

# Scottish Borders Council

Annual Audit Plan 2017/18



 AUDIT SCOTLAND

Prepared for Scottish Borders Council  
March 2018

## 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 and is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and any other relevant guidance. This plan identifies our audit work to provide an opinion on the financial statements and related matters and meet the wider scope requirements of public sector audit including the new approach to Best Value.
2. The wider scope of public audit contributes to conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

## Audit risks

3. Based on our discussions with management, attendance at committee meetings and a review of supporting information we have identified the following main risk areas for Scottish Borders Council (“the 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

### 2017/18 Key audit risks

Audit Risk	Source of assurance	Planned audit work
<b>Financial statements issues and risks</b>		
<p><b>1 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>	<p>Detailed testing of journal entries.</p> <p>Review of accounting estimates.</p> <p>Focused testing of accruals and prepayments.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p>
<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</p>	<p>Regular budget monitoring and reporting.</p> <p>Internal controls in financial systems to mitigate risks of error or manipulation.</p> <p>Internal audit coverage of</p>	<p>Analytical procedures on income streams.</p> <p>Detailed testing of revenue transactions focusing on the areas of greatest risk.</p>

Audit Risk	Source of assurance	Planned audit work
<p>an inherent risk of fraud.</p>	<p>internal financial controls. Participation in the National Fraud Initiative.</p>	
<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>Internal controls in financial systems to mitigate risks of error or manipulation. Internal audit coverage of internal financial controls. Participation in the National Fraud Initiative.</p>	<p>Review of management's progress on analysing National Fraud Initiative matches. Review of internal audit work on systems of internal control. Assessing the overarching controls in grant schemes. Detailed testing of expenditure including housing benefit transactions.</p>
<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, pensions 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. Actuarial valuation to provide pension figures for the financial statements. Officer review of actuary information to ensure data and assumptions used are reasonable. Confirmation from legal services of all potential cases together with an assessment of potential liability and likelihood of settlement.</p>	<p>Completion of 'review of the work of an expert' for the professional valuer. Focused substantive testing of key areas.</p>
<p><b>5 New financial system</b></p> <p>The council introduced a new financial system, Business World ERP, in April 2017. Some issues have been experienced with the operation of the system since its implementation, including difficulties with the production of financial monitoring information from the system and manual intervention required to process some transactions.</p> <p>There is a risk that financial information may not be robust, which could impinge on members' scrutiny role. There may also be an adverse impact on the council's system of internal controls and the preparation and audit of the financial statements.</p>	<p>Internal audit work on the implementation of the new system and testing of controls. Work being done during the year to address issues with the system.</p>	<p>Review of internal audit work on the systems of internal control. Testing of the operation and effectiveness of the controls in place over the system.</p>

Audit Risk	Source of assurance	Planned audit work
<b>Wider dimension risks</b>		
<p><b>6 ICT transformation</b></p> <p>The council outsourced its ICT services to an external partner, CGI, from October 2016 as part of a 13 year contract. As part of this arrangement CGI had appointed another supplier, Agilisys, to implement parts of its digital transformation programme including the Digital Customer Access Project. However Agilisys' proposed solution for the project did not meet the council's requirements and during 2017 the council requested that CGI terminate the contract with Agilisys.</p> <p>There is a risk that the digital transformation programme is not delivered effectively and that planned efficiencies from improved services are not realised.</p>	<p>Effective governance arrangements in place to monitor arrangements.</p> <p>Regular reporting to council's Executive committee and CMT regarding progress with the ICT change programme.</p>	<p>Review the effectiveness of governance and risk management arrangements relating to the ICT contract.</p> <p>Comment in Annual Audit Report.</p>
<p><b>7 Risk registers</b></p> <p>The council maintains a corporate risk register, and members of the audit &amp; scrutiny committee receive regular presentations regarding risk management arrangements within services. However members do not receive regular updates on the risks that are included on the corporate risk register during the year.</p> <p>There is a risk that members are not aware of the significant risks identified at the council, or the actions being taken to mitigate these risks.</p>	<p>Risk management strategy and policy are being updated. Work is being done by the Corporate Risk Officer to identify level of reporting at other councils and will report findings to the Audit &amp; Scrutiny Committee during 2018.</p>	<p>Monitor risk reporting to committee during the year.</p> <p>Comment on risk management arrangements in Annual Audit Report.</p>
<p><b>8 Financial sustainability</b></p> <p>The council has a financial strategy covering the 5 year period 2018/19 – 2022/23. This strategy includes the requirement to identify £32m of savings over the period of the plan.</p> <p>There is a risk that the council will be unable to manage its budget pressures within available resources, leading to a reduction in the provision of services.</p>	<p>Medium term financial strategy regularly updated and reported to members.</p> <p>Budget monitoring reports presented to members on a regular basis.</p> <p>Transformation programme monitoring and reporting.</p>	<p>Review budget setting process and monitor updates provided to members.</p> <p>Comment in Annual Audit Report.</p>

4. The Charities Accounts (Scotland) Regulations 2006 specify the accounting and auditing requirements for Scottish registered charities. 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.

## Reporting arrangements

5. Audit reporting is the visible output for the annual audit. Outputs for the year are detailed in [Exhibit 2](#) below. All annual audit plans 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 Scottish Borders Council, and Accounts Commission setting out our opinions on the annual accounts. We will provide them with an annual report on the audit containing observations and recommendations on significant matters which have arisen in the course of the audit.

## Exhibit 2

### 2017/18 Audit outputs

Audit Output	Target date	Audit and Scrutiny Committee Date
National Fraud Initiative (NFI) return	28 February 2018	N/A
Annual Audit Plan	9 March 2018	19 March 2018
Local Scrutiny Plan	31 March 2018	14 May 2018
Interim Management Report	15 June 2018	26 June 2018
Bus Operators grant certification	30 June 2018	N/A
Education Maintenance Allowance grant certification	31 July 2018	N/A
Annual Audit Report	14 September 2018	24 September 2018 (TBC)
Independent Auditor's Report	28 September 2018	N/A
Criminal Justice Authority return certification	28 September 2018	N/A
Whole of Government Accounts return certification	28 September 2018	N/A
Non Domestic Rate return certification	5 October 2018	N/A
Housing Benefits return certification	30 November 2018	N/A

## Audit fee

**8.** The audit fee for the 2017/18 audit of Scottish Borders Council is £270,230 (£270,170 in 2016/17). This fee includes £6,000 for the audit of the charitable entities (£7,000 in 2016/17). 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 financial statements, with a complete working papers package on 25 June.

**9.** 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.

## Responsibilities

### Audit and Scrutiny Committee and Management

**10.** 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.

**11.** The audit of the financial statements does not relieve management or the Audit and Scrutiny Committee as those charged with governance, of their responsibilities.

### Appointed auditor

**12.** Our responsibilities as independent auditor are established by the 1973 Act for local government, and the Code of Audit Practice (including supplementary guidance) and guided by the auditing profession's ethical guidance.

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



# Audit scope and timing

## Financial statements

**14.** The statutory financial statements audit will be the foundation and source for the majority 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.

**15.** We will give an opinion on the financial statements as to:

- whether they give a true and fair view of the financial position of the council and its group and their expenditure and income
- whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements.

## Materiality

**16.** 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 opinion in the auditor's report.

**17.** 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 level	Amount
<b>Planning materiality</b> – This is the calculated figure we use in assessing 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 2017 based on the audited accounts for 2016/17.	£3.54 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.	£1.77 million
<b>Reporting threshold (i.e. clearly trivial)</b> – We are required to report to those charged with governance on all unadjusted misstatements in excess of the 'reporting threshold' amount. This has been calculated at 2% of planning materiality.	£70 thousand



18. We review and report on other information published with the financial statements including the management commentary, annual governance report and the remuneration report. Any issue identified will be reported to the Audit and Scrutiny Committee.

#### Timetable

19. To support the efficient use of resources it is critical that a financial statements timetable is agreed with us for the production of the unaudited accounts. An agreed timetable is included at [Exhibit 4](#) which takes account of submission requirements and planned Audit and Scrutiny Committee dates:

## Exhibit 4

### Financial statements timetable

 Key stage	 Date
Consideration of unaudited financial statements by those charged with governance	26 June 2018
Latest submission date of unaudited annual accounts with complete working papers package	26 June 2018
Latest date for final clearance meeting with Chief Financial Officer	7 September 2018
Agreement of audited unsigned annual accounts	27 September 2018
Issue of Annual Audit Report including ISA 260 report to those charged with governance	24 September 2018 (TBC)
Independent auditor's report signed	28 September 2018

**Key stage****Date**

Latest date for signing of WGA return

28 September  
2018

**Internal audit**

**20.** Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to rely on the work of internal audit wherever possible and as part of our planning process we carry out an assessment of the internal audit function. Internal audit is provided by a team of Scottish Borders Council staff overseen by the Chief Officer Audit & Risk.

**Adequacy of Internal Audit**

**21.** Our review of internal audit concluded that the internal audit function operates in accordance with the Public Sector Internal Audit Standards and has sound documentation standards and reporting procedures in place.

**Areas of Internal Audit reliance**

**22.** To support our audit opinion on the financial statements we plan to place formal reliance on the following planned internal audit reviews:

- Business World
- Revenues (Council tax)
- Grants incorporating following the public pound

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

- ICT contract management
- ICT security
- PSN compliance
- Performance management
- Corporate transformation programme
- Community engagement

**24.** In relation to the General Data Protection Regulation (GDPR), the new legislation takes effect for all public sector bodies in May 2018. The council should ensure they have plans in place to comply with GDPR. Failure to comply with new data handling arrangements could potentially result in fines. Internal audit are carrying out work on Information Governance, including assessing preparedness for the GDPR requirements. We plan to rely on this as part of our wider dimension audit responsibilities.

## Audit dimensions

**25.** 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

**26.** 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

**27.** 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 the council's financial sustainability in the longer term. We define this as short term (less than 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 longer term
- the appropriateness and effectiveness of arrangements in place to address any identified funding gaps
- whether the council can demonstrate the affordability and effectiveness of funding and investment decisions it has made.

#### Financial management

**28.** 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 the council has arrangements in place to ensure systems of internal control are operating effectively
- whether the council can demonstrate the effectiveness of budgetary control system in communicating accurate and timely financial performance

- how the council has assured itself that its financial capacity and skills are appropriate
- whether the council has established appropriate and effective arrangements for the prevention and detection of fraud and corruption.

### Governance and transparency

**29.** 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

**30.** Value for money refers to using resources effectively and continually improving services. We will review, conclude and report on whether:

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

### Best Value

**31.** The Accounts Commission agreed the overall framework for a new approach to auditing Best Value in June 2016. The introduction of the new approach coincides with the new five year audit appointments. Auditors will use the framework for their audit work from October 2016.

**32.** 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 on – going annual audit work, and also 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.

**33.** The six councils on which a BVAR will be published during the second year of the new approach are listed in [Exhibit 6](#). Reports will be considered by the Accounts Commission in the period between April 2018 and November 2018.

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## Exhibit 6

### 2017/18 Best Value Assurance Reports

East Ayrshire Council	Glasgow City Council
Dumfries and Galloway Council	West Dunbartonshire Council
East Lothian Council	Fife Council

Source: Audit Scotland

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**34.** The work planned in Scottish Borders Council this year will focus on the Council's arrangements for demonstrating Best Value in Performance, Outcomes and Improvement. The work will be integrated with that described above in these areas. 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

**35.** Auditors appointed by the Accounts Commission 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 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 Director of Audit Services, who serves as Audit Scotland's Ethics Partner.

**36.** The engagement lead for Scottish Borders Council is Gillian Woolman, Assistant 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

**37.** 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, 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.

**38.** 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 relevant 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, internal quality reviews and revised arrangements for external quality reviews have recently been agreed.

**39.** 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.

### **Adding Value**

**40.** Through our audit work we aim to add value to the council. We will do this by ensuring our Annual Audit Report provides a summary of the audit work done in the year together with clear judgements and conclusions on how well the council has discharged its responsibilities and how well it has demonstrated the effectiveness of its arrangements. Where it is appropriate we will recommend actions that support continuous improvement and summarise areas of good practice identified from our audit work.

# Scottish Borders Council

## Annual Audit Plan 2017/18

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