

Stirling Council

Annual Audit Plan 2021/22



 AUDIT SCOTLAND

Prepared for Stirling Council
March 2022

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Introduction

Summary of planned audit work

1. This document summarises the work plan for our 2021/22 external audit of Stirling Council. The main elements of our work include:

- evaluation of the key controls within the main accounting systems
- an audit of the annual accounts, and provision of an Independent Auditor's Report
- an audit opinion on the other statutory information published within the annual report and accounts including the Management Commentary, the Annual Governance Statement and the Remuneration Report
- consideration of arrangements in relation to the audit dimensions: financial management, financial sustainability, governance and transparency and value for money that frame the wider scope of public sector audit
- consideration of Best Value arrangements
- providing assurance on the Housing Benefit Subsidy Claim and Non-Domestic Rates Return
- review Stirling Council's arrangements for preparing and publishing statutory performance information
- review Stirling Council's participation in the National Fraud Initiative.

Impact of Covid-19

2. The coronavirus disease (Covid-19) pandemic has had a significant impact on public services and public finances, and the effects will be felt well into the future.

3. The Auditor General for Scotland, the Accounts Commission and Audit Scotland continue to assess the risks to public services and finances from Covid-19 across the full range of our audit work, including annual audits and the programme of performance audits. The well-being of audit teams and the delivery of high-quality audits remain paramount. Changes in our approach may be necessary and where this impacts on annual audits, revisions to this Annual Audit Plan may be required.

Adding value

4. 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 will help Stirling

Council promote improved standards of governance, better management and decision making and more effective use of resources. Additionally, we attend meetings of the Audit Committee and actively participate in discussions.

Respective responsibilities of the auditor and Stirling Council

5. The [Code of Audit Practice \(2016\)](#) sets out in detail the respective responsibilities of the auditor and Stirling Council. Key responsibilities are summarised below.

Auditor responsibilities

6. 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.

7. Auditors in the public sector give an independent opinion on the financial statements and other information within the annual report and 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.

Stirling Council responsibilities

8. Stirling Council is responsible for maintaining accounting records and preparing financial statements that give a true and fair view.

9. Also, Stirling Council has 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 deliver their objectives.

Managing the transition to 2022/23 audits

10. Audit appointments are usually for five years but were extended to six years due to Covid-19. 2021/22 is the final year of the current appointment and we will work closely with our successors to ensure a well-managed transition.

Financial statements audit planning

Materiality

11. Materiality is an expression of the relative significance of a matter in the context of the financial statements as a whole. We are required to plan our audit to determine with reasonable confidence whether the financial statements are free from material misstatement. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement.

Materiality levels for the 2021/22 audit

12. We assess materiality at different levels as described in [Exhibit 1](#). The materiality values for Stirling Council and its group are set out in [Exhibit 1](#).

Exhibit 1

2021/22 Materiality levels for Stirling Council

Materiality	Amount	Group
Planning materiality – This is the figure we use to assess the overall impact of audit adjustments on the financial statements. It has been set at 1.5% of gross expenditure for the year ended 31 March 2022 based on the latest audited financial statements for 2020/21.	£5.200 million	£6.190 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 assessed performance materiality at 60% of planning materiality.	£3.120 million	£3.710 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.	£0.250 million	£0.250 million

Source: Audit Scotland

Significant risks of material misstatement to the financial statements

13. Our risk assessment draws on our cumulative knowledge of Stirling Council, its major transaction streams, key systems of internal control and risk management processes. Also, it is informed by our discussions with management, meetings with internal audit, attendance at committees and a review of supporting information.

14. Based on our risk assessment process, we identified the following significant risks of material misstatement to the financial statements. [Exhibit 2](#) summarises the nature of the risk, the sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurance over the risk.

Exhibit 2

2021/22 Significant risks of material misstatement to the financial statements

Significant risk of material misstatement	Sources of assurance	Planned audit response
<p>1. Risk of material misstatement due to fraud caused by the management override of controls</p> <p>As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</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 at the year-end • Review of accounting estimates • Focussed testing of significant accruals and prepayments • Evaluation of significant transactions that are outside the normal course of business • Substantive testing of significant transactions around the year end to confirm income and expenditure are accounted for in the correct financial year

Source: Audit Scotland

15. As set out in International Standard on Auditing (UK) 240: *The auditor's responsibilities relating to fraud in an audit of financial statement*, there is a presumed risk of fraud over the recognition of revenue. There is a risk that

revenue may be misstated resulting in a material misstatement in the financial statements. We have rebutted this risk for Stirling Council because whilst the possibility of fraud exists, we do not judge it to be a significant risk given the nature of Stirling Council's revenue streams.

16. In line with Practice Note 10: *Audit of financial statements and regularity of public sector bodies in the United Kingdom*, as most public-sector bodies are net spending bodies, the risk of material misstatement due to fraud related to expenditure recognition may in some cases be greater than the risk relating to revenue recognition. Due to the nature of Stirling Council's expenditure, we have also rebutted the significant risk of material misstatement due to fraud in expenditure in 2021/22.

17. We have not, therefore, incorporated specific work into our audit plan in these areas over and above our standard audit procedures.

Other areas of audit focus

18. As part of our assessment of audit risks, we have identified other areas where we consider there are also risks of material misstatement to the financial statements. Based on our assessment of the likelihood and magnitude of the risk, we do not consider these to represent significant risks. We will keep these areas under review as our audit progresses. If our assessment of risk changes and we consider these risks to be significant, we will communicate this to management and those charged with governance and revise our planned audit approach accordingly.

19. The areas of specific audit focus are:

- Estimation and judgement in the valuation of land and buildings: Stirling Council held land and buildings with a net book value (NBV) of £420 million as at 31 March 2021. There is a large degree of subjectivity in the valuation of land and buildings. Valuations are based on specialist and management assumptions and estimates, and changes in these can result in material changes to valuations.
- Estimates and judgements in the valuation of the pension liability: Stirling Council recognised a net liability of £314 million relating to its share of Falkirk Pension Fund at 31 March 2021. There is a large degree of subjectivity in the measurement and valuation of the pension fund liability. The valuation is based on specialist assumptions and estimates, and changes can result in material changes to the valuation.

Group Consideration

20. As group auditors, we are required under International Standard on Auditing (UK) 600: *Audits of group financial statements (including the work of component auditors)* to obtain sufficient appropriate audit evidence on which to base our audit opinion on the group financial statements.

21. Stirling Council has a group which comprises component entities, including subsidiaries, associates and joint ventures. The audits of the financial information of some of the components are performed by other auditors. We will obtain sufficient

appropriate audit evidence in relation to the consolidation process and the financial information of the components on which to base our group audit opinion.

Audit of the trusts registered as Scottish charities

22. Members of Stirling Council are sole trustees for a number of trusts, registered as Scottish charities: Stirling Council Common Good Fund, Dunblane Cemetery Memorial Garden (Maintenance) Trust and Stirling Council Consolidated Small Charitable Trusts with total assets of some £1.8 million in 2020/21. 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.

23. The 2006 Regulations 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 the Council are sole trustees, irrespective of the size of the charity.

Materiality levels for the 2021/22 audit of trusts registered as Scottish charities

24. Materiality levels for the various trusts are set out in [Exhibit 3](#).

Exhibit 3

2021/22 Materiality levels for charitable trusts

Planning materiality has been assessed on 2% of net assets (based on the audited financial statements for 2020/21) for all trusts, with a separate materiality set for the Common Good Fund transactions based on 2% of gross expenditure. For all bodies, performance materiality has been calculated at 75% of planning materiality. The reporting threshold has been calculated at 5% of planning materiality.

Charitable trust		Planning Materiality	Performance Materiality	Reporting Threshold
Stirling Council Common Good Fund	Balances	£26,000	£20,000	£1,300
	Transactions	£220	£170	£10
Stirling Council Consolidated Small Charitable Trusts		£8,580	£6,440	£430
Dunblane Cemetery Memorial Garden (Maintenance) Trust		£2,710	£2,030	£140

Source: Audit Scotland

25. Based on our discussions with staff and initial planning work we have identified the following significant risk of material misstatement for the audit of the charitable trusts: management override of controls. This risk and planned audit response have been included in [Exhibit 2](#).

Audit risk assessment process

26. Audit risk assessment is an iterative and dynamic process. Our assessment of risks set out in this plan may change as more information and evidence becomes available during the progress of the audit. Where such changes occur, we will advise management and where relevant, report them to those charged with governance.

Audit dimensions and Best Value

Introduction

27. The [Code of Audit Practice](#) sets out the four dimensions that frame the wider scope of public sector audit. The Code of Audit Practice requires auditors to consider the adequacy of the arrangements in place for the audit dimensions in audited bodies.

Audit dimensions

28. The four dimensions that frame our audit work are shown in [Exhibit 4](#).

Exhibit 4

Audit dimensions



Source: Code of Audit Practice

29. In summary, the four dimensions cover the following:

- **Financial management** – financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.
- **Financial sustainability** – 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).

- **Governance and transparency** – 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.
- **Value for money** – value for money refers to using resources effectively and continually improving services.

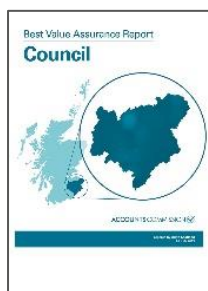
Best Value

30. 2021/22 is the final year of the extended six-year approach to auditing Best Value in councils. Best Value work is integrated within the annual audit. It is to be assessed comprehensively over the period of the audit appointment, both through ongoing annual audit work and through discrete packages of work focussing on 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 Accounts 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 over the period of the audit appointment.

31. BVARs will be considered by the Accounts Commission between February and September 2022 on the councils listed in [Exhibit 5](#).

Exhibit 5 2022 Best Value Assurance Reports



Comhairle nan Eilean Siar

Shetland Island Council

Angus Council

Moray follow-up

32. The Best Value work planned this year will focus on Stirling Council's arrangements in relation to equalities. Also, we will be following-up findings reported in the BVAR in April 2019 to assess progress on the pace and depth of continuous improvement. Our findings will be reported through our Annual Audit Report.

Audit dimension risks

33. We have identified audit risks in the areas set out in [Exhibit 6](#). This exhibit sets out the risks, sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurances over the risks.

Exhibit 6

2021/22 Audit dimension risks

Description of risk	Management's sources of assurance	Planned audit response
<p>1. Financial Sustainability</p> <p>Stirling Council has identified a long-term budget gap for several years, and as part of the 2021/22 budget, predicted an indicative budget gap for the five-year period to 2025/26 of £28.6m arising from funding and demand pressures.</p> <p>Despite the council having a history of success in delivering savings plans, the magnitude of the budget gap represents a risk.</p> <p>As a result, there is a risk to financial sustainability and the sustainability of services in future.</p>	<p>The Council will continue to receive regular updates on its medium to longer term financial plan during the course of 2022/23.</p> <p>As well as providing updates on the outcome of the Scottish Government Resource Spending Review and the general considerations feeding into the plan (pay awards, inflation, government grant, etc.), the ongoing financial impact of Covid-19 will also feature heavily in those updates.</p>	<ul style="list-style-type: none"> • Review of financial reports and papers such as budget monitoring reports, 2022/23 budget, medium and long-term savings plans and financial outlook papers. • Review of assumptions and judgements in financial reports and papers for reasonableness

Source: Audit Scotland

Reporting arrangements, timetable, and audit fee

Reporting arrangements

34. Audit reporting is the visible output for the annual audit. All Annual Audit Plans and the outputs, as detailed in [Exhibit 7](#), and any other outputs on matters of public interest will be published on our website: www.audit-scotland.gov.uk.

35. 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.

36. We will provide an independent auditor's report to Stirling Council, the Scottish Parliament and the Accounts Commission setting out our opinions on the annual report and accounts. We will provide Stirling 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.

37. [Exhibit 7](#) outlines the target dates for our audit outputs, and we aim to issue the independent auditor's report by the statutory deadline of 31 October 2022. We acknowledge this will be challenging due to the ongoing pressures and uncertainties caused by Covid-19.

Exhibit 7 2020/21 Audit outputs

Audit Output	Target date	Audit and Risk Committee Date
Annual Audit Plan	31/03/2022	Circulated outside of committee cycle
Independent Auditor's Report	31/10/2022	TBC
Annual Audit Report	31/10/2022	TBC

Source: Audit Scotland

Audit fee

38. The agreed audit fee for the 2021/22 audit of Stirling Council is £256,920 (2020/21: £251,680). In determining the audit fee, we have taken account of the risk exposure of the Stirling Council and the planned management assurances in place,

39. Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual report and accounts, the absence of adequate supporting working papers 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.

Other matters

Independence and objectivity

40. Auditors appointed by the Auditor General for Scotland or Accounts Commission 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.

41. The engagement lead (i.e. appointed auditor) 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

42. International Standard on Quality Control (UK) 1 (ISQC1) requires a system of quality control to be 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.

43. 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.

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

Stirling Council

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Audit Scotland's published material is available for download on the website in a number of formats. For information on our accessibility principles, please visit:

www.audit-scotland.gov.uk/accessibility

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