

# Angus Council

Annual Audit Plan 2017/18



 AUDIT SCOTLAND

Prepared for Angus Council

February 2018

## Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non – executive board chair, and two non – executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



## About us

Our vision is to be a world – class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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# Risks and planned work

1. This annual audit plan contains an overview of the planned scope and timing of our audit and is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and any other relevant guidance. This plan identifies our audit work to provide an opinion on the financial statements and related matters and meet the wider scope requirements of public sector audit

2. The wider scope of public audit contributes to conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

## Audit risks

3. Based on our discussions with staff, attendance at committee meetings and a review of supporting information we have identified the following main risk areas for Angus Council. We have categorised these risks into financial risks and wider dimension risks. The key audit risks, which require specific audit testing, are detailed in [Exhibit 1](#).

## Exhibit 1

### 2017/18 Key audit risks

Audit Risk	Source of assurance	Planned audit work
<b>Financial statement issues and risks</b>		
<p><b>1 Risk of management override of controls</b></p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance.</p>	<p>Detailed testing of journal entries.</p> <p>Review of accounting estimates.</p> <p>Focused testing of accruals and prepayments.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p>
<p><b>2 Risk of fraud over income</b></p> <p>Angus Council receives a significant amount of income in addition to Scottish Government funding. The extent and complexity of income means that, in accordance with ISA240, there is an inherent risk of fraud.</p>	<p>Regular budget monitoring and reporting.</p> <p>Robust internal controls in financial systems to mitigate risks of error or manipulation.</p> <p>Participation in the National Fraud Initiative.</p>	<p>Analytical procedures on income streams.</p> <p>Detailed testing of revenue transactions focusing on the areas of greatest risk.</p>

Audit Risk	Source of assurance	Planned audit work
<p><b>3 Risk of fraud over expenditure</b></p> <p>The Financial Reporting Council's Practice Note 10 (revised) and the Code of Audit Practice require consideration of the risk of fraud over expenditure. The extent and nature of expenditure, for example, welfare benefits, social care payments and grants means that there is an inherent risk of fraud.</p>	<p>Regular budget monitoring and reporting.</p> <p>Robust internal controls in financial systems to mitigate risks of error or manipulation.</p> <p>Participation in the National Fraud Initiative.</p>	<p>Analytical procedures on expenditure streams.</p> <p>Detailed testing of revenue transactions focusing on the areas of greatest risk.</p>
<p><b>4 Risk arising from estimation and judgements</b></p> <p>There is a significant degree of subjectivity in the measurement and valuation of the material account areas of non current assets, pension liabilities and provisions. This subjectivity represents an increased risk of misstatement in the financial statements.</p>	<p>Valuation and impairment review of non-current assets by professional valuer in line with 5 year rolling programme.</p> <p>Actuarial valuation to provide pension figures for the financial statements. Officer review of actuarial information to ensure data and assumptions used are reasonable.</p> <p>Confirmation from legal services of all potential cases together with an assessment of potential liability and likelihood of settlement.</p>	<p>Completion of 'review of the work of an expert' file for the professional valuer (non current assets) and actuary (pensions liability).</p> <p>Focused substantive testing of key areas.</p>
<p><b>5 Risk of not having high quality draft annual accounts</b></p> <p>There are a number of areas where improvements could be made to the Annual Report and Accounts. These include the content of the Management Commentary, streamlining the notes to the accounts and undertaking management review and arithmetic checks prior to submission for audit.</p>	<p>Accounts preparation timetable collated, including time for management review.</p> <p>Implementation of changes proposed by Scott Moncrieff through the internal audit co-source contract.</p>	<p>Early meeting with finance staff to agree changes to the accounts.</p>
<p><b>6 Risk of not having high quality draft charities accounts</b></p> <p>There are a number of areas where improvements could be made to the charities' Annual Reports and Accounts. This includes improved supporting documents, thus enabling a more efficient audit.</p>	<p>Accounts preparation timetable collated including earlier preparation of the charity accounts</p>	<p>Early liaison with Finance staff to agree on the required working papers to be provided for audit.</p> <p>Early liaison with Finance staff to learn whether the accounts will be prepared on an accruals or cash basis.</p>

Audit Risk	Source of assurance	Planned audit work
<b>Wider dimension risks</b>		
<p><b>7 Financial management</b></p> <p>Council departments have been asked to deliver substantial savings in 2017/18 to help to balance the budget.</p> <p>The medium term budget strategy has identified a further significant savings requirement from 2018/19 (see risk 8).</p>	<p>Change Programme aligned with the Local Outcomes Improvement Plan and Locality Plans, to identify savings and new ways of working.</p> <p>Development of long term financial strategy.</p> <p>Annual update to medium term budget strategy.</p>	<p>Attendance at Council meetings to assess the depth of discussions.</p> <p>Regular meetings with the change management team.</p>
<p><b>8 Financial sustainability</b></p> <p>Angus Council has recognised that major decisions on how to deliver council services are required in order to assure the financial sustainability of the council. The level of change is not incremental but transformational in dimension.</p> <p>From 2018/19 the level of savings required may impact on service provision. This will require strong leadership from both the Corporate Management Team and members to drive the change agenda.</p>	<p>Change Programme aligned with the Local Outcomes Improvement Plan and Locality Plans, to identify savings and new ways of working.</p> <p>Development of long term financial strategy.</p> <p>Annual update to medium term budget strategy.</p>	<p>Ongoing review of implementation of change articulated through the Change Programme.</p>
<p><b>9 Governance: Internal Audit provision</b></p> <p>The current arrangements for the management of internal audit are due to end on 31 May 2018. It has been agreed through the management review to bring this management position back in house; the timing for advertising this post is still to be agreed.</p> <p>The Annual Internal Audit Report is a key document in the preparation of the Annual Governance Statement. This report is usually prepared by the Internal Audit Manager in June; the 2017/18 reporting timescale will need to be brought forward so it is completed before the internal audit management contract ends.</p>	<p>Proposals for the future management of internal audit were agreed by the Scrutiny and Audit Committee in February 2018.</p>	<p>Early discussions to ensure that arrangements are in place to produce the Annual Internal Audit Report.</p>
<p><b>10 Annual Governance Statement assurances</b></p> <p>Internal audit have planned limited reviews of key financial</p>	<p>Services complete a Questionnaire and Assurance Statement in support of the Annual Governance</p>	<p>Liaise with internal audit early in the year.</p> <p>Review the work of internal audit and assess the adequacy</p>

Audit Risk	Source of assurance	Planned audit work
<p>systems during 2017/18. There is a risk that the council will have insufficient assurances for the Annual Governance Statement for 2017/18.</p>	<p>Statement; this includes confirmation of internal financial controls.</p>	<p>of assurances provided to support the Annual Governance Statement.</p>
<p><b>11 Risk of absence of business continuity planning</b></p> <p>As more business processes are being provided via electronic systems it is vital that the council has robust plans to ensure that all data is routinely backed up and that business critical systems can be restored in the event of a system failure.</p>	<p>IT Disaster Recovery Plan being updated in 2018.</p> <p>Technology roadmap to increase resilience due March 2018.</p>	<p>Review of the adequacy of business continuity and back up arrangements, with specialist ICT auditor input.</p>
<p><b>12 Value for money: Performance and Outcomes</b></p> <p>We recommended in our 2016/17 Annual Audit Report that the council should develop and report a corporate overview of performance against the council's priorities. The council committed to reporting performance against the Council Plan by August 2018; until this report is available, there is a risk that the performance of the council and the outcomes that it delivers may not be clear to its citizens.</p>	<p>Performance indicators and some service performance reports are publicly available on the council's website.</p>	<p>Regular meetings with appropriate officers to ensure that performance information will be publicly available.</p> <p>Completion of the Best Value module on Performance and Outcomes, including review of public performance reporting arrangements.</p>

## Reporting arrangements

**4.** Audit reporting is the visible output for the annual audit. All annual audit plans and the outputs as detailed in [Exhibit 2](#), and any other outputs on matters of public interest will be published on our website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

**5.** Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the relevant officer(s) to confirm factual accuracy.

**6.** We will provide an independent auditor's report to Angus Council and Accounts Commission setting out our opinions on the annual accounts. We will provide the Accountable Officer and Account Commission with an annual report on the audit containing observations and recommendations on significant matters which have arisen in the course of the audit.

## Exhibit 2

### 2017/18 Audit outputs

Audit Output	Target date	Scrutiny and Audit Committee Date
Annual Audit Plan	31 March 2018	6 March 2018
Management Report	31 March 2018	24 April 2018
Annual Audit Report	30 September 2018	25 September 2018
Independent Auditor's Report	30 September 2018	N/A

### Audit fee

**7.** The proposed audit fee for the 2017/18 audit of Angus Council is £240,750 (2016/17 £239,800). There is also an additional fee of £6,000 (2016/17 £3,000) for the audit of the charitable entities. This fee increase reflects both the expected audit work based on our experience in year one of the charities audit and the agreed improvements in the quality of the 2017/18 accounts. In determining the audit fee we have taken account of the risk exposure of Angus Council, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit. Our audit approach assumes receipt of the unaudited financial statements, with a complete working papers package on 30 June 2018.

**8.** Where our audit cannot proceed as planned through, for example, late receipt of unaudited financial statements or being unable to take planned reliance from the work of internal audit, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises outwith our planned audit activity.

### Responsibilities

#### Scrutiny and Audit Committee and Management

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

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

#### Appointed auditor

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

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



# Audit scope and timing

## Financial statements

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

- understanding the business of Angus Council and the associated risks which could impact on the financial statements
- assessing the key systems of internal control, and establishing how weaknesses in these systems could impact on the financial statements
- identifying major transaction streams, balances and areas of estimation and understanding how Angus Council will include these in the financial statements
- assessing the risks of material misstatement in the financial statements
- determining the nature, timing and extent of audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements are free of material misstatement.

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

- they give a true and fair view of the financial position of the council and its group as at 31<sup>st</sup> March 2018 and of the income and expenditure for the year then ended
- they have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2017/18 Code
- they have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, and the Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

## Materiality

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

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



## Exhibit 3

### Materiality values

Materiality level	Amount
<b>Planning materiality</b> – This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It has been set at 1% of gross expenditure for the year ended 31 March 2017 (the latest audited accounts).	£3.85 million
<b>Performance materiality</b> – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement we have calculated performance materiality at 65% of planning materiality.	£2.5 million
<b>Reporting threshold (i.e. clearly trivial)</b> – We are required to report to those charged with governance on all unadjusted misstatements in excess of the 'reporting threshold' amount. This has been calculated at 3% of planning materiality and capped at £100,000.	£100 thousand

**17.** We also set separate materiality levels for the audit of the council's charitable trusts. For the Robert & William Strang Mortification this has been set at 1% of gross payments (£1,133). We have set a specific account area materiality for the Statement of Balances at 1% of gross asset balances (£14,582). For the Angus Council Charitable Trust, materiality has been set at 1% of gross payments (£315). We have set a specific account area materiality for the Statement of Balances at 1% of gross asset balances (£6,511).



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

#### Timetable

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

## Exhibit 4

### Financial statements timetable

 Key stage	 Date
Consideration of unaudited financial statements by those charged with governance	By 31 August 2018
Latest submission date of unaudited annual accounts with complete working papers package	30 June 2018
Latest date for final clearance meeting with Head of Corporate Finance	7 September 2018
Issue of letter of representation and proposed independent auditor's report	14 September 2018
Agreement of audited unsigned annual accounts	25 September 2018

Issue of Annual Audit Report including ISA 260 report to those charged with governance	25 September 2018
Independent auditor's report signed	By 30 September 2018
Latest date for signing of Whole of Government Accounts return	30 September 2018

## Internal audit

**20.** Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to rely on the work of internal audit wherever possible and as part of our planning process we carry out an assessment of the internal audit function. Internal audit is provided by a team of Angus Council staff overseen by an Audit Manager from Scott-Moncrieff.

### Adequacy of Internal Audit

**21.** As part of our planning process we carried out an early assessment of the internal audit function. We concluded that internal audit has sound reporting procedures in place and complies with the main requirements of the Public Sector Internal Audit Standards (PSIAS). Further review of internal audit working papers will be undertaken for the planned areas of reliance.

### Areas of Internal Audit reliance

**22.** To support our audit opinion on the financial statements we plan to place formal reliance on the following planned internal audit review:

- IT User Access Management

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

- Corporate Tendering Process
- Community Asset Transfer Process.

## Audit dimensions

**24.** Our audit is based on four audit dimensions that frame the wider scope of public sector audit requirements as shown in [Exhibit 5](#).

## Exhibit 5

### Audit dimensions



Source: Code of Audit Practice

**25.** In the local government sector, the appointed auditor's annual conclusions on these four dimensions will help contribute to an overall assessment and assurance on best value.

#### Financial sustainability

**26.** As auditors we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We will also comment on the body's financial sustainability in the longer term. We define this as medium term (two to five years) and longer term (longer than five years) sustainability. We will carry out work and conclude on:

- the effectiveness of financial planning in identifying and addressing risks to financial sustainability in the short, medium and long term
- the appropriateness and effectiveness of arrangements in place to address any identified funding gaps
- whether Angus Council can demonstrate the affordability and effectiveness of funding and investment decisions it has made.

#### Financial management

**27.** Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively. We will review, conclude and report on:

- whether Angus Council has arrangements in place to ensure systems of internal control are operating effectively
- whether Angus Council can demonstrate the effectiveness of budgetary control system in communicating accurate and timely financial performance
- how Angus Council has assured itself that its financial capacity and skills are appropriate
- whether Angus Council has established appropriate and effective arrangements for the prevention and detection of fraud and corruption.

## Governance and transparency

**28.** Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision – making and transparent reporting of financial and performance information. We will review, conclude and report on:

- whether Angus Council can demonstrate that the governance arrangements in place are appropriate and operating effectively (including services delivered by, or in partnership with, others such as Leisure Trusts)
- whether there is effective scrutiny, challenge and transparency on the decision-making and finance and performance reports.
- the quality and timeliness of financial and performance reporting.

## Value for money

**29.** Value for money refers to using resources effectively and continually improving services. We will review, conclude and report on whether:

- Angus Council can provide evidence that it is demonstrating value for money in the use of its resources.
- Angus Council can demonstrate that there is a clear link between money spent, output and outcomes delivered.
- Angus Council can demonstrate that outcomes are improving.
- There is sufficient focus on improvement and the pace of it.

## Best Value

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

**31.** A key feature of the new approach is that it integrates Best Value into the wider scope annual audit, which will influence audit planning and reporting. Best Value will be assessed comprehensively over the five year audit appointment, both through the on-going annual audit work, and also through discrete packages of work to look at specific issues. Conclusions and judgements on Best Value will be reported through:

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

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

## Exhibit 6

### 2017/18 Best Value Assurance Reports

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

Source: Audit Scotland

**33.** The work planned in Angus Council this year will focus on the council's arrangements for demonstrating Best Value in Performance and Outcomes. The work will be integrated with that described above in these areas. It will involve us gaining an understanding of how effective the council's self evaluation processes are in driving improvement across the council. The results of this work will be reported in the Annual Audit Report.

### Independence and objectivity

**34.** Auditors appointed by the Accounts Commission or Auditor General must comply with the Code of Audit Practice and relevant supporting guidance. When auditing the financial statements auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has in place robust arrangements to ensure compliance with these standards including an annual "fit and proper" declaration for all members of staff. The arrangements are overseen by the Director of Audit Services, who serves as Audit Scotland's Ethics Partner.

**35.** The engagement lead for Angus Council and its group is Gillian Woolman, Assistant Director. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of Angus Council.

### Quality control

**36.** International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires that a system of quality control is established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and legal requirements are being complied with and that the independent auditor's report or opinion is appropriate in the circumstances.

**37.** The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice (and relevant supporting guidance) issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards Audit Scotland conducts peer reviews, internal quality reviews and has recently secured new arrangements for external quality reviews.

**38.** As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We welcome feedback at any time and this may be directed to the engagement lead.

## Adding Value

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

# Angus Council

## Annual Audit Plan 2017/18

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