

Scottish Borders Council

Annual Audit Plan 2018/19



 AUDIT SCOTLAND

Prepared for Scottish Borders Council

March 2019

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.

Contents

| | |
|------------------------|---|
| Risks and planned work | 4 |
| Audit scope and timing | 9 |

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. The plan sets out the work necessary to allow us to provide an independent auditor's report on the financial statements and meet the wider scope requirements of public sector 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 management, attendance at committee meetings and a review of supporting information we have identified the following main risk areas for Scottish Borders Council. We have categorised these risks into financial risks and wider dimension risks. The key audit risks, which require specific audit testing, are detailed in [Exhibit 1](#).

Exhibit 1 2018/19 Key audit risks

|  Audit Risk | Source of assurance | Planned audit work |
|---|---|---|
| Financial statements issues and risks | | |
| <p>1 Risk of management override of controls</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"> • Detailed testing of journal entries. • Review of accounting estimates. • Focused testing of accruals and prepayments. • Evaluation of significant transactions that are outside the normal course of business. |

|  Audit Risk | Source of assurance | Planned audit work |
|--|---|---|
| <p>2 Risk of fraud over income</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> | <ul style="list-style-type: none"> Analytical procedures on income streams. Detailed testing of revenue transactions focusing on the areas of greatest risk. |
| <p>3 Risk of fraud over expenditure</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> | <ul style="list-style-type: none"> 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>4 Estimation and judgements</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"> Completion of 'review of the work of an expert' for the professional valuer. Focused substantive testing of key areas. |
| <p>5 Pension Scheme Valuation</p> <p>The council accounts for its share of Scottish Borders Council Pension Fund in accordance with International Accounting Standard 19 Employee Benefits (IAS19). This relies on valuations of pension fund assets and liabilities by the actuary. The timing of actuarial reports means that actuaries produce their IAS 19 reports using estimated data for the final part of the year. Asset returns estimated by the actuary for the final part of the year can be significantly higher or lower than actual returns. Additionally, a new actuary, Hymans Robertson, has been appointed during 2018/19. The council should ensure that asset values reported are as</p> | <p>Use of an experienced and respected Actuary to provide actuarial valuation for pension figures for the financial statements. Officer review of actuary information to ensure data and assumptions used are reasonable.</p> | <ul style="list-style-type: none"> Review of actuarial report which supports pension assets and liabilities, as accounted for at year end in the balance sheet and the movements in the comprehensive income and expenditure statement, and all associated disclosures. |

|  | Audit Risk | Source of assurance | Planned audit work |
|---|---|--|---|
| | accurate as possible and that any potential differences due to timing of information are adequately considered. | | |
| 6 | <p>Financial systems</p> <p>The council implemented a new financial system, Business World, from April 2017. Although mostly delivered as planned, there were issues with the implementation of the system, as reported by Internal Audit and in our 2017/18 Management Report and 2017/18 Annual Audit Report. An update to the system has taken place during 2018/19.</p> <p>There is a risk that issues reported in 2017/18 have not been addressed and impact on the controls in place over preparation of the 2018/19 annual accounts.</p> | <p>Internal audit work on the implementation of the new system and testing of controls.</p> <p>Work carried out to address previous issues identified with the system.</p> | <ul style="list-style-type: none"> 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. |
| Wider dimension issues and risks | | | |
| 7 | <p>Financial sustainability</p> <p>The council has a financial strategy covering the 5 year period 2019/20 – 2023/24. This strategy includes the requirement to identify £30.4m 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> | <ul style="list-style-type: none"> Review budget setting process and monitor updates provided to members. Comment in Annual Audit Report. |
| 8 | <p>Financial management</p> <p>The latest financial report for quarter 3 of 2018/19, reported in February 2019, indicated that there could be an adverse variance at the year end of £1 million, mostly due to pressures in Health & Social Care and Assets & Infrastructure budgets. The report also noted that £16.4 million of savings have been delivered for 2018/19, with £4.7 million of these delivered on a temporary basis.</p> <p>There is a risk that the council will not achieve a balanced year end position and also of future budget overspends if a sustainable budget is not developed timeously.</p> | <p>Recovery plans in place to achieve breakeven position at year end.</p> <p>On-going monitoring and review by Corporate Management Team.</p> | <ul style="list-style-type: none"> Review of financial monitoring reports and the council's financial position. Comment in Annual Audit Report. |

Source: Audit Scotland

5. 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

6. 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.
7. 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.
8. We will provide an independent auditor's report to Scottish Borders Council and the Accounts Commission setting out our opinions on the annual accounts. We will also provide the council and the Controller of Audit with an annual audit report containing observations and recommendations on significant matters which have arisen during the audit.

Exhibit 2 2018/19 Audit outputs

| Audit Output | Target date | Committee Date |
|---|-------------------------|-------------------------|
| Annual Audit Plan | 1 March 2019 | 11 March 2019 |
| Interim Management Report | 17 June 2019 | 25 June 2019 |
| National Fraud Initiative (NFI) return | 30 June 2019 | N/A |
| Bus Operators grant certification | 30 June 2019 | N/A |
| Education Maintenance Allowance grant certification | 31 July 2019 | N/A |
| Annual Audit Report | 16 September 2019 | 23 September 2019 (TBC) |
| Signed Independent Auditor's Report | 27 September 2019 (TBC) | N/A |
| Whole of Government Accounts return certification | 30 September 2019 | N/A |
| Non Domestic Rate return certification | 6 October 2019 | N/A |
| Housing Benefits return certification | 29 November 2019 | N/A |

Source: Audit Scotland

Audit fee

9. The audit fee for the 2018/19 audit of Scottish Borders Council is £275,170 (£270,230 in 2017/18). This fee includes £6,000 for the audit of the charitable entities (£6,000 in 2017/18). 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 28 June.
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 and Management

11. Audited bodies have 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 and 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, regularity 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 of the state of affairs of the council and its group as at 31 March 2019 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

Other information in the annual accounts

- 17.** We also review and report on 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 read and consider any information in the annual accounts other than the financial statements and audited part of the remuneration report and report any uncorrected material misstatements.

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 |
|---|---------------|
| Planning materiality – 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 2019 based on the latest audited accounts for 2018. | £3.78 million |
| Performance materiality – 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. | £1.89 million |
| Reporting threshold (i.e., clearly trivial) – 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 thousand |

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 the Audit & Scrutiny Committee | 25 June 2019 |
| Latest submission date of unaudited annual accounts with complete working papers package | 28 June 2019 |
| Confirmation of audited figures for components included in the group accounts | by 30 August 2019 |
| Latest date for final clearance meeting with Chief Finance Officer | 6 September 2019 |
| Issue of Letter of Representation and proposed independent auditor's report | 16 September 2019 |
| Issue of Annual Audit Report to the Audit and Scrutiny Committee | 23 September 2019 (TBC) |
| Agreement of audited unsigned annual accounts by the Council | 26 September 2019 (TBC) |
| Independent auditor's report signed | 27 September 2019 (TBC) |
| Latest date for signing of WGA return | 30 September 2019 |

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). 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

23. 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 avoid duplication. We plan to consider the findings of the work of internal audit as part of our planning process to ensure the total resource is used efficiently and effectively.

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

- Business World (Key internal controls over financial systems)
- Revenues (Council Tax and Non Domestic Rates)
- Asset registers

25. 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
- Corporate transformation
- Workforce planning

Audit dimensions

26. 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

27. 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

28. 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 body's financial sustainability in the longer term. We define this as short term (up to one year), 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 the council can demonstrate the affordability and effectiveness of funding and investment decisions it has made.

Financial management

29. 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 its 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

30. 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

31. 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

32. 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.

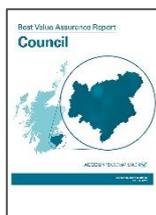
33. A key feature of the new approach is that it integrates Best Value into the wider scope annual audit, which will influence audit planning and reporting. Best Value will be assessed comprehensively over the five-year audit appointment, both through the ongoing annual audit work, and through discrete 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.

34. The seven councils on which a BVAR will be published during the third year of the new approach are listed in [Exhibit 6](#). Scottish Borders Council is one of those to be covered this year. Reports will be considered by the Accounts Commission in the period between March and November 2019.

Exhibit 6

2018/19 Best Value Assurance Reports



North Lanarkshire Council

Stirling Council

South Lanarkshire Council

Midlothian Council

Highland Council

Scottish Borders Council

Perth and Kinross Council

Source: Audit Scotland

35. The work planned in Scottish Borders Council this year will focus on the Council's arrangements for demonstrating Best Value in the following areas:

- vision and leadership
- partnership and collaborative working
- progress with its transformation programme
- performance and outcomes
- self evaluation and improvement
- procurement

36. The results of this work will be reported in the Best Value Assurance Report to the Accounts Commission in October 2019.

Other planned audit work

37. The following areas may present significant risks to Scottish Borders Council:

- **EU Withdrawal** - There are considerable uncertainties surrounding the implications of EU withdrawal and public bodies should assess the potential impact on their operations and identify specific issues and planned responses. We will assess how the council has prepared for EU withdrawal, specifically looking at implications for workforce, finance and regulation. We will also consider how the council responds to any emerging issues after March 2019.
- **Dependency on key suppliers** - Dependency on a key supplier could potentially expose the council to service delivery issues should the supplier fail. Where a significant supplier dependency exists there should be monitoring and business continuity arrangements to ensure the council is able to respond to significant issues. We will undertake work to establish the extent, value and nature of key supplier dependencies and, where issues are identified, consider the robustness of the business continuity arrangements in place.

Independence and objectivity

38. Auditors appointed by the Accounts Commission or the 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 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.
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

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