

Angus Council

2018/19 Annual Audit Report – DRAFT



 AUDIT SCOTLAND

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

24 September 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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Key messages

2018/19 annual accounts

- 1** Angus Council (the 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 relevant regulations and guidance.
- 3** The statement of accounts of the Angus Council Charitable Trust and Robert & William Strang Mortification section 106 charities administered by the council are free from material misstatement.

Financial management

- 4** Financial management is effective with a budget process focussed on the council's priorities.
- 5** Our testing of the design and operation of key controls confirmed that, with the exception of high-level access rights controls in one system, controls relating to financial systems and procedures are designed appropriately and operating effectively.
- 6** The council should review its voluntary severance scheme to ensure that the payback period and business cases for exit packages clearly demonstrate value for money.

Financial sustainability

- 7** 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.
- 8** There are medium-term financial plans that are aligned to the council's priorities and demonstrate how it will address future budget challenges. Long term financial plans should also be developed which reflect the financial pressures on the council.
- 9** The council has made savings over the past few years. However, the size of the future funding gap and a reliance on non-recurring savings means it may struggle to make the required savings in future years.

Governance and transparency

- 10** The council has appropriate governance arrangements in place that support the scrutiny of decisions made by the council.
- 11** The council demonstrates a commitment to transparency in the way it conducts its business.

Value for money

- 12** Our best value audit work on improvement found that the use of performance information to direct improvement is inconsistent across the council. The council has rolled out “How good is our council?” to obtain a baseline position. Services need to understand their data better and how it can be used to support improvement.
- 13** Our best value audit work on leadership, governance and scrutiny found that the council has clearly set out its priorities and is investing significant effort in reviewing services to identify options for the reshaping of future services.
- 14** We observed that scrutiny at public meetings is often light. It is important that all members feel well equipped to participate effectively in scrutiny: training may help members to engage in more robust public scrutiny.

Introduction

1. This report summarises the findings arising from the 2018/19 audit of Angus Council (the council) and its group.

2. The scope of the audit was set out in our 2018/19 Annual Audit Plan presented to the 15 March 2019 meeting of the Scrutiny and Audit Committee. This report comprises the findings from:

- an audit of the annual report and 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 2018/19 have been:

- an audit of the council and its group 2018/19 annual accounts and the statement of accounts of the two section 106 charities administered by the council, including the issue of independent auditors' 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: Leadership, Governance & Scrutiny; and Improvement
- consideration of the four audit dimensions.

Added value through the audit

4. We add value to the council through the audit by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations for improvements that have been accepted by management
- reporting our findings and conclusions in public
- sharing intelligence and good practice through our national reports ([Appendix 4](#)) and good practice guides
- providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

5. In so doing, we aim to help Angus Council promote improved standards of governance, better management and decision making and more effective use of resources.

Responsibilities and reporting

6. 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.

7. 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.

8. 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.

9. As public sector auditors we give independent opinions on the annual accounts. Additionally, we conclude on:

- the effectiveness of the council's performance management arrangements
- the suitability and effectiveness of corporate governance arrangements, and financial position
- the arrangements for securing financial sustainability, and
- best value arrangements.

10. In doing this we aim to support improvement and accountability. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#).

11. 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.

12. Our annual audit report contains an agreed action plan at [Appendix 1a](#) setting out specific recommendations, responsible officers and dates for implementation. [Appendix 1b](#) includes outstanding actions from last year and the steps being taken to implement them.

13. 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 and the 2018/19 audit fee of £245,100 (and £3,000 each for the two charities) as set out in our Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

14. 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 in due course.

15. We would like to thank all management and staff for their cooperation and assistance during the audit.

Part 1

Audit of 2018/19 annual accounts



Main judgements

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 relevant regulations and guidance.

The statement of accounts of the two section 106 charities administered by the council are free from material misstatement.

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 opinions on the annual accounts

16. The annual accounts for the council and its group for the year ended 31 March 2019 were approved by the Scrutiny and Audit Committee on 24 September 2019. We reported within the independent auditor's report that:

- the 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 relevant regulations and guidance.

17. We have nothing to report in respect of misstatements in information other than the financial statements, the adequacy of accounting records or the information and explanations we received.

Audit opinions on section 106 charities

18. 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 the sole trustees, irrespective of the size of the charity.

19. The council prepared the charity accounts on an accruals basis for the first time in 2018/19, consistent with how the accounting records are maintained during the year, as recommended in last year's Annual Audit Report. The accounts required some disclosure amendments to ensure compliance with the Charities SORP but no financial misstatements were identified.

20. We received the charities' accounts in line with the agreed timetable and after completing our audit we reported in the independent auditor's reports that:

- the financial statements give a true and fair view of the section 106 charity's financial position and are properly prepared in accordance with charities legislation
- the trustees' annual report is consistent with the financial statements and prepared in accordance with proper accounting practices.

Submission of the council and its group annual accounts for audit

21. We received the unaudited annual accounts on 28 June 2019 in line with the audit timetable set out in our 2018/19 Annual Audit Plan.

22. The working papers provided with the unaudited accounts were of a good standard and finance staff provided good support to the audit team during the audit. This helped ensure that the audit of the annual accounts process ran smoothly.

Whole of Government Accounts

23. The council submitted a consolidation pack, for the whole of government accounts (WGA), to the Scottish Government on 11 September in respect of the figures within the draft annual accounts. The deadline for submission was 27 July. Whilst the council's financial results are below the audit threshold, we are required to confirm that key figures agree to the audited financial statements.

24. In addition, other public sector organisations are required to match their WGA balances against the balances that Angus Council is required to upload to the Scottish government WGA site. This therefore has implications for the overall WGA process. We repeat our recommendation from last year that arrangements should be in place for the preparation of the WGA consolidation pack in compliance with the timetable of the Scottish Government.

Risk of material misstatement

25. [Appendix 2](#) provides a description of those assessed risks of material misstatement in the annual accounts and any wider audit dimension risks that were identified during the audit planning process. It also summarises the work we have done to gain assurance over the outcome of these risks.

26. We have made three recommendations in [Appendix 1a](#) relating to issues from our work on the risks of material misstatements highlighted in our 2018/19 Annual Audit Plan. These relate to assurances from AngusAlive for the group accounts, ensuring that the assets register is reconciled to the accounts and completeness of curtailment costs in the Remuneration Report.

Materiality

27. 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.

28. 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.

29. 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	£4 million
Performance materiality	£2.4 million
Reporting threshold	£40,000

Source: Audit Scotland, Annual Audit Plan 2018/19

Significant findings from the audit in accordance with ISA 260




30. International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of the body's accounting practices covering accounting policies, accounting estimates and financial statements disclosures.

31. The significant findings are summarised in [Exhibit 3](#). Where a finding has resulted in a recommendation to management, a cross reference to the Action Plan in [Appendix 1a](#) has been included.

Exhibit 3

Significant findings from the audit of the financial statements

Issue	Resolution
<p>1. IAS19 actuarial valuation</p> <p>A legal ruling was made regarding age discrimination arising from public sector pension scheme transition arrangements (known as McCloud/Sergeant).</p> <p>On 27 June the Supreme Court denied the UK Government leave to appeal. The UK Govt. still had the option to appeal through the Employment Tribunal but declined to pursue that option and therefore conceded the legal point that the protections in place were discriminatory on grounds of age.</p> <p>McCloud increases the size of pension liabilities across the UK and places a funding strain on employers through any additional employer contributions that may have to be paid</p> <p>The actuarial valuation of the IAS 19 pension liability in the unaudited accounts was revised to take account of the McCloud ruling. As a result, a revised valuation was carried out which resulted in an overall increase to the pension liability of £4.553 million.</p> <p>In addition, the case ruled on the Guaranteed Minimum Pension (GMP) equalisation.</p>	<p>The council obtained a revised actuarial valuation which took into account the Supreme Court's ruling and adjusted the financial statements to reflect the revised pension liability. The impact of the adjustment was to increase the employer's liability by £4.553m.</p> <p>GMP has been included as an unquantified contingent liability in the revised accounts.</p>

Issue	Resolution
<p>2. Confirmation of restated prior year figures in the Comprehensive Income and Expenditure Statement</p> <p>Angus Council has undergone restructuring as a result of a Management Review. This means that the Comprehensive Income and Expenditure Statement (CIES) has been revised, the number of reporting lines (segments) reflecting how the council is currently organised. This required the restatement of prior year figures and ledger codes. It has taken considerable Finance officer time to ensure that the figures disclosed are accurate.</p> <p>A further consequence is that, at a time of transition, there are an excessive number of segments reported in the CIES, reducing the readability of the statement and associated notes. Accounting guidance suggests that a maximum of 10 segments should be used.</p>	<p>All issues identified as a result of the restructuring in 2018/19 have been resolved with appropriate adjustments made to the associated prior year comparative figures.</p> <p>It is noted that the accounts for 2019/20 will reflect a different structure (with fewer segments) and this will result in the 2018/19 figures having to be restated.</p> <p> Recommendation 1, appendix 1a</p> <p>The restatement of the 2018/19 figures should be worked through at an early stage in the accounts process to allow for supporting documentation to be obtained from the financial systems. This will be reviewed at an early stage in the audit process to ensure any issues identified are resolved prior to the production of the draft accounts.</p>
<p>3. Exit Package disclosure in Remuneration Report</p> <p>It has been identified that curtailment costs associated with the exit package for one employee were omitted from the Remuneration Report.</p>	<p>A footnote has been added in respect of the incomplete information on curtailment costs in the Remuneration Report.</p> <p> Recommendation 2, appendix 1a</p> <p>The information flows between Angus Council, Tayside Pension Fund, and the Pension Fund Actuaries should be reviewed to ensure that all information is provided to the actuary to enable them to provide all the required information on a timely basis for inclusion in the Remuneration Report.</p>
<p>4. Compliance with the Code of Practice</p> <p>It is noted that there are areas where Angus Council has not provided detail as required by the revised accounting Code: Trade Payables and Trade Receivables should have a different analysis in 2018/19.</p> <p>The Code requires that all internal transactions be removed from the CIES.</p>	<p>Internal transactions were removed from the CIES. Note 8 to the accounts has been updated to include more information on the grants received by Angus Council. Further analysis of Trade Payables and Trade Receivables was not available for the 2018/19 figures to enable amended disclosure. This will be available for the 2019/20 accounts.</p> <p> Recommendation 3, appendix 1a</p> <p>Angus Council should ensure that all the revised requirements of the Code are reviewed, and systems put in place to collect this information before the accounts are drafted.</p>

How we evaluate misstatements

32. Adjustments amounting to £4.583 million have been made to the accounts. This resulted in a £0.030 million reduction in the General Fund outturn as a result of these adjustments. A number of misstatements have not been adjusted for in the accounts and these are detailed in [Appendix 3](#).

33. It is our responsibility to request that all misstatements above the reporting threshold are corrected. 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 items above as the amounts are not considered material in the context of the financial statements.

Other findings

34. Our audit identified a number of less significant findings, several of which were mis-classification errors:

- there was a significant debit balance of £1.5 million within Short Term Creditors, due to mis-coding between creditors suspense codes. This does not affect the total creditors balance in the Balance Sheet. Steps are being taken to ensure that these mis-codings are resolved before the draft accounts are produced in 2019/20
- the employer's contributions figure reported in the actuarial report is £0.422 million higher than the actual contributions figure. This is due to the actuary using projections rather than actual figures. Officers have included a footnote in Note 21 to explain the difference
- Ladyloan and Muirfield schools were transferred from Assets Under Construction to Operational Assets. However, whilst the schools were completed and operational, £0.748 million of assets were not completed until June 2019 but included within the asset valuation within the Balance Sheet. This has been noted as an unadjusted error
- short term balances of £3.186 million were incorrectly included in Long Term Borrowing; this has been adjusted in the revised accounts
- within Financial Instruments the £0.354 million loan to HUBCo has been wrongly identified as a Cash and Cash Equivalent; this has been amended with the Cash and Cash Equivalent figure reducing and the Short and Long Term Investment figures increasing
- an asset in the process of being sold was included in operational Council Dwellings at a net book value of £0.3 million rather than Assets Held for Sale at its sale value of £0.1 million
- depreciation of £0.048 million has not been charged on a number of assets; management do not propose to adjust for this.

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

Follow up of prior year recommendations

36. The council has made substantial progress in implementing our prior year audit recommendations. There are however, some not fully implemented. Revised responses and timescales have been agreed with management and are set out in [Appendix 1a](#).

Integration Joint Board

37. For the third year the council included its share of the financial transactions of Angus Integration Joint Board (the IJB) within its group financial statements. We have completed our audit of the IJB and reported our findings to the Angus IJB Audit Committee in August 2019. 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 with the IJB. Our audit testing also confirmed that the council properly identified transactions that relate to work commissioned by the IJB.

Objections

38. 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 published a notice but did not include full details of the hours and locations that the accounts and related records could be inspected.

39. There was one objection to the accounts. As a result of our work to address the objection we found that a property asset which is in the process of being sold was wrongly classified in the accounts as an operational asset when it should be classified as an asset held for sale. Completion of the asset's sale is currently delayed by the need for corrective conveyancing to be agreed by the owner of a neighbouring property. There was a further point in the objection related to accessing underlying records for the Common Good account. Publishing a fully detailed advert for the unaudited accounts and having a procedure for staff to follow if someone does want to access the accounts or underlying records, might forestall further objections of this nature.



Recommendation 4

The council should publish a notice of the availability for public inspection of the unaudited accounts, including all details required by the Local Authority Accounts (Scotland) Regulations 2014. The council should also ensure that staff in council offices are aware of the procedure to follow if someone asks to inspect the accounts or underlying records.

Part 2

Financial management



Main judgements

Financial management is appropriate and effective with a budget process focussed on the council's priorities.

Our testing of the design and operation of key controls confirmed that, with the exception of high-level access rights controls in one system, controls relating to financial systems and procedures are designed appropriately and operating effectively.

The council should review its voluntary severance scheme to ensure that the payback period and business cases for exit packages clearly demonstrate value for money.

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

Financial performance in 2018/19

40. The council approved its 2018/19 budget on 15 February 2018. The budget was set at £258 million with a funding gap of £18.1 million. Plans to address this gap included £10.6 million of savings, a transfer of £5.7 million from reserves and a 3% increase in council tax of £1.8m.

41. The Council Plan and the Summary Financial Plan demonstrated how the budget aligned to council priorities. Progress on spend against budget was reported to members four times during the year, with the final outturn report in June setting out the changes to budgets and projected outturn for the year.

42. The council has a track record of delivering services within budget, over the last eight years. In the 2018/19 annual accounts there was a year-end General Fund underspend of £12.3 million on the Comprehensive Income and Expenditure Statement which is higher than the anticipated underspend in the revised budget. A successful one-off VAT reclaim of £3.4 million contributed to this underspend position. The Expenditure and Funding Analysis note to the accounts shows how the income and expenditure in the annual accounts reconciles to the finance reports provided to elected members.

43. While the council's spending has remained in line with its overall budget, there are significant variations in how different services have performed. The more significant underspends are summarised in [Exhibit 4](#); there were no significant overspends.

Exhibit 4

Summary of significant underspends against budget

Area of underspend	£m	Reason for variance
Staff costs	£0.698	Delayed recruitment
Facilities management service	£0.692	Savings within the new service including consolidated budgets and contract negotiations/ savings
Severance costs	£1.700	All of the earmarked funding for severance was taken into the 2018/19 budget; the council intends that this will be used over a number of years.
Adult services	£1.772	A number of one-off under spends relating to implementation of the Living Wage for sleepovers and resettlement of patients from inpatient hospital care. Also, a stepped improvement in the reported out-turn for Learning Disability Services, which reflected revised information regarding service income. Savings delivered will be earmarked by the council and held as reserves on behalf of Angus Integration Joint Board.
Loan charges	£2.799	Special repayments strategy to help keep future loan charges affordable. £1 million to be applied as a special repayment and remainder earmarked to be carried forward to 19/20.
Council tax income	£0.615	Additional income as a result of strong collection performance

Source: Angus Council report 215/19 and appendices

Housing revenue account

44. The council is required by legislation to maintain a separate housing revenue account (HRA) and to ensure that rents are set to a level which will at least cover the costs of its social housing provision.

45. The £1.5 million in-year deficit on the HRA was lower than the budgeted £2.5 million deficit. This was due to savings in supervision and management costs, which were partly offset by an increase in the allowance for bad debts in the year. After statutory accounting adjustments of £0.875 million and £0.570 million transfers to and from earmarked reserves, the balance on the HRA decreased by £0.074 million.

Reserves

46. 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 increased from £40.2 million at 31 March 2018 to £45.6 million at 31 March 2019.

47. The general fund is the largest reserve and 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.

48. 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. The council considers this to be a committed reserve although it is a general contingency balance. Beyond this contingency, the level of uncommitted general fund reserves as at 31 March 2019 was £7.2 million, an

increase from the £2.6 million balance as at 31 March 2018. The council considers itself to be taking a prudent approach to using reserves and strives to ensure that they are not being used to balance the budget on an ongoing and unsustainable basis.

Efficiency savings

49. With funding pressures and increased demand for services, efficiency savings are an important means of bridging the gap between funding received and spending commitments.

50. The council had planned to secure efficiency savings of £6.7 million in 2018/19. The Change Programme has enabled the council to deliver savings of £9.6 million in 2018/19, and the council continues to review services to ensure that monies are invested in delivering services which are sustainable for the future.

51. The council's voluntary severance scheme supports the streamlining and reshaping of council services: 50 exit packages agreed by the council in 2018/19 are reported in the Remuneration Report (2017/18: 136 packages). Councillors and senior managers need to be fully aware of the costs and benefits when making decisions. They should balance the interests of the individual retiring against the authority's responsibility to secure value for money. The council's five-year payback period is longer than that of most other councils and out of step with the Scottish Government's view that payback periods should be a maximum of two years.

52. In our testing of exit packages, we noted one business case where compliance with the scheme's maximum payback period (the number of years it takes for the savings to cover the cost of the exit package) was unclear. Whilst the business case was reviewed and approved in accordance with the scheme, it was not fully evident how officers had assured themselves that it demonstrated value for money. We obtained further information from officers to clarify this particular case and conclude our testing. Business cases should be clear in demonstrating the value for money of any exit package.



Recommendation 5

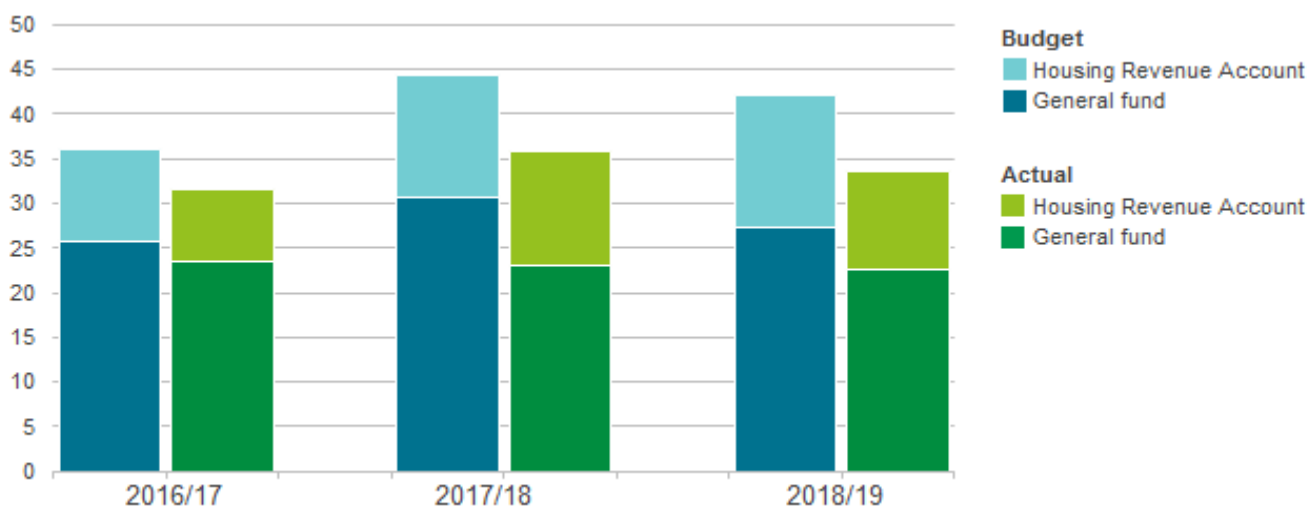
The council should review its voluntary severance payback period to ensure that the scheme demonstrates value for money. The council should also ensure that the business cases are clear in demonstrating the value for money of any exit package.

Capital programme 2018/19

53. Total capital expenditure in 2018/19 was £33.5 million, of which £22.7 million was related to general services and £10.8 million to the housing revenue account.

54. Capital spend was £8.7 million below budget. The council has a history of slippage in its capital programme as outlined in [Exhibit 6](#).

Exhibit 6 Capital slippage compared to budget (general fund and HRA)



Source: Angus Council Audited Annual Accounts

55. The main reasons for the slippage in capital spend are:

- Arbroath Flood Strategy Work delayed (£1.4m)
- Postponed decision on recycling centre provision (£0.6m)
- Arbroath Schools project incurred less than expected expenditure in 18/19 (£0.4m)
- Montrose South Regeneration has been unable to agree compensation with property owners (£0.4m).

56. Within the Housing Revenue Account the following areas of slippage are noted: heating replacement contract terminated due to underperformance of the contractor; Energy Efficiency Standard for Social Housing project delayed but now on track to be delivered in 2020; bathroom replacements project delayed to allow for the lessons learned in the pilot phase to be incorporated into the final contract (which has been awarded but there is a long mobilisation period for the contractor).

57. The majority of the capital spend in 2018/19 is financed from government grants, which have increased; the contribution from revenue has decreased and advances from the loans fund have also decreased.

Borrowing in 2018/19

58. The council's outstanding loans at 31st March 2019 were £145 million, a decrease of £3 million on the previous year. £6 million of loan repayments were made. The council operates within the limits of the Treasury Management strategy with no new loans having been taken out in either 2017/18 or 2018/19.

Budgetary process

59. The [Local Government in Scotland: Financial overview 2017/18](#) (November 2018) 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. We noted that the council's budget and savings plan is aligned to the council priorities as set out in its Council Plan. This is consistent with good practice.

60. In September 2018 Angus Council produced its Medium-Term Budget Strategy (MTBS) which sets out the challenges facing the council from 2019/20 to 2021/22. Included in this report is sensitivity testing which set out the base projection, Optimistic and Pessimistic views of likely savings required.

61. In January 2019 Angus Council produced the Summary Financial Plan 2019/20 – 2021/22. The Summary Financial Plan links with the council and Workforce plans to set out the challenges that face Angus Council in the coming years. The financial plan also sets out the areas of investment that Angus Council has committed to and how the money spent by the council impacts on the local economy. We consider this an area of good practice.

62. Within the council the detailed scrutiny of financial performance is delegated to the Policy and Resources Committee which receives regular revenue and capital monitoring reports. From our review of these reports and attendance at committee we concluded that they provided an overall picture of the budget position at service level. The reports include the forecast outturn position for the year and narrative explanations for significant variances against budget. They allow both members and officers to carry out scrutiny of the council's finances.

Systems of internal control

63. 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.

64. Our findings were included in our management report (June 2019) that was presented to the Scrutiny and Audit Committee on 20 August 2019. We concluded that the key controls were operating effectively, except for high level access rights within ResourceLink, the council's payroll system. The review undertaken by Audit Scotland, and Internal Audit's review of user access rights, both note that a full listing of user access rights was not maintained and that changes, particularly changes to standing data within the system, were not being logged and traceable to individual users. Steps are being taken to ensure that all actions are now logged and traceable. Actions taken to resolve this risk will be reviewed as part of the audit process in 2019/20.

65. No other significant internal 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.

Risk management

66. It is noted that the council has recently undertaken a review of risk management arrangements including refreshing the Risk Register to ensure that all risks relevant to the council are included. This process is ongoing and is due to be presented to committee in September 2019. The revised risk register will be reviewed as part of our 2019/20 audit planning.

Internal audit

67. We reviewed the council's internal audit arrangements in accordance 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. We concluded that internal audit complies with Public Sector Internal Audit Standards (PSIAS) and that we could rely on its work. We placed reliance on internal audit's review of exit packages for our financial statements audit opinion (testing was shared between internal and external audit). We also took account of internal audit's findings for our wider dimension audit responsibilities.

68. The council appointed a full time Service Leader - Internal Audit in July 2018. This is a move away from the outsourcing of the management of the service. The Internal Audit Annual Audit Report has been presented to committee and reviewed.

Standards of conduct for prevention and detection of fraud and error

69. 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.

70. 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.

National Fraud Initiative

71. 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.

72. NFI activity is summarised in [Exhibit 8](#). As a result of the NFI exercise, a total of £17,679 across five cases is in the process of being recovered. No fraud has been identified from investigations to date.

Exhibit 8 NFI activity



4138

Matches



980

**Selected for investigation
based on risk factors**



538

**Completed/closed
investigations**

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

73. The council is well engaged with the NFI exercise, with a dedicated counter fraud team who have direct access to the Chief Executive as required. The results of the exercise are reported to the Scrutiny and Audit Committee twice a year in the counter fraud team reports.

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. Long term financial plans should also be developed which reflect the financial pressures on the council.

The council has made savings over the past few years. However, the size of the future funding gap and a reliance on non-recurring savings means it may struggle to make the required savings in future years.

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

Financial planning

74. 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, and which reflect the impact of future pressures on the council.

75. The council has well established medium-term financial planning arrangements. It does not currently have a longer-term financial plan, although it does plan for the affordability of its long-term financial commitments (e.g. investment in schools, housing etc.). The Accounts Commission recommended that councils should plan for a range of scenarios, so they are prepared for different future levels of funding and income.



Recommendation 6

The council should develop long term financial planning arrangements, including scenario planning, to be prepared for a range of future levels of funding and income.

Funding position and savings plans

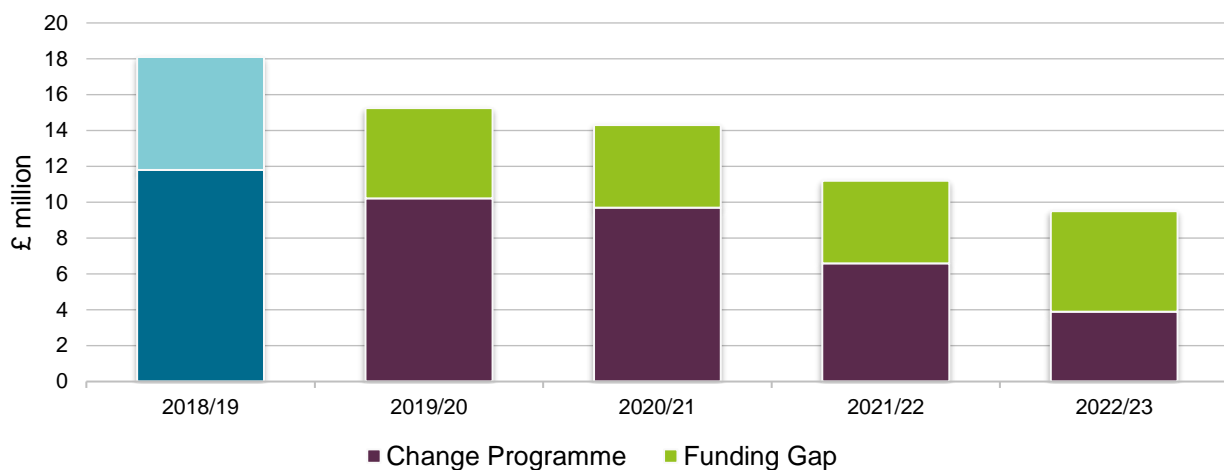
76. The council is facing several challenges in maintaining a sustainable financial position over the medium to long term. These include rising demands for services, increasing cost of services and reductions in local government funding.

77. In February 2019 the council set a 2019/20 budget of £269 million with an identified gap of £15.3 million. This gap will be addressed through Change Programme savings and a 3% increase in council tax in the year.

78. The Change Programme has delivered in a number of areas which has enabled the council to review services delivered and the method of delivery. These programmes need to continue to deliver savings to enable the council to operate within its funding envelope.

79. The council's most recent Medium-Term Budget Strategy has forecast funding shortfalls of £14.3 million in 2020/21, £11.2 million in 2021/22 and £9.5 million in 2022/23. The Change Programme has identified savings to reduce the shortfall, but not all. This is illustrated in [Exhibit 9](#).

Exhibit 9 Identified funding gaps 2018/19 – 2022/23



Source: Angus Council reports 60/18 and 57/19 and Medium-Term Budget Strategy

EU Withdrawal

80. There remains significant uncertainty surrounding the terms of the UK's withdrawal from the European Union (EU). EU withdrawal will inevitably have implications for devolved government in Scotland and for audited bodies. 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 potential changes to migration are likely to affect the availability of the people and skills needed to deliver services.
- Funding – the extent to which potential changes to existing EU funding programmes are likely to affect the finances of public bodies and the activity that such funding supports.
- Regulation – the extent to which potential changes to EU regulations are likely to affect the activities of some public bodies.

81. The council has reviewed the likely impact of EU withdrawal on the operation of the council and this work is reported to the Policy and Resources Committee and the Scrutiny and Audit Committee. The council is working in partnership across the public sector, including the Tayside Resilience Partnership and wider Scottish Resilience Partnership to prepare for the potential impact of EU withdrawal. The council should ensure it closely monitors developments and has plans in place to mitigate any emerging operational risks.

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.

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 and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making and transparent reporting of financial and performance information.

Governance arrangements

82. 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 seven 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.

83. 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. This committee has delegated authority to review and approve the council’s annual accounts (unaudited and audited). We reported last year that scrutiny of the accounts and audit reports was light in comparison to other committee papers and we encouraged members to strengthen their scrutiny of the accounts to demonstrate their stewardship role. A briefing for members on the unaudited 2018/19 annual accounts was provided by finance staff in August 2019 and attended by 13 elected members.

84. Whilst we conclude that the council's governance arrangements are appropriate and support good governance, our Best Value work on Leadership, Governance and Scrutiny (see below) concludes that scrutiny at committee meetings is often light and should be further improved.

Openness and transparency

85. There is an increasing focus on how public money is used and what is achieved. In that regard, openness and transparency support understanding and scrutiny. There are increasing public expectations for more openness and transparency as citizens want to understand how public money is used and to support their participation in local service design and delivery.

86. A transparent organisation shows the basis for its decisions and shares information about performance and outcomes, including when targets have and

have not been achieved as well as how it is using its resources such as money, people and assets.

87. 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 other committees. Minutes of these committee meetings and supporting papers are readily available on the council's website. The council also uses Twitter to share key discussion points and decisions from council meetings.

88. 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. In addition, the website provides details of the citizen's panel and how to join it. The panel provides information and feedback on services as well as information on the needs of local communities.

89. We concluded that the council demonstrates a commitment to openness and transparency with meetings held in public, minutes and reports being available on the website and the use of the website to promote the key messages for the public in Angus.

Transparent reporting of financial performance

90. The management commentary that accompanies the financial statements should explain in simple terms and provide clarity to readers in order to help them understand clearly how the council has performed against its budget and how this is reconciled to the financial statements.

91. The council has worked hard to develop its Management Commentary, building on improvements made last year. It is an engaging summary of the financial performance of the council in the year, linking the spend to the services provided in the year.

92. The management commentary sets out the council's priorities and the financial context, followed by a summary of outturn against budget (for both revenue and capital). Key financial indicators and a summary of key achievements are included, and the council's spending plans alongside its planned efficiency savings and the efforts underway to deliver those savings.

93. Overall, we concluded that the council demonstrates a commitment to transparency in the way it reports publicly on financial performance.

Integration of health and social care

94. 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.

95. The Angus Integration Joint Board (IJB) is provided in partnership with NHS Tayside and became fully operational on 1 April 2016. The financial transactions of the IJB have been consolidated into the council's group accounts and we have audited these with satisfactory results.

96. In 2018/19 the IJB reported a £5 million surplus (2017/18: £0.4 million surplus). This underspend increases the IJB's useable reserves to £6 million, with £2.6 million earmarked for specific purposes and the remaining £3.4 million is held as a general reserve, in line with the IJB reserves policy. The IJB is in discussion with its partners about the potential to return some earmarked reserves to the partners, who face considerable financial pressures. The council contributed £44.1 million to the IJB and NHS Tayside contributed £125.3 million for 2018/19. A separate annual audit report for Angus IJB was presented to the IJB Audit Committee on 28 August 2019. Despite the surplus in 2018/19, the IJB's strategic financial plan identifies a

financial shortfall in 2020/21 and 2021/22 and plans will need to be identified by the IJB to address this.

97. The IJB and its partners continue to work together to move the balance of care to community-based care, and the IJB can demonstrate that people are moving into care homes later in life for shorter periods of time and with a higher level of need. Continued progress with the delivery of the Angus Care Model, supporting people in communities, meant that the IJB was able to cease Inpatient Services in Montrose Royal Infirmary, where there had been empty hospital beds, releasing resources to be used in community-based care.

98. We also recommended that the IJB works with its partners to secure sufficient capacity to deliver further planned improvements. Both NHS Tayside and Angus Council have a key role to play in this.

Part 5

Value for money



Main judgements

Our best value audit work on improvement found that the use of performance information to direct improvement is inconsistent across the council. The council has rolled out “How good is our council?” to obtain a baseline position. Services need to understand their data better and how it can be used to support improvement.

Our best value audit work on leadership, governance and scrutiny found that the council has clearly set out its priorities and is investing significant effort in reviewing services to identify options for the reshaping of future services.

We observed that scrutiny at public meetings is often light. It is important that all members feel well equipped to participate effectively in scrutiny: training may help members to engage in more robust public scrutiny.

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

Best value

99. 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 report for Angus Council is planned for year five of the five-year programme (2021).

100. The best value audit work carried out this year focussed on the council's arrangements for demonstrating best value in the following areas:

- Leadership, governance and scrutiny - delivering better services through effective leadership, a clear vision and sound governance; and
- Improvement – a commitment to continuous improvement and demonstrating best value through effective performance management.

101. The Corporate Leadership Team meets on a four weekly cycle using a cyclical approach with different areas being discussed regularly. The minutes from these meetings, including the decisions made, are available in a restricted area on the council's intranet. An intensive members' induction process is in place for councillors and includes more than just the technical grounding of rules and regulations, but also looks at how services are managed and the issues facing services.

102. The council is developing its use of Pentana (the performance management system including the use of a dashboard) for a single, corporate approach to using performance information. Key performance indicators are being developed to reflect this single corporate approach. The [Local Government Benchmarking Framework](#) will be used as the basis for some of the information. The “How good is our council?” model of self-evaluation is being rolled out across all council services

to provide a consistent approach to self-evaluation. This will establish a baseline for measuring improvement and achievement of outcomes against council priorities.

103. The Schools and Learning service is exploring how to use its performance data better to drill down and drive improvement at a targeted level. There is scope for all services to benefit from a better understanding of their performance data and how it can support improvement.

104. The council is committed to reshaping its services to become a smaller, leaner, more efficient council; it is clear with stakeholders about the financial pressures it faces, and the need for difficult decisions to be taken. A significant part of reshaping the council is taking place through the Organisational Development/Zero Based Budgeting (OD/ZBB) meetings which have been held weekly over the past year. A data pack bringing together all the performance, staffing and financial data on the service informs a full day discussion of what each service does: what is required by statute, what could be stopped, or done differently. There is a subsequent half day session to discuss options for the future.

105. The council has a clear focus on its priorities and the need to target resources towards these. OD/ZBB is a route to identifying options for reshaping services and more detailed options appraisals can be developed as a result

106. With respect to Governance and Scrutiny, for our best value audit work, we attended and observed additional committee meetings. Overall, and based on our cumulative knowledge and experience of other local government settings, we would observe that scrutiny at public meetings is often light. It is important that all members feel well equipped to participate effectively in scrutiny.



Recommendation 7

The council should ensure that all members are supported in their scrutiny role through focussed training and development activity. Members should take advantage of the training opportunities available, requesting any further development activity or support as needed.

107. The effectiveness of the council's best value arrangements in other areas will be assessed and reported throughout our audit appointment.

Following the public pound

108. 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.

109. 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.

110. 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 IJB and Angus Alive. Reports on both these bodies have been presented to the committee during 2018/19.

111. Angus Alive, a wholly owned subsidiary of the council. is a material component of the council group. We recommended last year that the council obtain audit assurances for Angus Alive, before the audit of the group accounts was concluded. However, arrangements were not put in place for the audit to be

completed in time for the 2017/18 group accounts audit. In the event a modified audit opinion was given on the 2017/18 Angus Alive accounts.

112. Officers worked to secure earlier preparation of the 2018/19 Angus Alive accounts and the audit process was brought forward. The finalised figures were confirmed in September. However, the Angus Alive accounts will not be approved until its board meeting in November. There is a risk of a post-balance sheet event to occur in the period before the board meeting which may impact on the audit opinion.



Recommendation 8

The Section 95 officer needs to take action to secure receipt of audited accounts to be assured that they are a true and fair record of the body's financial results in order to give that assurance to the group auditor in good time before the group audit opinion is concluded.

Overview of performance reporting and targets

113. 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.

114. The most recent [National Benchmarking Overview Report 2017/18](#) by the Improvement Service was not presented to a council committee. There is scope to improve reporting on how well the council performs in comparison to other councils.

115. The council's 2018/19 Annual Performance Report was considered by the Scrutiny and Audit Committee on 5 September 2019. The Performance Report is aligned with the Angus Community Plan 2017-2030 and highlights the council's success stories including case studies where the council has had positive outcomes.

116. The Scrutiny and Audit Committee also considered the recent [Local Government in Scotland: Challenges and Performance 2019](#) report at its June 2019 meeting. The council intends to use the report to inform its approach to quality, improvement and performance in order to support delivering the outcomes described in the Local Outcomes Improvement Plan, Locality Plans and the 2019-24 Council Plan. Members have been offered a development session in October 2019 to discuss this report and the [Local government in Scotland: Financial overview 2017/18](#).

117. From our review of the reports presented, we note that it is not always clear where and what actions are being taken to address areas for improvement locally.



Recommendation 9

The council needs to be clearer in demonstrating where and what actions it is taking to address areas for improvement. Services also need to understand their performance data better and how it can be used to support improvement. The council needs to be more transparent in reporting the outcomes against targets or context when reporting performance.

Statutory performance indicators (SPIs)

118. 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.

119. For 2018/19 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](#).

120. The council publicly reports individual performance indicators in the Pentana system, which is 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 provides a more readable summary of performance against council priorities. However, it fails to set out the objectives/goals the council is working to, instead focussing on what the council did.

121. We concluded that the council is still developing a performance management framework that managers and councillors clearly understand. Further work in this area is required to demonstrate the link between objectives and the achievement of them. Individual services need to understand their data better and how it can be used to support improvement. This is part of the council's ongoing work to improve the use of Pentana and be a "performance led council".

National performance audit reports

122. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2018/19, Audit Scotland published a number of reports were issued which are of direct interest to the council. These are outlined in [Appendix 4](#).

123. From a review of the papers and attendance at the Scrutiny and Audit Committee during 2018/19, we conclude that arrangements are in place for considering national reports. National reports are presented to the Scrutiny and Audit Committee with a brief covering paper summarising the report. The covering reports could go further by being tailored to report on what it means for Angus Council and include actions being taken by the council to address these. This would help engage members and provide more opportunity for scrutiny over Angus Council (refer paragraph 117).

Appendix 1a

Action plan 2018/19



No.	Issue/risk	Recommendation	Agreed management action/timing
1	<p>Restatement of Comprehensive Income & Expenditure Statements for 2019/20 accounts</p> <p>The council's service restructure in 2019/20, as part of the Management Review, will lead to different reporting segments being reported in the 2019/20 CIES. This will also require restatement of the 2018/19 figures, which will be disclosed as prior year comparatives. The restatement this year took considerable Finance officer time to ensure that the figures disclosed were accurate.</p> <p>Risk - if this process is not carried out before the draft accounts are completed, it may consume officer time that is needed elsewhere for accounts preparation.</p>	<p>The restatement of the 2018/19 figures should be completed at an early stage to allow for supporting documentation to be obtained from the financial systems.</p> <p>Exhibit 3</p>	<p>Restatement of the 2018/19 CIES comparative figures will be undertaken ahead of the 2019/20 annual accounts process. This will be at a time when it can be assured that there will be no further restructure of the Council's services that would impact onto the presentation within the 2019/20 accounting statements.</p> <p>Responsible officer: Service Lead (Finance)</p> <p>Agreed date: 28 February 2020</p>
2	<p>Remuneration Report: Exit Packages</p> <p>It is noted that curtailment costs were not obtained for one employee who left the council on 31 March 2019.</p> <p>Risk - disclosure of curtailment costs within the Remuneration Report is not complete or accurate.</p>	<p>The information flows between Angus Council, Tayside Pension Fund, and the Pension Fund Actuaries should be reviewed to ensure that all information is provided to the actuary to enable them to provide all the required information on a timely basis for inclusion in the Remuneration Report.</p> <p>Exhibit 3</p>	<p>Officers will liaise with Dundee City Council to determine what process changes can take place between their Pension Section and the appointed actuary to resolve this issue.</p> <p>Responsible officer: Service Lead (Finance)</p> <p>Agreed date: 31 October 2019</p>
3	<p>Compliance with Code of Practice</p> <p>We noted areas where Angus Council has not provided detail as required by the revised accounting Code: analysis of Trade Payables and Trade Receivables; analysis of grants and contributions; removal of</p>	<p>The council should ensure that all the revised requirements of the Code are reviewed, and systems put in place to collect this information before the accounts are drafted.</p> <p>Exhibit 3</p>	<p>The figures within the 2018/19 annual accounts will be restated to be code compliant and provided to External Audit in early course for review as part of the 2019/20 annual account process.</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
	<p>internal transactions from the CIES.</p> <p>Risk – the accounts are materially mis-stated or misleading.</p>		<p>Responsible officer: Service Lead (Finance)</p> <p>Agreed date: 28 February 2020</p>
4	<p>Compliance with Accounts Regulations</p> <p>The council published a website notice of the availability of the unaudited accounts, as required by the Local Authority Accounts (Scotland) Regulations 2014 but did not include full details of the hours and locations that the accounts and related records could be inspected.</p> <p>Risk – the council does not comply with the Regulations and the public's right to inspect, and object to, the accounts is impeded.</p>	<p>The council should publish a notice of the availability for public inspection of the unaudited accounts, including all details required by the Regulations. The council should also ensure that staff in council offices are aware of the procedure to follow if someone asks to inspect the accounts or underlying records.</p> <p>Paragraph 39</p>	<p>The advert will be reworded and, as in previous years, will be provided to External Audit for review prior to publishing. Guidance will be provided to staff who may receive enquiries in light of the advert.</p> <p>Responsible officer: Service Lead (Finance)</p> <p>Agreed date: 26 June 2020</p>
5	<p>Voluntary Severance</p> <p>The council's five-year payback period is longer than that of most other councils and out of step with the Scottish Government's view that payback periods should be a maximum of two years.</p> <p>Our testing of exit packages identified one case where, although it was reviewed and approved in accordance with the scheme, it was not fully evident how officers had assured themselves that it demonstrated value for money. Business cases should be clear in demonstrating the value for money of any exit package.</p> <p>Risk – the council does not demonstrate value for money in its decisions.</p>	<p>The council should review its voluntary severance payback period to ensure that the scheme demonstrates value for money. The council should also ensure that the business cases are clear in demonstrating the value for money of any exit package.</p> <p>Paragraph 52</p>	<p>Officers have already agreed the need to revise the payback policy and this will be presented to members following consultation with Trade Unions. The revised policy will also clarify the basis of calculating the payback and the costs and savings which are taken into account.</p> <p>Responsible officer: Director of HR, Digital Enablement, IT and Business Support / Director of Finance</p> <p>Agreed date: 31 January 2020</p>
6	<p>Long term financial planning</p> <p>The council has well established medium-term financial planning arrangements. It does not currently have a longer-term financial plan, although it does plan for the affordability of its long-term financial commitments.</p> <p>Risk - The council does not have a full picture of its long-term</p>	<p>The council should develop long term financial planning arrangements, including scenario planning, to be prepared for a range of future levels of funding and income.</p> <p>Paragraph 75</p>	<p>Work has been progressing within Finance over 2019/20 to develop long term financial planning arrangements. Whilst this has been internal to Finance so far, it will be necessary to work with services to obtain their perspective of medium to long term cost, income and demand influences on their</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
	financial position, to inform decision making.		service provision. Thereafter, this data will be subject of a report to committee. Responsible officer: Service Lead (Finance) Agreed date: 28 February 2020
7	<p>Public scrutiny</p> <p>For our best value audit work, we attended and observed additional committee meetings. We observed that scrutiny at public meetings is often light. It is important that all members feel well equipped to participate effectively in scrutiny. Attending training and development sessions offered by the council may help members to engage in more robust public scrutiny.</p> <p>Risk – There is not robust public scrutiny of the council’s use of public funds.</p>	<p>The council should ensure that all members are supported in their scrutiny role through focussed training and development activity.</p> <p>Members should take advantage of the training opportunities available, requesting any further development activity or support as needed.</p> <p>Paragraph 106</p>	<p>We will continue to provide training and development opportunities for all elected members to support them in their governance and scrutiny roles. We will seek input from Audit Scotland to support this work where this would be beneficial.</p> <p>Responsible officer: Chief Executive</p> <p>Revised date: Ongoing but will check progress at 31 March 2020</p>
8	<p>Group accounts assurance</p> <p>Angus Alive is a material component of the Angus Council group accounts. Officers worked to secure earlier preparation of the 2018/19 Angus Alive accounts and the audit process was brought forward. The finalised figures were confirmed in September, but the Angus Alive accounts will not be approved until its board meeting in November.</p> <p>Risk - if a post-balance sheet event occurs in the period before the group component accounts are signed, this may impact on the audit opinion.</p>	<p>The section 95 officer needs to take action to secure receipt of audited accounts to be assured that they are a true and fair record of the body’s financial results in order to give that assurance to the group auditor in good time before the group audit opinion is concluded.</p> <p>Paragraph 112</p>	<p>We will discuss with Angus Alive the feasibility of them bringing forward the completion of their audit process (including Trustees Report) to bring it in line with the Council’s sign off arrangements. We will report the outcome of those discussions to the Council’s Scrutiny & Audit Committee.</p> <p>Responsible officer: Director of Finance</p> <p>Agreed date: 21 January 2020</p>
9	<p>Performance reporting</p> <p>We noted that it is not always clear in performance reporting how the reported performance compares to the council’s goals or objectives (i.e. is the reported performance good/bad/on target etc.). We also noted when presenting national reports to committee, it was not always clear where and what actions are</p>	<p>The council should be clearer in demonstrating where and what actions it is taking to address areas for improvement. Services also need to understand their performance data better and how it can be used to support improvement. The council should be more transparent in reporting the outcomes against objectives/</p>	<p>Significant work is underway to address the issues raised in this action which will draw together the improvements being implemented for the Pentana system as well as our development of How Good Is Our Council.</p> <p>Responsible officer: Director of Finance to lead but responsibility rests with Council Leadership Team</p>



No. Issue/risk

Recommendation

Agreed management action/timing

being taken to address areas for improvement locally.

goals when reporting performance.

Agreed date: 31 March 2020

Risk – performance is not clearly reported to the public or to elected members.

[Paragraph 117](#)

Appendix 1b

Follow up of prior year recommendations



No.	Issue/risk	Recommendation	Agreed management action/timing
1 b/f	<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 - 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>The charity accounts were prepared on an accruals basis in 2018/19. Some disclosure amendments were required to comply with the Charities SORP, but no monetary errors were identified.</p> <p>Action closed: no further audit action required.</p>
2 b/f	<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 - 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>The revised structure within the Finance service has allowed for the preparation of the Angus Council and charities accounts on time and to an appropriate standard, the supply of financial data to AngusAlive for earlier accounts preparation, and finance support also being provided to the IJB.</p> <p>Action closed: no further audit action required.</p>
3 b/f	<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 the 2017/18 Annual Audit 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 - 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>The council did not submit its 2018/19 WGA consolidation pack by the required deadline (27 July 2019). This means that Angus Council's data was not available for automated elimination of counter-party transactions with other public sector bodies. Incorrect elimination of counter party transactions is a major area of error in WGA.</p> <p>Revised action:</p> <p>There has been improvement in the submission timeframe for 2018/19 in comparison to 2017/18 and it is anticipated that the audited accounts</p>



No. **Issue/risk**

Recommendation

Agreed management action/timing

			<p>WGA submission will be made by the deadline. We will endeavour to meet the deadline for 2019/20 when this is known. However, it is extremely challenging to meet earlier deadlines / reduced timeframes within a very small team who have other work demands and annual leave commitments.</p> <p>Responsible officer: Service Lead (Finance)</p> <p>Revised date: 31 July 2020</p>
<p>4 b/f</p>	<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 - 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>There is evidence of improved communication between services and the finance team and our testing did not identify material misstatements.</p> <p>However, we did find misstatements in asset classification and depreciation had not been charged on some assets. Review of the asset register would assist in identifying these issues before the draft accounts are completed.</p> <p>Revised action:</p> <p>Finance officers will seek to further improve communication lines with services further to ensure we are cognisant of impacts onto the asset register.</p> <p>Responsible officer: Service Lead (Finance)</p> <p>Revised date: 30 June 2020</p>
<p>5 b/f</p>	<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 - Misstatement of income and expenditure due to fraud or error is undetected.</p>	<p>Services should be reminded to retain all supporting documentation for ledger transactions to form a complete accounting record.</p>	<p>We obtained appropriate supporting documentation for all the transactions we tested in 2018/19.</p> <p>Action closed: no further audit action required.</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
6 b/f	<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 against budget at service level is not reported clearly.</p> <p>Risk - 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>The monitoring reports presented to committee have been in a consistent format through the year. Appendices provide narrative on variances against budget.</p> <p>Action closed: no further audit action required.</p>
7 b/f	<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 - 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>The funding gap in 2018/19 was addressed and the 2019/20 funding gap is expected to be fully addressed through actions including Change Programme savings and an increase in council tax.</p> <p>A funding gap is still forecast in later years of the Medium Term Budget Strategy: the council needs to maintain its focus on addressing the residual finding gap.</p>
8 b/f	<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 demonstrate its stewardship of public funds.</p> <p>Risk - There is not robust scrutiny of the council's use of public funds.</p>	<p>The council should ensure that members are supported in their scrutiny role through focussed training and development activity.</p>	<p>Scrutiny and Audit Committee members (with the invitation extended to all elected members) received a briefing on the 2018/19 unaudited annual accounts to assist their understanding of the financial statements.</p> <p>For our best value audit work, we attended and observed additional committee meetings. We observed that scrutiny at public meetings is often light. It is important that all members feel well equipped to participate effectively in scrutiny.</p> <p>Refer Appendix 1a, Action Plan</p>
9 b/f	<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</p>	<p>The council should progress its six identified mitigating actions to ensure that essential systems can be recovered as planned and</p>	<p>Carried forward to 2019/20 as an updated corporate risk register has not been reported to committee during the audit year. The council has been reviewing its risk management</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
10 b/f	<p>plan will not be met in the event of loss of the Council's data centre.</p> <p>Risk - It is likely 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>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 - Meaningful public performance reporting is not available.</p>	<p>minimise the risk to service delivery.</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>strategy and corporate risk register; a report is expected in September 2019.</p> <p>The Council Plan has been refined to a shorter, more accessible format. The annual performance report included performance indicators relevant to the Council Plan. We have made a further recommendation on performance reporting (see above).</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 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 from several sources in addition to Scottish Government Funding, including income from fees and charges. The extent and complexity of income means that, in accordance with IAS24, 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>One fraud of £11,000 was identified by the council and reported to the Scrutiny and Audit Committee in 2018/19: Internal controls are being strengthened as a result.</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>4 Estimation and judgements</p> <p>There is a significant degree of subjectivity in the measurement and valuation of the material</p>	<p>Completion of 'review of an expert' file for the professional valuer (non-current assets) and actuary (pensions liability)</p>	<p>Satisfactory – we found the estimates and judgements (where applied) where appropriate.</p>

Audit risk	Assurance procedure	Results and conclusions
<p>account areas of non-current assets and pension figures. This subjectivity represents an increased risk of misstatement in the financial statements.</p>	<p>Focused substantive testing of key areas.</p>	
<p>5 Assurance over component balances within group accounts</p> <p>The audit of AngusAlive 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>Receipt of a component auditor questionnaire from AngusAlive auditors, Scott Moncrieff.</p> <p>Receipt of audited accounts of AngusAlive in timely fashion for group audit.</p>	<p>Angus Alive's external auditor has confirmed that they are content with the audited financial statements, but as the Trustees' Annual Report is not yet ready for audit, the audit is not complete and the proposed audit opinion for AngusAlive cannot be released.</p> <p>Audited Angus Alive figures have been included in the council's group accounts.</p> <p>Refer Appendix 1a, Action Plan</p>
<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>Focused substantive testing on non-current asset balances.</p> <p>Monitoring of the council's accounts preparation activities.</p>	<p>There is evidence of improved communication between services and the finance team.</p> <p>We found no material errors in non-current assets testing.</p> <p>We found misstatements in asset classification and depreciation had not been charged on some assets. Review of the asset register and reconciliation to the ledger would assist in identifying these issues before the draft accounts are completed.</p> <p>Refer Appendix 1a, Action Plan</p>
<p>7 Completeness and accuracy of remuneration report</p> <p>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.</p> <p>There is a risk that the disclosure of curtailment costs within the Remuneration Report is not complete or accurate.</p>	<p>Discussion with Human Resources to gain understanding of information sharing process between Angus Council and Tayside Pension Fund.</p> <p>Focussed substantive testing on curtailment costs.</p>	<p>There was evidence of improved communication between council services and the pension fund administering authority this year.</p> <p>Curtailment costs for one exit package were not included in the remuneration report this year. A footnote has been added to the remuneration report to disclose this.</p> <p>Refer Appendix 1a, Action Plan</p>
<p>8 Accounting treatment of waste management lease</p> <p>In conjunction with another council, Angus Council is involved in the construction and lease of a new waste disposal plant.</p> <p>There is a risk that the accounting treatment is not concluded in a timely fashion</p>	<p>Ascertain evidence to support any changes to the lease treatment.</p> <p>Obtain an understanding of the proposed treatment of the lease prior to receipt of the draft accounts.</p>	<p>The capital financing requirement for the waste management lease (in note 27 to the accounts) was missed out from the late adjustment to the 2017/18 accounts. Officers correctly restated the prior year comparative figures in the 2018/19 accounts to include this.</p>

Audit risk	Assurance procedure	Results and conclusions
and the lease value is inaccurate.		

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.

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.

The funding gap in 2018/19 was addressed and the 2019/20 funding gap is expected to be fully addressed through actions including Change Programme savings and an increase in council tax.

A funding gap is still forecast in later years of the Medium Term Budget Strategy: the council needs to maintain its focus on addressing the residual finding gap.

Appendix 3

Summary of uncorrected misstatements

We report all uncorrected misstatements in the annual report and accounts that are individually greater than our reporting threshold of £40,000 and request they be corrected.

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.

#	Account areas	Comprehensive income and expenditure statement		Balance sheet	
		Dr £000	Cr £000	Dr £000	Cr £000
1	Property, Plant & Equipment				(748)
	Other Long-Term Liabilities			748	
2	Property, Plant & Equipment				(49)
	General Fund Expenditure	49			
3	Short Term Creditors				(72)
	Long Term Liabilities			72	
4	General Fund Income		(65)		
	Deferred Income			65	
5	Assets Held for Sale			100	
	Council Dwellings				(350)
	Revaluation Reserve			200	
	Depreciation			50	
Net impact		49	(65)	1,235	(1,219)

Notes:

Entry 1 relates to overstatement of PPE at 31/3/19 for Phase 2 of the Arbroath Schools PPP project which completed in 2019/20 not 2018/19.

Entry 2 relates to Depreciation not charged on assets in year

Entry 3 relates to the reclassification of a long-term liability to short term liabilities

Entry 4 relates to Deferred Income not drawn down for 2017/18 and 2018/19

Entry 5 relates to an asset in the process of being sold, which is in Council Dwellings at the beacon value rather than in Assets Held For Sale at its sale value.

Appendix 4

Summary of national performance reports 2018/19

		 2018/19 Reports	
Local government in Scotland: Challenges and performance 2018		Apr	
Councils' use of arm's-length organisations		May	 Scottish Fire and Rescue Service: an update
Scotland's colleges 2018		Jun	
		Jul	 The National Fraud Initiative in Scotland 2016/17
Forth Replacement Crossing		Aug	 Major project and procurement lessons
Children and young people's mental health		Sept	 Superfast broadband for Scotland: further progress update
NHS in Scotland 2018		Oct	
Health and social care integration: update on progress		Nov	 Local government in Scotland: Financial overview 2017/18
		Dec	
		Jan	
		Feb	
		Mar	 Local government in Scotland: Challenges and performance 2019

Local government relevant reports

[Local government in Scotland: Challenges and performance 2018](#) – April 2018

[Councils' use of arm's-length organisations](#) – May 2018

[Health and social care integration: update on progress](#) – November 2018

[Local government in Scotland: Financial overview 2017/18](#) – November 2018

[Local government in Scotland: Challenges and performance 2019](#) – March 2019

Angus Council

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