

Clackmannanshire Council

Annual Audit Plan 2020/21



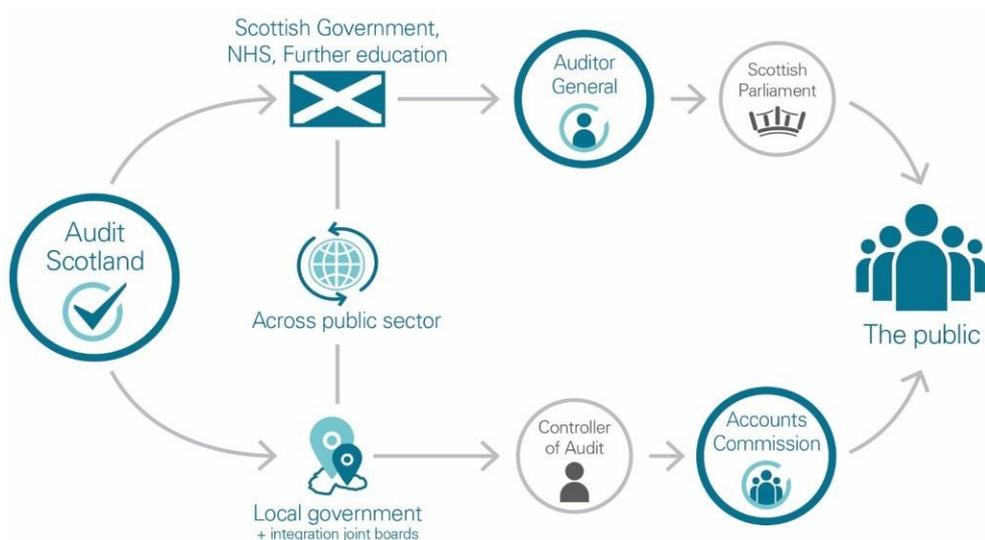
 AUDIT SCOTLAND

Prepared for Clackmannanshire Council
June 2021

Who we are

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

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



About us

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

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

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

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Risks and planned work

1. This annual audit plan contains an overview of the planned scope and timing of our audit which is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and guidance on planning the audit. This plan sets out the work necessary to allow us to provide an independent auditor's report on the annual accounts and meet the wider scope requirements of public sector audit including the audit of Best Value.

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

3. The public health crisis caused by the coronavirus disease 2019 (Covid-19) pandemic has had a significant and profound effect on every aspect of Scottish society. Public services have been drastically affected, requiring immediate changes to the way they are provided. The impact on public finances has been unprecedented, which has necessitated both the Scottish and UK governments providing substantial additional funding for public services as well as support for individuals, businesses and the economy. It is likely that further financial measures will be needed and that the effects will be felt well into the future.

4. Public audit has an important contribution to make to the recovery and renewal of public services. The Auditor General, the Accounts Commission and Audit Scotland are responding to the risks to public services and finances from Covid-19 across the full range of audit work including annual audits and the programme of performance audits. The wellbeing of audit teams and the delivery of high-quality audits remain paramount. Maintaining a pragmatic and flexible approach will enable change at short notice as new issues emerge, or current risks change in significance. We have recently published an update report [Covid-19: What it means for public audit in Scotland](#).

Adding value

5. We aim to add value to Clackmannanshire Council 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.

6. Where appropriate, we will recommend actions that support continuous improvement and summarise areas of good practice identified from our audit work. This will include, for example, discussions with the council about good practice in performance reporting.

Audit risks

7. Based on our discussions with staff, attendance at committee meetings and a review of supporting information we have identified the following significant risks for our 2020/21 audit of the council. We have categorised these risks into financial statements risks and wider dimension risks as detailed in [Exhibit 1](#).

Exhibit 1

2020/21 Significant audit risks

 Audit Risk	Source of assurance	Planned audit work
Financial statements risks		
<p>1 Risk of material misstatement due to management override of controls</p> <p>International Auditing Standards (ISAs) require that audits are planned to consider the risk of material misstatement in the financial statements caused by fraud, which is presumed to be a significant risk in any audit. This includes consideration of management override of controls to change the financial statements disclosures.</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. • Assess the appropriateness of accounting estimates. • Focused testing of accruals and prepayments. • Cut-off testing to confirm expenditure and income is accounted for in the correct financial year. • Identify and evaluate any significant transactions that are outside the normal course of business.
<p>2 Risk of error in the areas of estimation and judgment</p> <p>There is significant subjectivity in the council's measurement and valuation of the material account areas of non-current assets and pensions.</p> <p>This subjectivity represents an increased risk of misstatement in the financial statements.</p>	<p>Actuarial assumptions are reviewed by officers to ensure they are appropriate.</p> <p>IAS 19 report provided by actuary to support pension liability disclosures is subject to review by officers.</p> <p>The council has commissioned an independent expert to value a sample of non-current assets.</p>	<ul style="list-style-type: none"> • Assess the scope, independence and competence of the professionals engaged in providing estimates for non-current assets and pensions. • Testing of non-current asset balances focusing on the areas of judgement. • Assess the appropriateness of the actuarial assumptions. • Review the actual experience of significant estimates made in the prior year. • Assess the completeness and accuracy of information submitted by the council to the Falkirk Pension Fund to support the triennial valuation exercise.

 Audit Risk	Source of assurance	Planned audit work
<p>3 Risk of misstatement due to Covid-19 disclosure requirements</p> <p>COSLA analysis indicates that over £1.3 billion additional support to business has been routed through councils as part of the response to the Covid-19 pandemic. As a result, the council administered significant Covid-19 support grants on behalf of the Scottish Government during 2020/21.</p> <p>There is a risk of disclosure misstatement for this new area of agency expenditure. This will need to be separated from the COVID-19 funding the council has received to support its own budget.</p>	<p>Submission of a weekly monitoring log to the Scottish Government.</p> <p>The council has used the COSLA funding tracker to help monitor the funding provided by the Scottish Government.</p> <p>The council finance team will review LAASAC guidance on disclosure requirements.</p>	<ul style="list-style-type: none"> Assess the extent of the Covid-19 support grants administered and controlled by the council. Review Covid-19 disclosures in the annual accounts for accuracy and completeness.
Wider dimension risks		
<p>4 Financial sustainability</p> <p>The Covid-19 pandemic has had a significant impact on the council's financial position through increased expenditure and reduced income. The council is forecasting an indicative funding gap of £13.7 million over the next three years.</p> <p>There is a risk that the council will find it increasingly difficult to maintain financial sustainability and deliver priority services.</p>	<p>Regular budget strategy reports to councillors, including scenario planning and identifying and tracking the progress of savings.</p> <p>Setting of annual council tax / budget.</p> <p>Council's transformation programme.</p>	<ul style="list-style-type: none"> Assess the effectiveness of financial planning in identifying the risks to financial sustainability in the short, medium and long terms. Examine the arrangements in place to address identified funding gaps, including the identification of efficiency savings and history of delivery.
<p>5 Financial management and performance reporting</p> <p>Our 2019/20 Annual Audit Report noted that officers did not prepare a final outturn report for 2019/20 and that there was a delay in the council presenting its year-end performance reports for two service areas. This was due to committee meeting cancellations in response to the Covid-19 pandemic.</p> <p>There is a risk that, due to the ongoing pressures of the pandemic and capacity within the finance team, the budget monitoring and financial reporting arrangements do not support effective scrutiny of the council's finances. In addition, without performance reports, it is difficult to obtain a complete picture of the council's performance.</p>	<p>The Finance and Revenues teams are currently undergoing redesign which will incorporate a review of capacity to meet commitments both in the short and longer term.</p>	<ul style="list-style-type: none"> Assess the quality and timeliness of financial information provided to councillors. Review outturn reports provided to committee meetings during the year and compare these with the year-end results in the financial statements. Review the performance management arrangements. Assess whether the management commentary tells a clear story and has been compiled in accordance with the appropriate guidance.

	Audit Risk	Source of assurance	Planned audit work
6	<p>Governance and controls over Covid-19 grant schemes</p> <p>The council has had a key role in supporting local businesses through distribution of grant support funding. Decision-making in a fast-moving environment presents a challenge for the council and other public bodies. These include maintaining good governance and controls while making decisions quickly, adapting performance measures and ensuring that anti-fraud arrangements remain robust at a time when the likelihood of fraud is increased.</p> <p>Due to the pace of establishing some of these schemes there is a risk that the governance and accountability arrangements and key financial controls were not effective.</p>	<p>Effective governance and anti-fraud arrangements, and controls over Covid-19 funding.</p> <p>Internal audit's review of the council's administration of the Business Support Fund Grants and the Newly Self Employed Hardship Fund.</p>	<ul style="list-style-type: none"> For the most significant grants (by value) we will consider the governance and control arrangements in place including the steps taken to minimise fraud and error. Consider the findings of internal audit work on the COVID-19 grants.
7	<p>Anti-fraud arrangements</p> <p>Our 2019/20 Annual Audit Report highlighted weaknesses in the council's anti-fraud arrangements including the effectiveness of the controls and policies in preventing procurement fraud, lack of progress with investigating high risk matches in the National Fraud Initiative (NFI) and out-of-date anti-fraud policies. In addition, the council doesn't have a dedicated anti-fraud team to focus on addressing these issues.</p> <p>There is a risk that the council's arrangements for the prevention and detection of fraud and corruption are not effective and that staff are not aware of the processes for reporting concerns.</p>	<p>The council has committed to updating its fraud policy and raising concerns at work policy and processes to produce a comprehensive approach.</p>	<ul style="list-style-type: none"> Review the appropriateness and effectiveness of arrangements for the prevention and detection of fraud and corruption. Review the council's approach to investigating NFI high risk matches, and the matches for Covid-19 grants. Invite council staff to participate in the 'Your Reputation @ Risk' web-based survey to assess awareness of the council's key governance policies including anti-fraud and whistleblowing.

Source: Audit Scotland

8. We considered the presumed risk of fraud in income recognition as set out in ISA240 and the risk of fraud over expenditure in accordance with Practice Note 10. We have rebutted the presumption that a material fraud risk exists, except for the management override of controls set out in [Exhibit 1](#). This is based on the extent of income and expenditure which is received and issued to other parts of the public sector (including Scottish Government funding, expenditure on the Integration Joint Board and other public bodies).

9. For the areas that are subject to some risk, we have considered the incidence of fraud using NFI and Counter Fraud Service outcomes. We have also assessed that the volume of income and expenditure transactions that would need to be fraudulent to result in a material risk is implausible. Our audit testing is directed towards significant and unusual transactions, and assessing accounting estimates to address any residual risk. We review controls over key areas and will consider

any additional controls required due to Covid-19 additional funding and expenditure.

Reporting arrangements

- 10.** Audit reporting is the visible output for the annual audit and is detailed in [Exhibit 2](#). All outputs will be published on our website: www.audit-scotland.gov.uk.
- 11.** 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.
- 12.** 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 the elected members of Clackmannanshire Council and the Controller of Audit with an annual report on the audit containing observations and recommendations on significant matters which have arisen.
- 13.** The unique and continuing challenges presented by the Covid-19 pandemic mean that we are starting the current year's audits later than in previous years and audits are taking longer to complete. As a result, the timescales set out below reflect available audit resources and prioritisation decisions. We will endeavour to meet these timescales but recognise that this may not be possible due to the ongoing uncertainty resulting from the Covid-19 pandemic.

Exhibit 2

2020/21 Audit outputs

Audit Output	Target date	Committee Date
Planning Update Paper	7 April 2021	29 April 2021
Annual Audit Plan	24 May 2021	17 June 2021
Management Report	6 September 2021	30 September 2021
Independent Auditor's Report	18 November 2021	25 November 2021
Annual Audit Report	18 November 2021	25 November 2021

Source: Audit Scotland

Audit fee

- 14.** The proposed audit fee for the 2020/21 audit of the council is £207,720 [2019/20: £202,210]. 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 31 August 2021.
- 15.** 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 management

16. 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.

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

Appointed auditor

18. 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.

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

20. Our audit team membership has changed since last year. For 2020/21 we have appointed Carole Grant as the Audit Director and Ursula Lodge as the Senior Audit Manager.

Audit scope and timing

Annual accounts

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

- understanding the business of the council and the associated risks
- assessing the key systems of internal control, and establishing the impact of any identified
- 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.

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

- give a true and fair view of the state of affairs of the council and its group as at 31 March 2021 and of the income and expenditure of the council and its group for the year then ended;
- have been properly prepared in accordance the financial reporting framework.

Statutory other information in the annual accounts

23. We also review and report on statutory other information published within the annual accounts including the management commentary, annual governance statement and the 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.

24. We also review the content of the annual report for consistency with the financial statements and with our knowledge. We report any uncorrected material misstatements in statutory other information.

Materiality

25. We apply the concept of materiality in planning and performing the audit. It is used in evaluating the effect of identified misstatements on the audit, and of any uncorrected misstatements, on the financial statements and in forming our opinions in the independent auditor's report.

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



characteristics



responsibilities



principal activities



risks



governance arrangements

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 1% of gross expenditure for the year ended 31 March 2021 based on the audited accounts for 2019/20 and the latest budget update for 2020/21.	£2.6 million
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 calculated performance materiality at 50% of planning materiality.	£1.3 million
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 calculated at 2% of planning materiality.	£50,000

Source: Audit Scotland

Timetable

27. 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 a proposed timetable at [Exhibit 4](#).

Exhibit 4

Annual accounts timetable

 Key stage	 Date
Consideration of unaudited annual report and accounts by those charged with governance	19 August 2021
Latest submission date of unaudited annual report and accounts with complete working papers package	31 August 2021
Latest date for final clearance meeting with Chief Finance Officer	29 October 2021
Agreement of audited unsigned annual accounts	18 November 2021
Issue of Annual Audit Report, Letter of Representation and proposed independent auditor's report	
Consideration of the audited accounts and audit reporting by those charged with governance	25 November 2021
Independent auditor's report signed	By 30 November 2021

Internal audit

28. Internal audit is provided under an agreement with Falkirk Council. As part of our planning process we carry out an annual assessment of the internal audit

function and concluded that it operates in accordance with the main requirements of the Public Sector Internal Audit Standards (PSIAS).

Using the work of internal audit

29. International 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. We do not plan to place any formal reliance on internal audit work for our audit of the 2020/21 financial statements. We will consider internal audit reports such as Business Support Fund Grants, Newly Self Employed Hardship Fund and Corporate Risk Management Arrangements to inform our work on wider audit dimensions. This is to minimise duplication of effort and to ensure the total resource is used efficiently or effectively.

Audit dimensions

30. 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

31. 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.

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 medium term (two to five years) and longer term (longer than five years). 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 there are arrangements in place to demonstrate the affordability and effectiveness of funding and investment decisions.

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 arrangements are in place to ensure systems of internal control are operating effectively
- the effectiveness of budgetary control systems in communicating accurate and timely financial performance to councillors to enable effective scrutiny of the council's finances
- how the council has assured itself that its financial capacity and skills are appropriate
- whether there are appropriate and effective arrangements in place for the prevention and detection of fraud and corruption
- the council's review of the children's services budget monitoring and reporting arrangements.

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 be assessing the council's governance and controls arrangements for the Covid-19 grant schemes.

35. We will also 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
- whether the council has made improvements to the management commentary in the annual accounts to ensure it provides users with a comprehensive analysis of its performance.

Value for money

36. Value for money refers to using resources effectively and continually improving services. We will review, conclude and report on whether the 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
- that the quality and timeliness of performance reporting to councillors to enable effective scrutiny of the council's performance.

Best Value

37. 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.

38. 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 six-year audit appointment (extended from five years due to the impact of Covid-19), 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.

39. The four councils on which a BVAR will be published during the fifth 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 2021.

Exhibit 6 2020/21 Best Value Assurance Reports



Source: Audit Scotland

40. Clackmannanshire Council was one of six councils considered in the first year of the current audit cycle. The council's BVAR was published in January 2018 and the BVAR Progress report was published in June 2019. At its meeting in August 2019 the council agreed an action plan to progress the recommendations contained in the report. The Accounts Commission has asked us to maintain a close interest.

41. This year we will review the council's progress against the recommendations of the BVAR Progress report and the council's action plan. The results of this work will be reported in the Annual Audit Report.

Independence and objectivity

42. 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.

43. The engagement lead (i.e. appointed auditor) for the council is Carole Grant, Audit Director. Auditing and ethical standards require the engagement lead 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

44. International Standard on Quality Control 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.

45. 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.

46. 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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