

### Using the work of internal audit

**24.** Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to use the work of internal audit wherever possible to minimise duplication. We plan to consider the findings of the work of internal audit to ensure the total resource is used efficiently or effectively.

**25.** From our initial review of internal audit plans we plan to use the work of internal audit for the audit of the financial statements in the following areas:

- Business World (Key internal controls over financial systems)
- Member Allowances
- SB Contracts.

**26.** In respect of our wider dimension audit responsibilities we also plan to consider other areas of internal audit work including:

- ICT Security
- ICT Business Systems
- Corporate Transformation.

## Audit dimensions

**27.** Our audit is based on four audit dimensions that frame the wider scope of public sector audit requirements as shown in [Exhibit 5](#).

## Exhibit 5

### Audit dimensions



Source: Code of Audit Practice

**28.** In the local government sector, the appointed auditor's annual conclusions on these four dimensions will help contribute to an overall assessment and assurance on best value.

#### Financial sustainability

**29.** As auditors we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We will also comment on financial sustainability in the longer term. We define this as short term (up to two years), medium term (two to five years) and longer term (longer than five years) sustainability. We will carry out work and conclude on:

- the effectiveness of financial planning in identifying and addressing risks to financial sustainability in the short, medium and long term
- the appropriateness and effectiveness of arrangements in place to address any identified funding gaps
- whether there are arrangements in place to demonstrate the affordability and effectiveness of funding and investment decisions.

#### Financial management

**30.** Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively. We will review, conclude and report on:

- whether arrangements are in place to ensure systems of internal control are operating effectively
- the effectiveness of the budgetary control system in communicating accurate and timely financial performance
- how the council has assured itself that its financial capacity and skills are appropriate
- the risk of fraud and corruption in relation to procurement processes

- whether there are appropriate and effective arrangements in place for the prevention and detection of fraud and corruption.

### Governance and transparency

**31.** Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision-making and transparent reporting of financial and performance information. We will review, conclude and report on:

- whether the council can demonstrate that the governance arrangements in place are appropriate and operating effectively (including services delivered by, or in partnership with, others such as ALEOs)
- whether there is effective scrutiny, challenge and transparency on the decision-making and finance and performance reports
- the quality and timeliness of financial and performance reporting.

### Value for money

**32.** Value for money refers to using resources effectively and continually improving services. We will review, conclude and report on whether the council can demonstrate :

- value for money in the use of resources
- there is a clear link between money spent, output and outcomes delivered
- that outcomes are improving
- there is sufficient focus on improvement and the pace of it.

### Best Value

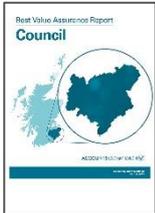
**33.** The Accounts Commission agreed the overall framework for a new approach to auditing Best Value in June 2016. The introduction of the new approach coincided with the new five-year audit appointments. Auditors started using the framework for their audit work from October 2016.

**34.** A key feature of the new approach is that it integrates Best Value into the wider scope annual audit, which will influence audit planning and reporting. Best Value will be assessed comprehensively over the five-year audit appointment, both through the ongoing annual audit work, and through discrete packages of work to look at specific issues. Conclusions and judgements on Best Value will be reported through:

- The Annual Audit Report for each council that will provide a rounded picture of the council overall.
- An annual assurance and risks report that the Controller of Audit will provide to the Commission that will highlight issues from across all 32 council annual audit reports.
- A Best Value Assurance Report (BVAR) for each council that will be considered by the Accounts Commission at least once in a five-year period.

**35.** The seven councils on which a BVAR will be published during the fourth year of the new approach are listed in [Exhibit 6](#). Reports will be considered by the Accounts Commission in the period between March and November 2020.

## Exhibit 6 2019/20 Best Value Assurance Reports

	Aberdeenshire Council	Dundee Council
	Argyle and Bute Council	Falkirk Council
	City of Edinburgh Council	Moray Council
	North Ayrshire Council	

Source: Audit Scotland

**36.** Scottish Borders Council was the subject of a BVAR in 2018/19 and the BVAR report was published in October 2019. The work planned this year will focus on the council's progress towards implementing the recommendations made in the 2018/19 BVAR.

**37.** We will also assess the council's arrangements for demonstrating Best Value in Sustainability and Equalities and Fairness. The work will be integrated with that described above. It will involve us gaining an understanding of how effective the council's self-evaluation processes are in driving improvement across the council. The results of this work will be reported in the Annual Audit Report.

### Independence and objectivity

**38.** Auditors appointed by the Accounts Commission or Auditor General must comply with the Code of Audit Practice and relevant supporting guidance. When auditing the financial statements auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has robust arrangements in place to ensure compliance with these standards including an annual "fit and proper" declaration for all members of staff. The arrangements are overseen by the Director of Audit Services, who serves as Audit Scotland's Ethics Partner.

**39.** The engagement lead (i.e. appointed auditor) for Scottish Borders Council is Gillian Woolman, Audit Director. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of Scottish Borders Council.

### Quality control

**40.** International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires a system of quality control to be established, as part of financial audit procedures, to provide reasonable assurance that 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.

**41.** 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 (and supporting guidance) issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards Audit Scotland conducts peer reviews and internal quality reviews. Additionally, the Institute of Chartered Accountants of Scotland (ICAS) have been commissioned to carry out external quality reviews.

**42.** 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 welcome feedback at any time and this may be directed to the engagement lead.

# Scottish Borders Council

## Annual Audit Plan 2019/20

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