

# Clackmannanshire Council

Annual Audit Plan 2017/18



 AUDIT SCOTLAND

Prepared for Clackmannanshire Council  
March 2018

## 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 and is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and any other relevant guidance. This plan identifies our audit work to provide an opinion on the financial statements and related matters and meet the wider scope requirements of public sector audit including the new approach to Best Value.
2. The wider scope of public audit contributes to conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

## Audit risks

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

## Exhibit 1

### 2017/18 Key audit risks

Audit Risk	Source of assurance	Planned audit work
<b>Financial statement issues and risks</b>		
<p><b>1 Risk of management override of controls</b></p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order 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>	<p>Detailed testing of journal entries.</p> <p>Review of accounting estimates.</p> <p>Focused testing of accruals and prepayments.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p>
<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>Sound budgetary control and monitoring arrangements in place.</p> <p>Financial systems controls over income.</p> <p>Robust and effective fraud prevention arrangements.</p>	<p>Analytical procedures on income streams.</p> <p>Testing of key controls.</p> <p>Focused substantive testing on higher risk areas.</p>

Audit Risk	Source of assurance	Planned audit work
<p><b>3 Risk of fraud over expenditure</b></p> <p>The Financial Reporting Council's Practice Note 10 (revised) requires public sector auditors to give consideration of the risk of fraud over expenditure. The extent of expenditure, for example on benefits and grants, means that there is an inherent risk of fraud.</p>	<p>Sound budgetary control and monitoring arrangements in place.</p> <p>Financial systems controls over expenditure.</p> <p>Robust and effective fraud prevention arrangements.</p>	<p>Analytical procedures on expenditure streams.</p> <p>Testing of key controls.</p> <p>Focused substantive testing on higher risk areas.</p>
<b>Wider dimension risks</b>		
<p><b>4 Financial sustainability</b></p> <p>The council projects it will have to achieve savings amounting to £29 million of its current budget in the years 2018 to 2021. This is about a quarter of the current budget of £118 million.</p> <p>There are increasing financial pressures due to demand, for example adult social services within the Integration Joint Board.</p> <p>There is a risk that the council will find it increasingly difficult to meet savings targets in future years and maintain financial sustainability.</p>	<p>Regular budget strategy reports to members, including scenario planning, identifying and tracking the progress of savings.</p>	<p>Assess the achievement of savings and the council's progress against funding gaps.</p> <p>Review the sustainability of the budget strategy and savings plans.</p>
<p><b>5 Service transformation</b></p> <p>The council is starting a programme of change designed to achieve savings and improve services.</p> <p>There is a risk that the council is unable to achieve the service transformation required to address its financial challenge whilst having sufficient officer time and skills to support change.</p>	<p>The "Taking Clackmannanshire Forward" project is being progressed along the main themes of target operating models, whole organisation redesign, workforce strategies and delivering services digitally.</p>	<p>Assess progress on the four main themes of the transformation programme, including progress on the workforce strategy and the corporate plan.</p> <p>Follow-up recommendations in the January 2018 Best Value Assurance Report and the issues raised in the Accounts Commission's findings (see paragraphs 31 to 35 of this plan).</p>
<p><b>6 Openness and transparency</b></p> <p>The council does not have an up to date register of interests for senior officers. There is a lack of available information regarding the interests, financial or otherwise, of senior officers, and a consequent risk of a lack of transparency.</p>	<p>Senior officers are subject to the policies in the council's employee handbook which include adherence to high standards of conduct.</p>	<p>The council has undertaken to produce a register of senior officer interests as part of the processes for producing the annual governance statement. We will review the process and documentation as part of the financial statements audit.</p>

4. The Charities Accounts (Scotland) Regulations 2006 specify the accounting and auditing requirements for Scottish registered charities. In 2016/17 the council administered four trusts with charitable status where the council was the sole trustee. The council has made arrangements so that it is no longer the sole trustee of these trusts which removes the requirement for external audit. We have prepared this plan on the basis that we are not required to audit the council's trust funds. However, we require confirmation from officers on the status of the trusts and will amend our audit approach if necessary.

## 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 officers to confirm factual accuracy.

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

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

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## Exhibit 2

### 2017/18 Audit outputs

Audit Output	Target date	Audit Committee (or Council) Date
Annual Audit Plan	15 March 2018	15 March 2018
Interim Management Report or letter	30 June 2018	To be confirmed
Independent Auditor's Report	30 September 2018	To be confirmed
Annual Audit Report	30 September 2018	To be confirmed

## Audit fee

9. The proposed audit fee for the 2017/18 audit of the council is £199,840 (2016/17, £199,000). 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 financial statements, with a complete working papers package by 30 June 2018.

10. Where our audit cannot proceed as planned through, for example, late receipt of unaudited financial statements 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, for example if we are required to audit the council's trust funds.

## Responsibilities

### Audit and Finance Committee and Management

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

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

### Appointed auditor

**13.** Our responsibilities as independent auditor are established by the 1973 Act for local government and the Code of Audit Practice (including supplementary guidance) and guided by the auditing profession's ethical guidance.

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

# Audit scope and timing

## Financial statements

**15.** The statutory financial statements audit will be the foundation and source for the majority of the audit work necessary to support our judgements and conclusions. We also consider the wider environment and challenges facing the public sector. Our audit approach includes:

- understanding the business of 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.

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

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

## Materiality

**17.** Materiality defines the maximum error that we are prepared to accept and still conclude that our objective has been achieved. It helps assist our planning of the audit and allows us to assess the impact of any audit adjustments on the financial statements.

**18.** We calculate materiality at different levels as described below. The calculated materiality values for Clackmannanshire Council are set out in [Exhibit 3](#).



## Exhibit 3

### Materiality values

Materiality level	Amount
<b>Planning materiality</b> – This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It has been set at 1% of gross expenditure for the year ended 31 March 2018 based on the audited accounts for 2016/17. Planning materiality will be updated for 2017/18 figures on receipt of the unaudited accounts in June 2018.	£1.94 million
<b>Performance materiality</b> – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement we have calculated performance materiality at 50% of planning materiality.	£0.97 million
<b>Reporting threshold (i.e. clearly trivial)</b> – We are required to report to those charged with governance on all unadjusted misstatements in excess of the 'reporting threshold' amount. This has been calculated at 2.5% of planning materiality, rounded to the nearest £10K.	£50,000

Source: Audit Scotland

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

### Timetable

**20.** To support the efficient use of resources it is critical that a financial statements timetable is agreed with us for the production of the unaudited accounts. An agreed timetable is included at [Exhibit 4](#) which takes account of submission requirements and planned Audit and Finance Committee dates:

## Exhibit 4

### Financial statements timetable

 Key stage	 Date
Latest submission date of unaudited annual accounts with complete working papers package	30 June 2018
Latest date for final clearance meeting with S95 Officer	(tbc) September 2018
Agreement of audited unsigned annual accounts Issue of Annual Audit Report including ISA 260 report to those charged with governance	By 30 September 2018
Independent auditor's report signed	By 30 September 2018

## Internal audit

**21.** Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to rely on the work of internal audit wherever possible and as part of our planning process we carried out an assessment of the internal audit function. Internal audit is provided by Falkirk Council overseen by an Internal Audit Manager.

### Adequacy of Internal Audit

**22.** We reviewed the adequacy of the internal audit service and concluded that it has sound reporting arrangements in place and is complying with the main requirements of the Public Sector Internal Audit Standards.

### Areas of Internal Audit reliance

**23.** To support our audit opinion on the financial statements we plan to place formal reliance on internal audit's Payroll Transactional Testing audit.

**24.** In respect of our wider dimension audit responsibilities we also plan to consider other areas of internal audit work including:

- Cyber security
- Procurement.

## Audit dimensions

**25.** 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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**26.** 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

**27.** 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 any identified funding gaps
- whether the council can demonstrate the affordability and effectiveness of funding and investment decisions it has made.

### Financial management

**28.** 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.

### Governance and transparency

**29.** 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

**30.** 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

**31.** The Accounts Commission agreed the overall framework for a new approach to auditing Best Value in June 2016. The introduction of the new approach coincides with the new five year audit appointments. Auditors will use the framework for their audit work from October 2016.

**32.** 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 also through discrete packages of work to look at specific issues. Conclusions and judgements on Best Value will be reported through:

- the Annual Audit Report for each council that will provide a rounded picture of the council overall
- an Annual Assurance and Risks report that the Controller of Audit will provide to the Commission that will highlight issues from across all 32 council annual audit reports
- a Best Value Assurance Report (BVAR) for each council that will be considered by the Accounts Commission at least once in a five year period.

**33.** Clackmannanshire Council was one of the six councils considered in the first year of the five year audit cycle, with the council's BVAR published in January 2018.

**34.** 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. The Commission requested the progress report in June 2019 or earlier if the Controller identifies concerns that he considers should be brought to the Commission's attention before then.

**35.** As part of our annual audit work in 2017/18 we will follow-up the progress the council is making in response to the BVAR recommendations and the Commission's findings.

## Independence and objectivity

**36.** 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 in place robust arrangements to ensure compliance with these standards including an annual "fit and proper" declaration for all members of staff. The arrangements are overseen by the Director of Audit Services, who serves as Audit Scotland's Ethics Partner.

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

**38.** 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.

**39.** 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 relevant 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, internal quality reviews and is currently reviewing the arrangements for external quality reviews.

**40.** 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.

## **Adding Value**

**41.** Through our audit work we aim to add value to the council. We will do this by ensuring our Annual Audit Report provides a summary of the audit work done in the year together with clear judgements and conclusions on how well the council has discharged its responsibilities and how well it has demonstrated the effectiveness of its arrangements. Where it is appropriate we will recommend actions that support continuous improvement and summarise areas of good practice identified from our audit work.

# Clackmannanshire Council

## Annual Audit Plan 2017/18

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