

# Clackmannanshire Council

Annual Audit Plan 2016/17



 AUDIT SCOTLAND

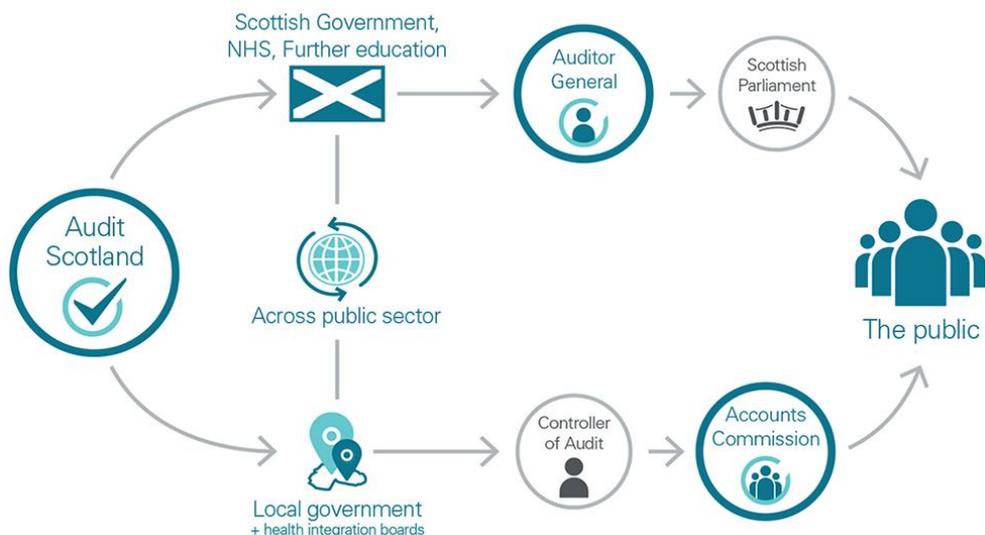
Prepared for Clackmannanshire Council

February 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.

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# Contents

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<b>Risks and planned work</b>	<b>4</b>
Audit risks	4
Audit fee	7
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	14
Quality control	14

# Risks and planned work

1. This annual audit plan contains an overview of the planned scope and timing of our audit of Clackmannanshire Council ("the council") 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 management, attendance at committee meetings and a review of supporting information we have identified the following main risk areas for the 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>		
<p><b>1 Risk of management override of controls</b></p> <p>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 the risk of management override of controls in order to change the position disclosed in the financial statements.</p>	<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>Focused testing of accruals and prepayments.</li> <li>Review of significant management estimates and evaluation of the impact of any variability in key assumptions.</li> <li>Evaluation of significant transactions that are outside the normal course of business.</li> </ul>
<p><b>2 Risk of fraud over income</b></p> <p>The council receives around £22m from Council Tax, £23m from housing income and another £22m from other fees and charges. The extent and complexity of income means that, in accordance with ISA240, there is an inherent risk of fraud that requires an audit response.</p>	<ul style="list-style-type: none"> <li>Effective budget monitoring by management.</li> <li>The council participates in the NFI scheme.</li> </ul>	<ul style="list-style-type: none"> <li>Audit work on the National Fraud Initiative (NFI) matches.</li> <li>Confirmation of property and housing numbers and bandings to independent sources.</li> <li>Analytical procedures on income streams.</li> <li>Detailed testing of revenue transactions focusing on the areas of greatest risk.</li> </ul>
<p><b>3 Risk of fraud over expenditure</b></p> <p>Practice Note 10: Audit of</p>	<ul style="list-style-type: none"> <li>The council participates in the NFI scheme.</li> </ul>	<ul style="list-style-type: none"> <li>Audit work on the National Fraud Initiative matches.</li> </ul>

Audit Risk	Management assurance	Planned audit work
<p>financial statements of public sector bodies in the United Kingdom and the Code of Audit Practice require consideration of risk of fraud over expenditure (excluding payroll costs which are already a core part of all annual audits). The council incurs significant expenditure on benefits and grants which require audit coverage.</p>	<ul style="list-style-type: none"> <li>• There are a range of measures in place to prevent and detect fraud, including Standing Financial Instructions, Standing Orders and a Code of Conduct for Staff which incorporates both whistleblowing and fraud policies.</li> </ul>	<ul style="list-style-type: none"> <li>• Specific audit work on benefits and grants.</li> <li>• Evaluation of the effectiveness of internal controls for expenditure recognition and recording.</li> </ul>
<p><b>4 Estimation and judgements</b></p> <p>There is a degree of subjectivity in the measurement and valuation of the material account areas of non current assets, provisions and pension liabilities. This subjectivity represents an increased risk of misstatement in the financial statements.</p>	<ul style="list-style-type: none"> <li>• Effective budget monitoring by management.</li> <li>• Professional advice from valuers.</li> <li>• Annual valuation of pension liability by a professional actuary.</li> </ul>	<ul style="list-style-type: none"> <li>• Completion of 'review of the work of an expert' for the professional valuer.</li> <li>• Focused substantive testing of non current assets.</li> </ul> <p>Review of the work of the actuary and the pension assumptions used.</p>
<p><b>5 Consolidation of Health and Social Care costs: Integration Joint Board (IJB)</b></p> <p>The IJB transactions will be consolidated into the accounts of the council for the first time in 2016/17.</p> <p>The council needs to agree a timetable and approach to obtaining the IJB figures for consolidation, and assurances required for the group governance disclosures. As this is the first year, there is a risk that the timetable may not be achieved. There is also an increased risk of errors in accuracy and disclosure.</p>	<ul style="list-style-type: none"> <li>• Finance officers are liaising with their health board colleagues regarding the timetable for draft accounts.</li> </ul>	<ul style="list-style-type: none"> <li>• Consider the timetable and process for consolidation of the group accounts.</li> <li>• Consider the assurances obtained by the council's S95 officer for the group governance disclosures.</li> <li>• Agree the consolidation adjustment is accurate and correctly disclosed.</li> <li>• Confirm that any balances relating to IJBs have been agreed by the partner bodies.</li> </ul>
<p><b>6 Implementation of new financial ledger system</b></p> <p>The council is implementing the new system during 2016/17 to replace its existing system. The opening balances were journaled into the new system in December 2016.</p> <p>There is a risk that the information from the new system used to prepare the financial statements may contain errors.</p>	<ul style="list-style-type: none"> <li>• Internal audit has undertaken reviews of the project progress during 2016/17.</li> </ul>	<ul style="list-style-type: none"> <li>• Review of internal audit's work on the project's progress.</li> <li>• Walk through testing of the ledger and controls testing of reconciliations and journals.</li> <li>• Focussed substantive testing on opening balances.</li> <li>• Substantive testing of ledger transactions and balances through the audit work on income, expenditure and balance sheet items.</li> </ul>
<b>Wider dimension risks</b>		
<p><b>7 Financial sustainability</b></p> <p>The council's 2016/17 Financial Plan identified a budget gap of £7.5m to be addressed by</p>	<ul style="list-style-type: none"> <li>• Effective budget monitoring by management, Audit and Finance Committee and</li> </ul>	<ul style="list-style-type: none"> <li>• Review financial monitoring reports and the financial position.</li> <li>• Undertake specific audit work</li> </ul>

Audit Risk	Management assurance	Planned audit work
<p>efficiency measures. The November 2016 financial monitoring report highlighted that this gap had reduced to £2.5m, with almost 50% of the gap in social services.</p> <p>Delivering recurring efficiency savings is increasingly challenging and represents a risk to the financial sustainability of the council.</p>	<p>by Council.</p> <ul style="list-style-type: none"> <li>The achievement of savings monitored through reports to the council.</li> </ul>	<p>on financial planning and governance. This will include assessing the robustness of longer term financial planning.</p>
<p><b>8 Transformation of services</b></p> <p>The Local Area Network reported in 2016 that the council's transformation programme has been slower than anticipated and was not sufficient to meet the objectives, financial challenges and reestablishment of stand alone education and social work services. It concluded that Best Value audit work is required on the council's leadership, governance and financial sustainability.</p>		<ul style="list-style-type: none"> <li>The scope of the Best Value audit work is under discussion.</li> <li>A Best Value Assurance Report will be published in early 2018.</li> </ul>
<p><b>9 Members</b></p> <p>Council elections are to be held in May 2017 and there are indications that a number of elected members are or may be standing down. This will represent a loss of skills experience amongst members. To ensure members fully understand their roles and have the necessary skills to make informed decisions and provide effective scrutiny, appropriate development and training will be required.</p>	<ul style="list-style-type: none"> <li>Training and support for current members is available and they are reminded regularly of opportunities and support available from officers.</li> <li>Seminars are organised on relevant topics on a regular basis and individual requests are taken into consideration and appropriate support provided.</li> <li>Training and induction will be provided to new members.</li> </ul>	<ul style="list-style-type: none"> <li>Monitor the council's arrangements for developing members and preparations for inducting newly elected members.</li> </ul>

**3.** There are a number of issues which auditors will discuss with officers during the period before the financial statements work begins:

- Preparedness for Highways Network Assets implementation (the delay to year 2017/18 noted)
- Revised Financial Statement formats
- Loans fund revised regulations.

The latter two do both apply to 2016/17 and we will assess the finance department's capacity to implement new regulations and formats accurately and in time for the production of financial statements according to the schedules agreed.

4. The Charities Accounts (Scotland) Regulations 2006 specify the accounting and auditing requirements for Scottish registered charities. The council administers four trusts with charitable status where the council is sole trustee with total assets of £38,000. We will perform the audit of these trusts in parallel with the audit of Clackmannanshire Council's financial statements. There are no specific risks for these audits which we require to bring to your attention. The council is planning to reduce the number of trusts and is aiming to retain them no further than 31st March 2017.

## Reporting arrangements

5. Audit reporting is the visible output from the annual audit. All annual audit plans and the outputs as detailed in [Exhibit 2](#), and any other reports 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 reports will be issued to the relevant officers to confirm factual accuracy.

7. We will provide an independent auditor's report on the financial statements to Clackmannanshire Council and the Accounts Commission. We will also provide an annual audit report. This will contain observations and recommendations on significant matters which have arisen during the course of the audit. We expect all audit outputs to be considered by the council's Audit and Finance Committee and other committees depending on the scope of the reports.

8. Under the Local Authority Accounts (Scotland) Regulations 2014 there is a requirement for the authority's audited accounts to be published by 31st October each year.

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## Exhibit 2

### 2016/17 Audit outputs

Audit Output	Target date	Audit and Finance Committee Date
Interim Management Report	30 June 2017	To be confirmed
Signed Independent Auditor's Report	30 September 2017	To be confirmed
Annual Audit Report, including ISA 260 requirements to communicate significant findings from the audit to those charged with governance	30 September 2017	To be confirmed
Grants (various)	31 July to 30 November 2017	To be confirmed
WGA assurance statement	2 October 2017	N/A

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## Audit fee

9. The agreed audit fee for the 2016/17 audit of Clackmannanshire Council is £199,000 (2015-16, £203,000). The fee for the audit of the four charitable trusts is £4,000 (2015-16, £5,000). In determining the audit fee we have taken account of the audit risks for Clackmannanshire Council and the management assurances in place. Our audit approach assumes receipt of the unaudited financial statements and a complete working papers package by 30 June 2017.

**10.** Where our audit cannot proceed as planned through, for example late receipt of unaudited financial statements, 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 and Finance Committee and Management**

**11.** 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.

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

### **Appointed auditor**

**13.** Our responsibilities as independent auditor are established by the 1973 Local Government (Scotland) Act and the Code of Audit Practice, and guided by the auditing profession's ethical guidance.

**14.** 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

**15.** 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 Clackmannanshire Council and the associated risks which could impact on the financial statements
- obtaining assurances from the outgoing auditors for the opening balances in the financial statements
- completing initial key system evaluations to enhance our understanding and assessing the operation of the key controls
- 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, and the impact of consolidation of the Integration Joint Board for Stirling/Clackmannanshire into the group accounts
- 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 including exploring the use of data analytics.

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

- whether they give a true and fair view of the financial position of the council and its expenditure and income
- whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements
- whether the information which comprises the management commentary is consistent with the financial statements.

## Materiality

**17.** 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 Clackmannanshire 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 ending 31 March 2016 (the latest audited accounts).	£1.7 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.	£0.85 million
<b>Reporting threshold</b> - We are required to report to those charged with governance all unadjusted misstatements in excess of the 'reporting threshold' amount. This has been calculated at 1% of planning materiality rounded to a memorable metric.	£0.02 million

**18.** We also set separate materiality levels for the four trusts with charitable status. We have also taken these to be 1% of gross assets for planning, 90% of this for performance as there are no known issues, and for reporting threshold we have rounded to the nearest practicable amount.

**19.** We review and report on other information published with the financial statements including the performance report, remuneration report and annual governance statement. Any issues identified will be reported to the Audit and Finance Committee.

### Timetable

**20.** 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. A proposed timetable is included at [Exhibit 4](#) which takes account of submission requirements and planned Audit and Finance Committee dates.

## Exhibit 4

### Financial statements timetable

 Key stage	 Date
Latest submission date of unaudited financial statements with complete working papers package	30 June 2017
Latest date for final clearance meeting with Depute Chief Executive	XX September 2017 (tbc)
Agreement of audited unsigned financial statements; Issue of Annual Audit Report, including significant issues to be reported under ISA 260 to those charged with governance	By 30 September 2017
Independent auditor's report signed	By 30 September 2017

## Internal audit

**21.** 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 carried out an assessment of the internal audit function.

### Adequacy of Internal Audit

**22.** We reviewed the internal audit plan and work to assess if we can place reliance on internal audit to support our audit opinion. We found that the council has not identified an "internal audit executive," which does not meet Public Sector Internal Audit Standards (PSIAS). The work carried out or planned on key financial systems does not cover the key controls that we would require to be covered to enable us to reduce our own testing on the material financial systems. As a result, we do not plan to place formal reliance on internal audit's work, in terms of International Statement of Auditing 610 (Considering the Work of Internal Audit), for any of our financial statements audit work.

**23.** In respect of our wider dimension audit responsibilities we plan to consider other areas of internal audit work which have been reported or which are in progress, including:

- Annual Assurance Report
- Social Media
- Housing Revenue Accounts
- Implementation of the new Finance System
- Housing Benefit (impact of Vanguard system)
- Asset Management
- Fraud reporting
- Insurance
- Stock.

## Audit dimensions

**24.** 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



#### Financial sustainability

**25.** 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 financial sustainability in the medium term (two to five years) and longer term (longer than five years). We will carry out work and conclude on the following in 2016/17:

- the effectiveness of financial planning in identifying and addressing risks to financial sustainability in the short, medium and longer term
- the appropriateness and effectiveness of arrangements in place to address any identified funding gaps.

#### Financial management

**26.** Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively including:

- the 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 assurance has been gained that the financial capacity and skills are appropriate
- whether appropriate and effective arrangements for the prevention and detection of fraud and corruption have been established.

#### Governance and transparency

**27.** 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. These include:

- whether Clackmannanshire 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.

**28.** In 2016/17 Audit Scotland will conduct a follow up of the national report on the Role of Boards which was published in September 2010. We will be conducting a review of local arrangements at the council.

### Value for money

**29.** 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 its achievement of performance targets.

### Best Value

**30.** 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.

**31.** 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.

**32.** Clackmannanshire is one of 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.

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## Exhibit 6

### 2016/17 Best Value Assurance Reports

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

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**33.** We are currently discussing the scope of the council's Best Value Assurance Report with council officers. The report is due to be considered by the Accounts Commission in early 2018.

## Independence and objectivity

**34.** 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.

**35.** The engagement lead for Clackmannanshire Council is Fiona Mitchell-Knight, Assistant Director of Audit. 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 Clackmannanshire Council.

## Quality control

**36.** 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.

**37.** 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.

**38.** 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

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