

# Stirling Council

Annual Audit Plan 2017/18



 AUDIT SCOTLAND

Prepared for Stirling 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.

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

## Exhibit 1

### 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><i>Owing to the nature of this risk, assurances from management are not applicable in this instance.</i></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>Stirling Council receives a significant amount of income in addition to Scottish Government funding. The extent and complexity of income means that, in accordance with ISA240, there is an inherent risk of fraud.</p>	<p>Appropriate processes for the authorisation, separation of duties and workflow associated with income.</p> <p>Internal audit's plan includes a rolling review of core financial controls.</p>	<p>Analytical procedures on income streams.</p> <p>Detailed testing of revenue transactions focusing on the areas of greatest risk.</p>

Audit Risk	Source of assurance	Planned audit work
<p><b>3 Risk of fraud over expenditure</b></p> <p>Most public sector bodies are net expenditure bodies, therefore the risk of fraud is more likely to occur over expenditure, due to the variety and extent of expenditure in delivering services. Stirling Council incurs significant expenditure in areas such as welfare benefits and social care payments. There is therefore an inherent risk of fraud.</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>Member scrutiny through regular cycle of committee reporting.</p> <p>Internal audit's plan includes a rolling review of core financial controls.</p>	<p>Detailed testing of expenditure transactions focusing on the areas of greatest risk.</p> <p>Walkthrough of controls identified within key financial systems.</p>
<p><b>4 Estimation and judgements</b></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 valuations. This subjectivity represents an increased risk of misstatement in the financial statements.</p>	<p>Asset valuations completed by Royal Institute of Chartered Surveyors (RICS) qualified surveyor.</p> <p>Robust controls over process for updating asset register for in-year valuations.</p> <p>A year end timetable for producing the annual accounts has been prepared. This considers all aspects of cut off.</p> <p>Pension valuation completed by qualified actuary.</p> <p>Applicability of actuarial assumptions is reviewed by officers.</p>	<p>Completion of the 'review the work of an expert' audit programme for the council's asset valuer.</p> <p>Focused substantive testing of key areas.</p> <p>Review of the work of the actuary.</p> <p>Review appropriateness of actuarial assumptions.</p> <p>Confirm pension valuations in actuarial report are correctly reflected within the 2017/18 accounts.</p>
<p><b>Wider dimension risks</b></p>		
<p><b>5 Financial sustainability</b></p> <p>Councils are continuing to face significant financial challenges through funding pressures and an increased demand for services. As part of the 2018/19 budget setting process, the council agreed a 5 year financial plan to 2022/23. This sets out the likely level of resources available and considers the level of provision required to meet ongoing cost pressures. This is the council's fifth priority based budget plan (PBB5) and it identifies a remaining savings target of £20.5 million over the five year period that it will be necessary to achieve in order to</p>	<p>The council carried out an extensive priority based budgeting exercise that reviewed all costs over the next 5 year period.</p> <p>This is aligned to key objectives contained in the five year business plan and the workforce plan.</p> <p>Savings proposals of £2.5 million for the five year period to 2022/23 were approved when the 2018/19 budget was set.</p> <p>The five year business plan is</p>	<p>Review and consider the robustness of the budget monitoring reports and the financial position at the year end.</p> <p>Undertake audit work on financial planning which will include consideration of scenario planning, assumptions, savings identified and level of non recurring savings.</p> <p>Undertake audit work on financial sustainability and financial management as part of our "audit dimensions" work. This will include consideration of the robustness of medium term financial planning; and the</p>

Audit Risk	Source of assurance	Planned audit work
<p>deliver a balanced budget. This includes the delivery of savings of £0.9 million in 2018/19.</p> <p>The longer term financial position, beyond the 5 year period, has not been formally considered.</p> <p>There is a risk that the council is unable to identify or achieve the necessary sustainable savings measures or meet cost pressures as they arise.</p>	<p>reviewed every year and updated in line with changes in the council's priorities. This is reflected in PBB5.</p> <p>Regular financial monitoring reports are scrutinised by the Finance &amp; Economy Committee.</p>	<p>extent of any progress in developing a long term financial strategy and plan.</p> <p>Review the council's progress in achieving planned savings.</p>
<p><b>6 Financial management – impact of Health &amp; Social Care Partnership (HSCP)</b></p> <p>The most recent Finance Monitoring report presented to the Clackmannanshire &amp; Stirling IJB on 13th December 2017 projects a year end overspend of £3.316 million. Of this amount, £0.776 million relates to services related to Stirling Council.</p> <p>Whilst a recovery plan is in place, it is not yet clear how this will impact the projected overspend, or any further contribution required by the council.</p> <p>To the extent that the projected overspend cannot be fully mitigated there is a risk that the council will require to meet a share of the year end financial pressures on IJB services.</p>	<p>A recovery plan will be presented to partner bodies.</p> <p>Partners are working on individual and joint action plans to address this as far as possible in the current financial year.</p> <p>Partner bodies will agree how any residual overspends are to be accounted for.</p>	<p>Confirm that the recovery plan and Stirling Council's share of any additional funding is agreed with partners.</p> <p>Monitor the IJB financial position against target and ensure that the year end position reported by Stirling Council properly reflects the balances approved and agreed between the partner bodies.</p>
<p><b>7 PSN compliance</b></p> <p>Stirling Council, in common with other public sector bodies, is at risk from cyber attacks and losses of personal data. In addition the council currently does not have a valid Public Sector Network (PSN) certificate. An action plan has been implemented to address concerns and a new application will be submitted in April 2018. There is a risk that a cyber attack or continued non-compliance with PSN could lead to disruption to services, together with financial and reputational losses for the council.</p>	<p>Health check exercise will be carried out in March 2018 for compliance with PSN and CyberEssentials, as required by Scottish Government. Outputs will allow a Mediation Plan to be produced.</p> <p>The Council Management Team will receive the new Cyber Security Strategy by June 2018.</p> <p>Council has introduced a revised system patching regime in line with the requirements of CyberEssentials.</p> <p>Emerging &amp; developing threats will be monitored and responded to as appropriate.</p>	<p>Review the council's assessment against the Scottish Government Cyber Resilience Action Plan and CyberEssentials.</p> <p>Review progress against the PSN accreditation health check/action plan ahead of the council's submission in April 2018.</p>

## Charitable Trusts Administered by Stirling Council

4. The Charities Accounts (Scotland) Regulations 2006 specify the accounting and auditing requirements for Scottish registered charities. The council administers a Common Good Fund, with total assets of around £1.3 million; and the Dunblane Cemetery Memorial Garden (Maintenance) Trust with assets of £0.144 million.

5. The council also acts as the sole trustee to 19 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 assets of £0.110 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.

6. 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 small 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.

### Reporting arrangements

7. 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).

8. 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.

9. 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 in the course of the audit.

## Exhibit 2

### 2017/18 Audit outputs

Audit Output	Target date	Audit Committee Date
Annual Audit Plan	8 March 2018	22 March 2018
Interim Management Report	10 May 2018	24 May 2018
Annual Audit Report	17 August 2018	30 August 2018
Independent Auditor's Report	17 August 2018	30 August 2018

## Audit fee

**10.** The proposed audit fee for the 2017/18 audit of Stirling Council is £236,070 (2016/17: £238,800). In addition, the proposed audit fee for the audit of the charitable trust and common good accounts administered by Stirling Council is £2,000 (2016/17: £2,000). 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 on 4 June 2018.

**11.** 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 outwith our planned audit activity.

## Responsibilities

### Audit Committee and Chief Executive

**12.** 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.

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

### Appointed auditor

**14.** 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.

**15.** 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 council 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

**16.** 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 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.

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

- Whether the financial statements give a true and fair view of the state of affairs of the council and its group and the income and expenditure for the year
- Whether the annual accounts have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union and interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom
- whether the annual accounts have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, the Local Authority Accounts (Scotland) Regulations 2014, the Local Government in Scotland Act 2003 and other relevant legislation.

## Materiality

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

**19.** We calculate materiality at different levels as described below. The calculated materiality values for Stirling 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 1.5% of gross expenditure for the year ended 31 March 17 based on the latest audited accounts.	£4.598 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 60% of planning materiality.	£2.759 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 1% of planning materiality.	£45,000

Source: Stirling Council audited financial statements 2016/17



**20.** 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 Committee or equivalent.

#### Timetable

**21.** 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 Committee dates:

## Exhibit 4

### Financial statements timetable

 Key stage	 Date
Consideration of unaudited financial statements by those charged with governance	TBC
Latest submission date of unaudited annual accounts with complete working papers package	4 June 2018
Latest date for final clearance meeting with Chief Finance Officer	15 August 2018
Issue of letter of representation and proposed independent auditor's report	17 August 2018
Agreement of audited unsigned annual accounts	17 August 2018TBC
Issue of Annual Audit Report including ISA 260 report to those charged with governance	17 August 2018

Independent auditor's report signed

30 August  
2018

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Latest date for signing of WGA return

28 September  
2018

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## Internal audit

**22.** Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to rely on the work of internal audit wherever possible and as part of our planning process we carry out an assessment of the internal audit function. Internal audit is provided by the Internal Audit section at Stirling Council, overseen by a Chief Internal Auditor.

### Adequacy of Internal Audit

**23.** We have undertaken a formal review and have concluded that the council's Internal Audit function, generally, operates in accordance with the Public Sector Internal Audit Standards (PSIAS) and has appropriate documentation standards and reporting procedures in place.

### Areas of Internal Audit reliance

**24.** 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 will not directly rely on this when forming our audit opinion on the financial statements, 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.

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

- Workforce Planning
- Emergency Planning and Business Continuity
- Asset Management

### Audit dimensions

**26.** 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

**27.** 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

**28.** 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 body'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

**29.** 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 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

**30.** 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.
- 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

**31.** 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

**32.** 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.

**33.** 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 on – going 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.

**34.** The six councils on which a BVAR will be published during the second year of the new approach are listed in [Exhibit 6](#). Reports will be considered by the Accounts Commission in the period between April 2018 and November 2018.

## Exhibit 6

### 2017/18 Best Value Assurance Reports

East Ayrshire Council	Glasgow City Council
Dumfries and Galloway Council	West Dunbartonshire Council
East Lothian Council	Fife Council

Source: Audit Scotland

**35.** Audit Scotland plan to carry out a BVAR at Stirling Council as part of their 2018/19 audit work. We will inform the council of the areas we plan to focus this work on later in 2018, with a view to publishing a report in 2019. In the meantime, BV work planned as part of our 2017/18 audit will focus on the council's arrangements for demonstrating Best Value in financial management and financial sustainability. We will also gain an understanding of how effective the council's self evaluation processes are in driving improvement across the council. The results of this work will be reported in the Annual Audit Report.

### 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 Stirling Council is David McConnell, Assistant Director. The engagement lead for the charitable trusts is Paul Craig, Senior Audit Manager. 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 or the charities.

### 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.

# Stirling Council

## Annual Audit Plan 2017/18

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