AUDIT SCOTLAND

Angus Council

Annual Report on the 2013/14 audit

Prepared for the members of Angus Council and the Controller of Audit

October 2014

Contents

Key contacts

Stephen Boyle, Assistant Director

sboyle@audit-scotland.gov.uk

Anne MacDonald, Senior Audit Manager

amacdonald@audit-scotland.gov.uk

Colin Morrison, Senior Auditor

cmorrison@audit-scotland.gov.uk

Audit Scotland
Business Hub 11
2nd floor West, Marischal College
Broad Street
Aberdeen
AB10 1AB

Telephone: 0845 146 1010

Website: www.audit-scotland.gov.uk

Key messages

Financial statements	• Unqualified auditor's report on the 2013/14 financial statements.
Financial position	• An underspend of £6.804m (2.7%) against service budgets. • Usable reserves have decreased by £0.145m to £27.926m. • The General Fund balance has increased by £1.782m to £23.019m, of which £1.553m was unallocated. • Financial management remains sound with a robust budget setting process in place.
Governance & accountability	• The council had satisfactory governance arrangements in place. • Systems of internal control operated effectively. • The council has an effective internal audit function. • Scrutiny review panels have examined zero waste and road maintenance.
Best Value, use of resources & performance	• For 2013/14, the council's statutory performance indicators showed improvement in 47% of cases and deterioriation in a further 34% of cases. • Finance review is just being implemented and should achieve annual savings of £140k.
Outlook	• Significant workforce reduction planned over the next 3 years. • Major reforms in welfare and health and social care to be managed with partners.

Financial Statements

1. We have given an unqualified audit opinion that the financial statements of Angus Council for 2013/14 give a true and fair view of the state of the affairs of the council and its group as at 31 March 2014 and of the income and expenditure for the year then ended.

2. We have also given an unqualified audit opinion on the 2013/14 financial statements of the charity (Strang Mortification) registered by Angus Council and audited under the provisions of The Charities Accounts (Scotland) Regulations 2006 (the 2006 Regulations).

Financial position

3. The council underspent £8.627m against its revised revenue budget, representing 3.5% of its net service expenditure. This is due to a combination of greater than expected income, for example council tax, underspends on employee costs and principal loan repayments.

4. The closing balance at the year end on usable reserves was £27.926m representing a net decrease of £0.145m from 2012/13.

5. The net movement in the general fund balance for 2013/14 was £1.782m, increasing the general fund balance to £23.019m as at 31 March 2014. This balance is made up of earmarked commitments of £17.216m and a contingency and unallocated balance of £5.803m, or 2.4% of net cost of services. This is above the council's policy of holding minimum unallocated reserves of at least £3.250m for the general fund and £1m for the HRA.

6. The council's 2014/15 financial plan requires cost savings of £6.095m. The council aims to deliver these savings through a variety of reviews, service changes and its Transforming Angus Change Programme.

Governance and accountability

7. In 2013/14, the council had sound governance arrangements in place including effective internal audit and systems of internal control. For example, a full recast of council budgets was undertaken to align them with the new directorates and enable proper budget monitoring to be maintained.

8. The Public Bodies (Joint Working) (Scotland) Act provides the framework for the integration of health and social care services in Scotland. The council and NHS Tayside have established a shadow joint board which will exist until 31 March 2015.

9. The Welfare Reform Act 2012 represents a significant reform of the UK welfare system. The council has helped to manage the impact of welfare reform on residents and continues to develop arrangements to support those affected by the changes.

Best Value, use of resources and performance

10. In the 2014 Assurance and Improvement Plan, the Local Area Network concluded that a Best Value follow up would be undertaken in 2015/16 to assess the impact of the management restructuring and its impact on the delivery of council priorities and service performance.

11. The council's 3 year budget to 31 March 2017 identified savings of nearly £19m. A significant element of this amount is planned to be achieved through a workforce reduction. The council is currently working on its workforce plan to support the priorities in the Council Plan. This will be essential in setting out the staff needs and gaps and how further change will be managed if the necessary savings are to be delivered.

12. In overall terms an analysis of the council's performance indicators showed improvement 47%, deterioration 34% and maintained performance 19%. With regard to public performance reporting, the council is the closest of any Scottish council in meeting the criteria with 95% fully meeting the agreed criteria.

Outlook

13. Demands on services and resources continue to increase and these need to be managed alongside major reforms in the welfare system and health and social care. Effective working with partners will be required to make the best use of available resources as well as innovation and vision to design and deliver the services needed to serve the future needs of citizens.

Introduction

14. This report is a summary of our findings arising from the 2013/14 audit of Angus Council. The purpose of the annual audit report is to summarise the auditor's opinions and conclusions, and to report any significant issues arising from the audit. The report is divided into sections which reflect our public sector audit model.

15. Our responsibility, as the external auditor of Angus Council, is to undertake our audit in accordance with International Standards on Auditing (UK and Ireland) and the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011.

16. This report should form the basis of discussions with the Scrutiny & Audit Committee as soon as possible after it has been issued. Reports should be made available to stakeholders and the public, as audit is an essential element of accountability and the process of public reporting.

17. This report will be published on our website after it has been considered by the council. The information in this report may be used for the Account's Commission's annual overview report on local authority audits. The overview report is published and presented to the Local Government and Regeneration Committee of the Scottish Parliament.

18. The concept of audit risk is of key importance to the audit process. Appendix III sets out the significant audit risks identified in our Annual Audit Plan and the work we undertook during the year to gather appropriate assurances to address each of these risks which assisted us in arriving at our opinion on the financial statements.

19. Appendix IV is an action plan setting out the high level risks we have identified from the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "Management action/response".

20. We recognise that not all risks can be eliminated or even minimised. What is important is Angus Council understands its risks and has arrangements in place to manage these risks. The council and the Proper Officer should ensure that they are satisfied with proposed management action and have a mechanism in place to assess progress and monitor outcomes.

21. We have included in this report only those matters that have come to our attention as a result of our normal audit procedures; consequently, our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

22. The cooperation and assistance afforded to the audit team during the course of the audit is gratefully acknowledged.

Financial statements

Net service budget expenditure £252.255m	Planned capital expenditure £38.375m	Planned Usable Reserves £26.350m
Service Outturn £245.451m	Outturn Capital spend £32.489m	Outturn usable reserves £27.926m
Service Budget Underspend £6.804m	Capital Underspend £5.886m	Movement in usable reserves £0.145m

Audit opinion

23. We have given an unqualified opinion that the financial statements of Angus Council for 2013/14 give a true and fair view of the state of the affairs of the council and its group as at 31 March and of the income and expenditure for the year then ended.

Other information published with the financial statements

24. Auditors review and report on other information published with the financial statements, including the explanatory foreword, annual governance statement and the remuneration report. We have nothing to report in respect of these statements.

Legality

25. Through our planned audit work we consider the legality of the council's financial transactions. This includes obtaining written assurances from the Proper Officer. There are no legality issues arising from our audit which require to be reported.

The audit of charities financial statements

26. The Charities Accounts (Scotland) Regulations 2006 (the 2006 Regulations) sets out the accounting and auditing rules for Scottish charities. These required, for the first time in 2013/14, a full audit of all registered charities accounts where all or some local authority members are the sole trustees.

27. Angus Council had one fund (Strang Mortification) which was subject to the full charities financial statements audit for 2013/14.

28. Auditors of registered charities' statement of accounts have responsibilities to

- audit and express an opinion on whether the charity's financial statements give a true and fair view and are properly prepared in accordance with charities legislation
- read the trustees' annual report and express an opinion as to whether it is consistent with the financial statements
- report on other matters by exception to the trustees and to the Office of the Scottish Charity Regulator (OSCR).

29. We have given an unqualified opinion on these matters with respect to the 2013/14 financial statements of the relevant charities registered by Angus Council.

Group accounts

30. Local authorities are required to prepare group accounts in addition to their own council's accounts where they have a material interest in other organisations.

31. Angus Council has accounted for the financial results of one associate (Tayside Joint Valuation Board), one jointly controlled entity (Tayside Contracts) and the Common Good Fund and sundry trusts in its group accounts for 2013/14. The overall effect of consolidating these balances on the group balance sheet is to reduce total reserves and net assets by £6.353m.

32. The net assets of the group at 31 March 2014 totalled £261.884m, compared to £130.145m in 2012/13. The positive movement in the closing net worth balance is mainly due to the removal of Police and Fire pension liabilities following the transfer of functions to new single service authorities from 1 April 2013.

Accounting issues arising

33. Our '*Report to those charged with governance on the 2013/14 audit'*, was presented to the Scrutiny and Audit Committee on 30 September 2014. The primary purpose of that report is to communicate the significant findings arising from our audit prior to finalisation of the independent auditor's report. The main items are summarised in the following paragraphs.

Audit of Financial Statements

34. The council's unaudited financial statements were submitted to the Controller of Audit by the deadline of 30 June 2014. The majority of working papers were received during the following week and we noted improvements to the working papers received compared to previous years.

Presentational and monetary adjustments

35. A number of presentational and monetary adjustments were identified in the financial statements during the course of our audit. These were discussed with management who agreed to amend the unaudited financial statements. The effect of these adjustments was to decrease cost of services by £5.164m and decrease net assets by £0.261m. The more significant changes related to:

- expenditure of £5.406m related to the council tax reduction scheme (CTRS) introduced in 2013/14 was omitted from the council tax income account in the unaudited accounts and instead included within the recharge to other services in the Comprehensive Income and Expenditure Statement (CIES).
- debtors and creditors within the balance sheet were overstated by £11.790m due to the council's omission to clear a suspense account at the year end.
- Scottish Ministers' consent was obtained to transfer land from the general fund to the housing revenue account which will be used to provide affordable housing. Two buildings were demolished in preparation for the transfer. The unaudited accounts reflected the transfer of the buildings to the housing revenue account but included them at their existing valuation rather than the reduced valuation stated within the letter of consent provided by Scottish Ministers. An adjustment was made to the 2013/14 financial statements to reflect the correct figures.

36. In addition, a small number of unadjusted errors were identified during the course of the audit. These misstatements are immaterial to the accounts as a whole. If adjusted, the net impact of the misstatement would have been a decrease in cost of services and an increase in net assets of £16k.

37. **Non-current assets**: Council dwellings are revalued every 5 years, the current basis of valuation is existing use for social housing (EUV-SH). The council's policy is to write off the revalued amount over the useful life of the housing stock which is expected to be 50 years. The Code of Practice for Local Authority Accounting permits this length of write off period but it also sets out expectations in respect of component accounting, which is commonly adopted by councils to separately account for elements of an asset which require to be written off over a shorter period. Angus' componentisation policy is triggered when a separate asset exceeding £1.5m and with a life of more than 25 years is identified which means there is little use of componentisation. Consequently, we would suggest that the write off period for council dwellings is higher than expected and therefore depreciation is low. Council house dwellings are scheduled for revaluation in 2014/15 and as part of this process, beacon properties will be identified and considered for componentisation.

Refer Action Plan, Recommendation 1

38. **Tayside Contracts – Minute of Agreement:** Services provided by Tayside Contracts are shared by Angus Council, Dundee City Council and Perth and Kinross Council. We have reported in past reports that the Minute of Agreement between the three councils covering the operation of Tayside Contracts needed to be reviewed to bring it into line with operational practices. A revised target date of December 2013 was in place for this to be completed, however this was not achieved.

Refer Action Plan, Recommendation 2

Whole of government accounts

39. The whole of government accounts (WGA) are the consolidated financial statements for all branches of government in the UK. All councils are required to submit the consolidation pack and the management review checklist to the Scottish Government by 25th July 2014. Although the council submitted the consolidation pack by the deadline, the management review checklist was not provided until 30 September 2014.

40. The Management Review Checklist provides assurance to management, HM Treasury and auditors that proper procedures are in place for providing WGA data in line with guidance issued by HM Treasury. A significant number of issues needed to be resolved before the WGA pack could be submitted after audit. Had the checklist been used by officers as intended by HM Treasury, it is likely that the process would have been easier and the pack submitted to audit would have required fewer changes.

Outlook

41. The financial statements of the council are prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom (the Code). The main new standards adopted in 2014/15 include :

- IFRS 10 Consolidated financial statements
- IFRS 11 Joint arrangements
- IFRS 12 Disclosures of interests in other entities
- IAS 28 Investments in associates and joint ventures.

42. These standards affect the group financial statements and include a change to the definition of control. This is likely to require a reassessment of the group boundary and provide a further opportunity to consider the accounting requirements for Angus' share of Tayside Contracts.

43. The revised Local Authority Accounts (Scotland) Regulations 2014 apply for financial years 2014/15 onwards. The regulations set out in more detail what is required in respect of financial management and internal control, and in respect of the annual accounts themselves. Some of the changes include the requirement for the unaudited accounts to be considered by the Scrutiny and Audit Committee. This can take place following submission to the auditor and up to 31 August if necessary. In addition the audited accounts must be considered and approved for signature by the Scrutiny and Audit Committee by 30 September with publication on the council's website by 31 October. These timescales were met in respect of the 2013/14 financial statements

44. Highways assets are currently carried within infrastructure assets in the balance sheet at depreciated historic cost. The 2016/17 Code requires highways to be measured for the first time on a depreciated replacement cost basis. This represents a change in accounting policy from 1 April 2016 which will require a revised opening balance sheet as at 1 April 2015 and comparative information in respect of 2015/16. This is a major change in the valuation basis for highways and will require the availability of complete and accurate management information on highway assets. The council should ensure it is planning ahead to allow full compliance with the Code.

45. Subsequent to the year end, a ruling by the European Court of Justice in the case of Locke v British Gas Trading Company reached the opinion that the calculation of holiday pay could be based on variable payments in addition to basic pay, for example contractual overtime or bonus payments. Furthermore, it may be possible for employees to make retrospective claims and for former employees to submit claims. As this was a recent development, the council has yet to assess the relevance and impact of the decision on its current and former employees and therefore a contingent liability was included in the accounts. However, this matter may expose the council to large potential claims for holiday pay arrears.

Financial position

46. The council reported a deficit of £15.726m on the provision of services in 2013/14. Adjusting this balance to remove the accounting entries required by the Code, the council increased its general fund balance by £1.782m.

47. The council underspent against budget by £8.627m (3.4% of the 2013/14 revenue budget). This includes controllable underspends of £6.655m against all general fund departments. Key variations in performance against budget include :

- an underspend in employee costs across all services due to slippage in filing posts or non-filling of posts in anticipation of future years budget reductions. This includes deliberately not filling posts in anticipation of deleting them.
- underspends on principal loan repayments.
- additional Council Tax income.

48. The 2013/14 budget, approved by the council on 14 February 2013, included a planned contribution from the general fund of £1.721m. As the council secured higher than expected levels of savings and underspends during the year, there was actually an increase in the general fund balance of £1.782m.

49. Usable reserves are part of a council's strategic financial management and councils will often have planned levels of reserves. From an analysis of Scottish councils' unaudited 2013/14 accounts, over half of all councils utilised reserves brought forward, with around half of all councils ending 2013/14 with lower levels of reserves than they had at the start of 2012/13. This was in part due to the retention of certain reserves associated with police and fire joint boards and the consequent reduction in general revenue grant from the Scottish Government in 2013/14.

50. As shown in Exhibit 1, the overall level of usable reserves held by Angus Council decreased by £0.145m compared to the previous year and totalled £27.926m. The reduction in usable reserves in Angus Council over the past year is due to reserves being used to fund capital expenditure, rather than borrowing to fund that expenditure.

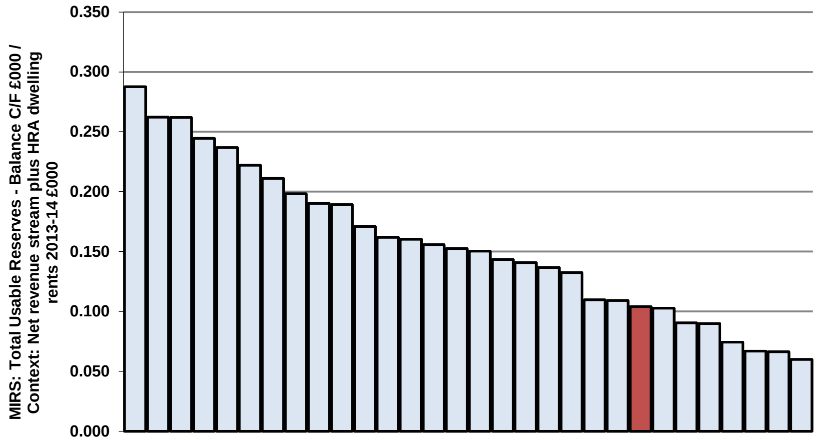
51. Exhibit 2 presents the council's usable reserves position in relation to net revenue stream for the year in comparison to other Scottish councils (net revenue stream being presented as general revenue grant, council tax, non domestic rates and dwelling rents). As indicated the council position is lower than the average across the other Scottish local authorities. The council needs to continue to ensure that it strikes a balance between meeting current obligations and preparing for future commitments and possible reductions in funding.

Exhibit 1: Usable reserves

Description	31 March 2013 £ m	31 March 2014 £m
General Fund	21.237	23.019
Insurance Fund	0.473	0.567
Repair & Renewal Fund	4.100	3.895
Capital Reserve Fund	1.507	0.414
Usable Capital Receipts	0.173	0.013
Capital Grants Unapplied	0.581	0.018
Total Usable Reserves	**28.071**	**27.926**

Source: Angus Council 2013/14 financial statements

Exhibit 2: Total Usable Reserves as a proportion of net revenue stream



Source: Scottish councils' unaudited accounts 2013/14

52. As stated in paragraph 48, the general fund balance increased by £1.782m during the year, increasing the general fund balance to £23.019m as at 31 March 2014. This balance is made up of earmarked reserves of £0.571m, commitments of £16.645m leaving a balance of £5.803m which is made up of contingency of £4.250m and an unallocated balance of £1.553m. This provides continued financial flexibility for the council.

Capital investment and performance 2013/14

53. Total capital expenditure for 2013/14 was £32.489m of which a significant amount, £11.715m, represented investment in the housing revenue account. In the main, this represents planned expenditure to enable the council's stock to meet Scottish Housing Quality Standards (SHQS). The percentage of stock that met the standard at 31 March 2014 was 72%. The council anticipate achieving SHQS compliance by the March 2015 target and SHR are continuing to engage with the council regarding their progress

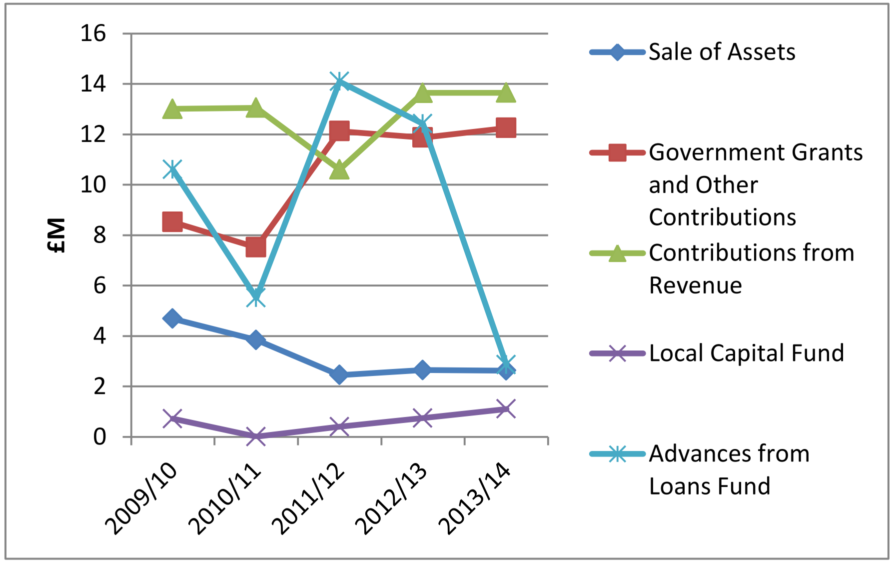
54. The capital programme was funded as shown at Exhibit 3.

55. The council has reported an underspend against the planned level of capital expenditure of £5.886m or 15% of the total programme for 2013/14. The main reasons for this slippage include delays in the Brechin Flood prevention scheme as a result of later than expected award of grant funding, delays in the Arbroath Schools project due to delays in the preparation of temporary accommodation and delays in upgrade works at recycle centres.

Treasury Management

56. High levels of debt may reduce a council's budget flexibility going forward as revenue resource has to be set-aside to service that debt. The impact that debt levels have on net revenue expenditure will be affected by interest rates and repayment periods.

Exhibit 3: Sources of finance for capital expenditure 2009/10 – 2013/14



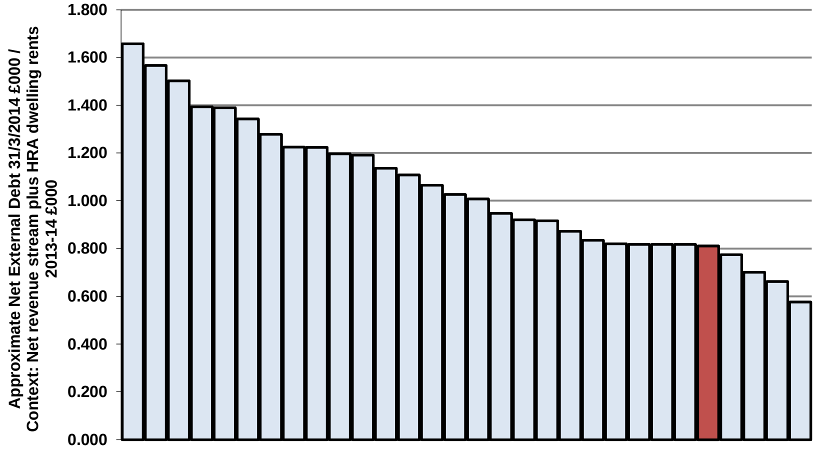
Source: Angus Council Annual Accounts 2009/10 to 2013/14

57. In the current financial climate, many councils have relatively high levels of internal borrowing, utilising available cash balances and deferring external borrowing. Angus Council's underlying need to borrow or capital financing requirement (CFR) at 31 March 2014 was £248.548m while gross external

debt was £7.3m higher at £255.870m.

58. Exhibit 4 shows that the council's net external debt as a proportion of net revenue stream is relatively low in comparison to other Scottish councils.

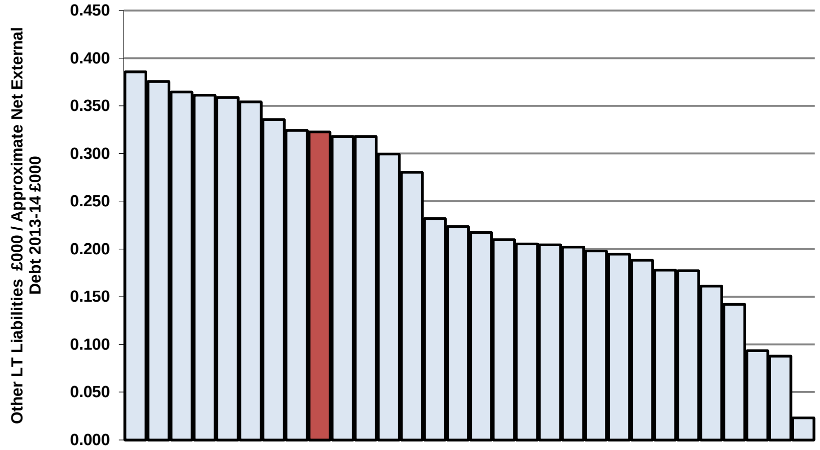
Exhibit 4 : Net external debt as a proportion of net revenue stream



Source : Scottish councils' unaudited accounts 2013/14

59. The council's exposure to PFI debt is much greater as illustrated by Exhibit 5. Angus Council has seven schools, one care home and the A92 Dual Carriageway which has been delivered under PFI contracts. Under International Reporting Standards requirements, the council must recognise both the asset acquired under the PFI scheme and the related liability in the balance sheet.

Exhibit 5 : External PFI debt as a proportion of debt



Source: Scottish councils' unaudited accounts 2013/14

60. Exposure to PFI debt is of interest as many local authorities have also incurred high contingent rental increases in recent years making servicing this debt more expensive. In Angus the figures have actually remained very similar between 2012/13 and 2013/14.

61. Audit Scotland has, on behalf of the Accounts Commission, recently completed a national review of borrowing and treasury management in councils. This involved discussions with members and officers as well as audit visits to a number of selected fieldwork councils. The review focused on the affordability and sustainability of borrowing and governance arrangements and considered how councils demonstrate best value in their treasury management functions. The national report is planned for publication in January 2015.

Outlook

62. In February 2014, the council approved its provisional budget for 2014/15. The final net service expenditure for 2014/15 was set at £245.881m and represents an increase of £1.937m compared with the previous year. Savings proposals of £6.095m were included in respect of 2014/15 with a further £12.6m for 2015/16 and 2016/17.

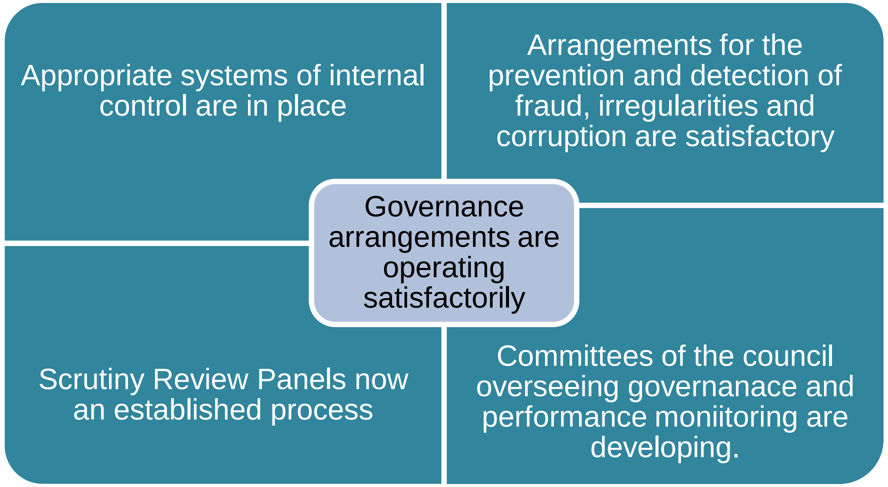
63. The council's medium term financial strategy covering the period 2015/16 to 2018/19 was approved in June 2014. Savings of £12.6m were already agreed for 2015/16 and 2016/17, but additional savings of £14.5m have now been identified up to 2018/19.

64. Reduction in staffing levels, reviews of teaching provision and residential and community care have been identified by the council as areas for future review to determine if savings can be made.

65. The latest reported financial position for 2014/15 anticipates an underspend of £2.5m; however there are areas where expenditure is expected to be significantly higher than budgeted, for example, adult services due to higher than anticipated demand for externally provided services. The factors in the predicted overall surplus include higher than anticipated income from care homes and increased planning application and building warrant income.

66. The council will continue to operate in a funding environment which is subject to sustained pressure to deliver more with less. The level of flexibility within expenditure budgets has been considerably reduced by the release of cost savings in previous years. Priority based budgeting will be implemented as a tool to ensure resource deployment is made to priority areas of service.

Governance and accountability



67. Members of Angus Council, the Chief Executive and the Head of Finance are responsible for establishing arrangements for ensuring the proper conduct of the affairs of Angus Council and for monitoring the adequacy and effectiveness of these arrangements.

Corporate governance

68. The corporate governance framework within Angus Council is centred on the council which is supported by the following standing committees.

Children and Learning

Communities

Development and Enterprise

Policy and Resources

Social Work and Health

Scrutiny and Audit

69. Based on our observations and audit work our overall conclusion is that the governance arrangements within Angus Council are operating satisfactorily.

70. The Scrutiny and Audit Committee commenced a programme of scrutiny reviews through the creation of scrutiny panels. A canvassing process involving all members and executive managers identified 2 topics to be reviewed by two separate scrutiny panels - Zero Waste and Roads Maintenance. The panels made a number of recommendations and the relevant service committee (or Policy and Resources if more appropriate), will be the primary committee responsible for ensuring completion of the recommendations.

Internal control

71. As part of our audit we reviewed the high level controls in a number of the council's systems that impact on the financial statements. This audit work covered general ledger, payroll, cash and banking, trade receivables, trade payables, treasury management, non domestic rates, council tax and capital accounting. Our overall conclusion was that Angus Council had appropriate systems of internal control in place during 2013/14.

Internal audit

72. Internal audit provides members of the council and the Proper Officer with independent assurance on the overall risk management, internal control and corporate governance processes. We are required by international auditing standards to make an assessment of internal audit to determine the extent to which we can place reliance on its work. To avoid duplication, we place reliance on internal audit work where appropriate.

73. Our high level review of internal audit concluded that the service has sound documentation standards and reporting procedures in place. We placed formal reliance on the work of internal audit in respect of staff costs.

74. In September 2014, the Scrutiny and Audit Committee agreed to invite The Chartered Institute of Public Finance and Accounting (CIPFA) to complete a detailed review of the Internal Audit function against the Public Sector Internal Audit Standards (PSIAS). The results of the review are expected to be reported to the Scrutiny and Audit Committee shortly.

75. From 2014/15, the new accounts regulations require the Scrutiny and Audit Committee to undertake an annual review of the internal audit function. The CIPFA assessment should meet these requirements for 2014/15.

ICT audit

76. For the first time in 2012/13, councils had to apply to connect to the Public Services Network (PSN) to allow the sharing of electronic data with other public bodies, such as the Department of Work and Pensions. This entailed complying with the strict security measures of the PSN Code of Connection which, if fully met, resulted in the issue of a compliance certificate. The application and approval process is subject to annual review and non-compliance could result in disruption to operations and service delivery.

77. While the council was granted a compliance certificate in October 2013, a significant programme of work was identified for delivery by the end of July 2014 which required the rescheduling of priorities and placed significant ongoing demands on council resources.

78. The council has maintained its accreditation with the current certificate covering the year to July 2015. For 2013/14, work undertaken was funded through the IT capital programme. From 2014/15, a specific budget has been identified due to the extent of work to be addressed. Overall, this amounts to £826k and includes £366k to accelerate the roll-out of the council's new desktop infrastructure.

Finance Review

79. During 2013/14, a review of Finance Services was undertaken by the council to determine whether the resources deployed and the finance structure in place were fit for purpose in supporting the strategic directorates. A range of information was collated including internal questionnaires and limited benchmarking with other councils to enable an options appraisal to be carried out. The outcome of the exercise resulted in some reorganisation of teams and placing a higher profile on junior accountants within the teams gaining professional qualifications within time limits. The review is expected to result in savings of £140k per annum and is currently being implemented.

80. Following implementation of the new directorates in April 2013, finance undertook a full recast of the council's budgets approved in February 2013, to reflect the new management structure. This enabled proper budget monitoring processes to be maintained during the year.

Arrangements for the prevention and detection of fraud

81. The council's arrangements in relation to the prevention and detection of fraud and irregularities were satisfactory.

82. Angus Council participates in the National Fraud Initiative (NFI). The NFI uses electronic data analysis techniques to compare information held on individuals by different public sector bodies and different financial systems, to identify data matches that might indicate the existence of fraud or error. Overall, we concluded that the council has satisfactory arrangements in place for investigating and reporting data matches identified by the NFI.

83. Angus Council is one of only two councils across the UK that does not upload the electoral register as part of the NFI process. The NFI has already demonstrated that it can assist councils in addressing fraud and error in this area. As an alternative, the council carried out an exercise using the electoral roll to identify households where the Council Tax Single Discount has been applied but where electoral register information suggests the discount awarded may not be appropriate. This identified a number of properties where single person discounts were subsequently cancelled. By July 2014, the council had recovered over £15k as a result.

Arrangements for maintaining standards of conduct and the prevention and detection of corruption

84. The arrangements for the prevention and detection of corruption in Angus Council are satisfactory. We are not aware of any specific issues that we need to record in this report.

85. In our past two Annual Reports, we highlighted that the council had yet to carry out a risk assessment to determine what further procedures were needed to comply with the Bribery Act 2010. Following the policy and resources committee's approval of an Anti-Bribery Policy in February 2014, this action has now been addressed.

Integration of adult health and social care

86. The Public Bodies (Joint Working) (Scotland) Act provides the framework for the integration of health and social care services in Scotland. The integration will be complex and challenging and the council will need to engage at the highest level with the relevant health bodies in its area to ensure that integration is delivered within the required timescales and that the arrangements are functional and fit for purpose.

87. The council and NHS Tayside established a shadow joint board as an interim advisory body. The shadow board was implemented with effect from 1 October 2013 and will exist until 31 March 2015. An interim Chief Officer was appointed and took up post on 1 April 2014. The shadow joint board is responsible for the strategic direction of health and social care integration and the reshaping of adult care services in Angus. It recommends relevant action and activity for approval by the council and NHS Tayside.

Welfare Reform

88. The council recognises the impact that the changes to the UK welfare system could have on resources and service provision. 2013/14 was a period of significant change with council tax benefits being replaced by the new Council Tax Reduction Scheme and the introduction of the Scottish Welfare Fund. Councils continue to face uncertainties over the roll out of the Universal Credit and there is the potential for even further reform after the Scottish independence referendum.

89. The council has been effectively monitoring and planning ahead to mitigate against the impact of the reforms. The Angus Welfare Reform Group has council, DWP and third sector representation. Its aim is to work together to respond to welfare issues across Angus. The council is also taking a range of other steps including a plan to bring together rent collection and council tax with housing benefit administration.

90. The Scottish Parliament's Welfare Reform Committee published a report in June 2014: entitled 'The Local Impact of Welfare Reforms'. This highlighted that overall the effect in

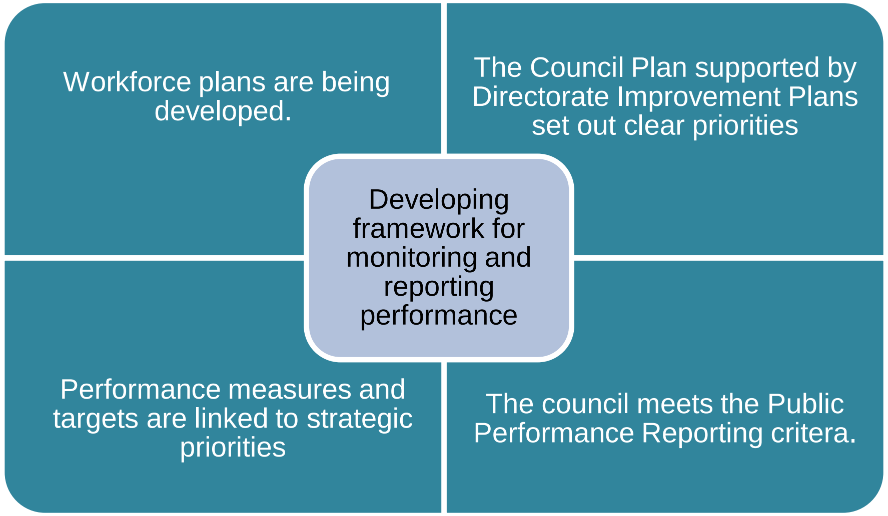
Angus is lower than the Scottish average at £400 per annum for each working adult in receipt of benefits compared to the Scottish average of £460.

Outlook

91. Councils continue to face rising demands for services alongside managing major reforms in welfare and health and social care. There is now a greater need than ever for strong governance and leadership. The integration of health and social care is a complex and challenging process and the council will need to continue to engage with partners to ensure that the unified service is in place by the statutory date of 1 April 2016.

92. There are to be major changes in councils' responsibilities for the investigation of fraud. The new Single Fraud Investigation Service (SFIS) is a national fraud investigation service within the Department for Works and Pensions which will take over the responsibility for the investigation of housing benefit frauds. The investigation of the Local Council Tax Reduction Scheme and corporate frauds will remain within councils. The SFIS will be implemented across councils on a phased basis during the period July 2014 and March 2016 and in many councils this will involve the transfer of staff from councils to the DWP. In Angus however, proposals are being prepared to retain existing investigators to cover the fraud work being retained by councils.

Best value, use of resources and performance



93. Local authorities have a statutory duty to provide best value in those services they provide directly as well as those provided through agreements with Arm's Length External Organisations. This requires continuous improvement while maintaining a balance between quality and cost and having regard to value for money, equal opportunities and sustainability. There is also the duty to report performance publicly so that local people and other stakeholders know what quality of service is being delivered and what they can expect in the future.

Arrangements for securing Best Value

94. Following the Best Value 2 Pathfinder audit in May 2010, Angus Council included the recommendations within their Corporate Improvement Plan. The council have reported that all recommendations made have been completed.

95. In the 2014 Assurance and Improvement Plan, the Local Area Network concluded that a Best Value follow up would be undertaken in 2015/16 to assess the impact of the management restructuring and its impact on the delivery of council priorities and service performance.

Use of resources

96. A management restructuring exercise commenced in 2012 which implemented a new organisational structure from April 2013. There was significant change in management as the majority of the former management team retired from the council between January and April 2013. The new leadership team came together in April 2013. During 2013/14 restructuring at head of service level was concluded and more recently, staff at all levels have been involved in the process. This work should assist in embedding the new strategic structures for the Communities, People and Resources Directorates.

97. However, the council has experienced recruitment difficulties in filling some senior manager posts and in particular, a manager to lead on Transforming Angus, the council's transformation programme. In order to increase capacity and provide more opportunity for support and challenge in the change programme, the council decided to appoint a strategic partner. This resulted in the recent appointment of Ernst & Young.

98. As part of our review of IT services, we highlighted that almost a year had passed between the retirement of the Head of IT in 2013 and the appointment of a successor into the new post in July 2014. The change programme has led to increasing demand for ICT services, while at the same time, there are fewer staff available. This will increase the risk of failing to deliver corporate objectives.

99. In order to assist the restructuring process, voluntary release schemes were offered to staff. In recent years, the council's remuneration reports have disclosed exit costs of £0.321m in 2011/12, £1.729m in 2012/13 and £1.685m in 2013/14. Overall, around £3.735m has been paid (including pension fund costs) to release 100 staff.

100. Exhibit 6 shows staff costs and numbers in post over the past three years. This shows a reduction in staff costs of around £3.5m and a fall in number of around 100.

Exhibit 6: Staff Costs and FTE Staff Numbers

	2011/12 £m	2012/13 £m	2013/14 £m
Staff Costs	149.972	148.442	148.090
Adjusted for Exit Costs	**149.651**	**146.713**	**146.405**
Staff Numbers (FTE)	4,500	4,400	4,400

Source: Angus Council Audited Accounts and Scottish Government Joint Staffing Watch

101. The budget savings approved by council in February 2014 contained proposals for further staff reductions in each of the next 3 years as follows:

- 2014/15 177 FTE
- 2015/16 138 FTE
- 2016/17 111 FTE

102. This would equate to an approximate 10% reduction in staffing levels and although senior management expect most of that reduction to come from turnover, natural wastage and voluntary severance, it still represents one of the most significant challenges the council has faced. The past two years has involved significant organisational restructure which has resulted in staff and service changes, however the plans for the next three years will be much more demanding.

103. Work is underway to develop workforce plans to be concluded by March 2015. Workforce planning is key to maximising the use of resources and ensuring that plans have the right people in post to deliver the Council Plan for 2014-2017. Internal audit undertook a review to support the workforce planning process and agreed an action plan for tasks and training to be undertaken to ensure a positive outcome. In light of the significant staff changes required to deliver the funding gap, the workforce plan will be essential in setting out the council's resource needs and gaps if the Council Plan and Directorate Plans are to be delivered over the next 3 years but also to set out how further change will be managed and the necessary savings achieved.

Refer Action Plan, Recommendation 3

104. These are significant challenges for the council to manage. The appointment of a strategic partner should provide additional capacity but it is also critical that there is regular communication with staff.

105. A member officer working group (MOG) was established to lead the structure review from 2013. While we have reviewed the MOG minutes, a project plan and progress reports would have enabled us to assess changing priorities, responsibilities and outcomes as the project progressed.

106. Going forward, all such projects will fall within the remit of the Transforming Angus Board which has adopted a programme management framework.

Refer Action Plan, Recommendation 4

107. The council have established an officer group, an Agile Working and Accommodation Programme Board to lead the development and implementation of Angus Council's Agile Working Strategy. This is a key part of the Transforming Angus Agenda and will be looking at the council's accommodation and how it is used in order to improve usage and reduce costs. By January 2015, a strategy should be in place to drive the council's approach to agile working and its associated impact on asset management planning and use.

Inward investment decision

108. In 2012, the council entered into a loan agreement with a company based in Angus as part of an inward investment initiative. A loan for £275k was approved by full council to support a business pending the outcome of an economic decision which would potentially benefit the whole Angus area.

109. At 31 March 2014, the loan remained outstanding along with rent due to the council in respect of a leased property. The third party had also submitted a counter claim for compensation from the council. Having considered the supporting papers, we draw attention to the following matters:

- the council minimised its exposure on the loan by entering into a floating charge with the company for the transfer of title of specific assets to the council if there was a default on the loan
- a legal process is proceeding and is anticipated to recover the value of outstanding debts with no loss of public funds.

110. Having made the decision, we are satisfied the council took appropriate steps to safeguard the public purse. Officers have informed us that the outstanding amount is being actively pursed and we will continue to monitor the outcome of action taken through the audit process.

Refer Action Plan, Recommendation 5

Performance management

111. Prior to the start of each financial year the council approves directorate improvement plans which are reported after 6 months to the relevant standing committee, and then again at the end of the year, when they form part of the departmental reports. These were set under the structure that was in place at the time, and have been realigned during the year to the council's revised structure.

112. The directorate improvement plans include 127 targets as well as 186 performance indicators, which include indicators developed as internal Key Performance Indicators and Statutory Performance Indicators. The council uses the 'Covalent' performance management system to track these performance measures. We were satisfied that appropriate arrangements were in place within Angus Council for 2013/14.

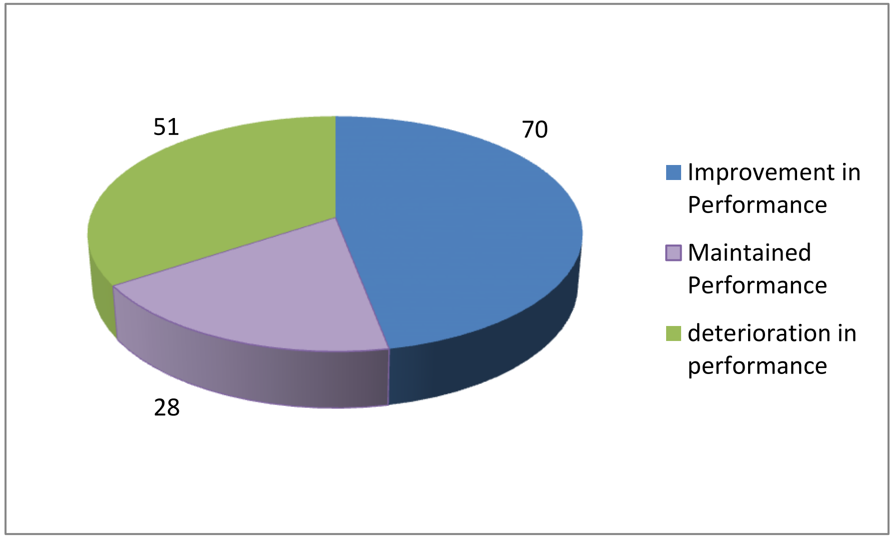
Overview of performance targets in 2013/14

113. In 2013/14, of the 127 targets in the departmental annual reports, 78 were completed, 41 are on target and 3 have been cancelled as they are no longer relevant. The remaining 5 targets were not met in 2013/14, however the majority have now been achieved.

114. As noted earlier, there are 186 performance indicators included in improvement plans. Of these, there are 37 Local Government Benchmarking Framework (LGBF) indicators for 2013/14 but these are not expected to be published until the end of the year. Once published, the council intend to update their annual reports. The remaining 149 indicators have been summarised in Exhibit 7.

Refer Action Plan, Recommendation 6

Exhibit 7: Council's performance indicators (149 indicators)



Source: Angus Council departmental reports

115. In March 2014 the LGBF indicators for 2012/13 were published by the Improvement Service. This report ranked council's performance across the LGBF benchmarking indicators across Scotland. For Angus Council:

- 14% are in the upper quartile (20% in 2011/12)
- 28% are in the upper middle quartile (37% in 2011)
- 28% are in the lower middle quartile (21% in 2011/12)
- 30% are in the lower quartile (22% in 2011/12.)

116. For 29% of the indicators, performance had deteriorated, in comparison to other Scottish councils, and in 58% of cases, performance remained similar to the previous year. Performance only improved in 13% of the indicators compared to other Scottish councils.

Refer Action Plan, Recommendation 6

117. The report produced by the Improvement Service showing the comparisons between Angus Council and other Scottish Councils was not considered by the council/committees; however the median data figures for the indicators are shown in Directorates' Annual Performance reports which were considered by committee during the September/October cycle of meetings.

Statutory performance indicators

118. The Accounts Commission has a statutory power to define performance information that councils must publish locally and it does this through its annual Statutory Performance Information Direction. Since its 2008 Direction, the Accounts Commission has moved away from specifying individual indicators and has focused on public performance reporting and councils' requirement to take responsibility for the performance information they report.

119. The audit of Statutory Performance Indicators in 2013/14 is a two stage process. The first stage requires auditors to ascertain and appraise councils' arrangements for public performance reporting and the completion of the Local Government Benchmarking Framework indicators. This focuses on three statutory performance indicators (SPIs) namely :

- SPI 1: covers a range of information relating to areas of corporate management such as employees, assets and equalities and diversity
- SPI 2: covers a range of information relating to service performance
- SPI 3: relates to the reporting of performance information as required by the Local Government Benchmarking Framework.

120. The second stage involves an assessment of the quality of information reported by the council to the public. An evaluation of all Scottish Local Authorities' approaches to public performance reporting (PPR) was carried out by Audit Scotland. The results were reported to the Accounts Commission in June 2014. Individual assessments were also provided to councils' Chief Executives, Leaders and Chairs of Audit Committees. These highlighted the extent to which their PPR material either fully, partially or did not meet the criteria used in the evaluation. Angus Council was considered to be the closest of any Scottish Council to meeting the criteria, with 95% fully meeting and 5% partially meeting the criteria. A further evaluation of councils' approaches to PPR is due to be carried out by Audit Scotland in spring 2015.

121. Our review of SPIs/PPR for 2013/14 concluded that the council has a structured approach to public performance reporting. All service reports are reported annually and as well as being published as part of committee agenda items, they will also be found on the council's website from early October.

122. The annual reports show how each directorate is performing against targets within the directorate improvement plan. Each plan uses the same layout and is consistent in style. The reports also include performance indicators and show comparators against targets and across years. The council's website includes a link to the website of the Improvement Service showing the LGBF.

Assurance and improvement plan 2014-17

123. Angus Council's Assurance and Improvement Plan (AIP) covering the period 2014 to 2017 was prepared by the Local Area Network of scrutiny partners following a shared risk assessment (SRA) process. This was published on Audit Scotland's website and was submitted to the Scrutiny and Audit Committee in August 2014.

124. The SRA process identified the following areas this year.

- A review of the arrangements supporting the management restructure, progress being made against transformation plans and workforce reduction activities being considered to deliver the savings required in the longer term.
- The Scottish Housing Regulator (SHR) issued a Performance Inquiry document. This assisted the council to carry out a self-assessment in specific areas identified by the SHR where further assurance on the council's performance was required

125. Also included in the scrutiny plan were local follow up of two Audit Scotland performance audit reports – 'Arms-length external organisations (ALEOs): are you getting it right?' (June 2011) and 'major capital investments in councils' (March 2013).

126. While the council does not have ALEOs, we determined how the original report had been used by the council to consider its relationship with bodies which are potentially within the council's group boundary e.g. Angus Community Care Charitable Trust and Angus Environmental Trust. Overall, we concluded that the council's arrangements were satisfactory.

127. The major capital investment follow-up was a two part process, the first part completed in June 2014, however as Angus Council was also selected for the second stage, our findings will not be reported until November 2014.

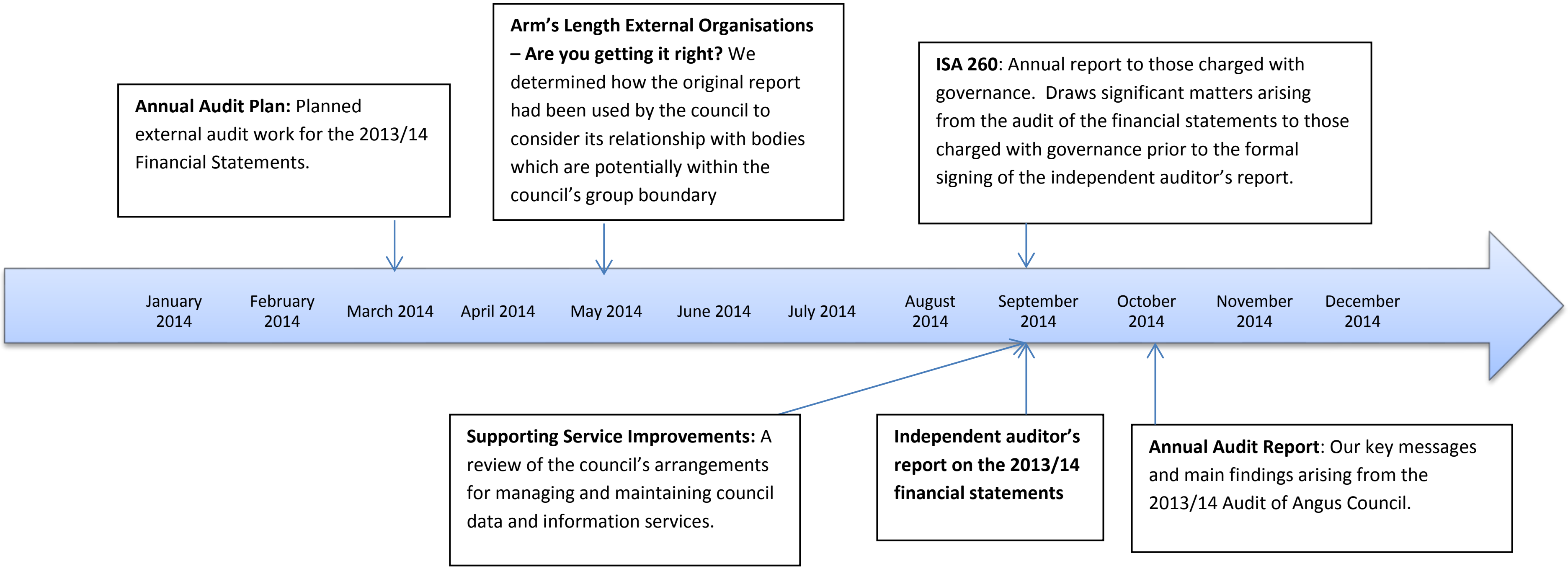
National performance audit reports

128. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. Nine reports were issued in 2013/14, and the majority were considered by council committees. A summary of these reports, along with local audit reports, is included in Appendices I and II.

Outlook

129. In common with other councils, Angus Council faces the key challenges of reducing budgets, an ageing population with higher levels of need and the public expectation of higher quality services. The council's forward plans make provision for significant levels of workforce savings. However as choices on how to address funding gaps become increasingly difficult, the council will have to focus on making the best use of available resources and challenge existing ways of doing things. A strong performance management framework will assist the council in achieving its key priorities.

Appendix I – Summary of Angus Council local audit reports 2013/14



Appendix II – Summary of Audit Scotland national reports 2013/14

Housing in Scotland – An assessment of how well the Scottish Government and councils plan to meet Scotland's housing needs and future challenges

Maintaining Scotland's roads – an audit update on councils' progress since our 2011 report on Maintaining Scotland's Roads

Charging for services – Are you getting it right? Considered the contribution charges make to budgets and how charges can influence how people choose to use services

Options appraisal - Are you getting it right? Highlights the importance of councils using rigorous option appraisals to deliver efficient and effective services and to achieve best value.

School Education - An assessment of how efficiently and effectively councils are using their resources to maximise pupil achievement in primary and secondary schools education

May 2013 | June 2013 | July 2013 | August 2013 | September 2013 | October 2013 | November 2013 | December 2013 | January 2014 | February 2014 | March 2014 | April 2014 | May 2014 | June 2014

Managing early departures from the Scottish public sector – Report aims to help public bodies improve their management and reporting of early release schemes

Reshaping care for older people - A progress review, three years into a ten-year programme ,and considers the impact of the Change Fund to the integration of health and social care services.

Procurement in Councils – An assessment of whether councils are efficiently and effectively managing how they procure goods and services.

An overview of local government in Scotland - A high level, independent view on the progress councils are making in managing their finances and achieving Best Value

Appendix III – Significant audit risks

The table below sets out the key audit risks identified at the planning stage and how we addressed each risk in arriving at our opinion on the financial statements.

Audit Risk	Assurance procedure
Council house valuations Council houses are written off over 50 years which is a higher than average policy especially when the council makes limited use of componentisation. ***Risk: the council is not complying with the Code.***	Assurances have been provided that as part of the revaluation of council houses which will take place in 2014/15, asset lives will be determined on type (beacon) of housing rather than as a whole. In addition, componentisation will be used for council houses, treating each beacon as an asset. ***Refer to page 10.***
Non-current assets A delay experienced in delivery of a reconciled asset register and other working papers supporting the financial statements may result in the audit not being concluded by the deadline. ***Risk: the target date for submission of audited accounts is not met.***	Discussions were held with key finance staff during the year and a commitment obtained that working papers would be provided earlier in the process. They were received in early July 2014.

Audit Risk	Assurance procedure
Exit packages The council has largely concluded the second phase of restructuring with a review of the head of service tier of management. ***Risk: exit payments do not comply with relevant regulations or value for money considerations.***	Carried out substantive testing on a sample of exit packages and reviewed the overall disclosures as part of our work on the council's remuneration report which forms part of the financial statements.
Budget savings and financial pressures There is a risk that expenditure is not contained within available resources and that the necessary efficiencies are not secured to meet the estimated shortfall in the longer term. ***Risk: there is an adverse impact on service provision and performance.***	Monitoring of the budget setting processes and medium term financial plan, as well as budget monitoring presented to members.

Audit Risk	Assurance procedure
Continuity of internal controls The council has experienced a period of significant change including changing roles and the departure of staff. ***Risk: through any change programme there is a risk that internal controls are weakened.***	Standing orders and financial regulations were revised to reflect the new structure and responsibilities within the council. Key controls in the main financial systems and governance arrangements were reviewed as part of our routine audit activity.
Management restructure As the new management arrangements are embedded, revised priorities, actions and anticipated savings need to be delivered. ***Risk: the council does not deliver the necessary improvements and savings.***	Member Officer Group minutes and reports to council confirm the ongoing restructuring within the council. In March 2014, the Council Plan 2014-17 supported by Directorate Improvement Plans setting out key priorities for the next 3 years were approved by council. The council continues to have a significant funding shortfall over the next 3 years. Proposals were approved as part of the 2014/15 budget setting process which need to be managed by the Transforming Angus Programme Board ***Refer to pages 22 to 24***

Audit Risk	Assurance procedure
Information management The information environment of the council is complex and fast-changing and essential to support the delivery of services as well as savings plans. There is also a considerable amount of external interest. ***Risk: the achievement of service and efficiency objectives will be more challenging with a fragmented approach to information management.***	We carried out a detailed piece of work during the year involving IT services and information governance and reported to Scrutiny and Audit Committee in September 2014. This report, 'supporting service improvement', included an action plan agreed with officers containing 18 actions of which a number will be challenging. Some of the related issues are included in this report, for example, paragraphs 76 to 78 on page 18 and paragraph 98 on page 23.

Appendix IV – Action plan

Action plan point/page	Issue, risk and recommendation	Management action/response	Responsible officer	Target date
1/10	**Council houses** Council houses are written off over 50 years which is a higher than the average policy especially when the council makes limited use of componentisation. ***Risk: the council is not complying with the Code*** Recommendation: council houses are being revalued in 2014/15 and as part of this process, beacon properties should be considered for componentisation.	The recommendation is accepted and will be implemented.	Head of Corporate Improvement & Finance	June 2015
2/10	**Tayside Contracts – Minute of Agreement** We had anticipated that a revised Minute of Agreement between the three councils would have been in place by now ***Risk: The Minute of Agreement fails to reflect the operating arrangements of Tayside Contracts.*** Recommendation: This outstanding matter should be concluded as a priority.	Although it has taken longer to achieve this action, in part due to the 4 way discussion required by the various partners, the work is now substantially complete and will be concluded shortly.	Head of Legal & Democratic Services	January 2015

Action plan point/page	Issue, risk and recommendation	Management action/response	Responsible officer	Target date
3/24	**Workforce Reduction** The council has approved budget saving proposals involving significant staff reduction over the next 3 years. Workforce plans are being developed and expected to be in place by March 2015. ***Risk: The workforce strategy fails to set out plans for workforce reduction making it unclear what resources are required to deliver the Council Plan and Directorate Improvement Plans.*** Recommendation effective workforce and financial planning is required to ensure the scale of change planned can be achieved.	This has been recognised as a priority and is already being taken forward accordingly.	Head of HR, IT & OD	March 2015

Action plan point/page	Issue, risk and recommendation	Management action/response	Responsible officer	Target date
4/24	**Programme management** In view of the level of change expected in the next few years, the Transforming Angus Board, through the programme management framework, needs to prepare a plan for change and be able to monitor and measure savings achieved. ***Risk: there are insufficient links between the Council Plan, workforce plans and resource plans, such that it is not possible to assess progress or the impact of change.*** Recommendation: plans need to be clear in terms of priorities, resource needs and resource gaps and the project board should have mechanisms in place to record and monitor action and savings.	The recommendation will be considered by the Transforming Angus Board and actions to address any gaps identified accordingly.	Strategic Director – Resources	January 2015
5/25	**Inward Investment Decision** Outstanding debt is being pursued through a legal process. ***Risk: the council is not effectively managing the collection of the debt.*** Recommendation: action needs to be maintained to safeguard against loss to the public purse.	Formal legal action is ongoing and all avenues available to achieve recovery will be pursued. Target date is an estimate only.	Head of Legal & Democratic Services and Head of Corporate Improvement & Finance	June 2015

Action plan point/page	Issue, risk and recommendation	Management action/response	Responsible officer	Target date
6/26	**Performance information** **Deterioration in 34% of statutory performance indicators.** **29% of LGBF indicators show falling performance against the previous year.** ***Risk: performance remains low, the council's objectives are not met and service users are not receiving a proper service.*** **Recommendation: the reasons for falling performance need to be identified and addressed where appropriate, with regular monitoring by officers and members.**	**The current financial climate requires prioritisation of resources and those choices may impact on performance in lower priority services.** **All services will however review their performance and report this regularly to elected members so that the acceptability of that performance can be assessed.**	**Council Management Team (CMT) for their areas**	**Ongoing**