
Report to Resources & Audit Committee

Date of Meeting: 25 February 2016

Subject: External Audit: Planning Report 2016/17

Report by: Depute Chief Executive

1.0 Purpose

- 1.1 The purpose of the attached external audit planning report (Appendix A) is to set out the planned audit activity during 2016/17 in respect of the audit of the financial year 2015/16.

2.0 Recommendations

It is recommended that the Committee.

- 2.1. Discusses and notes the proposed external audit plan for financial year 2016/17.

3.0 Considerations

- 3.1 Deloitte LLP was appointed by the Accounts Commission as the external auditor for Clackmannanshire Council for the five year period commencing 2011/12. The activity set out in the attached planning report therefore covers the final year of Deloitte's appointment.
- 3.2 Each year the external auditor prepares an annual plan which is submitted to the Resources and Audit Committee. The Depute Chief Executive discusses and agrees the plan and the associated audit fee level. The Committee is encouraged to discuss the plan and associated assessments and rationale with the external auditor as appropriate.
- 3.3 Due to the statutory basis of the work of the external auditor, the audit planning report should be presented to the Resources and Audit Committee. Thereafter, all external audit activity undertaken against this plan is formally reported to the Committee.

4.0 Conclusions

4.1 The Council's external auditors, Deloitte's, are in the final year of their five year appointment to Clackmannanshire Council. The attached report sets out details of their planned work during the year.

5.0 Sustainability Implications

5.1 N/A

6.0 Resource Implications

6.1 *Financial Details* - there are no implications for the Council's budgets arising from this report

6.2 *Staffing* - there are no implications for the Council's establishment arising from this report

7.0 Exempt Reports

7.1 Is this report exempt? Yes (please detail the reasons for exemption below) No

8.0 Declarations

The recommendations contained within this report support or implement our Corporate Priorities and Council Policies.

(1) **Our Priorities** (Please double click on the check box)

- | | |
|--|-------------------------------------|
| The area has a positive image and attracts people and businesses | <input type="checkbox"/> |
| Our communities are more cohesive and inclusive | <input type="checkbox"/> |
| People are better skilled, trained and ready for learning and employment | <input type="checkbox"/> |
| Our communities are safer | <input type="checkbox"/> |
| Vulnerable people and families are supported | <input type="checkbox"/> |
| Substance misuse and its effects are reduced | <input type="checkbox"/> |
| Health is improving and health inequalities are reducing | <input type="checkbox"/> |
| The environment is protected and enhanced for all | <input type="checkbox"/> |
| The Council is effective, efficient and recognised for excellence | <input checked="" type="checkbox"/> |

(2) **Council Policies** (Please detail)

N/A

9.0 Equalities Impact

9.1 Have you undertaken the required equalities impact assessment to ensure that no groups are adversely affected by the recommendations? N/A

10.0 Legality

10.1 It has been confirmed that in adopting the recommendations contained in this report, the Council is acting within its legal powers. Yes

11.0 Appendices

11.1 Please list any appendices attached to this report. If there are no appendices, please state "none".

External Audit Planning Report

12.0 Background Papers

12.1 Have you used other documents to compile your report? (All documents must be kept available by the author for public inspection for four years from the date of meeting at which the report is considered)

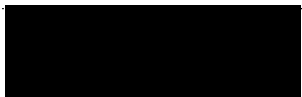
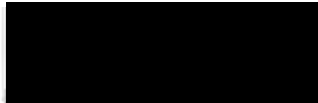
Yes (please list the documents below)

CIPFA Audit Committee Principles in Local Authorities in Scotland

Author(s)

NAME	DESIGNATION	TEL NO / EXTENSION
Nikki Bridle	Depute Chief Executive	2030

Approved by

NAME	DESIGNATION	SIGNATURE
Stephen Coulter	Head of Resources & Governance	
Nikki Bridle	Depute Chief Executive	

Planning report to the
Resources & Audit
Committee on the
2015/16 audit

25 February 2016

the
Distinctive
audit



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Partner introduction

The key messages in this report

Audit quality is our number one priority. We plan our audit to focus on audit quality and have set the following audit quality objectives for this audit:

A robust challenge of the key judgements taken in the preparation of the financial statements.

A strong understanding of your internal control environment.

A well planned and delivered audit that raises findings early with those charged with governance.

the
Distinctive
audit

I have pleasure in presenting our planning report to the Resources and Audit Committee for the 2015/16 audit. I would like to draw your attention to the key messages of this paper:

Significant risks

- Like other councils, the Council faces significant financial challenges. While the 2015/16 budget is projecting an underspend of £1.282m, this is being achieved through balancing an overspend in Social Services with underspends in other services.
- The Council is also faced with significant financial challenges over the next 5 years, with a projected funding gap of £12.944m in 2016/17.
- In 2014/15 we reported that we were concerned that the pace and scale of delivery from the Making Clackmannanshire Better (MCB) programme was not yet sufficient to meet the Council's stated objectives and to address the Council's very significant short to medium term financial challenges. Work has been progressing with the MCB programme to ensure future service delivery and expenditure are sustainable. In 2015/16 to date the Council has reported that it expects to achieve £2.815m of the £3.018m approved savings. We will continue to monitor the Council's plans to achieve long term financial sustainability, including how it is progressing its MCB programme. The shared services with Stirling Council for education and social services will end as at 31 March 2017 which will have an impact on future budget plans.
- The Scottish Government Autumn Spending Review which was published on 16 December 2015 included a provisional revenue allocation of £68.592 million, a 3.5% reduction. This is based on the following conditions which are currently to be clarified:
 - continued freeze on Council Tax for a ninth consecutive year;
 - maintain teacher numbers at 2015 levels nationally; and
 - an additional £250 million transfer from the NHS to health and social care partnerships to ensure improved outcomes in social care.
- In addition to the above significant risks in relation to long term financial sustainability, we have identified financial statement significant risks comprising the council tax bad debt provision, revenue recognition (specifically completeness and accuracy of council tax and housing rent income and accuracy of other government grants received) and management override of controls.

Partner introduction (continued)

The key messages in this report

Audit quality is our number one priority. We plan our audit to focus on audit quality and have set the following audit quality objectives for this audit:

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the
Distinctive
audit

Public audit in Scotland

- The new Code of Audit Practice which comes into force for the 2016/17 audits sets our four areas of focus to set a common framework for the public sector audit work in Scotland, which are detailed on page 15. Audit Scotland planning guidance notes that auditors may wish to consider these as part of their 2015/16 audit work. We will therefore consider how Clackmannanshire Council is demonstrating these four audit dimensions (financial sustainability, financial management, governance and transparency and value for money) and report our conclusions in our annual report to the Audit Committee in September 2016.
- In accordance with Audit Scotland guidance, local follow-up work will be carried out on the recommendations from Audit Scotland's report on *Scotland's Public Sector Workforce*, which was published in November 2013.
- In view of the changes to the 2016/17 Code in relation to measurement of highways network assets, we will consider the Council's state of preparedness for this significant change as part of our audit work.

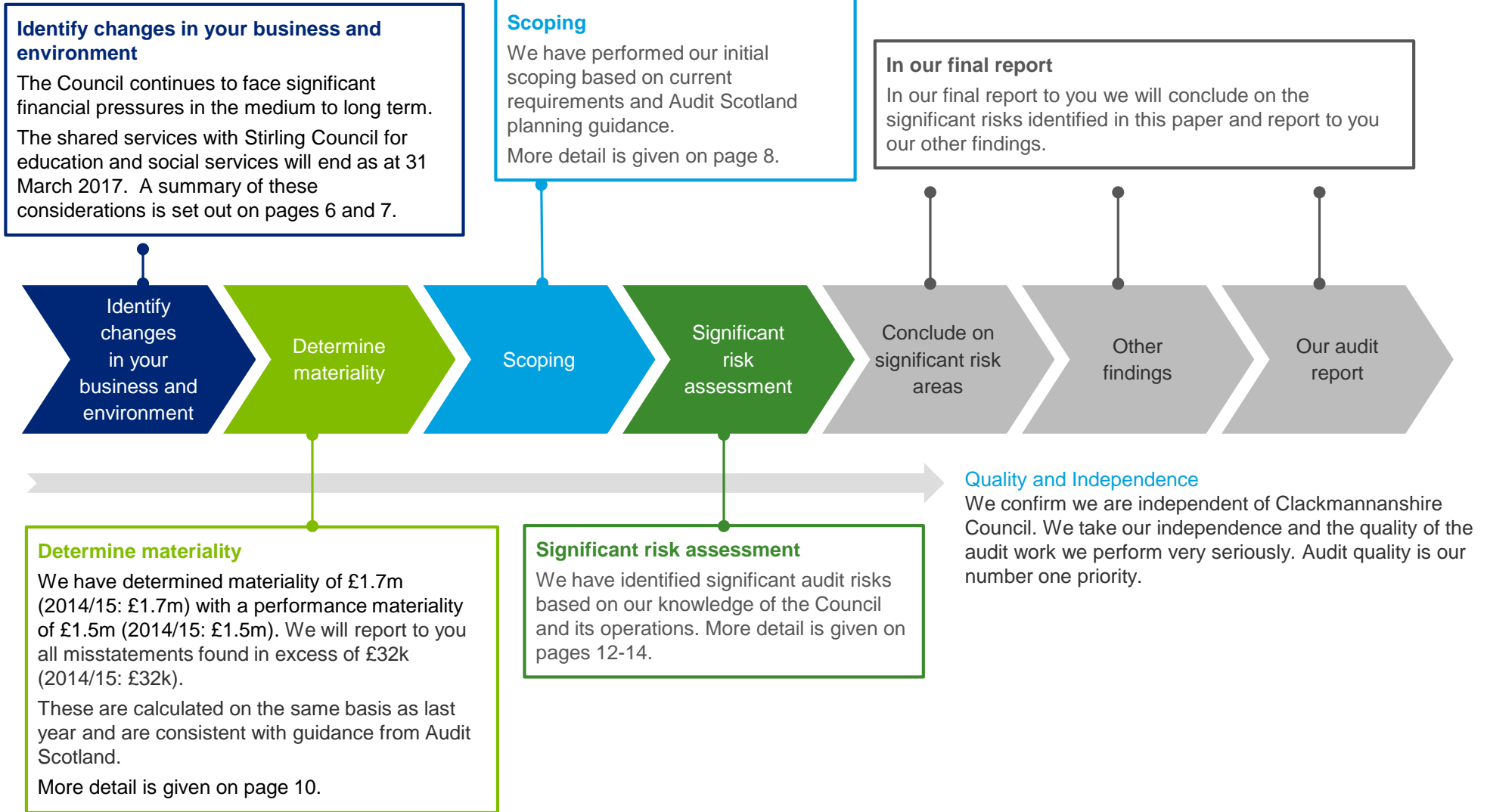
Our commitment to quality

- We are committed to providing the highest quality audit, with input from our market leading specialists, sophisticated data analytics and our wealth of experience. Further information is presented on page 26.

Jim Boyle
Audit partner

Our audit explained

We tailor our audit to your business and your strategy



An audit tailored to you

Focusing on your business and strategy

Impact on our audit

Future financial sustainability



While the 2015/16 budget is projecting an underspend of £1.282m, this is being achieved through balancing an overspend in Social Services of £1.576m, mainly due to overspend in residential schools, with underspends in other services largely as a result of delays in filling vacant posts. The Council is also faced with significant financial challenges over the next 5 years, with a projected funding gap of £12.977m in 2016/17. Following the Scottish Government's Autumn Spending Review, the Council is now working to allow forecasts to be rolled out to the period to 2019/20.

We will continue to monitor the Council's plans to achieve long term financial sustainability through interviews with senior management and elected members and review of papers and minutes of Council/ Committee meetings.

Making Clackmannanshire Better



In our 2014/15 final report and separate Best Value Report, we reported that we were concerned that the pace and scale of delivery from the MCB programme was not yet sufficient to meet the Council's stated objectives and to address the Council's very significant short to medium term financial challenges.

Work has been progressing with the MCB programme to ensure future service delivery and expenditure are sustainable. At the November 2015 MCB Forum for elected members and Trade Union representatives, copies of all Business Cases and the modelling of the impact of a 10% or 15% reductions in the assumed level of funding were provided. Consultation with residents, targeted service users and staff is also ongoing. Following the close of these specific consultations, elected members will be briefed and receive details of all consultation feedback received in advance of the budget setting meeting in order that this can be taken into account prior to Council taking decisions at its meeting in February 2016.

We will continue to monitor the Council's progress with implementation of the MCB programme through interviews with senior management and elected members and review of papers and minutes of Council/ Committee meetings.



New significant risk



Continuing significant risk



Normal risk

An audit tailored to you (continued)

Focusing on your business and strategy

Impact on our audit

Health and social care integration



Work is progressing in advance of the formal establishment of the Integrated Joint Board (IJB) on 1 April 2016.

A recent Audit Scotland report on Health and Social Care integration highlighted a risk that large boards may find it difficult to reach agreement, make decisions and ensure services improve. The Clackmannanshire and Stirling IJB will have around 35 members, which is the largest in Scotland reflecting the joint arrangement between the two Council areas, with 12 voting members and around 23 non-voting members. Ensuring that appropriate governance arrangements are in place is critical to the Board's success. We will also continue to monitor the integration process as it goes live from 1 April 2016.

We will also review the IJB's plans on how they will integrate the local authority and health budgets to maximise improvement in outcomes.

Shared Services



In light of Stirling Council's decision to move away from shared services in favour of dedicated Stirling services, Clackmannanshire Council gave notice that it would end the current shared services arrangements for education and social services as at 31 March 2017.

Work has begun on a transitional plan, and stakeholder engagement has also taken place to give reassurance over the service sustainability. We will review the transitional arrangements as they develop during 2016 and how this links with the future budget plans and MCB.

In a report to Council on the 17 December 2015 it was noted that there is not yet sufficient information overall around staffing to provide firm advice on the net impact of ceasing shared services and moving to new arrangements. The Council currently transfers around £538k to Stirling Council for the shared education services and the Council receives around £240k from Stirling for shared posts. It was agreed at this meeting that £150k be vired from the 2015/16 education services projected underspend to fund the recruitment process for the chief education officer, to resource any future externally commissioned work which may be required and to fund any other activities related to arrangements for withdrawing from shared services.



New significant risk



Continuing significant risk



Normal risk

Scoping

Our key areas of responsibility under the Code of Audit Practice

Core audit

Our core audit work as defined by Audit Scotland comprises:

- providing the **Independent Auditor's Report** on the financial statements (and any assurance statement on consolidation packs);
- providing the **annual report** on the audit addressed to the Council and the Auditor General;
- communicating **audit plans** to those charged with governance;
- providing **reports to management**, as appropriate, in respect of the auditor's corporate governance responsibilities in the Code (including auditors' involvement in NFI);
- preparing and submitting **fraud returns**, including nil returns, to Audit Scotland where appropriate;
- certify all **grant claims** submitted by the body that have been approved for certification by Audit Scotland;
- discharge the auditor's responsibilities in connection with bodies' publication of **Statutory Performance Indicators (SPIs)** in accordance with the Accounts Commission's annual Direction;
- identifying significant matters arising from the audit, alert the Auditor General and support Audit Scotland in producing statutory reports as required; and
- undertaking work requested by Audit Scotland or local performance audit work.

Audit dimensions

Public Audit in Scotland sets out four audit dimensions that frame the wider scope audit work into identifiable audit areas:

- **Financial sustainability** – looking forward to the medium and longer term to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.
- **Financial management** – financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.
- **Governance and transparency** – the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.
- **Value for money** - using resources effectively and continually improving services.

These areas of focus feature prominently in the new Code of Audit Practice which will come into force for the 2016/17 audits. We will consider how Clackmannanshire Council is demonstrating these areas as part of our 2015/16 audit.

Scoping

Our approach

Liaison with internal audit

The Auditing Standards Council's version of ISA (UK and Ireland) 610 "Using the work of internal auditors" prohibits use of internal audit to provide "direct assistance" to the audit. Our approach to the use of the work of Internal Audit has been designed to be compatible with these requirements.

We have reviewed the internal audit plan for 2015/16. We will review their reports and meet with them to discuss their work. We will also discuss the work where they have identified specific material deficiencies in the control environment and we will consider adjusting our testing so that the audit risk is covered by our work.

Using these discussions to inform our risk assessment, we will work together with internal audit to develop an approach that avoids inefficiencies and overlaps, therefore avoiding any unnecessary duplication of audit requirements on the Council's staff.

Approach to controls testing

Our risk assessment procedures will include obtaining an understanding of controls considered to be 'relevant to the audit'. This involves evaluating the design of the controls and determining whether they have been implemented ("D & I").

The results of our work in obtaining an understanding of controls and any subsequent testing of the operational effectiveness of controls will be collated and the impact on the extent of substantive audit testing required will be considered.

We will take a fully substantive approach and no controls reliance is planned.

Promoting high quality reporting to stakeholders

We view the audit role as going beyond reactively checking compliance with requirements: we seek to provide advice on evolving good practice to promote high quality reporting.

We will utilise the Code of practice on local authority accounts in the UK disclosure checklist to support the Council in preparing high quality drafts of the Annual Report and financial statements, which we would recommend the Council complete during drafting.

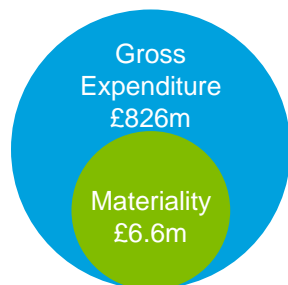
The Disclosure Checklist reflects the cutting clutter agenda and includes a "not material" column. We would encourage the Council to exclude disclosure if the information is not material.



Materiality

Approach to materiality

Basis of materiality - benchmark



- The audit partner has determined materiality as £1.7m (£1.7m for 2014/15) and a performance materiality of £1.5m (£1.5m in 2014/15), based on professional judgement, the requirements of auditing standards and the financial measures most relevant to users of the financial statements.
- We have used 1% of forecast gross expenditure as the benchmark for determining materiality. As the monthly management accounts are prepared on a net expenditure basis, we have estimated that the gross expenditure will be broadly in line with the prior year and will be recalculated on receipt of draft accounts.
- Our approach to determining the materiality benchmark is consistent with our 2014/15 audit and Audit Scotland guidance.

Reporting to those charged with governance

Under the current materiality level based on gross expenditure, we will report to you all misstatements found in excess of £32,000 (£32,000 for 2014/15).

We will report to you misstatements below this threshold if we consider them to be material by nature.

Our audit report

We will:

- Report the materiality benchmark applied in the audit of the Council;
- Provide comparative data and explain any changes in materiality, compared to prior year, if appropriate; and
- Explain any normalised or adjusted benchmarks we use, if appropriate.



Although materiality is the judgement of the audit partner, the Resources and Audit Committee must satisfy themselves that the level of materiality chosen is appropriate for the scope of the audit.

Significant risks



Bad debt provisions

Council tax debtor

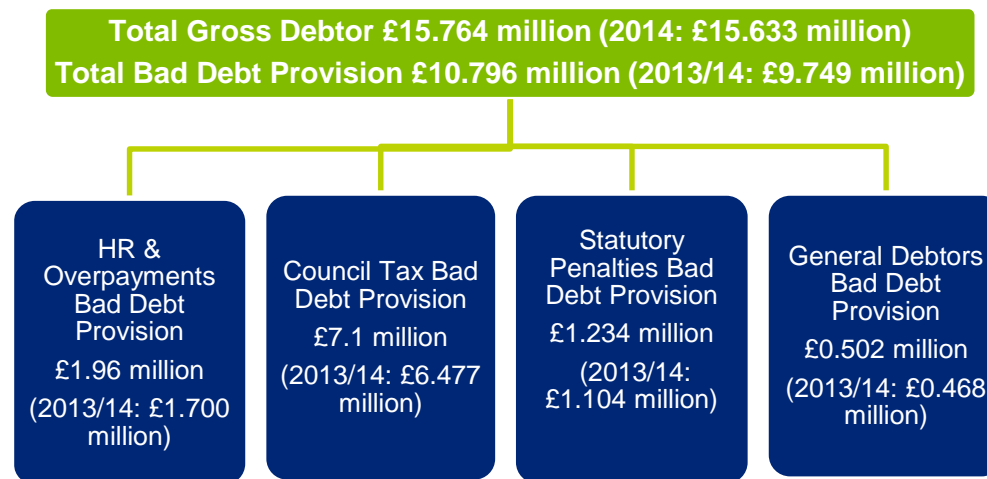
Nature of risk

There is significant judgement and complexity around debtor provision calculations. There is a risk that the valuation of provisions is not appropriate and assumptions underpinning calculations are not accurate. Particularly given the current economic climate, assumptions on recoverability of amounts may not be reasonable. The risk has been pinpointed to the council tax provision given its level of materiality.

The key judgement areas, its potential impact on the financial statements and our planned audit challenge

We will perform the following:

- verify the gross debtor on which the provision is based to the council tax system;
- review and challenge the methodology applied by the Council for the bad debt provision calculation;
- review and challenge management's judgements and assumptions included within the calculations;
- compare the provisions made with historical data on cash collection; and
- review the final accounts process and confirm that the calculations and assumptions have been reviewed.



Deloitte comment

As the provision is only calculated on an annual basis, we have not performed any detailed work to date as part of our planning procedures.

Revenue Recognition

Completeness of funding

Nature of risk

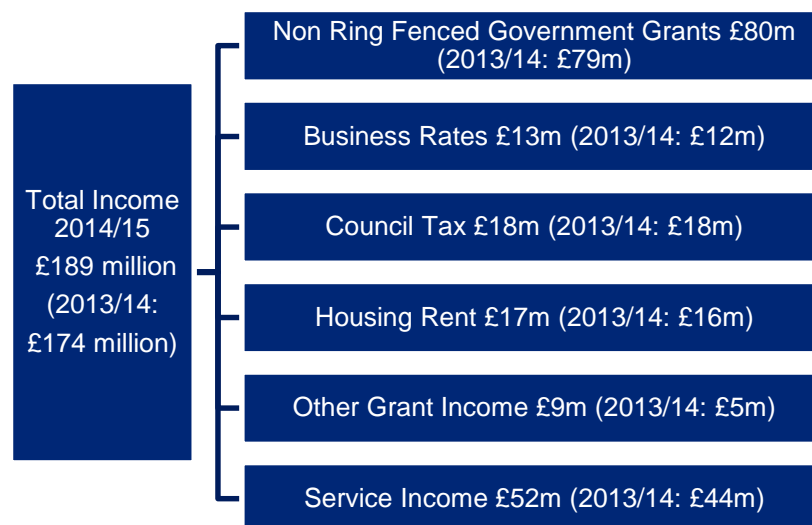
ISA 240 states that when identifying and assessing the risks of material misstatement due to fraud, the auditor shall, based on a presumption that there are risks of fraud in revenue recognition, evaluate which types of revenue, revenue transactions or assertions give rise to such risks.

The main components of income for the Council are non-ring fenced government grants and business rates which are directed by the Scottish Government and not considered a significant risk as the process for receipt of this income is not complex and can be verified 100%. The significant risk is pinpointed to other income, being completeness and accuracy of council tax and housing rent income and accuracy of other government grants received at a service level where restrictions or conditions apply.

The key judgement areas, its potential impact on the financial statements and our planned audit challenge

We will perform the following:

- test the council tax and housing rents system to ensure that the correct council tax and rent levels have been input and billed in accordance with that agreed as part of budget process and that any discounts or reductions have been appropriately applied;
- test the council tax and housing rents reconciliations performed by the Council at 31 March 2016 to confirm all income is correctly recorded in the ledger;
- compare income recorded with expectations, based on council tax and rent levels agreed as part of budget process and number of properties;
- corroborate property numbers to independent record held by the valuer (council houses) and the Assessor (council tax properties);
- confirm that the reconciliations performed during 2015/16 have been reviewed on a regular basis;
- assess managements controls around recognition of grant income; and
- test a sample of other government grants recognised either within service income or non-specific grant income and confirm these have been recognised in accordance with any restrictions or conditions applicable.



Deloitte comments

We are not aware of any issues arising which would impact on the treatment and recoverability of income during the year.

Management override of controls

We will use computer assisted audit techniques, to support our work on the risk of management override

Nature of risk

International Standards on Auditing requires auditors to identify a presumed risk of management override of control. This presumed risk cannot be rebutted by the auditor. This recognises that management may be able to override controls that are in place to present inaccurate or even fraudulent financial reports.

The significant risk in relation to management override, its potential impact on the financial statements and our planned audit challenge

Our work will focus on:

- the testing of journals, using data analytics to focus our testing on higher risk journals;
- significant accounting estimates. In addition to the estimates discussed above in respect of property valuations, we will also consider any other provisions and accruals; and
- any unusual transactions or one-off transactions, including those with related parties.

Our wider response to the risk of fraud is set out in the Appendix of this report.

In considering the risk of management override, we will:

- assess the overall position taken in respect of key judgements and estimates;
- consider the sensitivity of the financial statements with respect to the achieving financial performance targets;
- consider remuneration plans and linkage with key management judgements; and
- consider our view on the overall control environment and 'tone at the top'.

Deloitte comments

We have not identified to date in our planning work any transactions which appear unusual or outside the normal course of business.

Public sector audit dimensions

Four key areas of focus

The Auditor General, the Accounts Commission and Audit Scotland have agreed four audit dimensions that frame the wider scope audit work into identifiable areas. These areas of focus feature prominently in the new Code of Audit Practice which will come into force for the 2016/17 audit. Audit Scotland planning guidance notes that auditors may wish to consider these as part of their 2015/16 audit work. We will, therefore, consider how Clackmannanshire Council is demonstrating these areas, including any risks to their achievement, as part of our 2015/16 audit work as follows:

Audit dimension	Areas to be considered	Impact on the 2016 Audit
<p>Financial sustainability looks forward to the medium and longer term to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.</p>	<ul style="list-style-type: none"> • The financial planning systems in place across the shorter and longer terms • The arrangements to address any identified funding gaps • The affordability and effectiveness of funding and investment decisions made 	<p>We will continue to monitor the Council's actions in respect of its short, medium and longer term financial plans.</p>
<p>Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively</p>	<ul style="list-style-type: none"> • Systems of internal control • Budgetary control system • Financial capacity and skills • Arrangements for the prevention and detection of fraud 	<p>As noted on page 7, we will liaise with internal audit in relation to their work on the systems of internal control. We will invite Clackmannanshire to take part in the 2016 Deloitte Finance Benchmarking Survey which can compare their finance function to peers. Our fraud responsibilities and representations are detailed on pages 21 and 22.</p>
<p>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.</p>	<ul style="list-style-type: none"> • Governance arrangements • Scrutiny, challenge and transparency on decision making and financial and performance reports • Quality and timeliness of financial and performance reporting 	<p>We will review the financial and performance reporting to the Council during the year.</p>
<p>Value for money is concerned with using resources effectively and continually improving services.</p>	<ul style="list-style-type: none"> • Value for money in the use of resources • Link between money spent and outputs and the outcomes delivered • Improvement of outcomes • Focus on and pace of improvement. 	<p>As noted on page 6, we will continue to monitor the Council's progress in developing its medium to longer term financial plans, linked with its ongoing MCB programme.</p>

Public sector audit dimensions

NFI and Performance Audit

National Fraud Initiative (NFI)

All Councils are participating in the NFI 2014/15. All data was submitted in late 2014 and Councils received matches for investigation in early 2015.

We reported in our 2014/15 annual report, which was presented to the Resources and Audit Committee in September 2015, that work was progressing well with the current match investigations. Overall Clackmannanshire Council is fully engaged with the NFI exercise.

In accordance with Audit Scotland planning guidance, we are required to monitor the Council's participation and progress during 2015/16 and complete an NFI audit questionnaire by 29 February 2016. The information contained in this questionnaire will form the basis of Audit Scotland's NFI report to be published in May 2016.

Performance audits

Audit Scotland published a report on *Scotland's Public Sector Workforce* in November 2013.

In accordance with Audit Scotland planning guidance, we are required to carry out local follow up work, based on the recommendations in the 2013 report. This is required to be completed by June 2016.

Audit quality

Our commitment to audit quality

Our objective is to deliver a distinctive, quality audit to you. Every member of the engagement team will contribute, to achieve the highest standard of professional excellence.

In particular, for your audit, we consider that the following steps will contribute to the overall quality:

- We will apply professional scepticism on the material issues and significant judgements identified, by using our expertise in the public sector and elsewhere to provide robust challenge to management;
- We will obtain a deep understanding of your Council, its environment and of your processes in key areas – such as revenue recognition, property valuation, and bad debt provisions - enabling us to develop a risk-focused approach tailored to the Council;
- Our engagement team is selected to ensure that we have the right subject matter expertise and industry knowledge. We will involve pensions specialists to support the audit team in our work, leading to high quality understanding and challenge; and
- In order to deliver a quality audit to you, each member of the core audit team has received tailored training to develop their expertise in audit skills which includes local Engagement Team Based Learning. This is a partner led programme encouraging teams from across our practice to engage and discuss current sector and audit issues, sharing best practice and expertise. This is in addition to a practice wide local government training day held prior to the end of the financial year to share key issues from across the country, to update on regulatory changes and provide early warning of issues other teams may have faced at the interim testing phase.

Engagement Quality Control Review

- We have developed a tailored Engagement Quality Control approach. Our dedicated Professional Standards Review (PSR) function will provide a 'hot' review before any audit or other opinion is signed. PSR is operationally independent of the audit team, and supports our high standards of professional scepticism and audit quality by providing a rigorous independent challenge.

Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

Our report is designed to establish our respective responsibilities in relation to the financial statements audit, to agree our audit plan and to take the opportunity to ask you questions at the planning stage of our audit. Our report includes:

- Our audit plan, including key audit judgements and the planned scope; and
- Key regulatory and corporate governance updates, relevant to you.

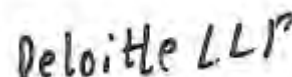
What we don't report

- As you will be aware, our audit is not designed to identify all matters that may be relevant to the Resources and Audit Committee.
- Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.
- Finally, the views on internal controls and business risk assessment in our final report should not be taken as comprehensive or as an opinion on effectiveness since they will be based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

Other relevant communications

- This report should be read alongside the supplementary "Briefing on audit matters" circulated previously.
- We will update you if there are any significant changes to the audit plan.

We welcome the opportunity to discuss our report with you and receive your feedback.



Deloitte LLP

Chartered Accountants

Edinburgh

25 January 2016

This report has been prepared for the Resources and Audit Committee, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose.

Appendices



Prior year uncorrected misstatements and disclosure deficiencies

Uncorrected misstatements



There were no uncorrected misstatements identified during the course of our prior year audit.

There were no uncorrected disclosure deficiencies noted during the prior year audit.

Fraud responsibilities and representations

Responsibilities explained



Your responsibilities

- The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.

Our responsibilities

- We are required to obtain representations from your management regarding internal controls, assessment of risk and any known or suspected fraud or misstatement.
- As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.
- As set out in the significant risks section of this document, we have identified the risk of fraud in revenue recognition and management override of controls as a key audit risk for your organisation.

Fraud characteristics

- Misstatements in the financial statements can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the financial statements is intentional or unintentional.
- Two types of intentional misstatements are relevant to us as auditors – misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets.

We will request the following to be stated in the representation letter signed on behalf of the Council:

- We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error.
- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- We are not aware of any fraud or suspected fraud / We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the entity or group and involves:
 - (i) management; (ii) employees who have significant roles in internal control; or (iii) others where the fraud could have a material effect on the financial statements.
- We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

Fraud responsibilities and representations



We will make the following inquiries regarding fraud:

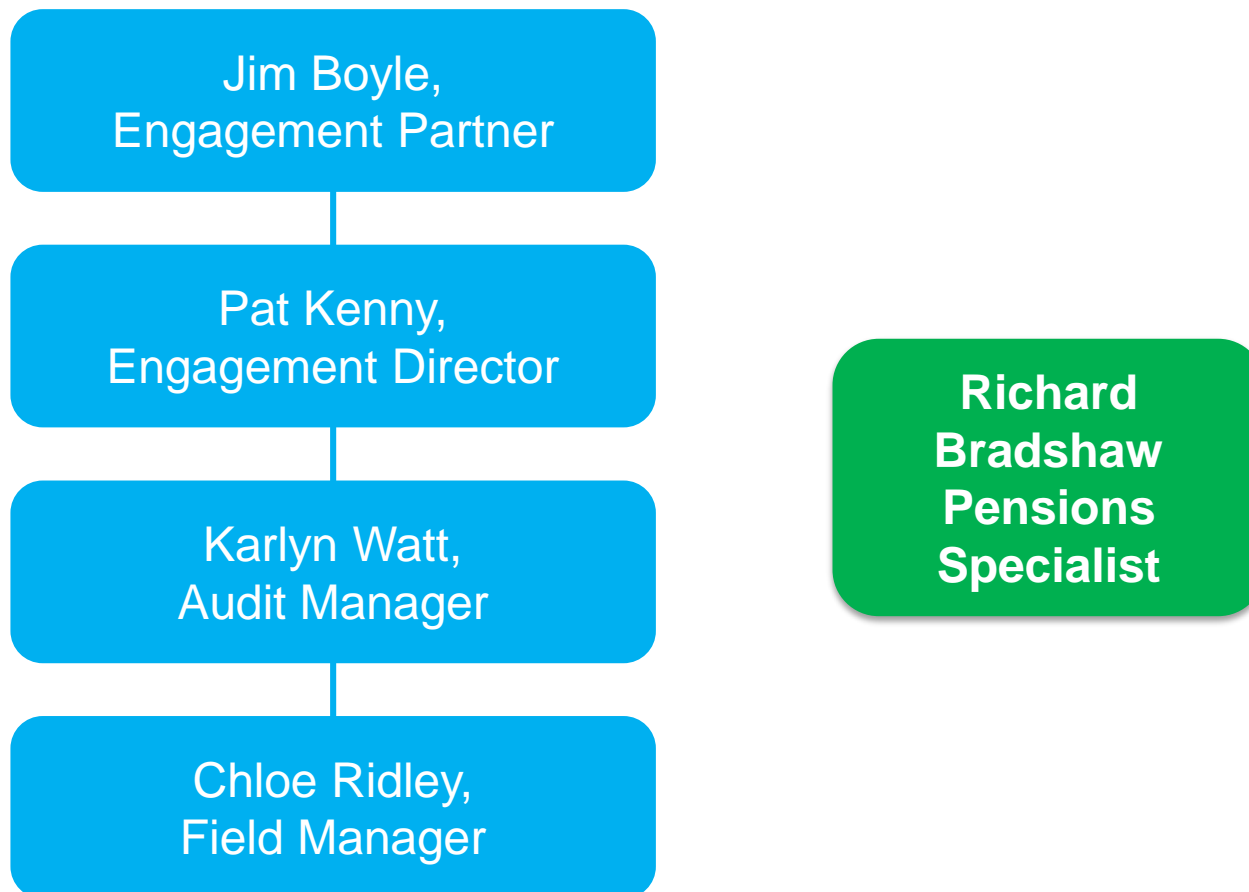
Management	Internal Audit	Those charged with governance
<p>Management's assessment of the risk that the financial statements may be materially misstated due to fraud, including the nature, extent and frequency of such assessments.</p> <p>Management's process for identifying and responding to the risks of fraud in the entity.</p> <p>Management's communication, if any, to those charged with governance regarding its processes for identifying and responding to the risks of fraud in the entity.</p> <p>Management's communication, if any, to employees regarding its views on business practices and ethical behaviour.</p> <p>Whether management has knowledge of any actual, suspected or alleged fraud affecting the entity.</p> <p>We plan to involve management from outside the finance function in our inquiries.</p>	<p>Whether internal audit has knowledge of any actual, suspected or alleged fraud affecting the entity, and to obtain its views about the risks of fraud.</p>	<p>How those charged with governance exercise oversight of management's processes for identifying and responding to the risks of fraud in the entity and the internal control that management has established to mitigate these risks.</p> <p>Whether those charged with governance have knowledge of any actual, suspected or alleged fraud affecting the entity.</p> <p>The views of those charged with governance on the most significant fraud risk factors affecting the entity.</p>

We will also perform procedures in relation to the National Fraud Initiative as set out on page 16.

Your audit team and timetable

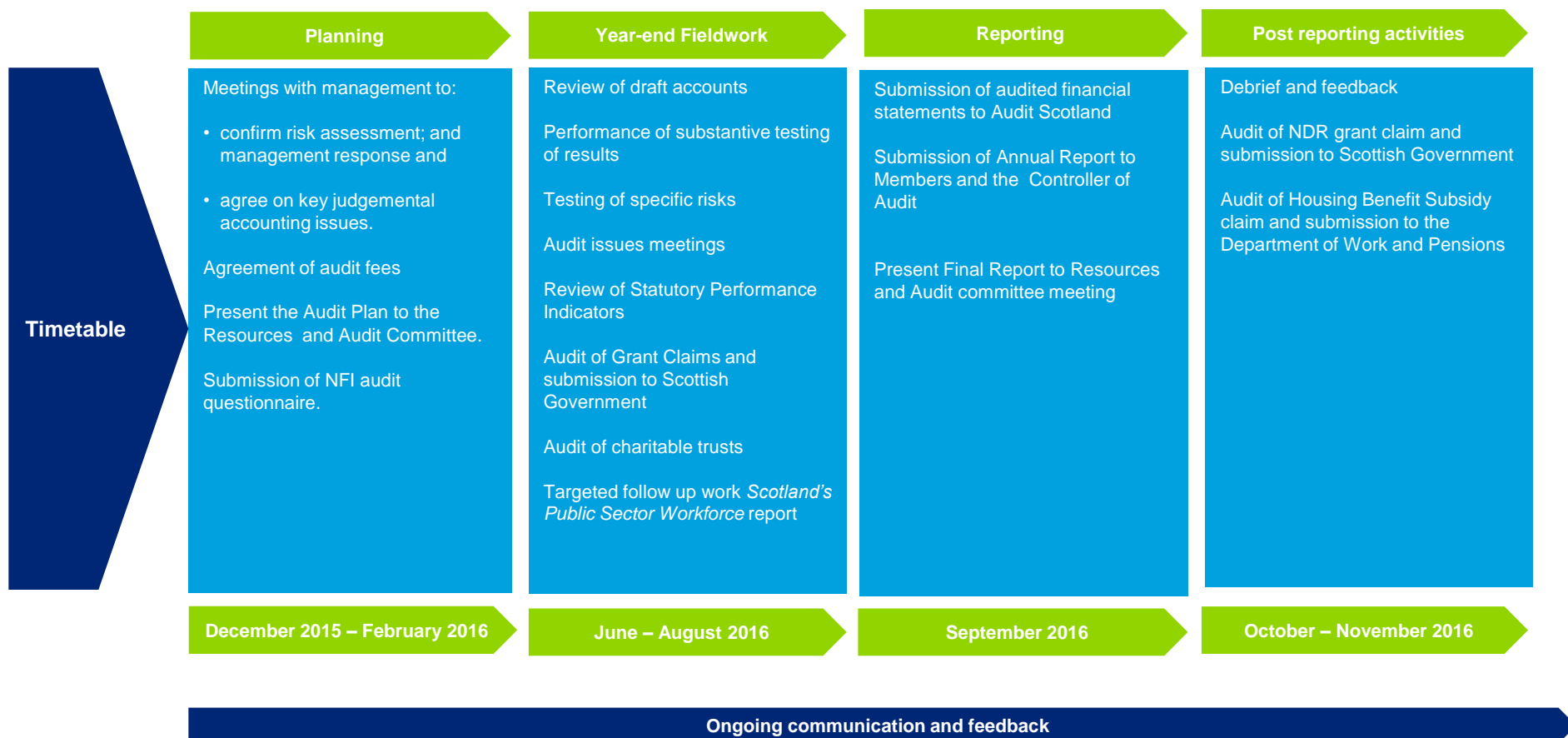
We have a good level of continuity in the audit team

We set out below our audit engagement team. We manage our audit on a basis that is consistent with prior year and draws on the expertise of our public sector group.



Your audit team and timetable (continued)

Set out below is the approximate expected timing of our reporting and communication with Clackmannanshire Council and Audit Scotland.



Independence and fees



As part of our obligations under International Standards on Auditing (UK and Ireland), we are required to report to you on the matters listed below:

Independence confirmation

We confirm we are independent of the Council and will reconfirm our independence and objectivity to the Resources and Audit Committee for the year ending 31 March 2016 in our final report to the Resources and Audit Committee.

Fees

A total fee of £208,000 for the 2015/16 audit, inclusive of Audit Scotland's fixed charges and VAT, has been agreed with the Assistant Chief Executive which is within the range notified by Audit Scotland, which comprised £203,000 in relation to the Council audit and £5,000 for separate audits of the charitable trusts.

Details of all non-audit services fees for the period will be presented in our final report.

Non-audit services

In our opinion there are no inconsistencies between APB Ethical Standards for Auditors and the company's policy for the supply of non-audit services or any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.

Our approach to quality

AQR team report and findings

Audit quality is our number one priority. We pride ourselves on our commitment to quality and our quality control procedures. We have an unyielding pursuit of quality in order to deliver consistent, objective and insightful assurance.

In May 2015 the Financial Reporting Council (“FRC”) issued its Annual Report on Audit Quality Inspections which provides an overview of its activities of its Audit Quality Review (“AQR”) team for the year ended 31 March 2015. It also issued individual reports on each of the four largest firms, including Deloitte. We adopt an open and communicative approach with the regulator and their contribution to audit quality is respected and supported at all levels of our firm. We consider that the AQR’s report provides a balanced view of the focus and results of its inspections and its recognition of the emphasis we place on our overall systems of quality control is welcome.

We value the regulator’s inspection and comments, and the review performed by the AQR forms an important part of our overall inspection process. We perform causal factor analysis on each significant finding arising from both our own internal quality review and those of our regulators to fully identify the underlying cause. This then drives our careful consideration of each of the FRC’s comments and recommendations, as well as findings arising from our own review to provide further impetus to our quality agenda.

Fifteen of the audits reviewed by the AQR were performed to a good standard with limited improvements required and five audits required improvements. No audits were assessed as requiring significant improvements. The overall analysis of the AQR file reviews by grade for the last five years evidences that, among the largest firms, Deloitte remains at the forefront of audit quality with 68% of audits reviewed by the AQR assessed as good with limited improvements required and, at 5%, the lowest level of audits being assessed as significant improvement required, with none in this category in 2014/15.

We have already taken action to respond to the key themes of the report and will continue to undertake further activities to embed the changes into our practice.

The AQR’s conclusion on Deloitte

“The firm places considerable emphasis on its overall systems of quality control and, in most areas, has appropriate policies and procedures in place for its size and the nature of its client base. Nevertheless, we have identified certain areas where improvements are required to those policies and procedures. These are set out in this report. Our findings relating to reviews of individual audits largely relate to the application of the firm’s procedures by audit personnel, whose work and judgments ultimately determine the quality of individual audits. The firm took a number of steps in response to our prior year findings to achieve improvements in audit quality. This included enhanced guidance, technical communications and audit training on the recurring themes. Certain aspects of the guidance could, however, have been issued on a more timely basis.”

2014/15 Audit Quality Inspection Report on Deloitte LLP

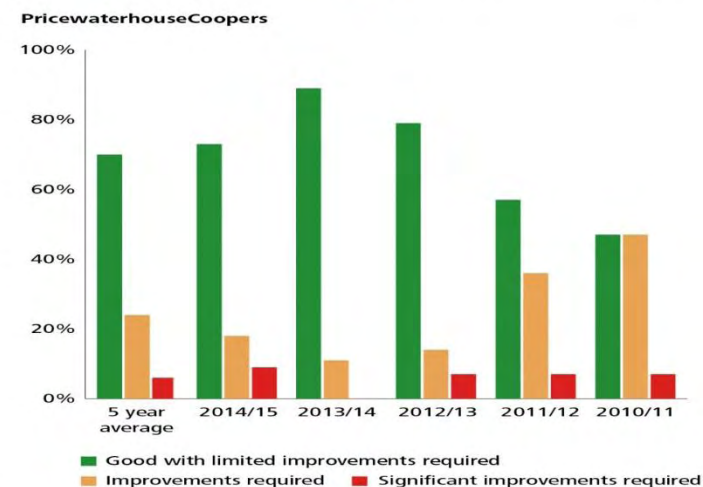
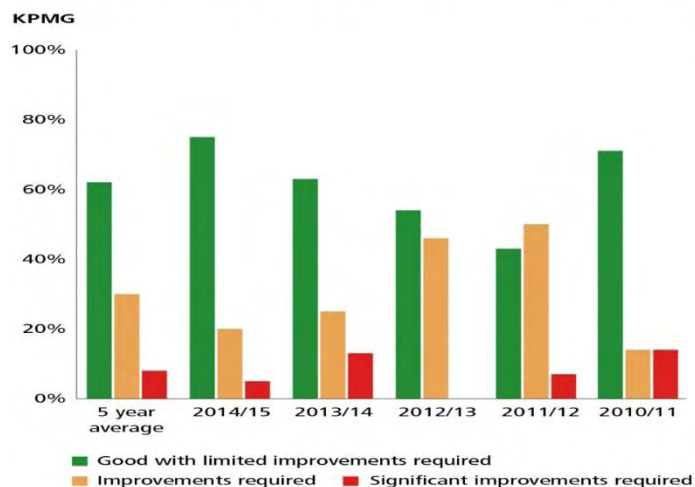
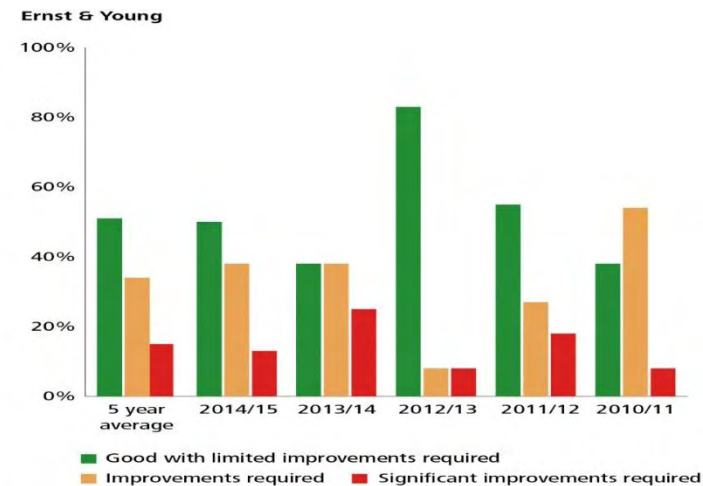
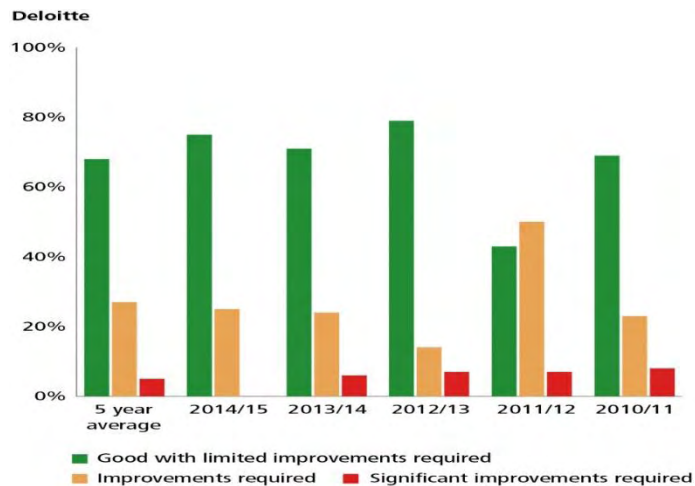
Our approach to quality

AQR team report and findings

The following graph compares the AQR's assessment of audit files by audit firm for the last five years and the average over those five years. The AQR categorises audits as either:

- Good with limited improvements required (green)
- Improvements required (amber)
- Significant improvements required (red)

Changes to the proportion of audits reviewed falling within each grade from year to year reflect a wide range of factors, which may include the size, complexity and risk of the individual audits selected for review and the scope of the individual reviews. For this reason, and given the sample sizes involved, changes in gradings from one year to the next are not necessarily indicative of any overall change in audit quality at the firm.



Source: Financial Reporting Council Public Reports on the 2014/15 inspections of Deloitte, Ernst & Young, KPMG and PricewaterhouseCoopers

Our approach to quality

Areas identified for particular attention	How these are addressed in our audit
<p>Ensure that audit teams focus more on the audit of valuations and accounting estimates, including appropriate challenge of management and enhancing the quality of audit evidence relating to the key assumptions.</p>	<p>We have explained how we will address the bad debt provision within this paper.</p> <p>We will include comment on our work on the pension liability in our Final Report in September 2016.</p>
<p>Improve the testing of management reports and other system generated information to obtain assurance on its reliability for audit purposes.</p>	<p>We will perform testing on the completeness and accuracy of management reports and other system generated information, such as payroll reports and balance breakdowns.</p>
<p>Improve the testing of controls, including the assessment of the effectiveness of monitoring controls and how identified weaknesses in IT controls are addressed.</p>	<p>We will ensure we have a clear understanding of the management control around significant risks, monitoring controls, the Council's risk assessment process and the Council's financial reporting process. We will then tailor our audit procedures to assess the design and implementation of these controls.</p> <p>We will use our internal IT specialists as required to aid us in assessing the IT controls in place with further reference to the work performed by internal audit.</p>
<p>Ensure that audit planning discussions are held with Audit Committees on a more timely basis to enable their input to be reflected appropriately in the audit plan.</p>	<p>We will attend the Resources and Audit Committee in February 2016 to present and discuss our audit plan.</p>
<p>Ensure more timely development of enhanced guidance when addressing internal and external quality review findings.</p>	<p>While this does not directly affect our audit plan, we will ensure that our engagement team always utilise the most recent expert advice and guidance.</p>



Other than as stated below, this document is confidential and prepared solely for your information and that of other beneficiaries of our advice listed in our engagement letter. Therefore you should not, refer to or use our name or this document for any other purpose, disclose them or refer to them in any prospectus or other document, or make them available or communicate them to any other party. If this document contains details of an arrangement that could result in a tax or National Insurance saving, no such conditions of confidentiality apply to the details of that arrangement (for example, for the purpose of discussion with tax authorities). In any event, no other party is entitled to rely on our document for any purpose whatsoever and thus we accept no liability to any other party who is shown or gains access to this document.

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