

# Stirling Council

Annual Audit Plan 2016/17



 AUDIT SCOTLAND

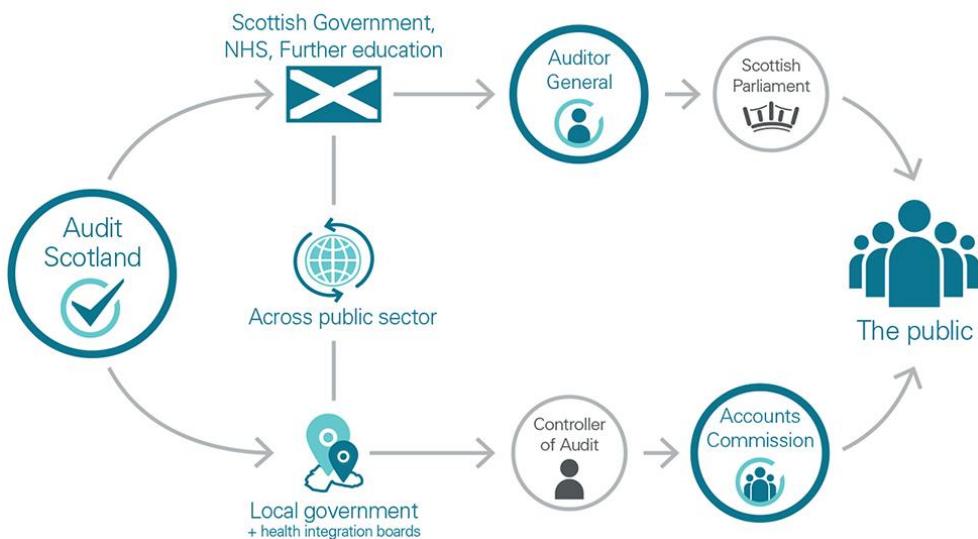
Prepared for Stirling Council

March 2017

# Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



## About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

---

# Contents

---

<b>Risks and planned work</b>	<b>4</b>
Audit risks	4
Charitable Trusts Administered by Stirling Council	7
Reporting arrangements	7
Audit fee	8
Responsibilities	8
<b>Audit scope and timing</b>	<b>9</b>
Financial statements	9
Internal audit	11
Audit dimensions	11
Best Value	13
Independence and objectivity	13
Quality control	14

# Risks and planned work

**1.** This annual audit plan contains an overview of the planned scope and timing of our audit and is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and any other relevant guidance. This plan identifies our audit work to provide an opinion on the financial statements and related matters and meet the wider scope requirements of public sector audit - including the new approach to Best Value. The wider scope of public audit contributes to conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

## Audit risks

**2.** Based on our discussions with staff, attendance at committee meetings and a review of supporting information we have identified the following main risk areas for Stirling Council. We have categorised these risks into financial risks and wider dimension risks. The key audit risks, which require specific audit testing, are detailed in [Exhibit 1](#).

## Exhibit 1

Audit Risk	Management assurance	Planned audit work
<b>Financial statement issues and risks</b>		
<b>1 Risk of management override of controls</b> ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.	<ul style="list-style-type: none"> <li>Owing to the nature of this risk, assurances from management are not applicable.</li> </ul>	<ul style="list-style-type: none"> <li>Detailed testing of journal entries.</li> <li>Review of accounting estimates.</li> <li>Focused testing of accruals and prepayments.</li> <li>Evaluation of significant transactions that are outside the normal course of business.</li> </ul>
<b>2 Risk of fraud over income and expenditure</b> ISA 240 presumes a risk of fraud over income which is expanded to include fraud over expenditure in the public sector by the Code of Audit Practice  Stirling Council receives a significant amount of income in addition to Scottish Government funding. The extent and complexity of income means that, in accordance with ISA240,	<ul style="list-style-type: none"> <li>Clear schemes of delegation and authorised signatory databases are regularly updated.</li> <li>Appropriate processes for the authorisation, separation of duties and workflow associated with income and expenditure.</li> <li>Compliance with procurement regulations.</li> <li>Member scrutiny through regular cycle of committee</li> </ul>	<ul style="list-style-type: none"> <li>Analytical procedures on income streams.</li> <li>Detailed testing of revenue and expenditure transactions focusing on the areas of greatest risk.</li> <li>Walk-through of controls identified within key financial systems.</li> <li>Audit work on the National Fraud Initiative matches.</li> </ul>

Audit Risk	Management assurance	Planned audit work
<p>there is an inherent risk of fraud. Particular areas of concern include council tax, non domestic rates and income from sundry debtors. The risk of fraud over expenditure also applies due to the variety and extent of expenditure made by the council in delivering services.</p>	<p>reporting.</p> <ul style="list-style-type: none"> <li>Internal audit's plan includes a rolling review of core financial controls.</li> </ul>	
<p><b>3 Estimation and judgements</b></p> <p>There is a significant degree of subjectivity in the measurement and valuation of the material account areas of non current assets, pension liabilities and provisions. This subjectivity represents an increased risk of misstatement in the financial statements.</p>	<ul style="list-style-type: none"> <li>Asset valuations completed by Royal Institute of Chartered Surveyors (RICS) qualified surveyor.</li> <li>Pension fund balances and valuations are completed by qualified actuary.</li> <li>Robust controls over process for updating asset register for in-year valuations.</li> <li>A year end timetable for producing the annual accounts has been prepared. This considers all aspects of cut off.</li> </ul>	<ul style="list-style-type: none"> <li>Completion of 'review of the work of an expert' for the professional valuer and actuary.</li> <li>Focused substantive testing of key areas.</li> <li>Review appropriateness of actuarial assumptions.</li> <li>Sample check accruals and provisions in the 2016/17 annual accounts.</li> </ul>
<p><b>4 Group accounts consolidation of Integration Joint Board</b></p> <p>From 1 April 2016 the Clackmannanshire and Stirling Integration Joint Board (IJB) has been operational and will be included in the council's group accounts for the first time in 2016/17. The IJB is responsible for commissioning adult social care while the council is responsible for delivering services.</p> <p>There are risks that:</p> <ul style="list-style-type: none"> <li>transactions relating to the IJB are not correctly classified by the council</li> <li>balances between the council and its IJB partners are not agreed in time for preparation of the financial statements</li> <li>overspends occur if scrutiny of partnership budgets is not effective. Any overspends by the IJB will directly impact the council's budget.</li> </ul>	<ul style="list-style-type: none"> <li>The financial ledger coding structure identifies all IJB transactions.</li> <li>Regular monitoring of financial information.</li> <li>Due diligence completed on the budget setting process.</li> <li>All balances between IJB partners will be agreed prior to preparing the annual accounts.</li> <li>Agreement on how to account for overspends and underspends is outlined in the Integration Scheme.</li> </ul>	<ul style="list-style-type: none"> <li>Sample test income and expenditure relating to health and social care services provided to the IJB.</li> <li>Review the arrangements in place to confirm balances between the council and its IJB partners.</li> <li>Confirm whether any overspends or underspends relating to the council are accounted for in accordance with the integration scheme.</li> </ul>
<b>Wider dimension risks</b>		
<p><b>5 Financial sustainability</b></p> <p>Councils are facing significant financial pressures with</p>	<ul style="list-style-type: none"> <li>The council carried out an extensive priority based budgeting exercise that</li> </ul>	<ul style="list-style-type: none"> <li>Review the process for setting PBB4 for the five year period to 2021/22</li> </ul>

Audit Risk	Management assurance	Planned audit work
<p>reductions in funding and the need to reconfigure services, increasing non discretionary costs, increasing demand for services and the uncertainty around the newly created IJBs. Good financial information to support strategic cost reduction measures will be critical to achieving this.</p>	<p>reviewed all costs over the next five year period.</p> <ul style="list-style-type: none"> <li>This is aligned to key objectives contained in the five year business plan and the workforce plan.</li> <li>Savings proposals of £25.124 million for the five year period to 2020/21 were approved when the 2016/17 budget was set.</li> <li>The five year business plan is reviewed every year and updated in line with changes in the council's priorities. This will be reflected in PBB4.</li> <li>Uncommitted reserves have increased in recent years as part of a planned strategy to help finance the implementation of the budget transformation programme.</li> <li>Regular financial monitoring reports are scrutinised by the Finance &amp; Economy Committee.</li> <li>Over 90% of PBB3 savings by value for 2016/17 are forecast to be delivered. Monthly progress updates towards meeting PBB savings targets are reported to the Strategic Transformation Board.</li> <li>A surplus of £0.230 million for 2016/17 is forecast at 2 February 2017, subject to the planned use of around £4 million reserve balances to finance the implementation of the budget transformation programme.</li> </ul>	<ul style="list-style-type: none"> <li>Undertake specific audit work on financial sustainability and financial management as part of our "audit dimensions" work. This will include consideration of the robustness of long term financial planning.</li> <li>Review of the council's progress in achieving its planned savings.</li> <li>Review financial monitoring reports and the financial position.</li> </ul>
<p>The council's third priority based budget (PBB3) plan identified a savings target of £30.184 million over the five years to 2020/21 that will be necessary to achieve a balanced budget. This included the need to make savings of £6.281 million in 2016/17.</p> <p>There is a risk that the council is not able to identify or achieve the necessary sustainable savings measures or meet cost pressures as they arise.</p>		
<p><b>6 Shared service arrangements</b></p> <p>Shared service arrangements with Clackmannanshire Council for Education and Social Services came to an end in October 2016. The council has redesigned these services with a view to being more flexible towards demand, as well as being better placed to manage operational risk.</p>	<ul style="list-style-type: none"> <li>A business case setting out the options for future service delivery was approved in October 2015.</li> <li>There was continuous communication with Clackmannanshire Council throughout the decoupling process until appropriate arrangements were in place at both councils.</li> </ul>	<ul style="list-style-type: none"> <li>Review the governance arrangements in place following the implementation of the council's revised children's services and adult social care services.</li> <li>Review financial monitoring reports and the financial position of children's services and adult social care services.</li> </ul>

Audit Risk	Management assurance	Planned audit work
<p>During this period of change there is a risk that governance arrangements may not be in place and could impact the quality of service provided.</p> <p>Children &amp; family services are forecasting an overspend in 2016/17 of £1.612 million.</p>	<ul style="list-style-type: none"> <li>• Appropriate governance arrangements are now in place.</li> <li>• Financial performance of all education and social services are regularly reported to the Finance &amp; Economy Committee, together with reasons for all variances from budget.</li> </ul>	
<p><b>7 Workforce Management</b></p> <p>To help meet the financial challenges, the council have identified that significant organisational change is required over the five year period to 2020/21. The council have identified that a reduction of 450 to 550 jobs requires to be undertaken in a cost effective manner.</p> <p>There are risks that either this could be unaffordable, or that there is insufficient capacity to meet future business requirements.</p>	<ul style="list-style-type: none"> <li>• The workforce plan is strategically aligned to the five year business plan and the PBB.</li> <li>• Ongoing communication with employees and trade unions.</li> <li>• Uncommitted reserves have increased in recent years as part of a planned strategy to finance the implementation of the budget transformation programme. Around £4 million has been used in 2016/17 to finance severance costs.</li> </ul>	<ul style="list-style-type: none"> <li>• Consideration of the council's review of the impact of the proposed reduction to workforce.</li> <li>• Monitor the council's progress against the strategic workforce plan.</li> </ul>

## Charitable Trusts Administered by Stirling Council

**3.** The Charities Accounts (Scotland) Regulations 2006 specify the accounting and auditing requirements for Scottish registered charities. The council administers a Common Good Fund, with total assets of around £1.3 million; and the Dunblane Cemetery Memorial Garden (Maintenance) Trust with assets of £0.145 million.

**4.** The council also acts as the sole trustee to 19 individual small charitable trusts. On the basis of this shared management arrangement, the council has consolidated the results of these charities into a single set of accounts, the "Consolidated Small Charitable Trusts", with assets of £0.111 million. We will carry out the audit of the council's charitable trusts and Common Good Fund in parallel with the audit of Stirling Council's financial statements. There are no specific risks for these audits which we require to bring to your attention, although some of these trusts may be dormant or the trust deed specifying the purpose of the trust can no longer be located.

## 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 officers to confirm factual accuracy.

**7.** We will provide an independent auditor's report to Stirling Council and Accounts Commission summarising the results of the audit of the annual accounts. We will provide the Chief Executive, Auditor General for Scotland and Accounts

Commission with an annual report on the audit containing observations and recommendations on significant matters which have arisen in the course of the audit.

## **Exhibit 2**

### 2016/17 Audit outputs

Audit Output	Target date	Audit Committee Date
Interim Management Report	31 May 2017	TBC*
Annual Audit Report including ISA 260 requirements	23rd August 2017	31 August 2017*
Signed Independent Auditor's Report	31st August 2017	31 August 2017*

\* Programme of committee meetings beyond Local Government elections in May still to be determined.

## **Audit fee**

**8.** The proposed audit fee for the 2016/17 audit of Stirling Council is £238,800. The proposed audit fee for the audit of the charitable trust and common good accounts administered by Stirling Council is £2,000. 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 financial statements, with a complete working papers package by 31 May 2017.

**9.** Where our audit cannot proceed as planned through, for example, late receipt of unaudited financial statements or being unable to take planned reliance from the work of internal audit, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises out with our planned audit activity.

## **Responsibilities**

### **Audit Committee and Chief Executive**

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

### **Appointed auditor**

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

**13.** Auditors in the public sector give an independent opinion on the financial statements. We also review and report on the arrangements within the audited body to manage its performance, regularity and use of resources. In doing this, we aim to support improvement and accountability.

# Audit scope and timing

## Financial statements

**14.** The statutory financial statements audit will be the foundation and source for the majority of the audit work necessary to support our judgements and conclusions. We also consider the wider environment and challenges facing the public sector. Our audit approach includes:

- understanding the business of 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.

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

- whether they give a true and fair view in accordance with applicable law and the 2016/17 Code of the state of affairs of the council and its Group as at 31 March 2017 and of the income and expenditure of the council and its Group for the year ended;
- whether they have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2016/17 Code; and
- whether they 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.



## Materiality

**16.** Materiality defines the maximum error that we are prepared to accept and still conclude that our audit objective has been achieved. It helps assist our planning of the audit and allows us to assess the impact of any audit adjustments on the financial statements. We calculate materiality at different levels as described below. The calculated materiality values for Stirling Council are set out in [Exhibit 3](#).

## Exhibit 3

### Materiality values

Materiality level	Amount
<b>Planning materiality</b> - This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It has been set at 1% of gross expenditure for the year ended 31 March 2017 based on the audited accounts for 2016.	£2.841m
<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.	£1.421m
<b>Reporting threshold</b> - We are required to report to those charged with governance on all unadjusted misstatements in excess of the 'reporting threshold' amount. This has been calculated at 1% of planning materiality.	£0.030m

**17.** It should be noted that we continue to exercise our professional judgement in certain areas of the financial statements such as the management commentary, annual governance statement and remuneration report. Any issue identified will be reported to the Audit Committee.

#### Timetable

**18.** To support the efficient use of resources it is critical that a financial statements timetable is agreed with us for the production of the unaudited accounts. An agreed timetable is included at [Exhibit 4](#) which takes account of submission requirements and planned Audit Committee dates:

## Exhibit 4

### Financial statements timetable

Key stage	Date
Consideration of unaudited financial statements by those charged with governance	To be arranged
Latest submission date of unaudited council financial statements with complete working papers package	31st May 2017
Latest date for final clearance meeting with Chief Finance Officer	22 August 2017
Agreement of audited unsigned financial statements; Issue of Annual Audit Report including ISA 260 report to those charged with governance	31 August 2017
Independent auditor's report signed	By 2 September 2017
Latest date for signing of WGA return	By 30 September 2017

## Internal audit

**19.** Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to rely on the work of internal audit wherever possible and as part of our planning process we carry out an assessment of the internal audit function. Internal audit is provided by Internal Audit section at Stirling Council.

## Adequacy of Internal Audit

**20.** We have undertaken a formal review and have concluded that the council's Internal Audit function, generally, operates in accordance with the Public Sector Internal Audit Standards (PSIAS) and has appropriate documentation standards and reporting procedures in place.

## Areas of reliance

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

- A review of the council's risk management arrangements.
- A review of workforce planning arrangements focusing on the development and implementation of the strategic and service workforce plans.
- ICT – Information governance and SWIFT system application review.
- NFI arrangements.

## Audit dimensions

**22.** 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



**23.** In the local government sector, the appointed auditor's annual conclusions on these four dimensions will contribute to an overall assessment and assurance on best value.

## **Financial sustainability**

**24.** As auditors we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We will also comment on the body's financial sustainability in the longer term. We define this as medium term (two to five years) and longer term (longer than five years) sustainability. We will carry out work and conclude on:

- the effectiveness of financial planning in identifying and addressing risks to financial sustainability in the short, medium and long term
- the appropriateness and effectiveness of arrangements in place to address any identified funding gaps
- whether the council can demonstrate the affordability and effectiveness of funding and investment decisions it has made.

## **Financial management**

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

- whether the council has arrangements in place to ensure systems of internal control are operating effectively
- whether the council can demonstrate the effectiveness of budgetary control system in communicating accurate and timely financial performance
- how the council has assured itself that its financial capacity and skills are appropriate
- whether the council has established appropriate and effective arrangements for the prevention and detection of fraud and corruption.

## **Governance and transparency**

**26.** Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision-making and transparent reporting of financial and performance information. We will review, conclude and report on:

- whether the council can demonstrate that the governance arrangements in place are appropriate and operating effectively including services delivered by, or in partnership with, others such as ALEOs
- whether there is effective scrutiny, challenge and transparency on the decision-making and finance and performance reports
- the quality and timeliness of financial and performance reporting.

## **Value for money**

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

- the council can provide evidence that it is demonstrating value for money in the use of its resources
- the council can demonstrate that there is a clear link between money spent, output and outcomes delivered
- the council can demonstrate that outcomes are improving
- There is sufficient focus on improvement and the pace of it.

## Best Value

**28.** The Accounts Commission agreed the overall framework for a new approach to auditing Best Value in June 2016. The introduction of the new approach coincides with the new five year audit appointments. As such, auditors will use the framework for their audit work from October 2016.

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

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

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

## Exhibit 6

### 2016/17 Best Value Assurance Reports

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

**31.** The work planned in Stirling Council this year will focus on the council's arrangements for demonstrating Best Value in financial and service planning, financial governance and resource management. The work will be integrated with that described above in these areas. It will involve us gaining an initial understanding of the council's self evaluation processes to help it drive improvement across the council. We will then look at this in further detail in 2017/18. The results of this work will be reported in the Annual Audit Report.

## Independence and objectivity

**32.** Auditors appointed by Audit Scotland must comply with the Code of Audit Practice. When auditing the financial statements auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has in place robust arrangements to ensure compliance with these standards including an annual "fit and proper" declaration for all members of staff. The arrangements are overseen by the Assistant Auditor General, who serves as Audit Scotland's Ethics Partner.

**33.** The engagement lead for Stirling Council is David McConnell, Assistant Director. The engagement lead for the charitable trusts administered by the Council is Paul Craig, Senior Audit Manager. Auditing and ethical standards require the appointed auditor, Audit Scotland 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 or the trusts.

## **Quality control**

**34.** 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.

**35.** The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards Audit Scotland conducts peer reviews, internal quality reviews and is currently reviewing the arrangements for external quality reviews.

**36.** 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 2016/17

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)

For the latest news, reports and updates, follow us on:



Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN  
T: 0131 625 1500 E: [info@audit-scotland.gov.uk](mailto:info@audit-scotland.gov.uk)  
[www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)