
Report to Audit Committee

Date of Meeting: 29 April 2021

Subject: External Audit: Planning Update Report 2020/21

Report by: Chief Finance Officer

1.0 Purpose

- 1.1 The purpose of the attached external audit planning update (Appendix A) is to give an update on the audit planning approach in respect of the audit of the financial year 2020/21.

2.0 Recommendations

It is recommended that the Committee comments on and notes the proposed external audit planning update for the year 2020/21.

3.0 Considerations

- 3.1 Audit Scotland was appointed by the Accounts Commission as the external auditor for Clackmannanshire Council for the five year period, which commenced with the 2016/17 audit. Due to the COVID19 pandemic, the audit period has been extended by a further year with the final year of the appointment now being the 2021/22 financial year.
- 3.2 The attached planning update has been prepared by the Councils external auditors and sets out the risks and planned audit approach to the 2020/21 audit. The final audit plan will be brought to the next Audit Committee which will set out the full scope and timing of the audit.

4.0 Conclusions

- 4.1 The Councils external auditors, Audit Scotland, are in the fifth year of their extended appointment to Clackmannanshire Council. The attached update sets out details of their planned approach to the 2020/21 audit.

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)

Clackmannanshire will be attractive to businesses & people and ensure fair opportunities for all ✓
Our families; children and young people will have the best possible start in life ✓
Women and girls will be confident and aspirational, and achieve their full potential ✓
Our communities will be resilient and empowered so that they can thrive and flourish ✓

- (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 Update on 2020/21 Audit

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)

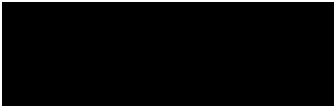
Yes (please list the documents below)

CIPFA Audit Committee Principles in Local Authorities in Scotland

Author(s)

NAME	DESIGNATION	TEL NO / EXTENSION
Lindsay Sim	Chief Finance Officer	2022

Approved by

NAME	DESIGNATION	SIGNATURE
Lindsay Sim	Chief Finance Officer	
Stuart Crickmar	Director of Partnerships & Performance	

Audit Committee

Audit Scotland Planning Update on
2020/21 audit



- Scotland's public services remain under exceptional pressure due to the COVID-19 pandemic. Our approach to audit during these circumstances continues to be flexible, pragmatic and consistent. We have recently published an update report [Covid-19: What it means for public audit in Scotland](#).
- We recognise that the 2020/21 audit is likely to be conducted remotely and we are building our plans and resources to accommodate that in the most efficient and effective way.
- Planning work has started and, based on our progress to date and previous audit knowledge, we recognise a number of financial statements and wider dimension audit risks for Clackmannanshire Council as outlined in the next three slides.
- We would like to use this opportunity to discuss the risks and audit approach with the Audit Committee to support wider understanding and engagement.
- There may be additional audit risks identified from our planning work which will feature in our 2020/21 Annual Audit Plan which will be presented to a future meeting.

- **Risk of material misstatement due to fraud caused by management override of controls –** International Auditing Standards require that audits are planned to consider the risk of material misstatement in the financial statements caused by fraud, which is presumed to be a significant risk in any audit. This includes the risk of fraud due to the management override of controls.
- **Risk of error in areas of estimation and judgement -** There is significant subjectivity in the council's measurement and valuation of the material account areas of non-current assets, financial instruments and pensions. This subjectivity represents an increased risk of misstatement in the financial statements.
- **Risk of misstatement due to Covid-19 disclosure requirements -** COSLA analysis indicates that over £1.3 billion additional support to business has been routed through councils as part of the response to the Covid-19 pandemic. There is a risk of disclosure misstatement for this new area of agency expenditure and the fact that this will need to be separated from the Covid-19 funding the council has received to support its own budget.

** We are currently assessing the presumed risks of fraud over revenue recognition and expenditure in accordance with ISA 240 and Practice Note 10. Given the extent of income and expenditure which relates to other parts of the public sector we expect to be able to rebut them.*

- **Financial sustainability** – The COVID-19 pandemic has had a significant impact on the council’s financial position through increased expenditure and reduced income. The council is forecasting an indicative funding gap of £13.7 million over the next three years. There is a risk that the council will find it increasingly difficult to maintain financial sustainability and deliver priority services.
- **Financial management and performance reporting** – Our 2019/20 Annual Audit Report noted that officers did not prepare a final outturn report for 2019/20 and that there was a delay in the council presenting its year-end performance reports for two service areas. This was due to committee meeting cancellations in response to the COVID-19 pandemic. There is a risk that, due to the continuing pressures of the COVID-19 pandemic and limited capacity within the finance team, the budget monitoring and financial reporting arrangements do not support effective scrutiny of the council’s finances. In addition, without performance reports, it is difficult to obtain a complete picture of the council’s performance and, as a result, services are appropriately not held to account.

- **COVID-19 related support funding** – The council has had a key role in supporting local businesses through distribution of grant support funding. Decision-making in a fast-moving environment presents a challenge for the council and other public bodies. These include maintaining good governance and controls while making decisions quickly, adapting performance measures and ensuring that anti-fraud arrangements remain robust at a time when the risk of fraud is increased. There is a risk that the governance and accountability arrangements for distributing COVID-19 funding and key financial controls over COVID-19 related income and expenditure are not effective.
- **Anti-fraud arrangements** – Our 2019/20 Annual Audit Report reported a number of weaknesses in the council's anti-fraud arrangements including the effectiveness of the controls and policies in preventing procurement fraud, lack of progress with investigating high risk matches in the National Fraud Initiative and out-of-date anti-fraud policies. In addition, the council doesn't have a dedicated anti-fraud team to focus on addressing these issues. There is a risk that the council's arrangements for the prevention and detection of fraud and corruption are not effective and that staff are not aware how to report concerns.

- The concept of materiality is used in evaluating the effect of identified misstatements on the financial statements and informing our opinions in the independent auditor's report.
- We expect total council expenditure for 2020/21 to be approximately £257 million impacting on our audit materiality as outlined below.

Materiality	2019/20	2020/21
Planning materiality	£2.1m	£2.6m
Performance materiality	£1.1m	£1.3m
Reporting threshold	£50,000	£50,000

- The audit fee is the mechanism by which we cover the costs of our audit work. We consider 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. The details are included below.

Fee element	2019/20	2020/21
Auditor remuneration	£130,350	£134,260
Pooled costs	£71,860	£73,460
Total fee	£202,210	£207,720

- Due to a number of promotions within Audit Scotland there have been some changes to the audit team. Carole Grant has taken over the Audit Director role from Gordon Smail, and Ursula Lodge has joined the team as the Senior Audit Manager. The rest of the audit team remains unchanged.
- We are working with finance staff to agree the accounts timetable for 2020/21. The detail will be contained within the Annual Audit Plan but it is worth highlighting that we are planning to work towards an end of November 2021 signing date. We will do our best to meet this date and will work flexibly with the council and the Audit Committee on the delivery of outputs.