

# Scottish Borders Council

Annual Audit Plan 2016/17



 AUDIT SCOTLAND

Prepared for members of Scottish Borders Council

February 2017

## 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 of Scottish Borders Council ("the council") 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. 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

2. 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 the council. We have categorised these main risks into financial risks and wider dimension risks and the planned audit work is detailed in [Exhibit 1](#).

## Exhibit 1

Audit Risk	Management assurance	Planned audit work
<b>Financial statement issues and risks</b>		
<p><b>1 Risk of management override of controls</b></p> <p>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><i>Owing to the nature of this risk, assurances from management are not applicable</i></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 an inherent risk of fraud.</p>	<p>Regular budget monitoring and reporting.</p> <p>Robust 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>Analytical procedures on income streams.</p> <p>Detailed testing of revenue transactions focusing on the areas of greatest risk.</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</p>	<p>Regular budget monitoring and reporting.</p> <p>Robust internal controls in financial systems to mitigate</p>	<p>Audit work on the National Fraud Initiative matches.</p> <p>Assessing the overarching controls in grant schemes.</p>

Audit Risk	Management assurance	Planned audit work
<p>Code of Audit Practice expands the ISA assumption on fraud over income to aspects of expenditure. Scottish Borders Council incurs significant expenditure in areas such as welfare benefits, social care payments and grants.</p>	<p>risks of error or manipulation.</p> <p>Internal audit coverage of internal financial controls.</p> <p>Participation in the National Fraud Initiative.</p>	<p>Detailed testing of expenditure and 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.</p> <p>Actuarial valuation to provide pension figures for the financial statements. Officer review of actuary information to ensure data and assumptions used are reasonable.</p> <p>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.</p> <p>Focused substantive testing of key areas.</p>
<p><b>5 Integration Joint Board (IJB) / Group accounts</b></p> <p>The Scottish Borders IJB was established on 6 February 2016 and assumed responsibility for delegated services from 1 April 2016. The IJB will need to be accounted for in the council's group financial statements for the first time in 2016/17.</p> <p>There is a risk that the IJB is not correctly accounted for in the group financial statements.</p>	<p>Agreed timetable with the IJB for the provision of figures and assurances required.</p> <p>Arrangements in place to receive assurances over the validity of IJB financial results.</p>	<p>Review treatment as part of financial statements audit.</p>
<p><b>6 Change in financial systems</b></p> <p>The council is replacing its general ledger and other financial systems with Business World Enterprise Resource Solution (ERP) from April 2017. As part of this replacement the existing general ledger close down will take place around three weeks earlier than normal. There is a risk that there will be a substantial amount of manual accruals and adjustments required as part of this process. The audit timetable may also be affected by absences of key staff at key periods, which will require careful planning.</p>	<p>Detailed instructions issued to staff regarding the close down process.</p> <p>Comprehensive working papers supported by sufficient evidence for year end transactions and balances.</p>	<p>On-going discussions with finance officers on progress with the preparation of the financial statements and discussions on the accounts/audit timetable.</p> <p>Increased testing of transactions and balances around the year end.</p>

Audit Risk	Management assurance	Planned audit work
<b>Wider dimension risks</b>		
<p><b>7 Financial sustainability</b></p> <p>The 2017/18 Scottish Budget outlined significant reductions for councils' revenue grants. The financial settlement for Scottish Borders Council was a reduction of 4.1 per cent, significantly greater than the assumed 2.0 per cent reduction outlined in the medium term financial plan agreed in February 2016. Following an announcement of additional funding of £2.9 million in February 2017, the funding gap for 2017/18 is now £6.6 million.</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>
<p><b>8 Local government elections</b></p> <p>The 2017 local government elections will result in changes in the elected members. There is a risk that there is a loss of skills and experience amongst members. To ensure members understand their roles and have the necessary skills to make informed decisions and provide effective scrutiny, development and training will be required. The Audit Scotland <a href="#">How Councils Work publication on the role of councillors</a> provides guidance in this area.</p>	<p>Induction training planned for new members.</p>	<p>Review of the council's induction and training arrangements for councillors following the elections.</p> <p>Assess the effectiveness of decision making and scrutiny arrangements as part of on-going audit work.</p>
<p><b>9 Transition to new ICT provider</b></p> <p>During 2016 the council contracted CGI to provide ICT services for a period of at least 13 years, as part of the council's Transformation Programme. This included the majority of the council's existing ICT staff transferring to CGI in October 2016 as part of the contract.</p> <p>There are risks that the new ICT arrangements do not deliver the anticipated efficiencies or services may not be delivered to the standards prescribed in the contract.</p>	<p>Effective governance arrangements in place to oversee the change.</p> <p>Regular reporting to council's Executive committee, CMT and Digital Transformation Board regarding progress with the ICT change programme.</p>	<p>Monitor the effectiveness of governance and risk management arrangements relating to the ICT contract.</p>

3. The Charities Accounts (Scotland) Regulations 2006 specify the accounting and auditing requirements for Scottish registered charities. The council administers seven trusts with charitable status. We will perform the audit of the council's charitable trusts 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

4. 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 reports on matters of public interest will be published on our website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

5. 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.

6. We will provide an independent auditor's report to Scottish Borders Council and the Accounts Commission summarising the results of the audit of 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

### 2016/17 Audit outputs

Audit Output	Target date	Audit & Risk Committee Date
Interim Management Report	16 June 2017	27 June 2017
National Fraud Initiative (NFI) return	30 June 2017	N/A
Education Maintenance Allowance grant certification	31 July 2017	N/A
Bus Operators grant certification	31 July 2017	N/A
Annual Audit Report including ISA 260 requirements	15 September 2017	TBC
Signed Independent Auditor's Report	30 September 2017	N/A
Criminal Justice Authority return certification	30 September 2017	N/A
Non Domestic Rate return certification	31 October 2017	N/A
Housing Benefits return certification	30 November 2017	N/A

## Audit fee

7. The fee for the 2016/17 audit of Scottish Borders Council is £270,170. This fee includes £7,000 for the audit of the charitable entities. In determining the audit fee we have taken account of the risk exposure of Scottish Borders Council, the 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, by 30 June 2017.

8. 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 Risk Committee and Management**

**9.** 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 and propriety that enable them to successfully deliver their objectives.

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

### **Appointed auditor**

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

**12.** Auditors in the public sector give an independent opinion on the financial statements. 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

## Financial statements

**13.** 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.

**14.** 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

**15.** Materiality defines the maximum error that we are prepared to accept and still conclude that that our audit objective has been achieved. It helps assist our planning of the audit and allows us to assess the impact of any audit adjustments on the financial statements. 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 2016 (the latest audited accounts).	£3.469 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.	£1.735 million
<b>Reporting threshold</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 1% of planning materiality.	£0.035 million

16. Materiality levels for the charitable trusts have been set at 1% of the gross assets for each charity.

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

### Timetable

18. 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 Risk Committee dates:

## Exhibit 4

### Financial statements timetable

 Key stage	 Date
Consideration of unaudited financial statements by those charged with governance	27 June 2017
Latest submission date of unaudited financial statements with complete working papers package	27 June 2017
Latest date for final clearance meeting with Chief Financial Officer	8 September 2017
Agreement of audited unsigned financial statements; Issue of Annual Audit Report including ISA 260 report to those charged with governance	TBC
Independent auditor's report signed	By 30 September 2017
Latest date for signing of WGA return	30 September 2017

## Internal audit

**19.** 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

**20.** 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 reliance

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

- Procure to Pay Service
- Salaries (incl expenses)
- Revenues (Council Tax)

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

- Performance Management
- Capital Investment
- ICT Change Programme

## National Fraud Initiative (NFI)

**23.** NFI is a data-matching exercise led by Audit Scotland to aid the detection of fraudulent payments. NFI allows public bodies to investigate matches and, if fraud or error has taken place, to stop payments and attempt to recover the amounts involved. It also allows auditors to assess the arrangements that the bodies have put in place to prevent and detect fraud, including how they approach the NFI exercise itself.

**24.** The current data matching exercise collected data in October 2016 and match investigation work is due to begin in January 2017. We will monitor the council's participation and progress with the NFI and complete an NFI audit questionnaire which will reflect the activity undertaken by the council to June 2017.

## 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



26. In the local government sector, the appointed auditor's annual conclusions on these four dimensions will 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 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.

28. The council's Corporate Transformation Programme is critical in achieving many of the savings in the Financial Plan approved in February 2016. The Transformation Programme is expected to deliver savings over a 5-year period of £23.1m. Of this, £8.0m is to be delivered in 2016/17.

#### 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 an effective 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 for services delivered by, or in partnership with, others such as arm's length external organisations (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.

**31.** An additional area we will cover in our 2016/17 audit is a follow-up review of a previous Audit Scotland national performance audits:

- The Role of Boards. This report was published in September 2010. The follow up review will assess the governance, decision-making and scrutiny arrangements of the council.

### 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 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, outputs and outcomes delivered
- the council can demonstrate 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 coincides with the new five year audit appointments. As such, auditors will use 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 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.

**35.** The first six councils on which a BVAR will be published during the first year of the new approach are listed in [Exhibit 6](#) below. Reports will be considered by the Accounts Commission in the period between May 2017 and March 2018.

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## Exhibit 6

### 2016/17 Best Value Assurance Reports

Clackmannanshire Council	Orkney Islands Council
East Renfrewshire Council	Renfrewshire Council
Inverclyde Council	West Lothian Council

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**36.** The work planned in Scottish Borders Council this year will focus on the council's arrangements for demonstrating Best Value in financial and service planning, financial governance and resource management. 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 our Annual Audit Report.

### Independence and objectivity

**37.** 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 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 Assistant Auditor General, who serves as Audit Scotland's Ethics Partner.

**38.** 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

**39.** 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.

**40.** 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, internal quality reviews and is currently reviewing the arrangements for external quality reviews.

**41.** 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 2016/17

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