

# Stirling Council

Annual Audit Plan 2020/21



 AUDIT SCOTLAND

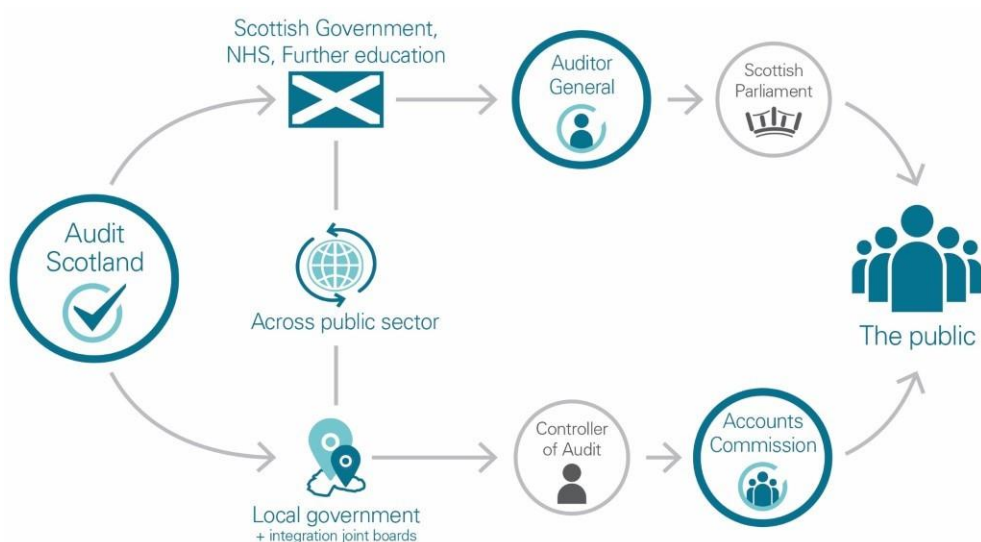
Prepared for Stirling Council

March 2021

## 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

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- 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 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.
- 3.** The public health crisis caused by the coronavirus disease 2019 (COVID-19) pandemic has had a significant and profound effect on every aspect of Scottish society. Public services have been drastically affected, requiring immediate changes to the way they are provided. The impact on public finances has been unprecedented, which has necessitated both the Scottish and UK governments providing substantial additional funding for public services as well as support for individuals, businesses and the economy. It is likely that further financial measures will be needed and that the effects will be felt well into the future.
- 4.** Public audit has an important contribution to the recovery and renewal of public services. The Auditor General, the Accounts Commission and Audit Scotland are responding to the risks to public services and finances from COVID-19 across the full range of audit work including annual audits and the programme of performance audits. Audit Scotland views 2020/21 as another challenging year and in January 2021 published [Covid-19: What it means for public audit in Scotland – update](#) which restates the key principles for our response to Covid-19. It also provided an update on the financial and performance audit programmes. The well-being of audit teams and the delivery of high-quality audits remain paramount. Maintaining a pragmatic and flexible approach will enable change at short notice as new issues emerge, or current risks change in significance. Where this impacts on annual audits, an addendum to this annual audit plan may be necessary.

## Adding value


- 5.** We aim to add value to the Stirling 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 Stirling Council promote improved standards of governance, better management and decision making and more effective use of resources.

## Audit risks

- 6.** Based on our discussions with staff, attendance at committee meetings and a review of supporting information we have identified the following significant risk for Stirling Council. We have categorised these risks into financial statements risks and wider dimension risks. Significant financial statements risks are detailed in [Exhibit 1](#) and significant wider dimensions risks are detailed in [Exhibit 2](#).

## Exhibit 1

### 2020/21 Significant financial statements risks


 Audit Risk	Management's source of assurance	Planned audit work
<b>Risk of material misstatement due to:</b>		
<p><b>1 Management override of controls</b></p> <p>International Auditing Standards require that audits are planned to consider the risk of material misstatement in the financial statements caused by fraud, which is presumed to be a significant risk in any audit. This includes the risk of fraud due to the management override of controls.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance.</p>	<p>Specify work to be undertaken</p>
<p><b>2 Fraud over expenditure</b></p> <p>Most public-sector bodies are net expenditure bodies and therefore the risk of fraud is more likely to occur in expenditure, due to the variety and extent of expenditure in delivering services.</p> <p>Stirling Council incurs significant expenditure on a range of activities. The extent of expenditure means there is an inherent risk of fraudulent or erroneous reporting of expenditure to achieve a desired financial position.</p>	<p>Clear schemes of delegation and authorised signatory databases are regularly updated.</p> <p>Appropriate processes for the authorisation, separation of duties and workflow associated with expenditure.</p> <p>A sound system of budgetary control is in place. This includes regular budget monitoring reports being provided to members.</p> <p>Internal audit's plan includes a rolling review of core financial controls.</p>	<ul style="list-style-type: none"> <li>• Detailed testing of expenditure transactions focusing on the areas of greatest risk and whether expenditure is recorded in the correct accounting year.</li> <li>• Walkthrough and testing of controls identified within key financial systems.</li> </ul>
<p><b>3 Estimates and judgements in the valuation of land and buildings</b></p> <p>Stirling Council held land and buildings with a net book value (NBV) of over £374.492 million as at 31 March 2020. There is a significant degree of subjectivity in the valuation of land and buildings. Valuations are based on specialist and management assumptions and estimates, and changes in these can result in material changes to valuations. The impact of COVID-19 gave rise to a material valuation uncertainty within the 2019/20 valuations, and may have a similar impact in 2020/21 depending on guidance issued by RICS.</p>	<p>Non-current asset valuations are completed by Royal Institute of Chartered Surveyors (RICS) qualified surveyors in accordance with instructions issued by the council.</p> <p>Robust controls over the process for updating the asset register for in-year valuations.</p>	<ul style="list-style-type: none"> <li>• Completion of 'review of the work of Management's expert' for the professional valuer.</li> <li>• Review of external valuations performed in year, assessing whether they have been performed using an appropriate and relevant valuation basis/methodology by suitably qualified individuals.</li> <li>• Review of the controls in place by management to limit the risk of material misstatement within the valuation.</li> <li>• Review of the information provided to the valuer to assess for completeness</li> </ul>


	Audit Risk	Management's source of assurance	Planned audit work
4	<p><b>Estimates and judgements in the valuation of the pension liability</b></p> <p>Stirling Council recognised a net liability of £210.961 million relating to its share of Falkirk Pension Fund at 31 March 2020. There is a significant degree of subjectivity in the measurement and valuation of the pension fund liability. The valuation is based on specialist assumptions and estimates, and changes can result in material changes to the valuation.</p> <p>Additionally, the triennial valuation exercise will take place for the pension fund and impact on the 2020/21 annual accounts. This exercise is more detailed than the annual valuations and will also set employer contributions rates for the next three years.</p>	<p>The year end pension valuation is completed by qualified actuaries based on instructions and on-going correspondence with the council.</p> <p>Actuarial assumptions are reviewed by officers to ensure they are appropriate.</p>	<ul style="list-style-type: none"> <li>Review and assess the reasonableness of external valuations.</li> <li>Assess the Council's compliance with any relevant Covid-19 guidance issued by RICS in relation to land and buildings property valuations.</li> <li>Completion of 'review of the work of Management's expert' for the Council's actuary.</li> <li>Assess the completeness and accuracy of information provided by the Council to the Falkirk Pension Fund to support the triennial revaluation process.</li> <li>Review of the controls in place by management to limit the risk of material misstatement within the pensions liability.</li> </ul>
5	<p><b>Impact of additional funding and expenditure due to Covid-19 on the financial statements</b></p> <p>The Covid-19 pandemic has resulted in significant financial pressures for the council. The Scottish and UK governments have announced a range of additional funding streams for the council to support frontline services and help the council manage the financial pressures caused by Covid-19. Additional funding received via General Revenue Grant by 31 March 2021 is expected to be material in value.</p> <p>The impact of Covid-19 has resulted in an associated increase in expenditure, with some new expenditure streams in 2020/21. The result of which is anticipated additional expenditure of £10.7 million related to Covid-19 activities.</p>	<p>During 2020/21, officers have provided regular update reports to the Council and Finance &amp; Economy Committee on the financial impact of COVID-19 on Council services.</p> <p>A reconciliation of all COVID-19 costs and lost income will be carried out at the end of the 2020/21 financial year to determine the exact quantum of financial support that will need to be applied in 2020/21, and therefore the level of resource that will be available to mitigate the impact of COVID-19 in the financial year 2021/22.</p>	<ul style="list-style-type: none"> <li>Understand how the council has processed and controlled the Covid-19 related income and expenditure.</li> <li>Assess how the additional income and expenditure has impacted on the financial statements</li> <li>Consider how the management commentary reports on the Covid-19 related income and expenditure.</li> </ul>

7. As set out in ISA(UK) 240, there is a presumed significant risk of material misstatement due to fraud in revenue recognition. We have rebutted this presumed risk in 2020/21 because, while the possibility of fraud exists, we do not judge it to be significant risk due to the nature of Stirling Council's revenue streams.

## Exhibit 2

### 2020/21 Significant wider dimensions risks

 Audit Risk	Management's source of assurance	Planned audit work
<b>Wider dimensions risks:</b>		
<p><b>1 Financial Sustainability</b></p> <p>Stirling Council has identified a long term budget gap for a number of years, in 2019/20 the 10-year shortfall was estimated to be £60 million arising from funding and demand pressures.</p> <p>Despite the council having developed savings plans and been largely successful in achieving these, the magnitude of the budget gap represents a risk.</p> <p>The COVID-19 pandemic has introduced additional cost, additional uncertainty and has disrupted the council's ability to implement plans in response to the budget gap.</p> <p>As a result, there is a risk to financial sustainability and the sustainability of services in future.</p>	<p>Periodic updates to the 10-year financial strategy are provided to members.</p> <p>Budget monitoring reports advise members of the progress of savings options and provide an update to the five-year funding gap.</p> <p>The council's rolling five-year budget is aligned to key objectives contained in the five-year business plan and the workforce plan.</p> <p>The five-year business plan is reviewed every year and updated in line with changes in the council's priorities.</p> <p>The council's is reviewing its transformation programme to ensure it is aligned to the five-year business plan and the ten year strategy (Thriving Stirling). The Transformation Fund is currently at the value of £3 million, and consideration will be given to making further contributions to that Fund at the end of the current financial year 2020/21, in anticipation of the substantial investments that will be required.</p>	<ul style="list-style-type: none"> <li>Review of financial reports and papers such as budget monitoring reports, 2021/22 budget, medium and long-term savings plans and financial outlook papers.</li> <li>Review of assumptions and judgements in financial reports and papers for reasonableness.</li> </ul>

 Audit Risk	Management's source of assurance	Planned audit work
<p><b>2 Performance Management</b></p> <p>The COVID-19 pandemic has significantly altered how the council delivers many of its services and also added additional responsibilities, for example the administration of business support grants.</p> <p>The continuing pressures of the pandemic, both operational and financial, result in a risk that Stirling Council will not be able to exercise effective performance management during 2020/21.</p>	<p>The Stirling's Future Board receives monthly updates on progress towards key transformational programmes across the Council.</p> <p>The Operational Governance Board receives monthly updates on progress against key Service operational targets, in addition to progress towards achievement of planned savings.</p> <p>The Operational Governance Board will also now receive monthly financial updates on the overall revenue and capital projected outturn positions. Previously these were reported to Corporate Management Team meetings. These reports are in addition to the regular financial updates to the Finance &amp; Economy Committee.</p> <p>Over the past year, financial reports have provided detail of the financial impact on Services from COVID-19, in addition to the financial position from normal 'Business As Usual' activities.</p>	<ul style="list-style-type: none"> <li>Review of the performance management arrangements in place during the year to understand the Council's response to the evolving situation.</li> </ul>

## Reporting arrangements

**8.** Audit reporting is the visible output for the annual audit. All annual audit plans and the outputs as detailed in [Exhibit 3](#), 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).

**9.** 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 officers to confirm factual accuracy.

**10.** We will provide an independent auditor's report to Stirling Council and Accounts Commission setting out our opinions on the annual accounts. We will provide the Accountable Officer and Accounts Commission with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.



## Exhibit 3

### 2020/21 Audit outputs

Audit Output	Target date	Committee Date
Annual Audit Plan	30 April 2021	Issued to Audit Committee members outside of committee cycle
Independent Auditor's Report	31 October 2021	TBC
Annual Audit Report	31 October 2021	TBC

Source: Audit Scotland

## The audit of trusts registered as Scottish charities

**11.** Members of Stirling Council are sole trustees for a number of trusts, registered as Scottish charities: Stirling Council Common Good Fund, Dunblane Cemetery Memorial Garden (Maintenance) Trust and Stirling Council Consolidated Small Charitable Trusts. The total combined assets of these trusts was approximately £1.4 million as at 31 March 2020.

**12.** The Charitable Accounts (Scotland) Regulations 2006 require charities to prepare annual accounts and require an accompanying auditor's report where any legislation requires an audit. The Local Government (Scotland) Act 1973 specifies the audit requirements for any trust fund where some or all members of a council are the sole trustees. Therefore, a full and separate audit and independent auditor's report is required for each registered charity where members of Stirling Council are sole trustees, irrespective of the size of the charity. We will conduct separate audits and prepare independent auditor's reports for each of the three sets of accounts.

**13.** In line with the International Standards on Auditing we have identified a significant financial statements risk of material misstatement due to management override of controls for the common good and two trust funds. Our planned work around this risk is the same as the planned work for risk one in [Exhibit 1](#).

## Audit fee

**14.** The proposed audit fee for the 2020/21 audit of Stirling Council is £251,680 (2019/20: £245,220). In addition, the proposed audit fee for the audit of the charitable trusts and common good accounts administered by Stirling Council is £2,050 (2019/20: £2,000). This is set out in [Exhibit 4](#).

## Exhibit 4

### Audit Fee

	2020/21	2019/20
Main Audit	£249,630	£243,220
Charities	£2,050	£2,000
<b>Total</b>	<b>£251,680</b>	<b>£245,220</b>

Source: Audit Scotland

**15.** In determining the audit fee we have taken account of the risk exposure of Stirling 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 by 30 June 2021.

**16.** 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 Chief Executive

**17.** 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.

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

### Appointed auditor

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

**20.** 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

**21.** 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 Stirling 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 Stirling 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.

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

- give a true and fair view in accordance with applicable law and the 2020/21 Code of the state of affairs of the council and its group as at 31 March 2021 and of the income and expenditure of the council and its group for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2020/21 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.



characteristics



responsibilities



principal activities



risks



governance arrangements

## Statutory other information in the annual accounts

**23.** We also review and report on statutory other information published within the annual accounts including the management commentary, annual governance statement and the remuneration report. We give an opinion on whether these have been compiled in accordance with the appropriate regulations and frameworks in our independent auditor's report.

**24.** 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

**25.** 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.

**26.** We assess materiality at different levels as described below. The materiality values for planning purposes for the 2020/21 audit of Stirling Council are set out in [Exhibit 5](#). We will reconsider the levels of materiality upon receipt of the 2020/21 accounts for audit.

## Exhibit 5 Materiality values

Materiality	Council	Group
<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 1.5% of gross expenditure for the year ended 31 March 2021 based on the latest audited accounts for 2020.	£5.100 million	£6.700 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 60% of planning materiality.	£3.060 million	£4.020 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 5% of planning materiality (capped at £0.250 million).	£0.250 million	£0.250 million

Source: Audit Scotland

## Audit dimensions

**27.** Our audit is based on four audit dimensions that frame the wider scope of public sector audit requirements as shown in [Exhibit 6](#).

## Exhibit 6 Audit dimensions



Source: Code of Audit Practice

**28.** 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.

**29.** 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 sustainability

**30.** 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 and addressing risks to financial sustainability in the short, medium and long term
- whether there are arrangements in place to demonstrate the affordability and effectiveness of funding and investment decisions.

### Financial management

**31.** 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 budgetary control systems in communicating accurate and timely financial performance can be demonstrated
- how Stirling 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.

**32.** As part of our work this year we will broaden our consideration of these matters in light of the impact of the COVID-19 pandemic.

### Governance and transparency

**33.** 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 Stirling Council can demonstrate that the governance arrangements in place are appropriate and operating effectively
- 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.

**34.** As part of our work this year we will broaden our consideration of these matters in light of the impact of the COVID-19 pandemic.

### Value for money

**35.** Value for money refers to using resources effectively and continually improving services. We will review, conclude and report on whether Stirling 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.

### Best Value

**36.** 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.

**37.** A key feature of the new approach is that it integrates Best Value into the wider scope annual audit, which will influence audit planning and reporting. Best Value will be assessed comprehensively over the five-year audit appointment, both through the ongoing annual audit work, and through discrete packages of work to look at specific issues. Conclusions and judgements on Best Value will be reported through:

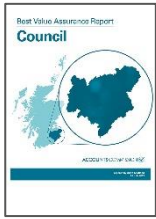
- The Annual Audit Report for each council that will provide a rounded picture of the council overall.
- An annual assurance and risks report that the Controller of Audit will provide to the Commission that will highlight issues from across all 32 council annual audit reports.
- A Best Value Assurance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

**38.** The seven councils on which a BVAR will be published during the fifth year of the new approach are listed in [Exhibit 7](#). Reports will be considered by the Accounts Commission in the period between March and November 2021.

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## Exhibit 7

### 2020/21 Best Value Assurance Reports

	Aberdeen City Council	Falkirk Council
	South Ayrshire Council	
	East Dunbartonshire Council	

Source: Audit Scotland

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**39.** The Best Value work planned this year will focus on the Council's arrangements for demonstrating Best Value in the monitoring of performance and outcomes. We will also continue to follow up findings reported in the Best Value Audit Report in April 2019. The work will be integrated with that described above in these areas. The results of this work will be reported in the Annual Audit Report.

### Independence and objectivity

**40.** 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.

**41.** The engagement lead (i.e. appointed auditor) for Stirling Council is John Cornett, Audit Director. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of Stirling Council.

## Quality control

**42.** 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.

**43.** The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice (and supporting guidance) issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards Audit Scotland conducts peer reviews and internal quality reviews. Additionally, the Institute of Chartered Accountants of Scotland (ICAS) have been commissioned to carry out external quality reviews.

**44.** 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.

# Stirling Council

## Annual Audit Plan 2020/21

If you require this publication in an alternative format and/or language, please contact us to discuss your needs: 0131 625 1500 or [info@audit-scotland.gov.uk](mailto:info@audit-scotland.gov.uk)

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