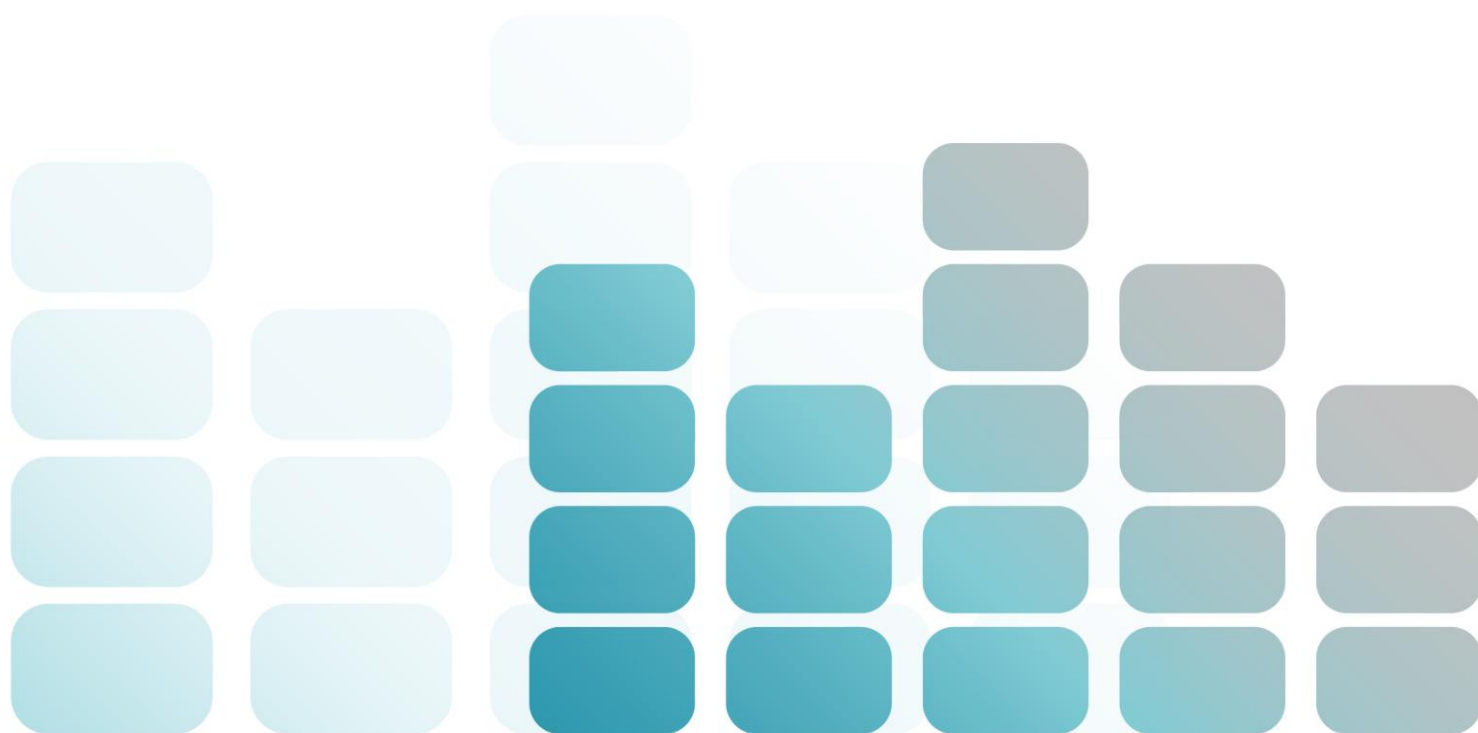


South Ayrshire Council

Annual Audit Plan 2024/25



Prepared for South Ayrshire Council
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Introduction

Purpose of the Annual Audit Plan

1. The purpose of this Annual Audit Plan is to provide an overview of the planned scope and timing of the 2024/25 audit of South Ayrshire Council's (the council) Annual Accounts. It outlines the audit work planned to meet the audit requirements set out in [auditing standards](#) and the [Code of Audit Practice](#), including supplementary guidance.

Appointed auditor and independence

2. Fiona Mitchell-Knight, of Audit Scotland, has been appointed by the Accounts Commission as external auditor of the council, and its group, for the period from 2022/23 until 2026/27. The 2024/25 financial year is therefore the third of the five-year audit appointment.

3. The audit team are independent of the council in accordance with relevant ethical requirements, including the Financial Reporting Council's Ethical Standard. This standard imposes stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has robust arrangements in place to ensure compliance with ethical standards. The arrangements are overseen by the Executive Director of Innovation and Quality, who serves as Audit Scotland's Ethics Partner.

4. The Ethical Standard requires auditors to communicate any relationships that may affect the independence and objectivity of the audit team. There are no such relationships pertaining to the audit of the council to communicate.

Audit scope and responsibilities

Scope of the audit

5. The audit is performed in accordance with the Code of Audit Practice, including supplementary guidance, International Standards on Auditing (UK), and relevant legislation. These set out the requirements for the scope of the audit which includes:

- An audit of the financial statements and an opinion on whether they give a true and fair view and are free from material misstatement.
- An opinion on statutory other information published with the financial statements in the Annual Accounts, the Management Commentary, and the Annual Governance Statement, and an opinion on the audited part of the Remuneration Report.
- Conclusions on the council's arrangements in relation to the wider scope areas: Financial Management, Financial Sustainability, Vision, Leadership, and Governance, and Use of Resources to Improve Outcomes.
- Reporting on the council's arrangements for securing Best Value.
- Providing assurance on the Housing Benefit Subsidy Claim, Non--Domestic Rates Return and the Whole of Government Accounts return.
- A review of the council's arrangements for preparing and publishing statutory performance information.
- Provision of an Annual Audit Report setting out significant matters identified from the audit of the Annual Accounts and the wider scope areas specified in the Code of Audit Practice.

Responsibilities

6. The Code of Audit Practice sets out the respective responsibilities of the auditor and the council. A summary of the key responsibilities is outlined below.

Auditor's responsibilities

7. The responsibilities of auditors in the public sector are established in the Local Government (Scotland) Act 1973. These include providing an independent opinion on the financial statements and other information

reported within the Annual Accounts and concluding on the council's arrangements in place for the wider scope areas.

The council's responsibilities

8. The council has primary responsibility for ensuring proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enables it to successfully deliver its objectives. The features of proper financial stewardship include:

- Establishing arrangements to ensure the proper conduct of its affairs.
- Preparation of Annual Accounts, comprising financial statements and other information that gives a true and fair view.
- Establishing arrangements for the prevention and detection of fraud, error and irregularities, and bribery and corruption.
- Implementing arrangements to ensure its financial position is soundly based.
- Making arrangements to secure Best Value.
- Establishing an internal audit function.

9. In line with ISA (UK) 240 (*The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*), in presenting this plan to the Audit and Governance Panel we seek confirmation from those charged with governance of any instances of actual, suspected, or alleged fraud that should be brought to our attention. During our audit, should members of the council have any such knowledge or concerns relating to the risk of fraud within it, we invite them to communicate this to us for our consideration.

Audit of the Annual Accounts

Introduction

10. The audit of the Annual Accounts is driven by materiality and the risks of material misstatement in the financial statements, with greater attention being given to the significant risks of material misstatement. This chapter outlines materiality, the significant risks of material misstatement that have been identified, and the impact these have on the planned audit procedures.

Materiality

11. The concept of materiality is applied by auditors in planning and performing an audit, and in evaluating the effect of any uncorrected misstatements on the financial statements or other information reported in the Annual Accounts.

12. Broadly, the concept of materiality is to determine whether matters identified during the audit could reasonably be expected to influence the decisions of users of the financial statements. Auditors set a monetary threshold when determining materiality, although some issues may be considered material by their nature. Therefore, materiality is ultimately a matter of the auditor's professional judgement.

13. The materiality levels determined for the audit of the council and its group are outlined in [exhibit 1](#).

Exhibit 1

Exhibit 1
2024/25 materiality levels for the council and its group

Materiality	Council only	Group
Planning materiality: based on an assessment of the needs of users of the financial statements and the nature of the council’s operations, the benchmark used to determine materiality is gross expenditure based on the audited 2023/24 financial statements. Materiality has been set at 2 per cent of the benchmark.	£12.720 million	£12.730 million
Performance materiality: this acts as a trigger point. If the aggregate of misstatements identified during the audit exceeds performance materiality, this could indicate that further audit procedures are required. Using professional judgement, performance materiality has been set at 65 per cent of planning materiality.	£8.270 million	£8.275 million
Reporting threshold: all misstatements greater than the reporting threshold will be reported.	£0.630 million	£0.650 million

Source: Audit Scotland

Significant risks of material misstatement to the financial statements

14. The risk assessment process draws on the audit team’s cumulative knowledge of the council, including the nature of its operations and its significant transaction streams, the system of internal control, governance arrangements and processes, and developments that could impact on its financial reporting.
15. Based on the risk assessment process, significant risks of material misstatement to the financial statements have been identified and these are summarised in [exhibit 2](#). These are the risks which have the greatest impact on the planned audit approach, and the planned audit procedures in response to the risks are outlined in [exhibit 2](#).
16. The risk assessment process is an iterative and dynamic process. The assessment of risks set out in this Annual Audit Plan and [exhibit 2](#) may change as more information and evidence is obtained over the course of the audit. Where such changes occur, these will be reported to the council and those charged with governance, where relevant.

Exhibit 2**Significant risks of material misstatement to the financial statements**

Risk of material misstatement	Planned audit response
Fraud caused by management override of controls Management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.	The audit team will: • Evaluate the design and implementation of controls over journal entry processing. • Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries. • Test journals entries, focusing on those that are assessed as higher risk, such as those affecting revenue and expenditure recognition around the year-end. • Evaluate, and consider the reasonableness, of any significant transactions outside the normal course of business. • Assess the adequacy of controls in place for identifying and disclosing related party relationships and transactions in the financial statements. • Assess changes to the methods and underlying assumptions used to prepare accounting estimates and assess these for evidence of management bias.

Risk of material misstatement	Planned audit response
Valuation of property, plant and equipment The council held £998 million of property, plant, and equipment (PPE) at 31 March 2024, of which £855 million was land and building assets. The council is required to value land and building assets at existing use value where an active market exists for these assets. Where there is no active market, these assets are valued on a depreciated cost replacement (DRC) basis. As a result, there is a significant degree of subjectivity in these valuations which are based on specialist assumptions, and changes in the assumptions can result in material changes to valuations.	The audit team will: • Evaluate the design and implementation of controls over the valuation process. • Review the information provided to the valuer and assess this for completeness and accuracy. • Evaluate the competence, capabilities, and objectivity of the valuer. • Obtain an understanding of management's involvement in the valuation process to assess if appropriate oversight has occurred. • Review the appropriateness of the key data and assumptions used in the 2024/25 valuation process, and challenge these where required. • Review management's assessment that the value in the balance sheet of assets not subject to a valuation process in 2024/25 is not materially different to current value at the year-end, and challenge this where required.
Accounting for IFRS 16 From 1 April 2024, a new International Financial Reporting Standard, IFRS 16, came into effect for Local Authorities. IFRS 16 introduces a new 'Right of Use' asset class to the Balance Sheet and recognises the corresponding lease liability. This applies to all leases - property, land, vehicles, plant and equipment. Specifically, this will impact on the council's school service concession arrangements (PPP and DBFM). IFRS 16 will change the way in which the council accounts for operating leases, including recognising assets and liabilities for the rights and obligations arising from leases previously classified as operating leases. IFRS 16 is a complex accounting standard, and the council has awarded Link Treasury Services the contract for the procurement of leasing advice.	The audit team will: • Evaluate the design and implementation of controls established by the council over the implementation of IFRS 16. • Assess whether service concession arrangements have been accounted for in accordance with the requirements of IFRS 16. • Test the IFRS 16 transitional accounting adjustments and confirm these are accurate and comply with the financial reporting framework. • Review the information provided to management's expert (Link Financial Services) and assess this for completeness and accuracy. • Evaluate the competence, capabilities, and objectivity of management's expert.

Key audit matters

17. The Code of Audit Practice requires public sector auditors to communicate key audit matters. Key audit matters are those matters, that in the auditor's professional judgement, are of most significance to the audit of the financial statements and require most attention when performing the audit.

18. In determining key audit matters, auditors consider:

- Areas of higher or significant risk of material misstatement.
- Areas where significant judgement is required, including accounting estimates that are subject to a high degree of estimation uncertainty.
- Significant events or transactions that occurred during the year.

19. The matters determined to be key audit matters will be communicated in the Annual Audit Report. [Exhibit 2](#) outlines the significant risks of material misstatement to the financial statements that have been identified, including those that have greatest impact on the planned audit procedures and require most attention when performing the audit.

Group audit

20. The council is part of a group and prepares group financial statements. The group is made up of seven components, including the council which is the parent of the group. The auditing standard applicable to the audit of group financial statements has been revised for 2024/25 resulting in additional requirements for both parent and component auditors. This revised approach requires additional risk assessment procedures to be performed to identify if there are any risks of material misstatement to the group financial statements, or any components where audit procedures are required for the purposes of the group audit. The outcome of the risk assessment procedures on the group audit are outlined in [exhibit 3](#).

Exhibit 3**Outcome of risk assessment procedures on the group audit**

Group component	Accounting treatment	Risk of material misstatement	Audit procedures required	Auditor
South Ayrshire Council	Consolidated on a line-by-line basis	Yes – exhibit 2	Yes – full scope audit	Audit Scotland
The Common Good Fund	Consolidated on a line-by-line basis	No – but is material to the group financial statements (PPE balance)	Yes – analytical procedures at group level	Audit Scotland
Strathclyde Partnership for Transport	Accounted for on equity basis	Yes – risk of material misstatement due to estimation in the valuation of the land and buildings balance included in the council's share of SPT net assets.	Yes – obtaining assurances on the audit procedures carried out on the valuation of land and buildings in SPT	Audit Scotland
Strathclyde Concessionary Travel Scheme Joint Board	Accounted for on equity basis	No – not material	Yes – analytical procedures at group level	Audit Scotland
Ayrshire Valuation Joint Board	Accounted for on equity basis	No – not material	Yes – analytical procedures at group level	Audit Scotland
Ayr Renaissance LLP	Consolidated on a line-by-line basis	No – not material	Yes – analytical procedures at group level	N/A – the LLP is in the process of being wound up
South Ayrshire Integration Joint Board	Accounted for on equity basis	No – not material	Yes – analytical procedures at group level	Audit Scotland

Source: Audit Scotland

21. Where audit procedures are required on a component's financial statements, and the component auditor is different to the council's appointed auditor, group audit instructions will be issued to the component auditor outlining expectations and requirements in performing these audit procedures.

22. As the auditor of SPT, Fiona Mitchell-Knight is also the council's auditor. Assurances will be taken from the SPT audit in reaching the audit opinion on the council's group accounts.

Audit of the Annual Accounts of the four section 106 charities administered by the council

23. Elected members of the council are trustees for four registered Scottish charities:

- **South Ayrshire Charitable Trust:** charity number - SC045677
- **South Ayrshire Council Charitable Trusts:** charity number - SC025088
- **McKechnie Trust:** charity number - SC012759
- **David Elder Edward Fund:** charity number - SC016728

24. Andrew Kerr, of Audit Scotland, has been appointed by the Accounts Commission as external auditor of the charities, for the period from 2022/23 until 2026/27. The 2024/25 financial year is therefore the third of the five-year audit appointment.

25. The Ethical Standard requires auditors to communicate any relationships that may affect the independence and objectivity of the audit team. There are no such relationships pertaining to the audit of the charities to communicate.

26. The trust balances are disclosed in a note in the council's Annual Accounts but do not represent assets of the council so are not included within the council's balance sheet. As a result of the interaction of the Local Government (Scotland) Act 1973 with charities legislation, a full and separate audit and independent auditor's report is required for each registered charity irrespective of the value of its assets.

27. Our duties as auditors of the charities administered by South Ayrshire Council are to:

- express an opinion on whether the charity's financial statements properly present the charity's financial position and are prepared in accordance with charities legislation.
- read the Trustees' Annual Report and express an opinion as to whether it is consistent with the financial statements.

- report on other matters, by exception, to the Trustees and to the Office of the Scottish Charity Regulator (OSCR).

28. Based on our risk assessment, we have identified one significant audit risk for the Trustees' Annual Report and Financial Statements, being "*fraud caused by management override of controls*". Our response to this risk includes the same audit procedures as set out in [exhibit 2](#).

29. Our calculated materiality levels are set out in [exhibit 4](#).

Exhibit 4

2024/25 materiality levels for the charitable trusts

Charitable trust	Planning Materiality	Performance Materiality	Reporting Threshold
McKechnie Library Trust (SC012759)	£125 (Based on 2 per cent of audited 2023/24 net asset value)	£95 (Based on 75 per cent of planning materiality)	£50
David Elder Edward Fund (SC016728)	£15,825 (Based on 2% per cent of audited 2023/24 net asset value)	£11,870 (Based on 75 per cent of planning materiality)	£790
South Ayrshire Council Charitable Trusts (SC025088)	£800 (Based on 2 per cent of audited 2023/24 net asset value)	£600 (Based on 75 per cent of planning materiality)	£50
South Ayrshire Charitable Trust (SC045677)	£675 (Based on 2 per cent of audited 2023/24 net asset value)	£510 (Based on 75 per cent of planning materiality)	£50

30. The Code of Audit Practice includes provisions relating to the audit of small audits. In light of the volume and lack of complexity of the financial transactions, we plan to apply the less complex body provision of the Code to the 2024/25 audit of the charities.

31. No significant risks in the wider scope areas or Best Value were identified from the risk assessment process.

32. Our work on the Trustees Annual Report and Financial Statements of the charities will be undertaken in line with the audit timetable set out in [exhibit 5](#).

Wider scope and Best Value

Introduction

33. Reflecting the fact that public money is involved, the Code of Audit Practice requires that public audit is planned and undertaken from a wider perspective than in the private sector. The wider scope audit set out by the Code of Audit Practice broadens the audit of the Annual Accounts to include consideration of additional aspects or risks in four wider scope areas, which are summarised below:

- **Financial Management:** this means having sound budgetary processes. Factors that can impact on the council being able to secure sound financial management include the strength of the financial management culture, accountability, and arrangements to prevent and detect fraud, error and other irregularities, bribery and corruption.
- **Financial Sustainability:** this means looking forward over the medium and longer term in planning the services to be delivered and how they will be delivered effectively. This is assessed by considering the council's medium- to longer-term planning for service delivery.
- **Vision, Leadership and Governance:** this means having a clear vision and strategy, with set priorities within the vision and strategy. This is assessed by considering the clarity of plans in place to deliver the vision and strategy and the effectiveness of the governance arrangements to support delivery.
- **Use of Resources to Improve Outcomes:** this means using resources to meet stated outcomes and improvement objectives through effective planning and working with partners and communities. This is assessed by considering the council's arrangements for ensuring resources are deployed to improve strategic outcomes, meet the needs of service users, and deliver continuous improvement.

34. A conclusion on the effectiveness and appropriateness of arrangements the council has in place for each of the wider scope areas will be reported in the Annual Audit Report.

Best Value

35. Under the Code of Audit Practice, the audit of Best Value in councils is fully integrated within the annual audit. As part of the annual audit, auditors

are required to take a risk-based approach to assessing and reporting on whether the council has made proper arrangements for securing Best Value, including follow up of findings previously reported in relation to Best Value.

36. The Accounts Commission also reports nationally on thematic aspects of councils' approaches to, and performance in, meeting their Best Value duties. As part of the annual audit, thematic reviews, as directed by the Accounts Commission, are conducted on the council. The thematic review for 2024/25 is on the subject of service transformation and involves considering how the council is redesigning services to maintain outcomes and deliver services more efficiently. Conclusions and judgements on the thematic review are being reported in a separate Management Report and summarised in the Annual Audit Report, where required.

37. At least once over the five-year appointment, the Controller of Audit will report to the Accounts Commission on the council's performance in meeting its Best Value duties. The second year of this programme runs from October 2024 to August 2025. The Accounts Commission considered the Controller of Audit report on the council in October 2023.

Significant wider scope and Best Value risks

38. No significant audit risks in the wider scope areas or Best Value were identified from the risk assessment process.

Financial sustainability

39. Whilst not a significant risk, the challenging financial environment in which the council, along with other public sector bodies, is operating in has been identified as an area of audit focus. There are challenges to the medium and longer-term financial sustainability due to the uncertainty over future Scottish Government funding allocations, the rising cost of inflation and the cost of implementing future pay settlements. Our Annual Audit Report will include comment on the council's 2024/25 financial outturn, 2025/26 budget and its medium-term financial plan.

Governance of the capital plan

40. A recommendation was made in the 2023/24 Annual Audit Report regarding the updated business case for Ayr Citadel Leisure Centre. We are aware that internal audit is undertaking a review of the governance arrangements surrounding the council's ward capital projects and we will consider the results of this work.

Reporting arrangements, timetable and audit fee

Audit outputs

41. The outputs from the 2024/25 audit include:

- This Annual Audit Plan.
- An Independent Auditor's Report to the council and the Accounts Commission setting out opinions on the Annual Accounts.
- An Annual Audit Report to the council and the Accounts Commission setting out significant matters identified from the audit of the Annual Accounts, conclusions from the wider scope and Best Value audit, and recommendations, where required.

42. The matters to be reported in the outputs will be discussed with the council for factual accuracy before they are issued. All outputs from the audit will be published on Audit Scotland's website, apart from the Independent Auditor's Report, which is included in the audited Annual Accounts.

43. Target dates for the audit outputs are set by the Accounts Commission. In setting the target dates for the audit outputs, consideration is given to the statutory date for approving the annual accounts, which is 30 September 2025 for local government bodies.

44. The Independent Auditor's Report and Annual Audit Report are planned to be issued by the target date of 30 September 2025.

Audit timetable

45. Achieving the timetable for production of the Annual Accounts, supported by complete and accurate working papers, is critical to delivery of the audit to agreed target dates. [Exhibit 5](#) includes a timetable for the audit, which has been agreed with management. Agreed target dates will be kept under review as the audit progresses, and any changes required, and their potential impact, will be discussed with the council and reported to those charged with governance, where required.

Exhibit 5

2024/25 audit timetable

Audit activity	Audit team target date	Relevant committee date
Issue of this Annual Audit Plan	26 March 2025	26 March 2025
Issue of Best Value Management Report	26 March 2025	26 March 2025
Annual Accounts:		
• Consideration of unaudited Annual Accounts by those charged with governance		25 June 2025
• Submission of unaudited Annual Accounts and all working papers to audit team	By 30 June 2025	
• Latest date for audit clearance meeting. Issue of draft Letter of Representation, proposed Independent Auditor's Report, and proposed Annual Audit Report	12 September 2025	
• Approval by those charged with governance and signing of audited Annual Accounts		September 2025
• Signing of Independent Auditor's Report and issue of Annual Audit Report	September 2025	

Source: Audit Scotland

Audit fee

46. The council's audit fee is determined in line with Audit Scotland's fee setting arrangements. The audit fee for the 2024/25 audit is £352,740 (2023/24: £346,130). A separate fee of £1,200 (2023/24: £1,150) applies to the audit of the charitable trusts. In setting the audit fee, it is assumed that the council has effective governance arrangements in place and the complete Annual Accounts will be provided for audit in line with the agreed timetable. The audit fee assumes there will be no significant changes to the planned scope of the audit. Where the audit cannot proceed as planned, for example, due to incomplete or inadequate working papers, the audit fee may need to be increased.

Other matters

Internal audit

47. The council is responsible for establishing an internal audit function as part of an effective system of internal control. As part of the audit, the audit team will obtain an understanding of internal audit, including its nature, responsibilities, and activities.

48. While internal audit and external audit have differing roles and responsibilities, external auditors may seek to rely on the work of internal audit where it is considered appropriate. A review of internal audit's 2024/25 audit plan was carried out to identify if there were any areas where the audit team could rely on its work. The audit team concluded it will not rely on internal audit's work. However, the audit team will review internal audit's reports and assess if there is any impact on the audit.

Audit quality

49. Audit Scotland is committed to the consistent delivery of high-quality audit. Audit quality requires ongoing attention and improvement to keep pace with external and internal changes. Details of the arrangements in place for the delivery of high-quality audits is available from the [Audit Scotland website](#).

50. The International Standards on Quality Management (ISQM) applicable to Audit Scotland for 2024/25 audits are:

- ISQM (UK) 1, which deals with an audit organisation's responsibilities to design, implement, and operate a system of quality management (SoQM) for audits. Audit Scotland's SoQM consists of a variety of components, such as: governance arrangements and culture to support audit quality, compliance with ethical requirements, ensuring Audit Scotland is dedicated to high-quality audit through engagement performance and resourcing arrangements, and ensuring there are robust quality monitoring arrangements in place. Audit Scotland carries out an annual evaluation of its SoQM and has concluded it complies with this standard.
- ISQM (UK) 2, which sets out arrangements for conducting engagement quality reviews, which are performed by senior management not involved in an audit, to review significant judgements and conclusions reached by the audit team, and the appropriateness of proposed audit opinions on high-risk audits.

51. To monitor quality at an individual audit level, Audit Scotland carries out internal quality reviews on a sample of audits. Additionally, the Institute of Chartered Accountants of England and Wales (ICAEW) carries out independent quality reviews on a sample of audits.

52. Actions to address deficiencies identified by internal and external quality reviews are included in a rolling Quality Improvement Action Plan, which is used to support continuous improvement. Progress with implementing planned actions is monitored on a regular basis by Audit Scotland's Quality and Ethics Committee.

53. Audit Scotland may periodically seek the views of the council on the quality of audit services provided. The audit team would also welcome feedback at any time.

South Ayrshire Council

Annual Audit Plan 2024/25



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