

# Clackmannanshire Council

Annual Audit Plan 2019/20



 AUDIT SCOTLAND

Prepared for Clackmannanshire Council  
February 2020



## 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 which is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and Audit Scotland's [guidance on planning the audit](#). This plan sets out the work necessary to allow us to provide an independent auditor's report on the annual accounts 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 Clackmannanshire 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 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 staff, attendance at council and committee meetings and a review of supporting information we have identified the following significant audit risks for our 2019/20 audit of the council. We have categorised these audit risks into financial statements risks and wider dimension risks. The key audit risks, which require specific audit testing, are detailed in [Exhibit 1](#).

## Exhibit 1 2019/20 Significant audit risks

 Audit Risk	Source of assurance	Planned audit work
<b>Financial statements risks</b>		
<p><b>1 Risk of material misstatement caused by management override of controls</b></p> <p>Auditing standards require that audits are planned to consider the risk of material misstatement caused by fraud, which is presumed to be a significant risk in any audit. This includes the risk of management override of controls that results in fraudulent financial statements.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance.</p>	<ul style="list-style-type: none"> <li>• Testing of journal entries.</li> <li>• Review of accounting estimates.</li> <li>• Testing of accruals and prepayments.</li> <li>• Evaluation of significant transactions that are outside the normal course of business.</li> </ul>
<p><b>2 Risk of material misstatement caused by fraud in income recognition</b></p> <p>Auditing standards (ISA 240) states that there is a presumed risk of fraud in the recognition of income. There is</p>	<p>Key controls working effectively.</p> <p>Sound budgetary control and monitoring arrangements in place.</p>	<ul style="list-style-type: none"> <li>• Testing of revenue transactions focusing on the areas of greatest risk.</li> <li>• Substantive cut-off testing of income to ensure it is</li> </ul>

	Audit Risk	Source of assurance	Planned audit work
	<p>a risk that income may be misstated resulting in a material misstatement in the financial statements.</p> <p>The council receives a significant amount of income in addition to Scottish Government funding, for example council tax and charges for services. The extent and complexity of income means that, in accordance with ISA 240, there is an inherent risk of fraud.</p>	<p>Effective counter-fraud policies and arrangements.</p>	<p>recognised in the correct financial year.</p>
<b>3</b>	<p><b>Risk of material misstatement caused by fraud in expenditure</b></p> <p>Guidance on auditing standards requires public sector auditors to consider the risk of fraud over expenditure, extending the requirements of ISA 240. The extent of the council's expenditure, for example on benefits and grants, means that there is an inherent risk of fraud.</p>	<p>Key controls working effectively.</p> <p>Sound budgetary control and monitoring arrangements in place.</p> <p>Effective counter-fraud policies and arrangements.</p> <p>Participation in the National Fraud Initiative</p>	<ul style="list-style-type: none"> <li>• Testing of expenditure transactions focusing on the areas of greatest risk.</li> <li>• Substantive cut-off testing of expenditure to ensure it is recognised in the correct financial year.</li> <li>• Review the council's participation and progress in the National Fraud Initiative.</li> </ul>
<b>4</b>	<p><b>Estimations and judgements</b></p> <p>There is significant subjectivity in the council's measurement and valuation of the material account areas of non-current assets, financial instruments and pensions. The council is commissioning a full revaluation of non-current assets, which needs to be completed before 31 March 2020 to comply with its accounting policy. It is also re-profiling loans fund repayments. The subjectivity of estimations and judgements represents an increased risk of material misstatement in the financial statements.</p>	<p>The council is tendering for independent experts to revalue its non-current assets.</p> <p>The council has commissioned independent experts to review options to reprofile its loans fund repayments.</p> <p>IAS 19 report provided by actuary to support pension liability disclosures is subject to review by officers.</p>	<ul style="list-style-type: none"> <li>• Testing of non-current asset balances focusing on the areas of greatest risk.</li> <li>• Assessment of the scope, independence and competence of the professionals engaged in providing valuations.</li> <li>• Review the appropriateness of estimates and judgements including comparison with other councils.</li> </ul>
<b>Wider dimension risks</b>			
<b>5</b>	<p><b>Financial sustainability</b></p> <p>The council continues to face significant financial pressures. This includes the costs of funding demand for its services and those provided by the integration joint board. There are also ongoing general pressures on public finances. The council is forecasting it needs to achieve savings of £19 million over the next three years. The council needs to make difficult decisions about its services and how these are provided to ensure it balances its finances.</p> <p>There is a risk that the council will find it increasingly difficult to maintain</p>	<p>Regular budget strategy reports to councillors, including scenario planning and identifying and tracking the progress of savings.</p> <p>Change programme board in place to allow earlier consideration of savings.</p>	<ul style="list-style-type: none"> <li>• Assess the effectiveness of financial planning in identifying the risks to financial sustainability in the short, medium and long terms.</li> <li>• Examine the arrangements in place to address identified funding gaps.</li> </ul>

 <b>Audit Risk</b>	<b>Source of assurance</b>	<b>Planned audit work</b>
financial sustainability and deliver priority services.		
<p><b>6 Governance and transparency</b></p> <p>The council has a programme of work designed to secure transformational change, longer-term savings, and service and financial sustainability. This involves embedding new structures and arrangements across the council. There is a risk that processes to support the governance and transparency of council business do not operate as intended resulting in:</p> <ul style="list-style-type: none"> <li>• ineffective arrangements for the prevention and detection of fraud and corruption</li> <li>• financial information which is not clear, timely and detailed enough to enable effective scrutiny of the council's finances</li> <li>• the council being unable to demonstrate the openness and transparency of its decision-making and use of public money</li> <li>• the management commentary, published alongside the annual accounts, not providing a fair, balanced and understandable analysis of the council's performance.</li> </ul>	<p>The council has committed to updating its fraud policy and raising concerns at work policy, and processes to produce a comprehensive approach.</p> <p>Regular financial performance reports to councillors.</p> <p>Council approval is needed to conduct business in private.</p> <p>Officers review the content of the management commentary to ensure it is fair, balanced and understandable, and clearly sets out the council's financial sustainability.</p>	<ul style="list-style-type: none"> <li>• Review the appropriateness and effectiveness of arrangements for the prevention and detection of fraud and corruption.</li> <li>• Assess the quality and timeliness of financial information provided to councillors.</li> <li>• Examine the openness and transparency of decision-making.</li> <li>• Review whether the management commentary tells a clear story and has been compiled in accordance with the appropriate guidance.</li> </ul>

Source: Audit Scotland

## Reporting arrangements

**5.** 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](http://www.audit-scotland.gov.uk).

**6.** Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the relevant officer(s) to confirm factual accuracy.

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

## Exhibit 2

### 2019/20 Audit outputs

Audit output	Target date	Committee date
Annual Audit Plan	13 January 2020	6 February 2020
Management Report	12 March 2020	2 April 2020
Annual Audit Report	15 September 2020	24 September 2020
Independent Auditor's Report	15 September 2020	24 September 2020

Source: Audit Scotland

### Audit fee

**8.** The proposed audit fee for the 2019/20 audit of the council is £202,210 [2018/19: £198,220]. In determining the audit fee we have taken account of the risk exposure of the 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 30 June 2020.

**9.** Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual accounts 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 out with our planned audit activity.

### Responsibilities

#### Audit Committee and management

**10.** Audited bodies have the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to successfully deliver their objectives.

**11.** The audit of the annual accounts does not relieve management or the Audit Committee as those charged with governance, of their responsibilities.

#### Appointed auditor

**12.** Our responsibilities as independent auditors are established by the 1973 local government act, as amended, and the Code of Audit Practice (including supplementary guidance) and guided by the Financial Reporting Council's Ethical Standard.

**13.** 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 and use of resources. In doing this, we aim to support improvement and accountability.

# Audit scope and timing

## Annual accounts

**14.** 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 the 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 the council will include these in the financial statements
- assessing the risks of material misstatement in the financial statements
- determining the nature, timing and extent of audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements are free of material misstatement.

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

- give a true and fair view in accordance with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 (the 2019/20 Code) of the state of affairs of the council and its group as at 31 March 2020 and of the income and expenditure of the council and its group for the year then ended
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union, as interpreted and adopted by the 2019/20 accounting Code
- have been properly prepared with the requirements of the Local Government (Scotland) Act 1973, the Local Authority Accounts (Scotland) Regulations Act 2014, and the Local Government in Scotland Act 2003.



characteristics



responsibilities



principal activities



risks



governance arrangements

## Statutory other information in the annual accounts

**16.** We also review and report on statutory other information published within the annual accounts including the management commentary, annual governance statement and the audited part of 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.

**17.** We also review the content of the annual report for consistency with the financial statements and with our knowledge. We report any uncorrected material misstatements in statutory other information.



## Materiality

18. 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.

19. We calculate materiality at different levels as described below. The calculated materiality values for the council are set out in [Exhibit 3](#).

### Exhibit 3 Materiality values



Materiality	Amount
<b>Planning materiality</b> – This is the figure we calculate to assess 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 2020 based on the 2018/19 audited accounts.	£2.10 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.	£1.05 million
<b>Reporting threshold (i.e., clearly trivial)</b> – 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, rounded up to £50,000.	£50,000

Source: Audit Scotland

## Timetable

20. 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 report and accounts by the council	25 June 2020
Latest submission date of unaudited annual report and accounts with complete working papers package	30 June 2020
Latest date for final clearance meeting	10 September 2020
Latest date for receipt of final annual report and accounts with audit adjustments	14 September 2020
Issue of letter of representation and proposed independent auditor's report and agreement of audited unsigned annual report and accounts	15 September 2020
Issue of draft Annual Audit Report to those charged with governance	15 September 2020
Independent auditor's report signed	24 September 2020

## Internal audit

**21.** Internal audit is provided under an agreement with Falkirk Council. 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 the main requirements of the Public Sector Internal Audit Standards. ISA 610 requires an assessment on whether the work of the internal audit function can be used for the purposes of external audit. This includes:

- the extent to which the internal audit function's organisational status and relevant policies and procedures support the objectivity of the internal auditors
- the level of competence of the internal audit function
- whether the internal audit function applies a systematic and disciplined approach, including quality control.

**22.** We will report any significant findings to management on a timely basis.

### 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 rely on 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 minimise duplication of effort and to ensure the total resource is used efficiently or effectively.

**24.** From our initial review of internal audit plans we plan to place formal reliance on internal audit's work on access privileges to key corporate systems.

## Audit dimensions

**25.** Our audit is based on four audit dimensions that frame the wider scope of public sector audit requirements as shown in [Exhibit 5](#).

### Exhibit 5 Audit dimensions



Source: Code of Audit Practice

**26.** In the local government sector the appointed auditor's annual conclusions on these four dimensions will help contribute to an overall assessment and assurance on Best Value.

**27.** Our standard audits are based on four audit dimensions that frame the wider scope of public sector audit requirements. These are: financial sustainability, financial management, governance and accountability and value for money.

### Financial management

**28.** Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively. We will review, conclude and report on:

- whether arrangements are in place to ensure systems of internal control are operating effectively
- the effectiveness of the budgetary control system in communicating accurate and timely financial performance information
- how the council has assured itself that its financial capacity and skills are appropriate
- whether there are appropriate and effective arrangements in place for the prevention and detection of fraud and corruption
- the effectiveness of the council's controls and policies in preventing procurement fraud
- the council's preparedness for application of IFRS 16 (Leases) in 2020/21.

### Financial sustainability

**29.** 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 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 the risks to financial sustainability in the short, medium and long terms
- the arrangements in place to address identified funding gaps.

### 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
- whether there is effective scrutiny, challenge and transparency of 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 demonstrate:

- value for money in the use of resources
- there is a clear link between money spent, output and outcomes delivered
- that outcomes are improving

- there is sufficient focus on improvement and the pace of it.

**32.** The council has been selected as a fieldwork site for Audit Scotland's performance audit on digital progress in local government. We will review the outcome of this work and report any significant findings in our annual audit report.

### 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 coincided with the new five-year audit appointments. Auditors started using 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 ongoing annual audit work, and through work to look at specific issues. Conclusions and judgements on Best Value will be reported through:

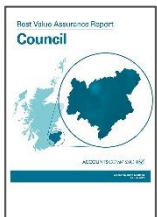
- The annual audit report for each council that will provide a rounded picture of the council overall
- An annual assurance and risks report that the Controller of Audit will provide to the Commission that will highlight issues from across all 32 council annual audit reports
- A Best Value Assurance Report (BVAR) for each council that will be considered by the Accounts Commission at least once in a five-year period.

**35.** The seven councils on which a BVAR will be published during the fourth year of the new approach are listed in [Exhibit 6](#). Reports will be considered by the Accounts Commission in the period between March and November 2020.

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## Exhibit 6

### 2019/20 Best Value Assurance Reports

	Aberdeenshire Council	Dundee Council
	Argyll and Bute Council	Falkirk Council
	City of Edinburgh Council	Moray Council
	North Ayrshire Council	

Source: Audit Scotland

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**36.** Clackmannanshire Council was one of six councils considered in the first year of the five-year audit cycle. The council's BVAR was published in January 2018 and in its findings the Accounts Commission requested a progress report by June 2019. The BVAR Progress report was published in June 2019. At its meeting in August 2019 the council agreed an action plan to progress the recommendations contained in the report. The Accounts Commission has asked us to maintain a close interest.

**37.** Our Best Value work this year will focus on monitoring the council's progress against its action plan and the recommendations of the BVAR Progress report. As part of our cyclical work on aspects of Best Value, we will also review the council's commitment to equal opportunities and fairness, including the extent to which this is embedded in service delivery. The results of this work will be reported in the Annual Audit Report.

## Independence and objectivity

**38.** Auditors appointed by the Accounts Commission or 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 for the council is Gordon Smail, Audit Director. Auditing and ethical standards require the engagement lead 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 the 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 Accounts Commission and 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 has 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.

# Clackmannanshire Council

## Annual Audit Plan 2019/20

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