

Angus Council

2017/18 Annual Audit Report DRAFT



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

XX September 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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Key messages

2017/18 annual accounts

- 1 In our opinion, Angus Council and its group financial statements give a true and fair view and were properly prepared.
- 2 The audited part of the remuneration report, management commentary and annual governance statement are all consistent with the financial statements and prepared in accordance with proper accounting practices.

Financial management

- 3 Financial management is effective with a budget process focussed on the Council's priorities.
- 4 Our testing of the design and operation of the financial controls over significant risk points confirmed that, except for bank reconciliations, controls relating to financial systems and procedures are designed appropriately and operating effectively.

Financial sustainability

- 5 The Council and its group financial position is sustainable in the foreseeable future although rising demand, increasing costs of services and reductions to central funding will continue to place a strain on the Council's capacity to deliver services at current levels.
- 6 There are medium-term financial plans that are aligned to the Council's priorities and demonstrate how it will address future budget challenges, although a significant funding gap remains. The Council has achieved its planned savings in 2017/18. The size of the future funding gap means that there needs to be a significant step change in the level of savings required in future years.

Governance and transparency

- 7 The Council has appropriate governance arrangements in place that support the scrutiny of decisions made by the Council. There could be greater challenge and scrutiny by the Scrutiny and Audit Committee, with a stronger focus on the Council's financial position.
- 8 The Council is open and transparent in the way it conducts its business and the public can attend meetings of the Council and its standing committees.

Value for money

- 9 The Council has introduced a corporate performance report linked to its key priorities from 2018, but this has taken two years to develop. It previously reported performance through 3 separate directorate performance reports. The Council recognises that it needs to refine its

use of performance indicators to demonstrate meaningful performance information.

- 10** The Council has recognised that it needs to enhance the pace of Change Programme projects to transform services and deliver efficiency savings.

Introduction

1. This report summarises the findings arising from the 2017/18 audit of Angus Council and its group (the Council).
2. The scope of the audit was set out in our Annual Audit Plan presented to the March 2018 meeting of the Scrutiny and Audit Committee. This report comprises the findings from:
 - an audit of the annual accounts
 - consideration of the four audit dimensions that frame the wider scope of public audit set out in the [Code of Audit Practice 2016](#) as illustrated in [Exhibit 1](#).

Exhibit 1

Audit dimensions



Source: *Code of Audit Practice 2016*

3. The main elements of our audit work in 2017/18 have been:
 - an audit of the Council and its group 2017/18 annual accounts including the issue of an independent auditor's report setting out our opinions
 - an audit of the statement of accounts of the two section 106 charities administered by the Council including the issue of independent auditor's reports setting out our opinions
 - a review of the Council's key financial systems
 - audit work covering the Council's arrangements for securing Best Value relating to performance and outcomes

- consideration of the four audit dimensions.

4. The Council has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual accounts that are in accordance with proper accounting practices.

5. The Council is also responsible for compliance with legislation, and putting arrangements in place for governance, propriety and regularity that enable it to successfully deliver its objectives.

6. Our responsibilities as independent auditor appointed by the Accounts Commission are established by the Local Government in Scotland Act 1973, the [Code of Audit Practice \(2016\)](#) and supplementary guidance, and International Standards on Auditing in the UK.

7. As public sector auditors we give independent opinions on the annual accounts. We also review and provide conclusions on the effectiveness of the Council's performance management arrangements, suitability and effectiveness of corporate governance arrangements, and financial position and arrangements for securing financial sustainability. We also report on the Council's best value arrangements and in doing this we aim to support improvement and accountability.

8. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#).

9. This report raises matters from the audit of the annual accounts and consideration of the audit dimensions. Weaknesses or risks identified are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.

10. Our annual audit report contains an agreed action plan at [Appendix 1](#) setting out specific recommendations, responsible officers and dates for implementation. It also includes outstanding actions from last year and progress against these.

11. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services. We are not aware of any relationships that could compromise our objectivity and independence.

Adding value through the audit

12. Our aim is to add value to Angus Council by providing insight into, and offering foresight on, financial sustainability, risk and performance by identifying areas of improvement and recommending and encouraging good practice. In so doing, we aim to help the council promote improved standards of governance, better management and decision making and more effective use of resources.

13. This report is addressed to both the Council and the Controller of Audit and will be published on Audit Scotland's website www.audit-scotland.gov.uk.

14. We would like to thank all management and staff who have been involved in our work for their co-operation and assistance during the audit.

Part 1

Audit of 2017/18 annual accounts



Main judgements

In our opinion, Angus Council and its group financial statements give a true and fair view and were properly prepared.

The audited part of the remuneration report, management commentary and annual governance statement are all consistent with the financial statements and prepared in accordance with proper accounting practices.

Audit opinions on the annual accounts

15. The annual accounts for the Council and its group for the year ended 31 March 2018 were approved by the Scrutiny and Audit Committee on 25 September 2018. We reported, within our independent auditor's report that, in our opinion:

- financial statements give a true and fair view and were properly prepared
- the audited part of the remuneration report, management commentary and the annual governance statement were all consistent with the financial statements and properly prepared in accordance with the guidance

16. We have nothing to report in respect of: misstatements in information other than the financial statements; the adequacy of accounting records; the information and explanations we received; or the achievement of prescribed financial objectives.

The Council and its group annual accounts are the principal means of accounting for the stewardship of resources and performance in the use of resources.

Audit of section 106 charities

17. Due to the interaction of section 106 of the Local Government in Scotland Act 1973 with the charities legislation, a separate independent auditor's report is required for the statement of accounts of each registered charity where members of Angus Council are sole trustees, irrespective of the size of the charity.

18. The council has two charities where the trustees are all council members: Angus Council Charitable Trust (ACCT) and the Robert & William Strang Mortification. The Council previously used the connected charities provision to reduce the number of charitable trusts where it is the sole trustee. The two remaining charities cannot be consolidated as the Strang Mortification trustees are the Ward 3 (Forfar) members and the ACCT trustees are all 28 council members.

19. We received the charities' accounts in line with the agreed timetable. It came to our attention during the audit that there were material longstanding errors which had been carried forward undetected in opening debtor balances. Officers are in the process of correcting these entries and our audit opinion will be issued after we receive revised accounts and the amended accounting records. This may be after the 30th September deadline.

20. We reported last year that the quality of the unaudited charities accounts was poor. The quality of the unaudited accounts improved this year. The charities accounts are prepared on a receipts and payments basis; there were difficulties reconciling the receipts and payments accounts to the underlying ledger figures which are based on accruals accounting (i.e. they include debtors and creditors). The reconciling differences would be minimised if the charity accounts were prepared on a fully accrued basis.

Recommendation 1

The council should move to fully accrued accounts for its two section 106 charities. This will require a reconciliation between the receipts and payments accounts balances and opening balances which include accruals.

Submission of the Council and its group annual accounts for audit

21. We received the unaudited annual accounts on 29th June 2018 in line with the audit timetable set out in our 2017/18 Annual Audit Plan.

22. There was a marked improvement this year in the management commentary and the presentation of the group accounts. This arose from a concerted effort to refresh those aspects of the annual accounts. The council has used the results of last year's external review of the accounts to streamline the accounts, reducing the number of notes from 47 to 34. The group accounts prior year figures have been restated to correctly account for the Angus Integration Joint Board.

23. The working papers provided with the unaudited accounts were adequate. Whilst finance staff were keen to provide a good level of support to the audit team during the audit, due to capacity issues and management restructuring, information and explanations were not provided in a timely fashion. Within the process it is worth noting the following:

- As reported in our interim management report, Angus Alive is a material component of the council's group accounts. There are no audit assurances over the Angus Alive figures included in the council's group accounts as the audited Angus Alive financial statements are not available. The external audit of Angus Alive has started but will not conclude until October, after the deadline for signing off the group accounts.
- The bank reconciliation as at the 31st March 2018 was not prepared until the 3rd September 2018. This was due to Finance team changes and there was no resource to undertake this task until 1 September. This is an overarching key control which management expects to happen every two months. This impacted on the audit process as this is a key piece of audit assurance. There is an unexplained reconciling difference of £0.171 million in the bank reconciliation which officers have not had time to resolve.
- The Finance department has recently been restructured with staff having to take on new responsibilities alongside their current roles. This led to some delays in the answering of audit queries.
- The Council had not accounted for the new waste disposal contract in the draft accounts prepared. This led to an adjustment for £43 million being made between the draft and final accounts.

Recommendation 2

The council should review the capacity of finance staff during the busy period of accounts preparation and the subsequent audit to ensure

complete working papers can be provided and queries answered on a timely basis. Additional fees may be incurred if the audit is delayed due to lack of supporting documentation.

Whole of Government Accounts

24. The Council had not submitted a consolidation pack for the whole of government accounts audit by the date of this report. The deadline for submission was 3rd August. The council's submission will be below the audit threshold, but we are required to confirm that key figures agree to the audited financial statements. Also, other public sector organisations match their WGA balances with the balances that Angus Council is required to upload to the Scottish government WGA site. This therefore has implications for the overall WGA process.

Recommendation 3

The council should include WGA in its timetable for financial statements preparation and upload the consolidation pack and submit it for audit within the timescale set by HM Treasury and the Scottish Government.

Risk of material misstatement

25. [Appendix 2](#) provides a description of those assessed risks of material misstatement that were identified during the planning process which had the greatest effect on the overall audit strategy, the allocation of resources to the audit and directing the efforts of the audit team and the wider audit dimension risks identified.

Materiality

26. Misstatements are material if they could reasonably be expected to influence the economic decisions of users taken based on the financial statements. The assessment of what is material is a matter of professional judgement and involves considering both the amount and nature of the misstatement. It is affected by our perception of the financial information needs of users of the financial statements.

27. Our initial assessment of materiality for the annual accounts was carried out during the planning phase of the audit and is summarised in [Exhibit 2](#). With regards to the annual accounts, we assess the materiality of uncorrected misstatements both individually and collectively.

28. On receipt of the annual accounts we reviewed our planning materiality calculations and concluded that they remained appropriate.

Exhibit 2

Materiality values

Materiality level	Amount
Overall materiality	£3.85 million
Performance materiality	£2.5 million
Reporting threshold	£100 thousand

How we evaluate misstatements

29. There were several material adjustments to the unaudited financial statements arising from our audit, which are summarised in [Exhibit 3](#) below. As these errors breached our performance materiality threshold of £2.5 million, additional audit work was carried out. This testing did not identify any further errors. There were other non-material adjustments above our £0.1 million reporting threshold, which are summarised in [Exhibit 3](#) below. The council also made a material adjustment for the waste disposal lease that had not been included in the accounts by the June deadline for submitting accounts for audit. The cumulative total of the audit adjustments is £61.7 million.

30. There are two unadjusted misstatements which exceeded our reporting threshold. The impact of these, if corrected, on the financial statements is shown in [Appendix 3](#). There is a further unadjusted unquantified misstatement for the curtailment costs of 19 staff who left on 31st March 2018. These exits were not included in the numbers supplied to the actuary as the information was passed to the actuary prior to the year end.

31. It is our responsibility to request that all errors above the reporting threshold are corrected although the final decision on this lies with those charged with governance considering advice from senior officers and materiality. Management do not propose to adjust for the two items described at no.4 in Exhibit 3 as the amounts are not considered material in the context of the financial statements. We agree that these amounts are not material.

Significant findings from the audit in accordance with ISA 260

32. International Standard on Auditing 260 (UK) requires us to communicate significant findings from the audit to those charged with governance. These are summarised in [Exhibit 3](#). Where a finding has resulted in a recommendation to management, a cross reference to the Action Plan in [Appendix 1](#) has been included.



33. The findings include our views about significant qualitative aspects of the Council's accounting practices including:

- | | |
|---|---|
| • Accounting policies | • Accounting estimates and judgements |
| • Significant financial statements disclosures | • Timing of transactions and the period in which they are recorded |
| • The impact on the financial statements of any uncertainties | • The effect of any unusual transactions on the financial statements |
| • Misstatements in the annual accounts | • Disagreement over any accounting treatment or financial statements disclosure |

Exhibit 3

Significant findings from the audit of the financial statements

Finding	Resolution
1. Revision of IAS19 net pension liability	Officers requested a more up to date valuation of assets at year end from their actuary and amended the accounts for the consequent difference: an

Finding	Resolution
<p>It became apparent from a national review that the estimated pension asset figure used for the preparation of the accounts was materially misstated. This arose from significant volatility in global equity values in the final quarter of the year.</p>	<p>upwards movement of £7.2 million to the net pension liability between the unaudited accounts and the audited accounts.</p>
<p>2. Lease for waste disposal</p> <p>The liability for the council's waste disposal lease agreement with Dundee City Council was not included in the unaudited accounts. This was flagged to us by the council when we received the accounts for audit.</p>	<p>Officers amended the accounts for the £41.5 million long term liability, £1.8 million short term liability and £43 million new waste management plant asset. We have reviewed the accounting treatment and are content that it is correct.</p>
<p>3. Group accounts audit assurances</p> <p>Angus Alive is a material component of the council's group accounts. No audit assurance has been provided over the figures included in the group accounts as the audit of Angus Alive's financial statements started on 17th September and will not be concluded until October, which is after the 30th September deadline for signing off the group accounts.</p>	<p>We will consider the audit assurances available at the end of September from the external auditor of Angus Alive. If there is not sufficient assurance in support of this material component of the group accounts, we will delay our audit opinion until further assurance is provided.</p>
<p>4. Revaluation of assets as they become operational</p> <p>Two schools became operational in 2016/17, at which point they ought to have been revalued. This has not taken place. Historically such assets have tended to have a lower value on becoming operational. There is a risk that those assets are overstated in value.</p> <p>Depreciation of £0.178 million should have been charged on these assets in 2017/18.</p>	<p>Following discussion with the valuer and considering the extent of impairment of other new builds, the estimated impairment of these assets was 8% (£0.847 million). Officers proposed not to adjust for this or the £0.178 million depreciation as the amounts are not material in the context of preparing the annual accounts. The assets will be revalued in 2018/19. The s95 officer has provided representation on this matter to external audit.</p> <p> Recommendation 4 (refer appendix 1, action plan)</p>
<p>5. Depreciation not charged on operational non current assets</p> <p>Depreciation had not been automatically calculated on three assets: a school, a care home (raised last year) and a residential unit.</p>	<p>Officers have amended the accounts to recognise £1.446 million depreciation on these assets.</p> <p> Recommendation 4 (refer appendix 1, action plan)</p>
<p>6. Non-operational assets: depreciation and impairment</p> <p>A primary school and a secondary school which were not in use during 2017/18 (and have been demolished) were still held at value in the ledger and depreciated during 2017/18. The asset values need to be amended accordingly. Depreciation charged in 2017/18 should be written back.</p>	<p>Officers have amended the accounts for:</p> <ul style="list-style-type: none"> £0.878 million depreciation on the secondary school; £5.6 million impairment of the net book value of the two schools; £0.167 million depreciation charged on the primary school; and £1.492 million impairment of the net book value of the leisure centre.

Finding	Resolution
<p>A former leisure centre which has been approved for demolition was also held in the ledger without impairment of its value.</p>	 Recommendation 4 (refer appendix 1, action plan)
<p>7. Assets held for sale</p> <p>A former primary school site valued at £0.824 million is being actively marketed for sale but was not included in Assets Held for Sale.</p>	<p>Officers have amended the accounts to move this site to assets held for sale.</p>  Recommendation 4 (refer appendix 1, action plan)
<p>8. Heritage assets</p> <p>The council agreed last year to obtain a valuation for a painting which has been restored to see if it met the valuation threshold for inclusion in heritage assets. The asset was not included in the unaudited accounts.</p>	<p>Officers have amended the accounts to include this asset, increasing Heritage assets by £0.1 million.</p>
<p>9. Provision for early retirement/severance costs</p> <p>The debtors balance in the Balance Sheet included £0.643 million which was the amount provided for severance costs of agreed exits under the voluntary severance scheme.</p>	<p>Officers have amended the accounts to separately disclose the £0.643 million provision.</p>
<p>10. Exit packages: curtailment costs</p> <p>The cost of exit packages disclosed in the Remuneration Report does not include the curtailment costs for 19 staff who left on 31st March 2018. The information supplied to the actuary for the valuation of liabilities did not include these staff.</p>	<p>No amendment has been made as the amount of the curtailment is not known.</p>
<p>11. Bank reconciliation</p> <p>When we received the year end bank reconciliation there was an unreconciled difference of £0.045 million. Our review of the reconciliation identified an error of £0.126 million, so the unexplained reconciling difference is now £0.171 million.</p>	<p>No amendment has been made as the reconciling difference has yet to be investigated and resolved.</p>

Follow up of prior year recommendations

34. We have followed up actions previously reported and assessed progress with implementation, these are reported in [Appendix 1](#) and identified by the prefix b/f (brought forward).

35. In total, 5 agreed actions were raised in 2016/17. Of these:

- 3 have been implemented
- 2 are being actioned on an ongoing basis, as there is a continuing funding gap to be addressed and the Change Programme will continue to develop different options to close the funding gap.

36. Overall the Council has made good progress in implementing these actions. For those actions not yet implemented, revised responses and timescales have been agreed with management as set out in [Appendix 1](#).

Integration Joint Board

37. For the second year the Council included its share of the financial transactions of Angus Integration Joint Board (the IJB) within its group financial statements. We reviewed the accounting treatment in the group accounts and concluded that it was correct. We have completed our audit of the IJB and reported our findings to the Angus IJB Audit Committee in August 2018. There were no audit adjustments to the IJB accounts so there are no audit adjustments required to the IJB figures in the group accounts. We are satisfied that the Council had adequate arrangements in place to agree year end balances between itself and its partners. Our audit testing also confirmed that the council properly identifies transactions that relate to work commissioned by the IJB.

Other findings

38. Our audit identified several presentational and disclosure issues which were discussed with management. These were adjusted and reflected in the audited annual accounts.

39. We noted that the assurances provided by heads of service and directors in support of the Annual Governance Statement were not all signed to confirm they were complete and accurate. Signed and dated assurance statements should be obtained from all key officers.

40. For some of the transactions we tested there were incomplete accounting records as officers had not used the facility to attach all supporting documentation to the ledger. When we queried these, officers had difficulty obtaining evidence to demonstrate the substance of the transaction. Although these transactions are not material amounts, two of them were significant (£0.156 million and £0.120 million). There should be a complete accounting record for all transactions.

Recommendation 5

Services should be reminded that supporting documentation should be retained for all ledger transactions to form a complete accounting record.

Objections

41. The Local Authority Accounts (Scotland) Regulations 2014 require a local authority to publish a public notice on its website that includes details of the period for inspecting and objecting to the accounts. This must remain on the website throughout the inspection period. The Council complied with the regulations; it also published a notice in the local paper. There were no objections to the accounts.

Part 2

Financial management



Main judgements

Financial management is effective with a budget process focussed on the Council's priorities.

Our testing of the design and operation of the key financial controls confirmed that, except for bank reconciliations, controls relating to financial systems and procedures are designed appropriately and operating effectively.

Financial performance in 2017/18

42. In February 2017 the Council approved a budget of £248.7 million for 2017/18. The budget was aligned to the Council's main priorities. Members were provided with 4 monitoring reports during the year and a final outturn report in June that set out the changes to budgets and projected outturns for the year.

43. The Council has a good track record in delivering services within budget over the last 7 years. The 2017/18 Comprehensive Income and Expenditure Statement reported a year-end General Fund underspend of £9.4 million against the budget. The Expenditure and Funding Analysis note to the accounts shows how the income and expenditure in the financial statements reconciles to the finance reports provided to members.

44. There are significant variations in how different services have performed against budget. The more significant under and overspends are summarised in [Exhibit 4](#).

Exhibit 4

Summary of significant under / overspends against budget

Area	Under/over spend (£m)	Reason for variance
Underspends		
Staff Costs	4.5	Delayed recruitment to posts pending review and change programme savings requirements.
Property and Transport costs	1.5	General reductions in property and transport costs.

Area	Under/over spend (£m)	Reason for variance
Additional Income		
Waste Management Contract	2.8	Income that was not anticipated in year.

Source: Angus Council Report 190/18.

Housing revenue account

45. The Council is required by legislation to maintain a separate housing revenue account and to ensure that rents are set to at least cover the costs of its social housing provision. Rent levels are therefore a direct consequence of the budget set for the year.

46. The housing revenue account has come in under budget with the £1.9 million net cost of services being £1 million less than the budgeted figure of £2.9 million. This is due to less than budgeted spend on supervision and management within the housing revenue account.

Efficiency savings

47. With reduced funding from government and increased demand for financial services, efficiency savings are an important means of bridging the gap between funding received and spending commitments.

48. Angus Council included £7.2 million of savings within the 2017/18 revised base budget. This was achieved by reducing services budgets by £1.8 million, corporate savings of £1.8 million, £1.3 million savings from the change programme and transfers of £2.3 million from balances and special funds.

Capital programme 2017/18

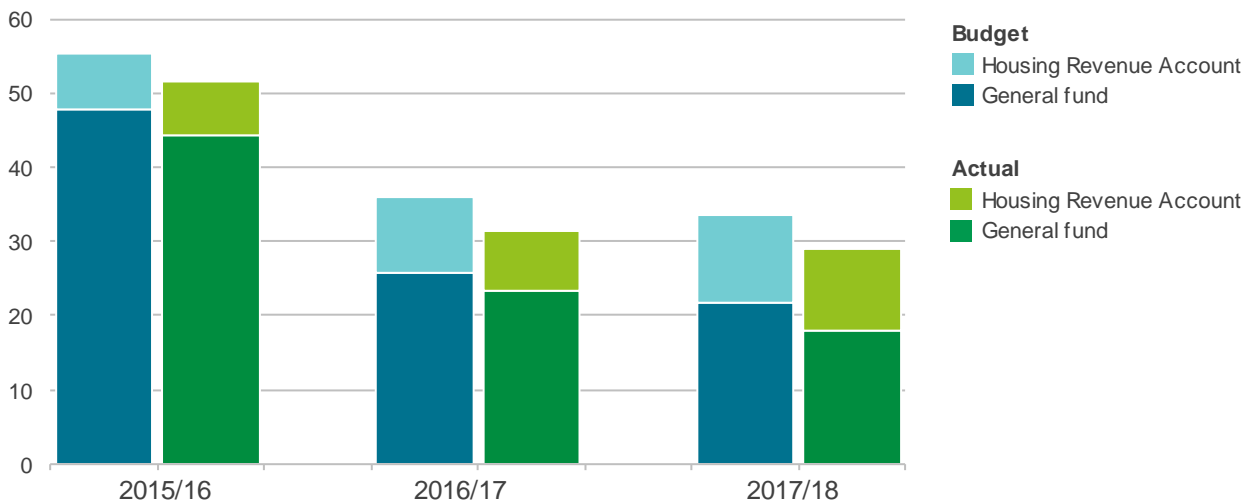
49. Total budgeted capital expenditure in 2017/18 was £44.4 million. Of the total capital budget £30.6 million related to general services and £13.8 million to the housing revenue account.

50. Capital spend was £8.6 million below budget. The Council has a history of slippage in its capital programme as outlined in [Exhibit 5](#). The £1.0 million housing revenue account (HRA) slippage comprised 11.9% of this total.

Financial management is about financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively

Exhibit 5

Capital slippage compared to budget (general fund and HRA)



Source: Financial Outturn reported to Angus Council

51. The capital underspend is due to several reasons: within the General Fund spend £3.8 million relates to delays to the start of projects; the weather delaying play park equipment replacement and the rescheduling of works by capital consultants.

52. The HRA slippage of £1 million is due to procurement delays and reductions in the number of replacements completed. These have been offset by kitchen replacement works progressing faster than anticipated.

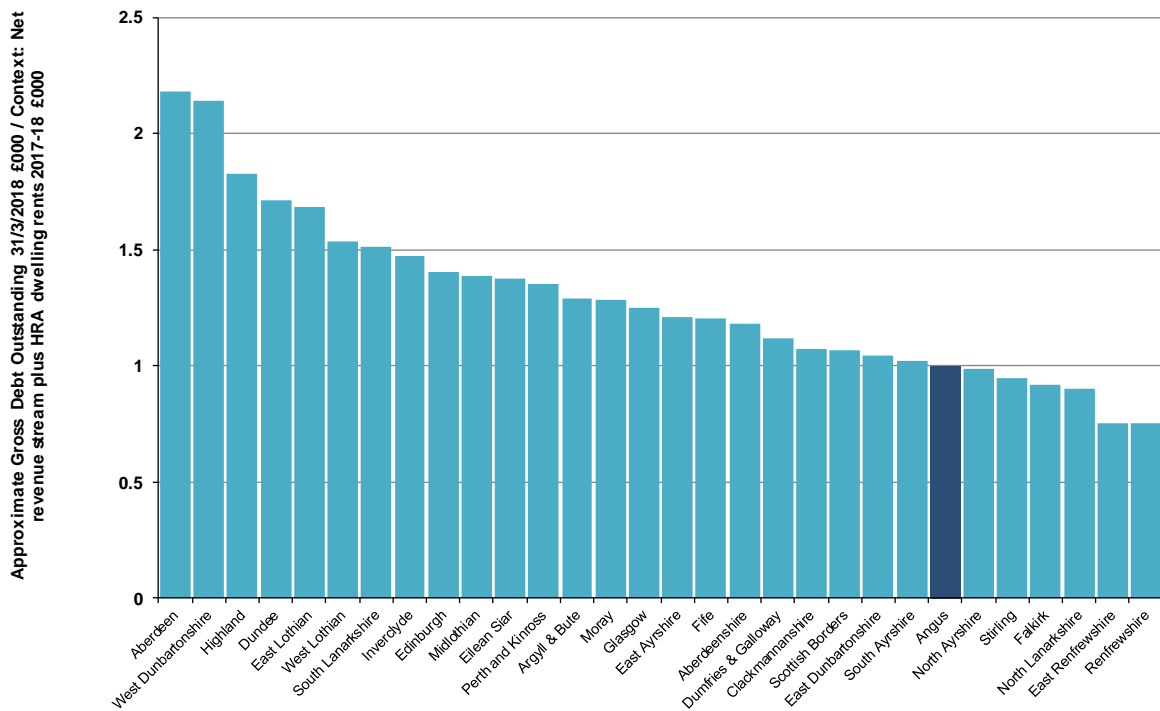
Borrowing in 2017/18

53. The Council's outstanding loans at 31st March 2018 were £160.4 million, a decrease of £4.1 million on the previous year. £4.7 million of loan repayments were made in year and no new loans taken out.

54. Total external debt (which includes the Council's long term liabilities) was within the authorised limit and operational boundary set by the treasury management strategy. The current borrowing position is prudent, and the Council will continue to consider the affordability of future borrowing. When compared to other Scottish councils in [Exhibit 6](#) the Council's overall borrowing position appears considered and sustainable.

Exhibit 6

Overall indebtedness as a percentage of annual income



Source:

Budgetary process

55. The *Local Government in Scotland: Financial overview 2016/17* (November 2017) highlighted that the need for budgets and forecasts to reflect actual spending becomes increasingly important for councils with decreasing (or low levels) of usable reserves to rely on. The Council's budget and savings plan is aligned to the Council's priorities as set out in the Council Plan, which is consistent with good practice.

56. As part of the budget process Angus Council prepared a Medium Term Budget Strategy (MTBS) that sets out the pressures facing the council as a whole with specific discussion of the impact of cost pressures on services. The MTBS is prepared using three scenarios Optimistic, Base and Pessimistic.

57. Within the Council the detailed scrutiny of financial performance is delegated to the Policy and Resources Committee, which received four revenue and capital monitoring reports in 2017/18, with a final outturn report in June. From our review of these reports we concluded that they provided an overall picture of the budget position at service level. The forecast out-turn position for the year was submitted to Angus Council in June 2018. The report detailed the underspend for the year and included commentary on the major sources of the underspend but did not include the final budget for the council or the final spend analysed by service. Reporting this information would increase the transparency about the final spend of the Council.

Recommendation 6

Finance reports should explain any changes in the budget through the year and report in a consistent format.

Systems of internal control

58. As part of our audit we identify and inspect the key internal controls in those accounting systems which we regard as significant to produce the financial statements. Our objective is to gain assurance that the Council has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements.

59. Our findings were included in our interim audit report that was presented to the Scrutiny and Audit Committee on 21st August 2018. We concluded that the key controls were operating effectively, except for bank reconciliations, a key financial control, which were not completed on a timely basis. The bank reconciliation as at the 31st March 2018 was not provided till 3rd September and contained a £0.171 million unexplained reconciling difference. No other significant control weaknesses were identified which could affect the Council's ability to record, process, summarise and report financial and other relevant data to result in a material misstatement in the financial statements. We did not test controls related to non current assets during our interim audit as non current assets information for the accounts is prepared by the council at year end.

Financial capacity

60. The Section 95 officer is the Head of Finance and Legal, who is a member of the corporate management team and has direct access to the chief executive and Council members. We concluded that the Section 95 officer has appropriate status within the Council.

61. The finance department has undergone restructuring in 2018 with the revised structure due to be implemented from 1st September 2018. The revised structure and roles have impacted on the finalisation of the 2017/18 accounts as the staff have been preparing to hand over roles in addition to finalising the accounts.

62. It is important that members receive adequate training on how the Council works and how it is financed if they are to exercise their scrutiny responsibilities effectively. We reviewed the induction training and materials provided to new members and concluded that it was fit for purpose.

Part 3

Financial sustainability



Main judgements

The Council and its group financial position is sustainable in the foreseeable future although rising demand, increasing costs of services and reductions to central funding will continue to place a strain on the Council's capacity to deliver services at current levels.

There are medium-term financial plans that are aligned to the Council's priorities and demonstrate how it will address future budget challenges.

The Council has achieved its planned savings in 2017/18. The size of the future funding gap means that there needs to be a significant step change in the level of savings required in future years.

Financial planning

63. It is important that long-term financial strategies (typically covering five to ten years) are in place which link spending to the Council's strategies. Although councillors only approve the budget for a single year, this should be supported by indicative future spending plans (covering three years at least) that forecast the impact of relevant pressures on the Council. The Council's Medium Term Budget Strategy covers a 3 year rolling period for revenue expenditure and a rolling 4 year period for capital expenditure. A long term financial plan (5-10 years) was to be developed but this has not progressed.

64. The Accounts Commission recommended that when future Scottish Government funding is not known, councils should plan for a range of scenarios so they are prepared for different levels of funding and income. As noted above, the Angus Council Medium Term Budget Strategy has been prepared using optimistic, base and pessimistic scenarios of the impact of unknowns within the public sector in Scotland.

Funding position

65. The Council approved its 2018/19 budget in February 2018. The budget was set at £257.7 million with a funding gap of £18.1 million. Plans to address this gap include £6.7 million of Change Programme savings and the use of £4 million held in reserves previously intended to fund capital expenditure.

66. The Council is facing several challenges in maintaining a sustainable financial position in future. These include rising demands for services, increasing cost of services and potential reductions in local government funding.

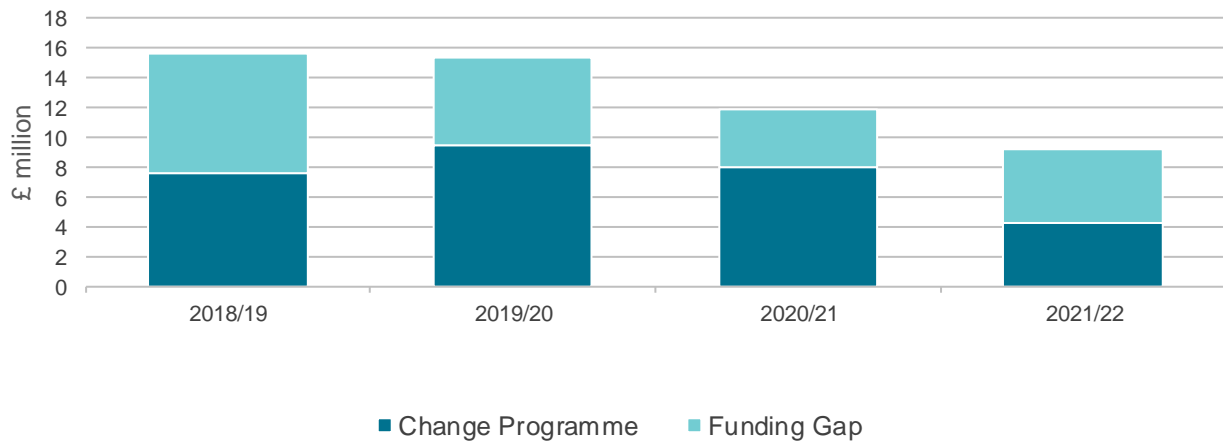
67. The Council's MTBS identifies funding gaps for 2019/20 and 2020/21 of £15.4 million and £11.9 million respectively. The Council plans to bridge these gaps mostly by business transformation through the Change Programme projects. This approach leaves a significant gap that will need to be filled when setting the 2019/20 council budget. Options for closing the gap include identifying further

Financial sustainability looks forward to the medium and long term to consider whether the council is planning effectively to continue to deliver its services or the way in which they should be delivered

Change Programme projects, increases in Council Tax and other Fees and Charges, savings from Corporate budgets, the management of budget risks and the use of reserves.

Exhibit 7

Identified funding gaps 2018/19 – 2021/22



Source: Medium Term Budget Strategies September 2017 and 2018.

Recommendation 7

The Council should ensure that savings plans are developed which identify how the remainder of the savings required to meet the residual funding gap will be made.

Reserves

68. One of the key measures of the financial health of a local authority is the level of reserves held. The level of usable reserves held by the Council decreased slightly from £40.8 million at 31 March 2017 to £40.2 million at 31 March 2018.

69. The general fund is the largest reserve. This reserve is used to fund the delivery of services. It provides a contingency fund to meet unexpected expenditure and a working balance to help cushion the impact of uneven cash flows.

70. The Council reviews the level of its uncommitted reserves when setting the budget each year. The Council holds a £4 million “contingency policy level” within its general fund reserves. Beyond this contingency, the level of uncommitted general fund reserves as at 31 March 2018 was £2.6 million. In comparison the level as at 31 March 2017 was £0.3 million. Dependency on general fund reserves to support delivery of the budget is not a sustainable approach.

New Financial Powers

71. Proposals have been made for changes to the Scottish Government Budget process, with these likely to be introduced for the 2019/20 budget. The Council considers Scottish Budget issues when updating its Medium Term Budget Strategy, which is updated annually and includes 3 financial planning scenarios (optimistic, base and pessimistic).

72. Overall, we concluded that the Council is facing a challenging situation in the short term. Rising costs, ending of the public sector pay cap combined with small increases in funding and dependency on efficiency savings will make it difficult to achieve financial balance.

73. The medium to longer term financial position is difficult to predict given the uncertainty around EU withdrawal and New Financial Powers and future funding settlements. The Council needs to continue to plan for these events using scenario planning.

Ending of public sector pay cap

74. Public sector pay has been identified in the Medium Term Budget Strategy as a risk to financial sustainability, with a 1% pay rise increasing the budget by £1.5 million. This risk continues to be monitored by the council.

EU withdrawal

75. There remains significant uncertainty about the detailed implications of EU withdrawal (i.e. Brexit). It is critical that public sector bodies are working to understand, assess and prepare for the impact on their business in three broad areas:

- Workforce - the extent to which changes to migration and trade policies are likely to affect the availability of skilled and unskilled labour.
- Funding – the extent to which potential changes to funding flows are likely to affect the finances of the organisation and the activity that such funding supports.
- Regulation – the extent to which potential changes to regulation across a broad range of areas overseen at an EU level are likely to affect the activities of the organisation.

76. The council has a Brexit officer group which has been holding regular meetings to assess the implications of EU withdrawal as they become clearer. Information from the group is provided to Policy and Resources Committee in every second committee cycle. The latest summary of Brexit information available and an assessment of the impact on Angus Council was presented to the Policy and Resources Committee in August 2018.

Part 4

Governance and transparency



Main Judgements

The Council has appropriate governance arrangements in place that support the scrutiny of decisions made by the Council.

There could be greater challenge and scrutiny by the Scrutiny and Audit Committee, with a stronger focus on the Council's financial position.

The Council is open and transparent in the way it conducts its business and the public can attend meetings of the Council and its standing committees.

Governance arrangements

77. The Council reviews its local code of corporate governance annually. The code reflects the key components of good governance as set out in the CIPFA/SOLACE "Delivering Good Governance in Local Government Framework (2016)". The Corporate Governance Officers Group assesses compliance with the 7 core principles for good governance as well as making recommendations for improvements to the Council's governance arrangements, to reflect new legislation or other changes in the way in which the council does business. This assessment informs the Annual Governance Statement.

78. The Scrutiny and Audit Committee receives internal and external audit reports, counter fraud updates, local police and fire service updates, corporate complaints reports, treasury management reports, CIPFA and Accounts Commission/Audit Scotland national reports as well as approving the council's annual accounts (unaudited and audited). We note that scrutiny of the accounts and audit reports can be limited in comparison to other updates and would encourage members to strengthen their scrutiny of the accounts as the Council's primary vehicle to demonstrate its stewardship of public funds.

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.

Recommendation 8

The council should ensure that members are supported in their scrutiny role through focussed training and development activity.

79. We concluded that the Council has effective arrangements in place that support good governance and accountability, but that there could be greater challenge and scrutiny by the Scrutiny and Audit Committee, with a stronger focus on the Council's financial position.

Transparency

80. Transparency means that the general public have access to understandable, relevant and timely information about how the Council is taking decisions and how it is using resources such as money, people and assets.

81. There is evidence from several sources which demonstrate the Council's commitment to transparency. Members of the public can attend meetings of the full Council, and its committees. Minutes of these committee meetings and supporting papers are readily available on the Council's website.

82. The Council's website allows the public to access a wide range of information including the register of members' interests, current consultations and surveys and how to make a complaint. The website's "Have your say" section gives details of the citizens' panel and how to join it. The panel provides information and feedback on services as well as information on the needs of local communities.

83. The Council makes its annual accounts available on its website. These include a management commentary which provides details of performance against budget, information on the use of reserves and risks and uncertainties facing the Council.

84. Overall, we concluded that the Council conducts its business in an open and transparent manner.

Internal audit

85. During 2017/18 the Council's internal audit function was managed by Scott-Moncrieff, using a team of Angus Council staff. Each year we consider whether we can rely on internal audit work to avoid duplication of effort. When we plan to place reliance on internal audit's work we carry out an assessment of the internal audit function to ensure that it is satisfactory in terms of documentations standards, reporting procedures and quality, and is performed in accordance with Public Sector Internal Audit Standards (PSIAS). We concluded that internal audit operates in accordance with the Public Sector Internal Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place.

86. We reviewed the Council's internal audit arrangements in accordance with International Standard on Auditing (UK) 610 (Using the Work of Internal Auditors) to determine the extent we could rely on the work of internal audit. Overall, we concluded that we would place reliance on aspects of internal audit work in the following areas: IT User Access Management for our financial statements responsibilities and Corporate Tendering Process and Community Asset Transfer Process for our wider code responsibilities.

87. The Council's managers' review (one of the Change Programme projects) brought internal audit management back in house on a full-time basis from 2018/19. The post of Service Leader - Internal Audit was advertised in April 2018 and an appointment made. The new Service Leader - Internal Audit took up her post in July 2018. The internal audit team is fully staffed with no capacity issues identified for 2018/19.

Management commentary, annual governance statement and remuneration report

88. The Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 requires councils to prepare and publish, along with their financial statements, an annual governance statement, management commentary and a remuneration report that are consistent with the disclosures made in the financial statements. The management commentary should be fair, balanced and understandable and clearly address the longer-term financial sustainability of the body.

89. Based on our knowledge and work performed, we concluded that the management commentary, annual governance statement and remuneration report are consistent with the financial statements.

National Fraud Initiative

90. The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise coordinated by Audit Scotland. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify 'matches' that might suggest the existence of fraud or irregularity.

91. NFI activity is summarised in [Exhibit 8](#). 4,061 data matches were returned to the council, 957 of which were recommended for investigation. Since we reported in September 2017, further match investigations have been concluded. In total, 824 matches have been processed and 653 cleared. 157 errors have been identified (seven with a monetary outcome, totalling £15,253) and one fraud of £462. These outcomes amount to £15,715 which is in the process of being recovered.

Exhibit 8 NFI activity



4,061

Matches



957

Recommended for
investigation



824

Completed/closed
investigations

Source: NFI secure website: www.nfi.gov.uk

92. We concluded that the Council is well engaged with the NFI exercise; there is a dedicated counter fraud team which is overseen by a manager who reports directly to the Chief Executive. The Scrutiny and Audit Committee is regularly updated on the progress of the counter fraud team's work and the outcomes of the NFI exercise. The Committee considered the national report on the 2016/17 NFI exercise at its August 2018 meeting.

Standards of conduct for prevention and detection of fraud and error

93. The Council has a range of established procedures for preventing and detecting fraud and irregularity including a whistleblowing policy, counter fraud and corruption strategy and codes of conduct for members and officers. We assessed these to ensure that they were appropriate, readily available to staff and are regularly reviewed to ensure they remain relevant and current.

94. We concluded that the Council has appropriate arrangements in place for the prevention and detection of bribery and corruption. We are not aware of any specific issues we require to bring to your attention.

IT Systems Business Continuity

95. During our ICT audit work, we note that the council has identified that "there is a risk that the agreed Recovery Time Objectives (RTOs) within the business continuity plan will not be met in the event of loss / partial loss of the council's data centre". Whilst acknowledging that work is ongoing to mitigate the risk, due for completion by December 2018, in our view this is a significant risk that should be highlighted in our report. As part of the work, service areas are reviewing RTOs related to IT to ensure these are realistic and realisable.



Recommendation 9

The council should progress its six identified mitigating actions to ensure that essential systems can be recovered as planned and minimise the risk to service delivery.

Public Sector Network

96. The Public Services Network (PSN) is the UK government's high-performance network. Public bodies wishing to connect are required to submit a detailed application together with an independent ICT health check. If the submission meets the assessors' standard, then compliance is granted either unconditionally or conditionally with an action plan if the current level is close to meeting the standard. In July 2018, the Council successfully retained its PSN certification.

Cyber security

97. The Scottish Government issued a [Public Sector Action Plan on Cyber Resilience](#) in November 2017 which requires all public sector bodies to carry out a review to ensure their cyber security arrangements are appropriate. Bodies are encouraged to seek independent assurance of critical technical controls, which in the Scottish Government's view is achieved by obtaining Cyber Essentials or Cyber Essentials Plus accreditation. In April 2018, the Council successfully obtained its Cyber Essentials certification. The Council has decided against applying for Cyber Essentials Plus accreditation. Many ICT security professionals consider PSN accreditation is at a higher level than both Cyber Essentials or Cyber Essentials Plus: as noted above, Angus Council has PSN accreditation.

General Data Protection Regulation

98. The new General Data Protection Regulation (GDPR) came into force on 25 May 2018. This replaced the UK Data Protection Act 1998. As a Regulation, all EU member states must implement it in the same way. GDPR sets out further requirements than the DPA and has introduced new and significantly changed data protection concepts.

99. GDPR introduces a wide range of new rights for individuals in respect of their personal data. These include the right to be forgotten, the right to object to certain processing activities and to decisions taken by automated processes. Failure to comply with new GDPR data handling arrangements could result in the Council incurring significant fines.

100. Internal audit carried out two reviews of GDPR readiness in 2017. The first, in May 2017, reviewed the GDPR report and action plan; this identified that the Council's plan did not look ambitious enough in its timings to have processes in place by May 2018. The second review, in December 2017, used a GDPR compliance questionnaire to assess the preparations for the GDPR legislation in May 2018. The audit resulted in five recommendations with corresponding actions. A follow up audit on these recommendations, reported to committee in August 2018, gave substantial assurance and made no recommendations for improvement. We have placed reliance on internal audit's assessment of the Council's preparedness for GDPR.

Integration of health and social care

101. The Scottish Government's 2020 vision places greater emphasis on enabling people to stay in their homes, or another homely setting, where possible, sharing their lives with their family and friends and doing the things that give life meaning and value. The integration of health and social care is a mechanism to achieve this.

102. The Angus Integration Joint Board (IJB) is provided in partnership with NHS Tayside and became fully operational on 1 April 2016. The IJB has been working on developing new approaches to social care and has worked with Angus Council to implement early components of the Angus Care Model, with further components to be implemented in 2018/19. The Angus Care Model aims to move the balance of care to community-based care. The Help to Live at Home programme, including outsourcing of personal care and housing support services has enabled Angus IJB to increase the level of personal care available within Angus communities by 47% over the last 2 years. The Enhanced Community Support multidisciplinary service was successfully implemented in south Angus and there is a plan to roll this out to the rest of Angus. These and other actions by the IJB mean that people are moving into care homes later in life and with higher levels of need.

103. We concluded that the Council and its partners have realistic plans in place to make health and social care integration work effectively. There was an underspend on social care services during 2017/18, resulting in additional IJB reserves of £0.38 million. The IJB's total reserves of £0.962 million are held by the Council on behalf of the IJB. There is an ongoing overspend on prescribing which will need to be funded by the Council and NHS Tayside as the IJB's two partner bodies.

Local scrutiny plan

104. The 2018/19 Local Scrutiny Plan (LSP) prepared by the Local Area Network (LAN) of scrutiny partners for the Council was submitted in April 2018. It was presented to the Scrutiny and Audit Committee on 24th April 2018. The LAN did not identify any new scrutiny risks in the year which would require specific scrutiny work during 2018/19. The Council will be subject to a range of nationally driven scrutiny activity as set out in the LSP.

105. The Community Empowerment Act 2015 gave local communities new powers to take control of and manage community assets. The Council has taken steps to engage with local communities and several assets have transferred to community groups, including the former Montrose swimming pool, which is being converted by the Montrose Playhouse Project into an arts centre and cinema, and a former school in Friockheim which has been converted by the Friockheim Community Hub into a community centre, due to open in October 2018.

Part 5

Value for money



Main judgements

The Council has introduced a corporate performance report linked to its key priorities, however this has taken two years to develop. The Council recognises that it needs to refine its use of performance indicators to demonstrate meaningful performance information.

The Council has recognised that it needs to enhance the pace of Change Programme projects to transform services and deliver efficiency savings.

Best value

106. Best value is assessed over the five-year audit appointment as part of the annual audit work. A Best Value Assurance Report (BVAR) for each council will be considered by the Accounts Commission at least once in this five-year period. The BVAR for Angus Council is planned for year five of the five-year programme, in our 2020/21 audit year.

107. The best value audit work we carried out this year focussed on the Council's arrangements for demonstrating Best Value in Performance and Outcomes. The findings of this work are reported below. The effectiveness of the Council's best value arrangements in other areas will be assessed and reported throughout our audit appointment.

Value for money is concerned with using resources effectively and continually improving services.

Overview of performance targets

108. The Council participates in the [Local Government Benchmarking Framework](#) (LGBF). The framework aims to bring together a wide range of information about how all Scottish councils perform in delivering better services to local communities, including the cost of services and how satisfied citizens are with them.

109. The most recent [National Benchmarking Overview Report 2016/17](#) by the Improvement Service was published in February 2018 and covered the 2016/17 reporting period. This report was not submitted to a council committee.

110. The Council has used [How Good is Our Council](#) (April 2012) to manage performance in some of its services for several years and this is now being rolled out for use across all services. We note that other councils have used this framework for many years.

Performance reporting

111. The council's 2016 Best Value audit report recommended developing a corporate summary of performance. In 2016/17 Angus Council was the only Scottish Council that did not produce an annual performance report. In September 2018 the 2017/18 annual performance report was presented to the council.

112. This report monitors progress against the Council's key priorities. Several positives were highlighted including improvements in:

- the number of businesses supported by council economic development activity (September 2017: 334; August 2018: 397);
- the number of people that have participated in Council-Funded or Operated Employability Activities (September 2017: 457; August 2018: 488);
- the number of business start-ups supported by Business Gateway (September 2017: 215; August 2018: 224);
- the economic impact of Tourism on Angus (September 2017: £227m; August 2018: £232m);
- the percentage of children registered with a care plan in place within 14 days of registration (September 2017: 77.7%; August 2018: 81.4%); and
- the percentage of children looked after away from home in a family placement (September 2017: 87.8%; August 2018: 89.8%).

113. At the same time the Council recognises that it should improve service delivery in several key areas such as:

- the number of people that have progressed to employment as a result of their participation in Council-Funded or Operated Employability Activities (September 2017: 216; August 2018: 201); and
- referrals (children and young people) screened within 24 hours and prioritised (September 2017: 91.86%; August 2018: 88.67%).

114. Several performance indicators in the annual performance report were reported as "not available". Officers have recognised that the performance indicators listed in the Council Plan are not necessarily the best way to measure performance.

Recommendation 10

The council should refine its use of Council Plan performance indicators to identify meaningful measures of performance against key priorities.

Statutory performance indicators (SPIs)

115. The Accounts Commission places great emphasis on councils' responsibility for public performance reporting. The Commission does not prescribe how councils should report this information but expects them to provide the public with fair, balanced and engaging performance information.

116. For 2017/18 two SPIs were prescribed:

- SPI 1: covering a range of information relating to areas of performance such as improving local public services, improving local outcomes, engaging with communities and achieving best value
- SPI 2: relates to the reporting of performance information as required by the Local Government Benchmarking Framework.

117. The Council publicly reports individual performance indicators in the Pentana system, accessible through the council's website, but does not always provide narrative that gives context for the indicator. This makes the information less

engaging for the public. The Annual Performance Report, and the Performance Report on the Community Planning Partnership's Local Outcome Improvement Plan provide a more readable summary of performance against local priorities.

118. We concluded that the Council is slowly developing a performance management framework that managers and councillors clearly understand. It is unclear whether baseline performance has been captured, to allow the impact of the council's Change Programme on services and service users to be measured.

Business transformation

119. Audit Scotland's [Local government in Scotland – challenges and performance 2018](#) (April 2018) highlighted that local authorities have not made enough progress in developing alternative forms of service delivery to meet the challenges of tightened budgets and to transform public services in Scotland.

120. The Council has appointed a Head of Strategic Policy, Transformation and Public Sector Reform. In addition, a Service Leader (Governance and Change) has also been appointed with a dedicated team to support this work. The work of the Change Programme is led through the Council's Change Board and Council Leadership Team with the results reported to the Policy and Resources Committee. The most recent update in August 2018 reported that the next steps for the programme include enhancing the pace and momentum of Change Programme projects.

Following the public pound

121. Local authorities have a statutory responsibility to comply with the Accounts Commission / COSLA Code of Guidance on funding external bodies and following the public pound.

122. The Council's financial regulations have a specific section on following the public pound, which contains a link to the Code of Guidance and signposts other council guidance for allocating funds to external organisations.

123. The Communities Committee has the substantive responsibility for monitoring the contract with Angus Alive, the arm's-length culture and leisure trust. The Scrutiny and Audit Committee agreed in June 2017 to extend its remit to include scrutiny of the Angus Health and Social Care Integration Joint Board and Angus Alive. Angus IJB's performance report will be submitted to the committee every six months, starting in September 2018 and Angus Alive's annual performance report will be submitted to the Council's Scrutiny and Audit Committee, also starting in September 2018.

124. We recommended in our interim management report that the Council should obtain audit assurances for Angus Alive, a material component of the council group accounts, before the audit of the group accounts is concluded. Angus Alive is a wholly owned subsidiary of the council. Arrangements were not put in place for the audit to be completed in time for the group accounts audit.

National performance audit reports

125. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2017/18, Audit Scotland published a number of reports which are of direct interest to the Council. These are outlined in [Appendix 4](#).

126. The Scrutiny and Audit Committee considers national performance audit reports and all council members are offered briefings on some reports, e.g. *Local Government in Scotland: Performance and Challenges 2018*. It is not always clear where actions are being taken to address areas for improvement locally.

Appendix 1

Action plan 2017/18

2017/18 recommendations for improvement

No.	Issue/risk	Recommendation	Agreed management action/timing
1	<p>Charitable trust accounts</p> <p>There were difficulties reconciling the receipts and payments accounts to the underlying ledger figures which are based on accruals accounting. These reconciling entries would be minimised if the charities accounts were prepared on an accruals basis.</p> <p>Risk</p> <p>The council cannot demonstrate that the accounts are supported by accurate accounting records.</p>	<p>The council should move to fully accrued accounts for its two section 106 charities. This will require a reconciliation between the receipts and payments accounts balances and opening balances which include accruals.</p> <p>Paragraph 20</p>	<p>The resource requirements of amending the accounts presentation for 2018/19 will be considered, alongside an assessment of overall service demands, and undertaken if this is considered a priority.</p> <p>Responsible officer: Service Lead (Finance)</p> <p>Agreed date: 30 November 2018</p>
2	<p>Finance capacity</p> <p>We did not receive all the working papers in support of the financial statements at the start of our audit. Some key pieces of information were received in September.</p> <p>Risk</p> <p>Insufficient assurances to support the audit opinion could result in a modified audit opinion.</p>	<p>The council should review the capacity of finance staff during the busy period of accounts preparation and the subsequent audit to ensure complete working papers can be provided and queries answered on a timely basis. Additional fees may be incurred if the audit is delayed due to lack of supporting documentation.</p> <p>Paragraph 23</p>	<p>Resourcing within the Finance service has been challenging while a service review required to deliver budget savings has been underway in terms of staff turnover and retention. With the review now concluded and a new, albeit reduced, service structure in place it is anticipated that these issues will be resolved. Reduced resilience due to the smaller staff complement is an ongoing risk that requires to be managed and sufficiency of resource will be considered as part of the audit planning process for future years.</p> <p>Responsible officer: Service Lead (Finance)</p> <p>Agreed date: 28 February 2018</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
3	<p>Whole of Government Accounts</p> <p>The council is required to submit a consolidation pack for Whole of Government accounts by 31st August. The pack had not been submitted by the date of this report. The pack is no longer subject to audit, but we are required to confirm key figures to the Scottish Government WGA team.</p> <p>Risk</p> <p>The whole of government accounts are misstated.</p>	<p>The council should include WGA in its timetable for financial statements preparation and upload the consolidation pack and submit it for audit within the timescale set by HM Treasury and the Scottish Government.</p> <p>Paragraph 24</p>	<p>The WGA submission dates will be added to the accounts preparation timetable for 2018/19.</p> <p>Responsible officer: Service Lead (Finance)</p> <p>Agreed date: 28 February 2019</p>
4	<p>Non Current Assets</p> <p>The asset register and ledger were not updated for several asset changes which should have been communicated to finance last year: 2 new build schools which became operational last year; 3 former schools which were closed and demolished and a former leisure centre which has been approved for demolition; a surplus asset being actively marketed for sale and 2 community asset transfers which were declared surplus in 2015/16. Material adjustments were made to the accounts as a result.</p> <p>Risk</p> <p>The asset register is not up to date and the financial statements are materially misstated.</p>	<p>The council should ensure that services keep finance staff informed when the status of assets changes e.g. when new assets become operational; old assets cease to be operational; assets are declared surplus and put on the market; or approved for demolition; or transferred to community ownership.</p> <p>Exhibit 3</p>	<p>Communication will be undertaken as part of the final accounts process with appropriate officers to ascertain any changes in the status of assets. The accounts timetable will be revised to include this activity.</p> <p>Responsible officer: Service Lead (Finance)</p> <p>Agreed date: 28 February 2019</p>
5	<p>Incomplete accounting record for transactions</p> <p>There were incomplete accounting records for some of the transactions we tested as source documents could not be located. The amounts were not material, but the substance of the transactions could not be demonstrated.</p> <p>Risk</p>	<p>Services should be reminded to retain all supporting documentation for ledger transactions to form a complete accounting record.</p> <p>Paragraph 40</p>	<p>Services will be asked/reminded to ensure that supporting documentation is attached to Integra transaction records, where this facility is used, or alternatively retained in an appropriate and accessible manner where not.</p> <p>Responsible officer: Service Lead (Finance)</p> <p>Agreed date:</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
	Misstatement of income and expenditure in the ledger due to fraud or error is undetected.		19 October 2018
6	<p>Finance reporting</p> <p>Financial monitoring reports are provided to members through the year, but the year-end projection is not provided in the same format as the other reports during the year. The final annual spend</p> <p>Risk</p> <p>Reporting on the financial management of public funds is not transparent.</p>	<p>Finance reports should explain any changes in the budget through the year and report in a consistent format.</p> <p>Paragraph 57</p>	<p>The Council produces a Provisional Budget Volume and a Final Budget Volume. Monitoring reports also seek approval for significant budget virements during the year and also detail the current Council budget. It is agreed though that the June outturn report to Council should be formatted similarly to monitoring reports to provide consistency.</p> <p>Responsible officer:</p> <p>Service Lead (Finance)</p> <p>Agreed date:</p> <p>28 June 2019</p>
7	<p>Projected Funding Gap</p> <p>The Medium Term Budget Strategy identified a significant funding gap for the period to 2021/22. Projects within the Change Programme have identified £21.8 million of savings for the period, but there is still a residual funding gap of £14.7 million for the period to 2021/22.</p> <p>Risk</p> <p>The council cannot deliver the savings required to maintain its financial sustainability.</p>	<p>The Council should ensure that savings plans are developed which identify how the remainder of the savings required to meet the residual funding gap of £14.7 million for the period to 2021/22 will be made.</p> <p>Paragraph 67</p>	<p>The Council is taking forward an extensive savings programme through its ongoing Change Programme. This will continue to be developed and expanded in order to address the projected funding gap. The next milestone in this regard will be the setting of the 2019/20 Council Tax / Budget.</p> <p>Responsible officer:</p> <p>Head of Strategic Policy, Transformation & Public Sector Reform</p> <p>Agreed date:</p> <p>31 January 2019</p>
8	<p>Scrutiny of public funds</p> <p>We noted that scrutiny of the accounts and audit reports can be limited in comparison to other Scrutiny and Audit Committee reports and would encourage members to strengthen their scrutiny of the accounts as the Council's primary vehicle to</p>	<p>The Council should ensure that members are supported in their scrutiny role through focussed training and development activity.</p> <p>Paragraph 78</p>	<p>A comprehensive induction exercise was undertaken with elected members including governance and financial responsibilities. Engagement will be undertaken with elected members to determine where any knowledge gaps exist</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
	<p>demonstrate its stewardship of public funds.</p> <p>Risk</p> <p>There is not robust scrutiny of the council's use of public funds.</p>		<p>and thereafter, if necessary, put in place further training.</p> <p>Responsible officer:</p> <p>Head of Finance & Legal</p> <p>Agreed date:</p> <p>30 November 2018</p>
9	<p>Business Continuity Planning/ Disaster Recovery</p> <p>The council has identified a significant risk that the agreed Recovery Time Objectives within the business continuity plan will not be met in the event of loss / partial loss of the council's data centre.</p> <p>Risk</p> <p>It is likely that that the council will not be able to restore its ICT systems within the previously agreed timescale, which would impact on the services it can deliver.</p>	<p>The council should progress its six identified mitigating actions to ensure that essential systems can be recovered as planned and minimise the risk to service delivery.</p> <p>Paragraph 95</p>	<p>The agreed mitigating actions are all currently progressing. The Infrastructure resilience project and RTO review have also both commenced.</p> <p>Responsible officer:</p> <p>Service Lead (Digital Enablement and IT)</p> <p>Agreed date:</p> <p>31 December 2020</p>
10	<p>Public Performance Reporting</p> <p>Several of the performance indicators in the Annual performance report were "not available". This may be a timing issue, but officers have recognised that some of the Council Plan indicators are not the most meaningful measures of performance against key priorities.</p> <p>Risk</p> <p>Meaningful public performance reporting is not available.</p>	<p>The council should refine its use of Council Plan performance indicators to identify meaningful measures of performance against key priorities and provide the data within reporting timescales.</p> <p>Paragraph 114</p>	<p>A review will be undertaken of the current suite of Council Performance Indicators.</p> <p>Responsible officer:</p> <p>Head of Strategic Policy, Transformation & Public Sector Reform</p> <p>Agreed date:</p> <p>31 January 2019</p>
Follow up of prior year recommendations			
b/f	<p>1. Management review of unaudited financial statements.</p> <p>The quality of the unaudited charitable trusts accounts was poor. The accounts contained a number of minor errors that should have been picked up</p>	<p>Unaudited financial statements should be reviewed before submission for audit, to remove arithmetic errors and inconsistencies.</p>	<p>Updated audit response</p> <p>The charities accounts were improved this year with fewer errors on the face of the accounts. An ongoing error carried forward in opening balances, which caused difficulty in reconciling the</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
	<p>by management review. The unaudited Council accounts also contained some basic arithmetic errors that should have been picked up by management review.</p>		<p>accounts with the underlying working papers and ledger, is in the process of being investigated and corrected by officers. The audit opinion will be issued when this has been resolved.</p>
b/f	<p>2. Management commentary and streamlining accounts</p> <p>The management commentary could be developed to draw out the key points and performance outcomes without making the report overly detailed.</p> <p>The council has undertaken an external review of its Annual Accounts document and plans to use this to revisit and streamline the content for next year.</p>	<p>The Council should review its management commentary and the recommendations of the external accounts review to streamline the accounts and ensure the management commentary is appropriately focussed.</p>	<p>Updated audit response</p> <p>The results of the external review have been used to streamline the accounts with the number of notes to the accounts reducing from 47 to 34.</p> <p>The management commentary has been revised and improved. It could be further developed to tell the story of how Angus Council have spent £250 million of public money.</p>
b/f	<p>3. Projected funding gap</p> <p>Projects within the Change Programme have identified almost £15 million of savings for the period covered by the medium term budget strategy, but there is still a residual funding gap of around £24million for the four year period to 2020/21.</p>	<p>The Council should ensure that savings plans are developed which identify how the remainder of the savings required to meet the residual funding gap of £24 million for the four year period to 2020/21 will be made.</p>	<p>Updated audit response</p> <p>The Council set a balance budget for 2018/19 using carried forward underspend from 2017/18.</p> <p>The Council MTBS has an identified funding gap of £36.5 million for the 3 years to 2021/22. Change Programme savings will not cover all of this; there is still a significant residual funding gap to be covered.</p> <p>See Recommendation 7 above.</p>
b/f	<p>4. Workforce planning</p> <p>The Council has revised its strategic Workforce Plan to align with the new Council Plan, medium term budget strategy and the Change Programme. This plan anticipates a smaller, more flexible workforce in future as</p>	<p>The Council should ensure that the Change Programme projects set out the workforce implications of service redesign along with the anticipated savings.</p>	<p>Updated audit response</p> <p>Reasonable progress has been made in this area. Further work is planned to link all the change projects with the workforce planning master plan. We will review Change Programme planning and reporting as part of next year's audit.</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
	<p>part of achieving the required financial savings.</p> <p>More detailed service level plans showing the workforce implications of service redesign are not yet in place.</p>		
b/f	<p>5. Performance reporting</p> <p>The Council currently reports its performance at service level, rather than having a corporate summary of performance. As the Council has restructured into two directorates rather than three, this may make it easier to report on a council-wide basis. The Council has also refreshed its strategic plans to align and clarify its priorities; reporting on progress against these would also provide useful information on the service impact of the Change Programme.</p>	<p>The Council should develop and report a corporate overview of performance against the Council's priorities.</p>	<p>Updated audit response</p> <p>The council presented its 2017/18 performance report to full council in September 2018. This summarised performance against the priorities in the Council Plan.</p>

Appendix 2

Significant audit risks identified during planning

The table below sets out the audit risks we identified during our planning of the audit and how we addressed each risk in arriving at our conclusion. The risks are categorised between those where there is a risk of material misstatement in the annual accounts and those relating our wider responsibility under the [Code of Audit Practice 2016](#).

Audit risk	Assurance procedure	Results and conclusions
Risks of material misstatement in the financial statements		
<p>1 Risk of management override of controls</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>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>Satisfactory – we found no evidence of management override of controls during our audit work.</p>
<p>2 Risk of fraud over income</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>Analytical procedures on income streams.</p> <p>Detailed testing of revenue transactions focusing on the areas of greatest risk.</p>	<p>We found no evidence of fraud during our audit work.</p> <p>There were incomplete accounting records for some transactions selected for testing. The amounts were not material, but the substance of the transaction could not be verified.</p>
<p>3 Risk of fraud over expenditure</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>Analytical procedures on expenditure streams.</p> <p>Detailed testing of revenue transactions focusing on the areas of greatest risk.</p>	<p>We found no evidence of fraud during our audit work.</p> <p>There were incomplete accounting records for some transactions selected for testing. The amounts were not material, but the substance of the transaction could not be verified.</p>
<p>4 Risk arising from estimation and judgements</p> <p>There is a significant degree of subjectivity in the measurement</p>	<p>Completion of 'review of the work of an expert' file for the professional valuer (non</p>	<p>Satisfactory – we found the estimates and judgements (where applied) where appropriate.</p>

Audit risk	Assurance procedure	Results and conclusions
<p>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>current assets) and actuary (pensions liability). Focused substantive testing of key areas.</p>	
<p>5 Risk of not having high quality draft annual accounts</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>Early meeting with finance staff to agree changes to the accounts.</p>	<p>The Management Commentary has been revised and improved in 2017/18 and the accounts have been streamlined.</p>
<p>6 Risk of not having high quality draft charities accounts</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>Early liaison with Finance staff to agree on the required working papers to be provided for audit. Early liaison with Finance staff to learn whether the accounts will be prepared on an accruals or cash basis.</p>	<p>The charities accounts were improved this year with fewer errors on the face of the accounts. An ongoing error carried forward in opening balances, which caused difficulty in reconciling the accounts with the underlying working papers and ledger, was corrected by officers.</p>
<p>Risks identified from the auditor's wider responsibility under the Code of Audit Practice</p>		
<p>7 Financial management</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>Attendance at Council meetings to assess the depth of discussions. Regular meetings with the change management team.</p>	<p>The Council delivered £7 million of savings in 2017/18 by removing this from Directorate budgets.</p>
<p>8 Financial sustainability</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</p>	<p>Ongoing review of implementation of change articulated through the Change Programme.</p>	<p>The Change Programme update in August 2018 reported that Change Programme reviews are on track to deliver £0.1 million more savings than planned in 2018/19, but that there are risks to delivery of some savings. The £0.1 million will be used to offset any slippage in 2019/20.</p> <p>The report recognises the need to enhance the pace and momentum of change in the Council.</p>

Audit risk	Assurance procedure	Results and conclusions
<p>both the Corporate Management Team and members to drive the change agenda.</p>		
<p>9 Governance: Internal Audit provision</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>Early discussions to ensure that arrangements are in place to produce the Annual Internal Audit Report.</p>	<p>An in-house internal audit manager (Service leader – internal audit) was appointed in July 2018. Assurances for the period between the end of the contract with Scott-Moncrieff and the in-house appointment was provided by the Manager – Governance, Risk & Scrutiny. An internal audit annual report was presented to the Scrutiny & Audit Committee in June 2018.</p>
<p>10 Annual Governance Statement assurances</p> <p>Internal audit have planned limited reviews of key financial 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>Liaise with internal audit early in the year.</p> <p>Review the work of internal audit and assess the adequacy of assurances provided to support the Annual Governance Statement.</p>	<p>We concluded that sufficient assurances were available to support the Annual Governance Statement.</p>
<p>11 Risk of absence of business continuity planning</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>Review of the adequacy of business continuity and back up arrangements, with specialist ICT auditor input.</p>	<p>A significant risk remains that systems would not be restored within the required timescales. See Action Plan recommendation 8 in Appendix 1.</p>
<p>12 Value for money: Performance and Outcomes</p> <p>We recommended in our 2016/17 Annual Audit Report that the council should develop and report a corporate overview of performance</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</p>	<p>The council presented its 2017/18 performance report to full council in September 2018. This summarised performance against the priorities in the Council Plan.</p>

Audit risk	Assurance procedure	Results and conclusions
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.	public performance reporting arrangements.	

Appendix 3

Summary of uncorrected misstatements

We report all uncorrected misstatements that are individually greater than our reporting threshold of £100,000.

The table below summarises uncorrected misstatements that were noted during our audit testing and were not corrected in the financial statements. Cumulatively these errors are below our performance materiality level as explained in [Exhibit 3](#). We are satisfied that these errors do not have a material impact on the financial statements.

No.	Account areas	Comprehensive income and expenditure statement		Balance sheet		Movement in Reserves Statement
		Dr £000	Cr £000	Dr £000	Cr £000	
1	Depreciation			178		
	Non Current Assets				(178)	
2	Impairment	847				
	Non Current Assets				(847)	
Net impact		847		178	(1,025)	

Notes:











Entry 1 relates to £0.178m depreciation that should have been charged in 2017/18 on two primary schools.

Entry 2 relates to the £0.847m estimated impairment of two schools that should have been revalued when they opened in 2016/17.

Appendix 4

Summary of national performance reports 2017/18



		Apr		
		May		
Common Agricultural Policy Futures programme: further update		Jun		Scotland's colleges 2017
		Jul		NHS workforce planning
Self-directed support: 2017 progress report		Aug		
Equal pay in Scottish councils		Sept		
Transport Scotland's ferry services		Oct		NHS in Scotland 2017
Local government in Scotland: Financial overview 2016/17		Nov		
		Dec		
		Jan		
Early learning and childcare		Feb		
Managing the implementation of the Scotland Acts		Mar		

Local government relevant reports

[*Principles for a digital future*](#) – May 2017

[*Self-directed support: 2017 progress report*](#) – August 2017

[*Equal pay in Scottish councils*](#) – September 2017

[*Local government in Scotland: Financial overview 2016/17*](#) – November 2017

Angus Council

2017/18 Annual Audit Report DRAFT

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