

Angus Council

Annual Audit Plan 2018/19



 AUDIT SCOTLAND

Prepared for Angus Council
February 2019

Who we are

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

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



About us

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

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

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

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Risks and planned work

1. This annual audit plan contains an overview of the planned scope and timing of our audit and is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and any other relevant guidance. This plan sets out the work necessary to allow us to provide an independent auditor's report on the financial statements and meet the wider scope requirements of public sector audit, including the audit of Best Value.

2. The wider scope of public audit contributes to assessments and conclusions on financial management, financial sustainability, governance and transparency and value for money.


Adding value


3. We aim to add value to Angus Council through our external audit work by being constructive and forward looking, by identifying areas for improvement and by recommending and encouraging good practice. In so doing, we intend to help Angus Council promote improved standards of governance, better management and decision making and more effective use of resources.


Audit risks

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

Exhibit 1 2018/19 Key audit risks

 Audit Risk	Source of assurance	Planned audit work
Financial statements issues and risks		
<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 to change the position disclosed in the financial statements.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance.</p>	<ul style="list-style-type: none"> • Detailed testing of journal entries. • Review of accounting estimates. • Focused testing of accruals and prepayments. • Evaluation of significant transactions that are outside the normal course of business.
<p>2 Risk of fraud over income</p> <p>Angus Council receives a significant amount of income from several sources including income from fee and charges funding. The extent and complexity of income means that, in</p>	<p>Regular budget monitoring and reporting.</p> <p>Robust internal controls in financial systems to mitigate risks of error or manipulation.</p>	<ul style="list-style-type: none"> • Analytical procedures on income streams. • Detailed testing of revenue transactions focusing on the areas of greatest risk.

 Audit Risk	Source of assurance	Planned audit work
<p>accordance with ISA240, there is an inherent risk of fraud.</p>	<p>Participation in the National Fraud Initiative.</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>Regular budget monitoring and reporting.</p> <p>Robust internal controls in financial systems to mitigate risks of error or manipulation.</p> <p>Participation in the National Fraud Initiative.</p>	<ul style="list-style-type: none"> Analytical procedures on expenditure streams. Detailed testing of revenue transactions focusing on the areas of greatest risk.
<p>4 Estimation and judgements</p> <p>There is a significant degree of subjectivity in the measurement and valuation of the material account areas of non-current assets and pension figures. This subjectivity represents an increased risk of misstatement in the financial statements.</p>	<p>Valuation and impairment review of non-current assets by professional valuer in line with 5 year rolling programme.</p> <p>Actuarial valuation to provide pension figures for the financial statements. Officer review of actuarial information to ensure data and assumptions used are reasonable.</p> <p>Confirmation from legal services of all potential cases together with an assessment of potential liability and likelihood of settlement.</p>	<ul style="list-style-type: none"> Completion of 'review of the work of an expert' file for the professional valuer (non-current assets) and actuary (pensions liability). Focused substantive testing of key areas.
<p>5 Assurance over component balances within group accounts</p> <p>The Audit of AngusAlive, a significant component within the Angus Council Group, was not completed by 30 September 2018. There is a risk of misstatement if errors within the AngusAlive balances are not identified before the signing of Angus Council's Group financial statements.</p>	<p>A revised Finance structure has been implemented removing competing tasks on Angus Alive support officers during the final accounts period.</p> <p>Working papers have been amended to meet the requirements of the external auditors who were newly appointed for 2017/18.</p>	<ul style="list-style-type: none"> Receipt of a Component Auditor Questionnaire from AngusAlive auditors, Scott Moncrieff. Receipt of audited accounts of AngusAlive in timely fashion for group audit.
<p>6 Non-Current Assets</p> <p>We recommended in our 2017/18 Annual Audit Report that the council should ensure that services keep finance staff informed when the status of assets change. If communication is not timeous, there is a risk that the asset register is not up to date and the financial statements are materially misstated.</p>	<p>Communication undertaken as part of the final accounts process with appropriate officers to ascertain any changes in the status of assets.</p>	<ul style="list-style-type: none"> Focused substantive testing on non-current asset balances. Monitoring of the council's accounts preparation activities.

	Audit Risk	Source of assurance	Planned audit work
7	Completeness and Accuracy of Remuneration Report Angus Council liaises with the Tayside Pension Fund when determining the costs of exit packages to be disclosed within the Remuneration Report. All staff who leave in the year should be included in the report. There is a risk that the disclosure of curtailment costs within the Remuneration Report is not complete or accurate.	It is anticipated that there will be limited year end exit packages in 2018/19 which exacerbated the issue in 2017/18. A reconciliation will be undertaken to ensure all staff are included in curtailment costs. A new actuarial report will be requested if any variances are identified.	<ul style="list-style-type: none"> • Discussion with Human Resources to gain understanding of information sharing process between Angus Council and Tayside Pension Fund. • Focussed substantive testing on curtailment costs.
8	Accounting Treatment of Waste Management Lease In conjunction with another council, Angus Council is involved in the construction and lease of a new waste disposal plant. There is a risk that the accounting treatment is not concluded in a timely fashion and the lease value is inaccurate.	Angus Council will revisit the value of the lease for the waste disposal plant prior to the preparation of the financial statements.	<ul style="list-style-type: none"> • Ascertain evidence to support any changes to the lease treatment. • Obtain an understanding of the proposed treatment of the lease prior to receipt of the draft accounts.
Wider dimension issues and risks			
9	Financial sustainability Angus Council, through the medium-term budget strategy, has identified a significant residual funding gap from 2021/22. It will have to review and prioritise service delivery arrangements to remain within its means. This will require a transformational level of change, driven by strong leadership, to maintain the financial sustainability of the council. There is a risk that without a clear Change Programme the necessary changes are not implemented, nor the correct areas of spend prioritised.	Change Programme aligned with the Local Outcomes Improvement Plan and Locality Plans, to identify savings and new ways of working. Development of long-term financial strategy. Annual update to medium term budget strategy. Setting of Annual Council Tax/Budget	<ul style="list-style-type: none"> • Ongoing review of implementation of the Change Programme • Regular review of financial position and budgetary information presented to those charged with governance • Monitoring of Council Budget for progress in reducing the funding gap.

Source: Audit Scotland

Reporting arrangements

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

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

7. We will provide an independent auditor's report to Angus Council and the Accounts Commission setting out our opinions on the financial statements. We will provide the Section 95 officer and the Accounts Commission with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

Exhibit 2

2018/19 Audit outputs

Audit Output	Target date	Committee Date
Annual Audit Plan	31 March 2019	5 March 2019
Management Report	30 June 2019	18 June 2019
NFI Audit Questionnaire	30 June 2019	N/A
Annual Audit Report	30 September 2019	24 September 2019
Independent Auditor's Report	30 September 2019	24 September 2019

Source: Audit Scotland

The audit of trusts registered as Scottish charities

8. Members of Angus Council are sole trustees for 2 trusts, registered as Scottish charities, with total assets of some £2.1 million. The preparation and audit of financial statements of registered charities is regulated by the Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006.

9. The 2006 Regulations require charities to prepare financial statements and require an accompanying auditor's report where any legislation requires an audit. The Local Government (Scotland) Act 1973 specifies the audit requirements for any trust fund where some or all members of a council are the sole trustees. Therefore, a full and separate audit and independent auditor's report is required for each registered charity where members of Angus Council are sole trustees, irrespective of the size of the charity.

10. In 2018/19 officers propose to shift from cash to accruals accounts to streamline the accounts preparation process, given that the ledger is maintained on an accruals basis.

Audit fee

11. The proposed audit fee for the 2018/19 audit of Angus Council is £245,190 (2017/18: £240,760). There is also an additional fee of £6,000 (2017/18: £6,000) for the audit of the charitable entities. In determining the audit fee, we have taken account of the risk exposure of Angus Council, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit. Our audit approach assumes receipt of the unaudited financial statements, with a complete working papers package on 30 June 2019.

12. Where our audit cannot proceed as planned through, for example, late receipt of unaudited financial statements a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises out with our planned audit activity.

Responsibilities

Scrutiny and Audit Committee and Management

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

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

Appointed auditor

15. Our responsibilities as independent auditors are established by the 1973 Act for Local Government, and the Code of Audit Practice (including supplementary guidance) and guided by the Financial Reporting Council's Ethical Standard.

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

Audit scope and timing

Financial Statements

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

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

18. We will give an opinion on whether the financial statements:

- give a true and fair view of the state of affairs of Angus Council and its group as at 31 March 2019 and of the income and expenditure for the year then ended;
- have been properly prepared in accordance with the financial reporting framework.



characteristics



responsibilities



principal activities



risks



governance arrangements

Other information in the Financial Statements

19. We also review and report on other information published within the annual accounts including the management commentary, annual governance statement and the remuneration report. We give an opinion on whether these have been compiled in accordance with the appropriate regulations and frameworks in our independent auditor's report.

20. We also read and consider any information in the annual accounts other than the financial statements and audited part of the remuneration report and report any uncorrected material misstatements.

Materiality

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

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

Exhibit 3

Materiality values

Materiality	Amount
Planning materiality – This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It has been set at 1% of gross expenditure for the year ended 31 March 2018 based on the audited financial statements for 2017/18.	£4 million
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement, we have calculated performance materiality at 60% of planning materiality.	£2.4 million
Reporting threshold (i.e. clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. This has been calculated at 1% of planning materiality.	£40 thousand

Source: Audit Scotland



23. 17. We also set separate materiality levels for the audit of the council's charitable trusts. For the Robert & William Strang Mortification this has been set at 1% of gross payments (£2,300). We have set a specific account area materiality for the Statement of Balances at 1% of gross asset balances (£14,500). For the Angus Council Charitable Trust, materiality has been set at 1% of gross payments (£250). We have set a specific account area materiality for the statement of balances at 1% of gross asset balances (£6,000).

Timetable

24. To support the efficient use of resources it is critical that the financial statements timetable is agreed with us to produce the unaudited accounts. We have included an agreed timetable at [Exhibit 4](#).]

Exhibit 4

Financial Statements timetable

 Key stage	 Date
Latest submission date of unaudited annual financial statements with complete working papers package	30 June 2019
Consideration of unaudited financial statements by those charged with governance	By 31 August 2019
Submission of Whole of Government Accounts (WGA) consolidation pack	By 31 August 2019
Latest date for final clearance meeting with Head of Finance and Legal	6 September 2019
Receipt of audited component accounts	13 September 2019
Issue of Letter of Representation and proposed independent auditor's report	13 September 2019
Agreement of audited unsigned annual financial statements	24 September 2019
Issue of Annual Audit Report to those charged with governance	24 September 2019

**Key stage****Date**

Latest date for signing of WGA return	28 September 2019
Independent auditor's report signed	30 September 2019

Internal audit

25. Internal audit is provided by Angus Council's in-house internal audit team. As part of our planning process we carry out an annual assessment of the internal audit function to ensure that it operates in accordance with Public Sector Internal Audit Standards (PSIAS). The scope of our work assesses aspects of PSIAS compliance, but it does not equate to full EQA review of internal audit. ISA 610 requires an assessment on whether the work of the internal audit function can be used for the purposes of external audit. This includes:

- the extent to which the internal audit function's organisational status and relevant policies and procedures support the objectivity of the internal auditors
- the level of competence of the internal audit function
- whether the internal audit function applies a systematic and disciplined approach, including quality control.

26. We will report any significant findings to management on a timely basis.

Using the work of internal audit

27. From our initial review of internal audit plans, we do not plan to place formal reliance on internal audit work for our audit of the financial statements. We plan to take account of Internal Audit's reports in our wider dimension audit work.

Audit dimensions

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

**Exhibit 5
Audit dimensions**

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

Financial sustainability

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

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

Financial management

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

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

Governance and transparency

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

- whether Angus Council can demonstrate that the governance arrangements in place are appropriate and operating effectively (including services delivered by, or in partnership with, others such as ALEOs)
- whether there is effective scrutiny, challenge and transparency on the decision-making and finance and performance reports
- the quality and timeliness of financial and performance reporting
- it is noted that the Monitoring Officer within Angus Council retired at the end of March 2018, the replacement monitoring officer has been on extended sick leave in 2018. These two events have left Angus Council with an experience and knowledge gap at Monitoring Officer level. We note that steps are being taken to appoint a Monitoring Officer at a strategic level and we will keep this area under review.

Value for money

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

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

Best Value

34. The Accounts Commission agreed the overall framework for a new approach to auditing Best Value in June 2016. The introduction of the new approach coincided with the new five-year audit appointments. Auditors started using the framework for their audit work from October 2016.

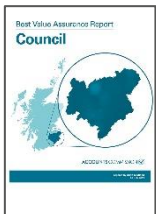
35. A key feature of the new approach is that it integrates Best Value into the wider scope annual audit, which will influence audit planning and reporting. Best Value will be assessed comprehensively over the five-year audit appointment, both through the ongoing annual audit work, and through discrete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

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

36. The seven councils on which a BVAR will be published during the second year of the new approach are listed in [Exhibit 6](#). Reports will be considered by the Accounts Commission in the period between March and November 2019.

Exhibit 6

2018/19 Best Value Assurance Reports

	North Lanarkshire Council	Highland Council
	Stirling Council	Scottish Borders Council
	South Lanarkshire Council	Perth and Kinross Council
	Midlothian Council	

Source: Audit Scotland

37. The work planned in Angus Council this year will focus on the council's arrangements for demonstrating Best Value in

- leadership, governance and scrutiny, and
- improvement.

38. The work will be integrated with that described above in these areas. It will involve us gaining an understanding of how effective the council's self-evaluation

processes are in driving improvement across the council. The results of this work will be reported in the Annual Audit Report.

Other planned audit work

39. The following areas may present significant risks to Angus Council:

- **EU Withdrawal** - There are considerable uncertainties surrounding the implications of EU withdrawal. Public bodies should assess the potential impact on their operations, identify specific issues and planned responses. We will assess how the council has prepared for EU withdrawal, specifically looking at implications for workforce, finance and regulation. We will also consider how Angus Council responds to any emerging issues after March 2019.
- **Dependency on key suppliers** - Dependency on a key supplier could expose the council to service delivery issues should the supplier fail. Where significant supplier dependencies exist, these should be identified and managed to ensure the council is able to respond to significant issues. We will review the arrangements in place to identify and manage key suppliers within Angus Council.
- **The changing landscape for public financial management** – Scottish public finances are fundamentally changing, with significant tax-raising powers, new powers over borrowing and reserves, and responsibility for social security benefits. The Scottish Government’s five-year outlook for the Scottish budget in its Medium Term Financial Strategy (MTFS) provides useful context for audited bodies’ financial planning and the new Scottish Government budget process places greater emphasis on assessing outcomes and the impact of spending. We will consider the extent to which the council has reviewed the potential implications of the MTFS for its own finances and review and assess how transparent and accessible the annual accounts’ management commentary is in communicating how Angus Council spends the monies available to it.
- **Care income, financial assessments and financial guardianship** – in some local government audits, issues have been identified with the systems and processes for collecting care income, undertaking financial assessments on individuals receiving care and financial guardianship, including backlogs of financial assessment and under-recovery of care charges over long periods (more than five years). We will assess the council’s arrangements for financial assessment of those receiving care.
- **Openness and transparency** – There is an increasing focus on how public money is used and what is achieved. In that regard, openness and transparency supports understanding and scrutiny. We will review the council’s approach to openness and transparency to ensure it is keeping pace with public expectations and good practice.

Independence and objectivity

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

41. The engagement lead (i.e. appointed auditor) for Angus Council is Gillian Woolman, Audit Director. Auditing and ethical standards require the appointed

auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of Angus Council.

Quality control

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

43. The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice (and supporting guidance) issued by Audit Scotland and approved by the Accounts Commission and the Auditor General for Scotland. To ensure that we achieve the required quality standards Audit Scotland conducts peer reviews and internal quality reviews. Additionally, the Institute of Chartered Accountants of Scotland (ICAS) have been commissioned to carry out external quality reviews.

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

Angus Council

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