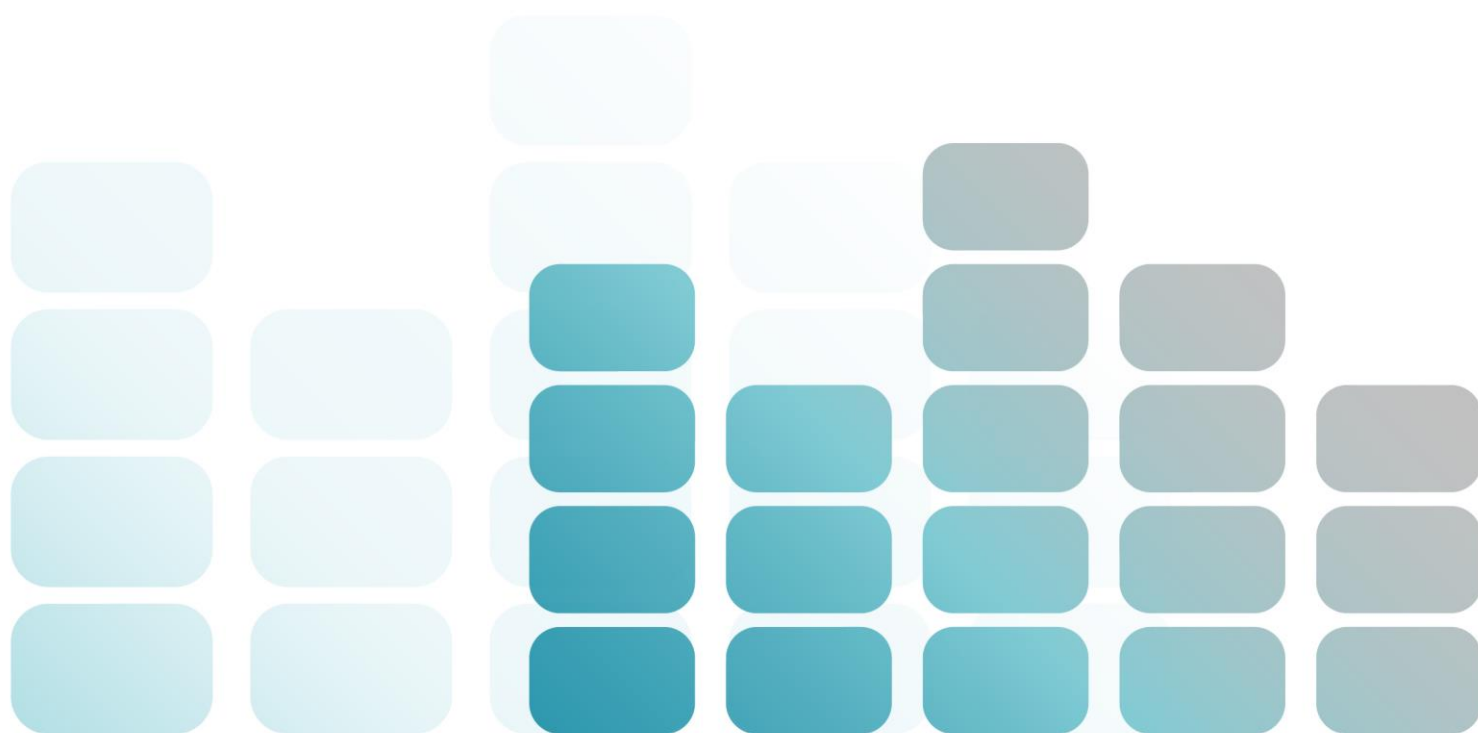


Scottish Borders Council

Annual Audit Plan 2024/25



Prepared for Scottish Borders Council
March 2025

Contents

Introduction	3
Audit scope and responsibilities	4
Audit of the annual accounts	6
Wider scope and Best Value	13
Reporting arrangements, timetable and audit fee	16
Other matters	19

Accessibility

You can find out more and read this report using assistive technology on our website www.audit.scot/accessibility.

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 Scottish Borders Council's 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. John Boyd, of Audit Scotland, has been appointed by the Accounts Commission as external auditor of Scottish Borders Council 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. John Boyd and the audit team are independent of Scottish Borders 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 Scottish Borders 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 Scottish Borders 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 Scottish Borders 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 Scottish Borders 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 Scottish Borders Council and the auditor. 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 Scottish Borders Council's arrangements in place for the wider scope areas.

Scottish Borders Council's responsibilities

8. Scottish Borders 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.

Audit of the annual accounts

Introduction

9. 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

10. 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.

11. 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.

12. The materiality levels determined for the audit of Scottish Borders Council and its group are outlined in [Exhibit 1](#) Exhibit 1.

Exhibit 1

2024/25 Materiality levels for Scottish Borders Council and its group

Materiality	Audited body	Group
Materiality – based on an assessment of the needs of users of the financial statements and the nature of Scottish Borders 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% of the benchmark.	£9.2 million	£9.3 million

Materiality	Audited body	Group
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 75% of planning materiality.	£6.9 million	£6.975 million
Reporting threshold – all misstatements greater than the reporting threshold will be reported.	£0.460 million	£0.465 million

Source: Audit Scotland

Significant risks of material misstatement to the financial statements

13. The risk assessment process draws on the audit team's cumulative knowledge of Scottish Borders 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.

14. 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](#) Exhibit 2, page 8. 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.

15. 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 Scottish Borders 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
<p>Fraud caused by management override of controls</p> <p>Management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p>	<p>The audit team will:</p> <ul style="list-style-type: none"> • 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. • Evaluate 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
<p>Risk of fraud in the completeness of expenditure</p> <p>Latest financial monitoring reports covering the nine months ended 31 December 2024 have indicated that Scottish Borders Council is projecting an unfunded overspend of £4.6 million against their revised 2024/25 budget as a result of service pressures.</p> <p>Management have implemented an action plan with the aim of reducing the level of overspend faced but there remains a significant risk that Scottish Borders Council will be unable to balance the 2024/25 budget and further one-off measures will be required at the year end to ensure the funding of the overspend including the utilisation of non-earmarked reserves.</p> <p>Service teams may look to defer expenditure to future periods to reduce expenditure recognised in 2024/25 and meet budget expectations.</p>	<p>The audit team will:</p> <ul style="list-style-type: none"> • Complete focussed audit testing on expenditure transactions recorded in period 1 and 2 of 2025/26 to confirm costs have been recognised in the appropriate period. • Review expenditure accruals for indication of understatement
<p>Valuation of property, plant and equipment</p> <p>Scottish Borders Council held £794.9 million of property, plant, and equipment (PPE) at 31 March 2024, of which £474.7 million was land and building assets.</p> <p>Scottish Borders 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 replacement cost (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.</p>	<p>The audit team will:</p> <ul style="list-style-type: none"> • 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.

Risk of material misstatement	Planned audit response
<p>Estimation of the pension asset</p> <p>Scottish Borders Council had a net pension asset of £86.2 million at 31 March 2024.</p> <p>Scottish Borders Council is a member of Scottish Borders Council Pension Fund, a defined benefit pension scheme. Scottish Borders Council Pension Fund is subject to formal valuation every three years, which sets out each member's share of the scheme's overall pension liability and contributions for the next three years. The last formal actuarial valuation was carried out at 31 March 2023.</p> <p>An estimation of Scottish Borders Council's share of the overall pension liability is required in each intervening year between formal valuations, and these are carried out by Hymans Robertson. There is a significant degree of subjectivity in the estimation of the pension liability as the estimation is based on specialist assumptions, and changes in the assumptions can result in material changes to the estimation.</p>	<p>The audit team will:</p> <ul style="list-style-type: none"> • Evaluate the design and implementation of controls over the pension liability estimation process. • Review the information provided to the actuary and assess this for completeness and accuracy. • Evaluate the competence, capabilities, and objectivity of the actuary. • Obtain an understanding of management's involvement in the estimation process to assess if appropriate oversight has occurred. • Review the appropriateness of the key data and assumptions used by management for the estimation of the pension liability, and challenge these where required. • Audit Scotland uses PwC as an auditor's expert to inform the planned audit procedures outlined above. Therefore, the audit team will also review the information provided by PwC and reflect this in the planned audit procedures where required.

Source: Audit Scotland

Key audit matters

16. 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.

17. 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.

18. 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.

19. In addition to the significant risks of material misstatement in Exhibit 2, the following have been identified as risks of material misstatement and will be reported in our Annual Audit Report.

20. IFRS 16 Leases: The Council implemented the new standard on 1 April 2024. IFRS 16 will have a material impact on the outstanding liabilities of leases and service concession arrangements relating to PPP schools, with the Council estimating an increase in liabilities of £33.8 million. We will review the accounting treatment and financial statements disclosures to ensure compliance with guidance.

21. Accounting basis and treatment of capitalised internal charges: In 2023/24, we highlighted that the Council had been incorrectly capitalising internal profits within property, plant and equipment additions. We will complete a review of charges capitalised into property, plant and equipment and any year-end adjustments made by management to ensure that these reflect only directly attributable costs to the relevant projects.

Group audit

22. Scottish Borders Council is part of a group and prepares group financial statements. The group is made up of seven components, including Scottish Borders Council which is the parent of the group. Risk assessment procedures have been performed on the group audit 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	Significant risk of material misstatement	Audit procedures required	Auditor
Scottish Borders Council	Consolidated on a line-by-line basis	Yes – Exhibit 2	Yes – full scope audit	Audit Scotland

Group component	Accounting treatment	Significant risk of material misstatement	Audit procedures required	Auditor
Scottish Borders Council Common Good Funds	Consolidated on a line-by-line basis	No, but are material to group financial statements	Yes – Analytical procedures at group level as well as focused work on valuations as these are material for the group	Audited by Audit Scotland as part of Scottish Borders Council annual accounts
Scottish Borders Council Trust Funds 39 non-registered trusts	Consolidated on a line-by-line basis	No, not material to group financial statements	Yes – analytical procedures at group level	Audited by Audit Scotland as part of Scottish Borders Council annual accounts
Scottish Borders Council Trust Funds comprising 5 registered trusts	Consolidated on a line-by-line basis	No, not material to group financial statements	Yes – analytical procedures at group level	Audit Scotland
Bridge Homes LLP	Consolidated on a line-by-line basis	No, not material to group financial statements	Yes – analytical procedures at group level	Exempt from audit
Live Borders	Consolidated on a line-by-line basis	No, but are material to group financial statements	Yes – risk assessment questionnaire and analytical procedures at group level	Azets
Scottish Borders Integration Joint Board	Accounted for on equity basis	No, not material to group financial statements	Yes – analytical procedures at group level	Audit Scotland

Source: Audit Scotland

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

Wider scope and Best Value

Introduction

24. 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 Scottish Borders 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 Scottish Borders 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 Scottish Borders Council's arrangements for ensuring resources are deployed to improve strategic outcomes, meet the needs of service users, and deliver continuous improvement.

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

Best Value

26. 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 Scottish Borders Council has made proper arrangements for securing Best Value, including follow up of findings previously reported in relation to Best Value.

27. 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 Scottish Borders Council. The thematic review for 2024/25 is on the subject of service transformation and involves considering how Scottish Borders Council is redesigning services to maintain outcomes and deliver services more efficiently. Conclusions and judgements on the thematic review will be reported in a separate Management Report and summarised in the Annual Audit Report, where required.

28. At least once over the five-year appointment, the Controller of Audit will report to the Accounts Commission on Scottish Borders Council's performance in meeting its Best Value duties. The controller of Audit reported on the Council in November 2024. As part of our audit work, we will follow up on the Council's progress addressing the recommendations from the Controller of Audit and the Commission's findings.

29. Auditors may also carry out specific audit work covering the seven Best Value characteristics set out in the SPFM. The risk assessment process did not identify a need to carry out specific audit work on any of the characteristics. In addition, auditors are required to carry out a review of the 'fairness and equality' characteristic at least once during the audit appointment, and this will be carried out during the 2024/25 audit.

Significant wider scope and Best Value risks

30. The risk assessment process has identified significant risks in the wider scope areas and Best Value as outlined in [Exhibit 4](#), and this includes the planned audit procedures in response to the risks.

Exhibit 4
Significant wider scope and Best Value risks

Description of risk	Planned audit response
<p>Financial sustainability</p> <p>Scottish Borders Council continues to operate in an increasingly complex and challenging environment where they aim to provide the best possible service within the resources available.</p> <p>Latest financial monitoring reports covering the nine months ended 31 December 2024 have indicated that the Council is projecting an unfunded overspend of £4.6 m against their revised 2024/25 budget as a result of service pressures experienced across the Council.</p> <p>Management have implemented an action plan with the aim of reducing the level of overspend faced but there is a significant risk that the Council will be unable to balance the 2024/25 budget and further one-off measures will be required at the year end to ensure the funding of the overspend including the utilisation of non-earmarked reserves.</p> <p>As part of the 2025/26 budget process management will need to consider the impact of the ongoing financial pressures facing the Council and agree a robust delivery plan for savings in order to ensure its continued financial sustainability.</p>	<p>The audit team will:</p> <ul style="list-style-type: none">• Review the Council’s annual budget setting arrangements.• Review and assess the Council’s budget monitoring arrangements.• Review the Council’s medium to longer-term financial planning including alignment to strategic priorities.• Complete a review of the Council’s financial position, transformation plans and delivery of planned savings.

Source: Audit Scotland

Reporting arrangements, timetable and audit fee

Audit outputs

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

- This Annual Audit Plan.
- An Independent Auditor's Report to Scottish Borders Council and the Accounts Commission setting out opinions on the annual accounts.
- An Annual Audit Report to Scottish Borders Council 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.

32. The matters to be reported in the outputs will be discussed with Scottish Borders 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.

33. 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.

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

Audit timetable

35. 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](#) 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 Scottish Borders Council and reported to those charged with governance, where required.

Exhibit 5

2024/25 audit timetable

Audit activity	Scottish Borders Council target date	Audit team target date	Audit committee date
Issue of Annual Audit Plan	N/A	28 February 2025	10 March 2025
Annual accounts:			
• Consideration of unaudited annual accounts by those charged with governance	24 June 2025	24 June 2025	24 June 2025
• Submission of unaudited annual accounts and all working papers to audit team	N/A	30 June 2025	N/A
• Latest date for audit clearance meeting	N/A	8 September 2025	N/A
• Issue of draft Letter of Representation, proposed Independent Auditor's Report, and proposed Annual Audit Report	N/A	12 September 2025	N/A
• Agreement of audited and unsigned annual accounts	22 September 2025	22 September 2025	22 September 2025
• Approval by those charged with governance and signing of audited annual accounts	30 September 2025	22 September 2025	22 September 2025
• Signing of Independent Auditor's Report and issue of Annual Audit Report	30 September 2025	30 September 2025	30 September 2025
Issue of Best Value Management Report	N/A	24 June 2025	24 June 2025
Certification of Non-Domestic Rates Return	N/A	31 December 2025	N/A
Certification of Housing Benefit Subsidy Claim	N/A	31 December 2025	N/A
Certification of Whole of Government Accounts	N/A	31 December 2025	N/A

Source: Audit Scotland

Audit fee

36. Scottish Borders Council's audit fee is determined in line with Audit Scotland's fee setting arrangements. The agreed audit fee for the 2024/25 audit is set out in [Exhibit 6](#) Exhibit 6.

37. In setting the audit fee, it is assumed that Scottish Borders 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.

Exhibit 6

Audit fee (including VAT)

Fee component ¹	Fee (£)
External auditor remuneration	267,350
Pooled costs, such as travel and subsistence costs	6,710
Contribution to the performance audit programme	65,610
Adjustment for average audit price increase	9,610
Total 2024/25 fee	349,280

Source: Audit Scotland

¹ Information on the components that make up the total fee can be found in Audit Scotland's [Audit management and quality guidance](#).

Other matters

Internal audit

38. Scottish Borders 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.

39. 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

40. 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](#).

41. 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.

42. 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.

43. 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.

44. Audit Scotland may periodically seek the views of Scottish Borders Council on the quality of audit services provided. The audit team would also welcome feedback at any time.

Scottish Borders Council

Annual Audit Plan 2024/25



Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
Phone: 0131 625 1500 **Email: info@audit.scot**
www.audit.scot