

Stirling Council

Annual Audit Plan 2019/20



 AUDIT SCOTLAND

Prepared for Stirling Council

March 2020

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Risks and planned work

1. This annual audit plan contains an overview of the planned scope and timing of our audit which is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and [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.

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 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 Stirling 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 Stirling Council. We have categorised these risks into financial statements risks and wider dimension risks. The key audit risks, which require specific audit testing, are detailed in [Exhibit 1](#).

Exhibit 1 2019/20 Significant audit risks

 Audit Risk	Source of assurance	Planned audit work
Financial statements issues and risks		
<p>1 Management override of controls</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"> • Detailed testing of journal entries. • Review of accounting estimates. • Focused testing of accruals and prepayments. • Evaluation of significant transactions that are outside the normal course of business. • Substantive testing of transactions around the year end to confirm income and expenditure are accounted for in the correct financial year.

 Audit Risk	Source of assurance	Planned audit work
<p>2 Fraud in income recognition</p> <p>Under ISA 240 there is a presumed risk that income may be fraudulently misstated due to improper recognition of income.</p>	<p>Stirling Council receives a significant element of its income from central government grant, council tax, NDR, and housing revenue account income, all of which have predictable income patterns. The remaining income is received from a variety of sources. As this limits the opportunity for manipulation, we have rebutted the presumed risk of improper recognition of income.</p> <p>A sound system of budgetary control is in place. This includes regular budget monitoring reports being provided to members.</p> <p>Segregation of duties are in place between those responsible for generation invoices from those processing income in the accounting records.</p>	<ul style="list-style-type: none"> • While we have rebutted the risk of material misstatement caused by income recognition, we will continue to carry out audit work to confirm that income is completely and accurately presented in the financial systems. • Analytical procedures on income streams. • Substantive testing of revenue transactions focusing on whether income is processed in the correct accounting year.
<p>3 Fraud over expenditure</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"> • Detailed testing of expenditure transactions focusing on the areas of greatest risk and whether expenditure is recorded in the correct accounting year. • Walkthrough and testing of controls identified within key financial systems.
<p>4 Estimation and judgements</p> <p>There is a significant degree of subjectivity in the measurement and valuation of the material account areas of non-current assets and pension costs/ liabilities.</p> <p>The council holds a material amount of non-current assets at fair value.</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>	<ul style="list-style-type: none"> • Completion of 'review of the work of management's expert' for the professional valuer. • Review of external revaluations carried out, assessing whether they have been performed using

 Audit Risk	Source of assurance	Planned audit work
<p>The valuations are significant estimates which are based on specialist and management assumptions. A number of asset categories will be subject to revaluation in 2019/20 including council libraries, bridges and cemeteries.</p> <p>The council's share of the Falkirk Pension Fund net liability at 31 March 2019 was £255.034 million. This value is an estimate based on a number of assumptions</p> <p>This subjectivity of each of these valuations represents an increased risk of misstatement in the financial statements.</p>	<p>Robust controls over the process for updating the asset register for in-year valuations.</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>	<p>an appropriate and relevant valuation basis/methodology by suitably qualified individuals.</p> <ul style="list-style-type: none"> • Confirm non-current asset revaluations in surveyor's report are correctly reflected within the 2019/20 accounts. • Completion of 'review of the work of management's expert' for actuary. • Confirm pension valuations in actuarial report are correctly reflected within the 2019/20 accounts. • Review and assess the reasonableness of actuary's valuations and assumptions.

Wider dimension issues and risks

5 Financial sustainability

Local Authorities are continuing to face significant financial challenges through funding pressures and an increased demand for services.

The council's five-year budget (for the period from 2019/20 to 2023/24) shows a budget gap of £33.545 million. This is an increase of £13.045 million to the five-year budget gap that was presented to members in 2018, covering the five-year forecast from 2018/19.

The council also prepare a ten-year financial scenario which shows the financial outlook over the ten-year period (2019/20 to 2029/30) based on a range of assumptions. This shows that the council forecasts a budget gap of £60 million over this period. This represents a major challenge for the council over the longer-term period.

The scale, combined with the year on year increase in the funding gap, presents a significant risk that the council is unable to identify or achieve the necessary sustainable savings measures in order to deliver a balanced budget in future years.

Periodic updates to the 10-year financial strategy are provided to members.

Budget monitoring reports advise members of the progress of savings options and provide an update to the five-year funding gap.

The council's rolling five-year budget is aligned to key objectives contained in the five-year business plan and the workforce plan.

The five-year business plan is reviewed every year and updated in line with changes in the council's priorities.

The council's is reviewing its transformation programme to ensure it is aligned to the five-year business plan. A risk fund of £2.5 million is earmarked to finance future spend to save projects.

- Review and consider the robustness of the budget monitoring reports and the financial position at the year end.
- Undertake audit work on financial sustainability and financial management as part of our "audit dimensions" work. This will include consideration of the assumptions and robustness of medium-term financial planning; and the council's long-term financial outlook.
- Review the council's progress in achieving planned savings for 2019/20 together with steps taken towards identifying how to address the £33.5 million funding gap.
- Review the extent to which savings achieved are recurring or non-recurring.

6 Financial management - impact of Health & Social Care Partnership (HSCP)

The most recent budget monitoring report to members in February 2020 shows a projected overspend of

The council, in conjunction with its IJB partners, will continue to look at ways to mitigate the projected overspend whilst setting out and

- Review whether the year-end balances and financial position reported by Stirling Council properly reflects the balances approved and

 Audit Risk	Source of assurance	Planned audit work
<p>£2.179 million for services provided to Clackmannanshire & Stirling Integration Joint Board (IJB). This reflects a continuation of the pressures faced in 2018/19 and contributes to a forecast overspend in 2019/20 by the IJB.</p> <p>The IJB, in consultation with its health board and council partners, has some budget recovery measures in place, however these are unlikely to enable them to break even. Partners have yet to agree how any losses are to be distributed between the partners.</p> <p>Both the council's Adult Services and the IJB have incurred significant overspends in each of the last three years. There is a risk that services cannot continue to be fully provided to the IJB from within the council's budget.</p>	<p>agreeing plans to bring the partnership into financial balance on a recurrent basis.</p> <p>Partners will meet to agree the basis for financing the projected 2019/20 overspend.</p>	<p>agreed between the partner bodies in the IJB.</p> <ul style="list-style-type: none"> Review the extent to which any recurring recovery actions are being taken by the council to address overspends within Adult Services.

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.

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 the Accounts Commission setting out our opinions on 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 during the audit.

Exhibit 2 2019/20 Audit outputs

Audit Output	Target date	Committee Date
Annual Audit Plan	05 March 2020	19 March 2020
Management Report	07 May 2020	21 May 2020
Independent Auditor's Report	24 August 2020	03 September 2020
Annual Audit Report	24 August 2020	03 September 2020

Source: Audit Scotland

The audit of trusts registered as Scottish charities

8. Members of Stirling Council are sole trustees for a number of trusts, registered as Scottish charities, with total assets of some £1.44 million. The preparation and audit of financial statements of registered charities is regulated by the Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006. The Council administers a Common Good Fund, with total assets of £1.253 million; and the Dunblane Cemetery Memorial Garden (Maintenance) Trust with assets of £0.137 million.

9. The council also acts as the sole trustee to 10 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 funds of £0.054 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.

10. 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.

11. There are no specific risks for these audits which we require to bring to your attention, although many of these trusts are dormant and in some cases the trust deed specifying the purpose of the trust can no longer be located. The council, as sole trustee, are in the process of distributing the balance of funds held on behalf of the various dormant charities. The aim of the distribution of funds is to make the charitable assets available for public use as the original trustee intended. We will monitor progress in this area and summarise the position within our Annual Audit Report.

Audit fee

12. The proposed audit fee for the 2019/20 audit of Stirling Council is £245,220 (2018/19; £240,540). In addition, the proposed audit fee for the audit of the charitable trusts and common good accounts administered by Stirling Council is £2,000 (2018/19; £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 annual accounts, with a complete working papers package on 1 June 2020.

13. 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

14. 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.

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

Appointed auditor

16. 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.

17. 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

18. 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.

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

- give a true and fair view in accordance with applicable law and the 2019/20 Code of the state of affairs of the council and its group as at 31 March 2020 and of the income and expenditure of the council and its group for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2019/20 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

Other information in the annual accounts

20. We also review and report on 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.

21. 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

22. 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.

23. The materiality values for Stirling Council are set out in [Exhibit 3](#).

Exhibit 3 Materiality values

Materiality	Amount
Planning materiality – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. It has been set at £5 million (1.6% of gross expenditure) for the year ended 31 March 2020 based on the latest audited accounts for 2019.	£5.00m
Performance materiality – 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 set performance materiality at 60% of planning materiality.	£3.00m
Reporting threshold (i.e., clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. This has been set at 5% of planning materiality.	£0.250m

Source: Audit Scotland

Timetable

24. To support the efficient use of resources it is critical that the annual accounts timetable is agreed with us to produce the unaudited accounts. We have included an agreed timetable at [Exhibit 4](#).

Exhibit 4 Annual accounts timetable

 Key stage	 Date
Consideration of unaudited annual accounts by those charged with governance	21 May 2020
Latest submission date of unaudited annual report and accounts with complete working papers package by Stirling Council to Audit Scotland	01 June 2020
Latest date for final clearance meeting with Chief Finance Officer	19 August 2020
Issue of Letter of Representation and proposed independent auditor's report	21 August 2020
Agreement of audited unsigned annual report and accounts	21 August 2020
Issue of Annual Audit Report to those charged with governance	24 August 2020
Independent auditor's report signed by Audit Scotland	04 September 2020
Latest date for signing of WGA return by Audit Scotland	28 September 2020

Internal audit

25. Internal audit is provided by Stirling Council's in-house internal audit team. As part of our planning process we carry out an annual assessment of the internal audit function to ensure that it operates in accordance with the main requirements

of the Public Sector Internal Audit Standards (PSIAS). ISA 610 requires an assessment on whether the work of the internal audit function can be used for the purposes of external audit. This includes:

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

Using the work of internal audit

26. Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to use the work of internal audit wherever possible to avoid duplication and to ensure the total resource is used efficiently and effectively.

27. Internal audit plan to carry out testing of some of the council's financial systems as part of their continuous audit review of internal financial controls. While we do not plan to use this, we will take cognisance of the outcomes of this work and review internal audit's arrangements for supporting the annual governance statement reported in the annual accounts.

28. In respect of our wider dimension audit responsibilities we plan to use the following areas of internal audit work:

- Roll out and implementation of 'Easybuy' purchase to pay system.
- Review of the council's corporate tendering procedures.
- Review of the council's asset management arrangements.
- ICT audit of systems access controls.

Audit dimensions

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

Exhibit 5

Audit dimensions



Source: Code of Audit Practice

30. 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.

31. 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

32. 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
- 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

33. 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
- an effective budgetary control system which communicates accurate and timely financial performance
- assured itself that its financial capacity and skills are appropriate

- established appropriate and effective arrangements for the prevention and detection of fraud and corruption.

Governance and transparency

34. 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.
- has effective scrutiny, challenge and transparency on the decision-making and finance and performance reports.
- can demonstrate the quality and timeliness of financial and performance reporting.

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.

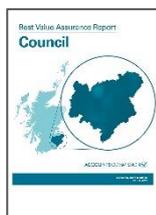
37. A key feature of the new approach is that it integrates Best Value into the wider scope annual audit, which will influence audit planning and reporting. Best Value will be assessed comprehensively over the five-year audit appointment, both through the ongoing annual audit work, and through discrete 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 fourth year of the new approach are listed in [Exhibit 6](#). Reports will be considered by the Accounts Commission in the period between March and November 2020.

Exhibit 6

2019/20 Best Value Assurance Reports



Aberdeenshire Council

Dundee Council

Argyle and Bute Council

Falkirk Council

City of Edinburgh Council

Moray Council

North Ayrshire Council

Source: Audit Scotland

39. During 2018/19 we undertook a review of best value within the council. The findings from this review were reported in the Best Value Audit Report (BVAR) for Stirling Council which was published on 26 April 2019. As part of our audit work in 2019/20, we will complete a Best Value follow-up review to establish the progress that the council have made towards addressing the ten recommendations we made in the BVAR.

40. The results of this work will be reported in the Annual Audit Report.

Independence and objectivity

41. 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.

42. The engagement lead 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

43. 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.

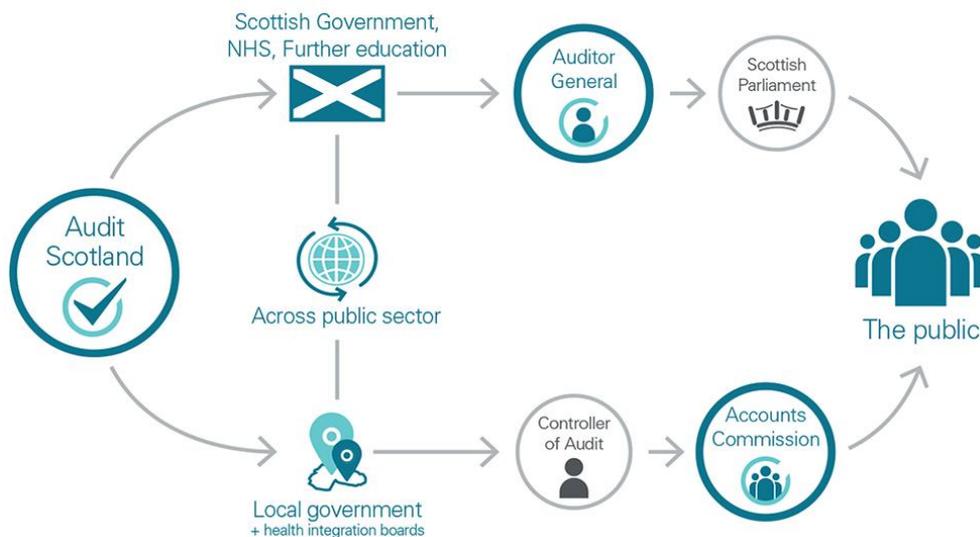
44. The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice (and supporting guidance) issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that 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.

45. 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.

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.

Stirling Council

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