

# Clackmannanshire Council

Annual Audit Plan 2018/19



 AUDIT SCOTLAND

Prepared for Clackmannanshire Council

February 2019

## 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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Risks and planned work	4
Audit scope and timing	9

# 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 sets out the work necessary to allow us to provide an independent auditor's report on the financial statements and meet the wider scope requirements of public-sector audit, including the audit of Best Value.

2. The wider scope of public audit contributes to assessments and conclusions on financial management, financial sustainability, governance and transparency and value for money.


## Adding value


3. We aim to add value to Clackmannanshire Council (the council) through our external audit work by being constructive and forward looking, by identifying areas for improvement and by recommending and encouraging good practice. In so doing, we intend to help the council promote improved standards of governance, better management and decision making and more effective use of resources.


## Audit risks


4. Based on our discussions with staff, attendance at committee meetings and a review of supporting information we have identified the following main risk areas for our audit of 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 2018/19 Key audit risks

 Audit Risk	Source of assurance	Planned audit work
<b>Financial statements issues and risks</b>		
<p>1 <b>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 consideration of the risk of management override of controls to change the position disclosed in the financial statements.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance.</p>	<ul style="list-style-type: none"> <li>• 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> <li>• Detailed testing of pre and post-year end income and expenditure to ensure it is recognised in the correct financial year.</li> </ul>

 <b>Audit Risk</b>	<b>Source of assurance</b>	<b>Planned audit work</b>
<p><b>2 Risk of fraud over income</b></p> <p>The council receives a significant amount of income in addition to Scottish Government funding, for example council tax and charges for services. The extent and complexity of income means that, in accordance with ISA 240, there is an inherent risk of fraud.</p>	<p>Financial system controls over income.</p> <p>Effective fraud prevention arrangements.</p>	<ul style="list-style-type: none"> <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>Most public-sector bodies are net expenditure bodies and therefore the risk of fraud is more likely to occur in expenditure. The extent of the council's expenditure, for example on benefits and grants, means that there is an inherent risk of fraud.</p>	<p>Financial system controls over expenditure.</p> <p>Effective fraud prevention arrangements.</p>	<ul style="list-style-type: none"> <li>Analytical procedures on expenditure streams.</li> <li>Detailed testing of expenditure transactions focusing on the areas of greatest risk.</li> <li>Review the council's participation and progress in the 2018/19 National Fraud Initiative.</li> </ul>
<p><b>4 Estimation and judgements</b></p> <p>There is a significant degree of subjectivity in the council's measurement and valuation of the material account areas of non-current assets and pensions. This subjectivity represents an increased risk of misstatement in the financial statements.</p>	<p>Capital Operations Group ensures communication and joint working between estates and finance team on non-current assets valuation.</p> <p>IAS 19 report provided by actuary to support pension liability disclosures subject to review by officers.</p>	<ul style="list-style-type: none"> <li>Detailed testing of non-current asset balances focusing on the areas of greatest risk.</li> <li>Assessment of the scope, independence and competence of the professionals engaged in providing estimates.</li> <li>Review appropriateness of actuarial results including comparison with other councils.</li> <li>Assessment of the appropriateness of the actuarial assumptions.</li> <li>Establish officers' arrangements for assessing the impact of any movement in fund values between the IAS19 valuation date and the year end.</li> </ul>
<p><b>Wider dimension issues and risks</b></p>		
<p><b>5 Financial sustainability</b></p> <p>There are further, increasing pressures on the council's budgets. This includes the cost of funding rising demand for services provided by the integration joint board and increasing staff costs due to changes in public sector pay policy. There are also ongoing general pressures on public finances including uncertainty about</p>	<p>Regular budget strategy reports to councillors, including scenario planning, identifying and tracking the progress of savings.</p> <p>2019/20 budget challenge sessions held with councillors.</p>	<ul style="list-style-type: none"> <li>Assess the effectiveness of financial planning in identifying and addressing risks to financial sustainability in the short, medium and long term.</li> <li>Examine the appropriateness and effectiveness of arrangements in place to address identified funding gaps.</li> </ul>

 <b>Audit Risk</b>	<b>Source of assurance</b>	<b>Planned audit work</b>
<p>the implications of wider matters such as European Union withdrawal.</p> <p>The council is forecasting it needs to achieve savings of £27 million over the next three years to balance budgets. The forecast budget gap for 2019/20 alone is £11 million. The council needs to make difficult decisions about its services and how they are provided to ensure it balances its finances.</p> <p>There is a risk that the council will find it increasingly difficult to maintain financial sustainability and deliver priority services.</p>		<ul style="list-style-type: none"> <li>Assess whether the council can demonstrate the affordability of funding decisions it has made.</li> </ul>
<p><b>6 Organisational change and transformation</b></p> <p>The council is progressing a programme of change to achieve savings and improve services. It is implementing new management structures and is taking steps to introduce a programme management function. The next stage to review services to determine the level at which they are most effectively and efficiently delivered is underway. In our 2017/18 annual audit report we highlighted capacity issues which may be directly associated with the changes taking place, these particularly affected the finance section.</p> <p>There is a risk that the council does not have sufficient officer time and skills to support change and the day-to-day running of the council. This includes ensuring the council's policies and procedures are updated to reflect new arrangements.</p>	<p>Section 95 officer recruited.</p> <p>Recruitment underway for change manager to develop a project management office to ensure future projects are fully evaluated and costed before implementation.</p> <p>External assistance secured from the Improvement Service and Stirling University to support improvement.</p>	<ul style="list-style-type: none"> <li>Review and conclude on the council's progress in implementing the January 2018 Best Value Assurance Report recommendations and the Accounts Commission's findings.</li> <li>Assess how the council has assured itself that its financial capacity and skills are appropriate.</li> </ul>
<p><b>7 Openness and transparency</b></p> <p>There is increasing focus on how public bodies spend their money and the level of transparency in reporting. Openness and transparency supports understanding and scrutiny of the use of public money.</p> <p>The management commentary, published alongside the annual accounts, is intended to provide readers with an understandable analysis of the council's performance. Clear and timely financial performance reporting also supports openness and transparency. In our 2017/18 annual audit report we</p>	<p>Officers review the content of the management commentary to ensure it is fair, balanced and understandable and clearly addresses the council's financial sustainability.</p> <p>Regular financial performance reports to councillors.</p> <p>Draft 2018/19 outturn to be presented to June 2019 Audit Committee.</p>	<ul style="list-style-type: none"> <li>Review whether the management commentary has been compiled in accordance with the appropriate regulations and guidance.</li> <li>Assess the quality and timeliness of financial and performance reporting.</li> </ul>

	Audit Risk	Source of assurance	Planned audit work
	<p>reported that management did not prepare a final outturn report for councillors setting out details of the council's financial performance in 2017/18.</p> <p>There is a risk that the council does not provide sufficient information to allow adequate scrutiny of its finances.</p>		
Source: Audit Scotland			

## Reporting arrangements

**5.** Audit reporting is the visible output for the annual audit. All annual audit plans and the outputs as detailed in [Exhibit 2](#), and any other outputs on matters of public interest will be published on our website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

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

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

## Exhibit 2 2018/19 Audit outputs

Audit output	Target date	Committee date
Annual Audit Plan	17 January 2019	7 February 2019
Management Report	4 April 2019	25 April 2019
Annual Audit Report	30 September 2019*	To be confirmed
Independent Auditor's Report	30 September 2019*	To be confirmed

\* These dates represent the certification deadline for the 2018/19 annual accounts. We will agree an audit timetable to report the findings from the audit to those charged with governance prior to the certification of the annual accounts.

Source: Audit Scotland

## Audit fee

**8.** The proposed audit fee for the 2018/19 audit of the council is £198,220 (2017/18: £199,840). In determining the audit fee we have taken account of the risk exposure of the council, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit. Our audit approach assumes receipt of the unaudited annual accounts, with a complete working papers package on 28 June 2019.

**9.** Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual accounts or incomplete or poor quality working papers, a

supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises outwith our planned audit activity.

## Responsibilities

### Audit Committee and management

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

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

### Appointed auditor

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

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



# Audit scope and timing

## Annual accounts

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

- understanding the business of the council and the associated risks which could impact on the financial statements
- assessing the key systems of internal control, and establishing how weaknesses in these systems could impact on the financial statements
- identifying major transaction streams, balances and areas of estimation and understanding how the council will include these in the financial statements
- assessing the risks of material misstatement in the financial statements
- determining the nature, timing and extent of audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements are free of material misstatement.

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

- give a true and fair view in accordance with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 (the 2018/19 Code) of the state of affairs of the council and its group as at 31 March 2019 and of the income and expenditure of the council and its group for the year then ended
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union, as interpreted and adopted by the 2018/19 accounting Code
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations Act 2014, and the Local Government in Scotland Act 2003.

## Other information in the annual accounts

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

**17.** We also read and consider any information in the annual accounts other than the financial statements and audited part of the remuneration report and report any uncorrected material misstatements.

## Materiality

**18.** We apply the concept of materiality in planning and performing the audit. It is used in evaluating the effect of identified misstatements on the audit, and of any



characteristics



responsibilities



principal activities



risks



governance arrangements

uncorrected misstatements, on the financial statements and in forming our opinions in the independent auditor's report.

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

### Exhibit 3 Materiality values



Materiality	Amount
<b>Planning materiality</b> – This is the 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 2019 based on the 2017/18 audited accounts.	£2.15 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 40% of planning materiality.	£0.86 million
<b>Reporting threshold (i.e., clearly trivial)</b> – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. This has been calculated at 2% of planning materiality, rounded up to £50,000.	£50,000

Source: Audit Scotland

### Timetable

20. To support the efficient use of resources it is critical that the council agrees a timetable with us for producing the unaudited accounts. We have included an agreed timetable at [Exhibit 4](#).

### Exhibit 4 Annual accounts timetable

 Key stage	 Date
Consideration of unaudited annual accounts by the Audit Committee	20 June 2019
Latest submission date of unaudited annual accounts with complete working papers package	28 June 2019
Latest date for final clearance meeting	12 September 2019
Issue of letter of representation and proposed independent auditor's report	19 September 2019
Issue of Annual Audit Report to those charged with governance	19 September 2019
Agreement of audited unsigned annual accounts	To be confirmed
Independent auditor's report signed	30 September 2019

### Internal audit

21. Internal audit is provided by Falkirk Council. As part of our planning process we carry out an annual assessment of the internal audit function to ensure that it

operates in accordance with Public Sector Internal Audit Standards (PSIAS). We will report any significant findings to management on a timely basis.

### Using the work of internal audit

**22.** Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to rely on the work of internal audit wherever possible to avoid duplication. Based on a review of internal audit's plans, we do not intend to place reliance on internal audit to support our audit opinions. We will however consider the findings of internal audit throughout the year to inform our work.

### Audit dimensions

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

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## Exhibit 5

### Audit dimensions



Source: Code of Audit Practice

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**24.** 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.

**25.** 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

**26.** 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 council'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 identified funding gaps

- whether the council can demonstrate the affordability of funding decisions it has made.

### Financial management

**27.** 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 its 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
- the council's participation and progress in the 2018/19 National Fraud Initiative, the key council contact for this work is to be confirmed by the council.

### Governance and transparency

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

- whether the council can demonstrate that the governance arrangements in place are appropriate and operating effectively
- whether there is effective scrutiny, challenge and transparency on the decision-making and finance and performance reports
- the quality and timeliness of financial and performance reporting.

### 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 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

**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 coincided with the new five-year audit appointments. Auditors started using 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 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.

**32.** The seven councils on which a BVAR will be published during the third year of the new approach are listed in [Exhibit 6](#). Reports will be considered by the Accounts Commission in the period between March and November 2019.

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## Exhibit 6

### 2018/19 Best Value Assurance Reports



North Lanarkshire Council

Highland Council

Stirling Council

Scottish Borders Council

South Lanarkshire Council

Perth and Kinross Council

Midlothian Council

Source: Audit Scotland

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**33.** Clackmannanshire Council was one of six councils considered in the first year of the five-year audit cycle, with the council's BVAR published in January 2018. In its findings on the BVAR, the Accounts Commission requested a further report by the Controller of Audit on the progress made by the council, by June 2019 or earlier if the Controller identifies concerns. To inform this report, we will review and conclude on the council's progress in implementing the BVAR recommendations and the Commission's findings.

**34.** The findings of the progress report will be used to determine what other Best Value audit work we carry out this year. The results of this work will be reported in the Annual Audit Report.

## Independence and objectivity

**35.** 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.

**36.** The engagement lead for the council is Gordon Smail, 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 the council.

## Quality control

**37.** 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.

**38.** 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 and the Accounts Commission. 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) has been commissioned to carry out external quality reviews.

**39.** As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We welcome feedback at any time and this may be directed to the engagement lead.

# Clackmannanshire Council

## Annual Audit Plan 2018/19

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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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)