

Angus Council

Annual Audit Plan 2020/21



 AUDIT SCOTLAND

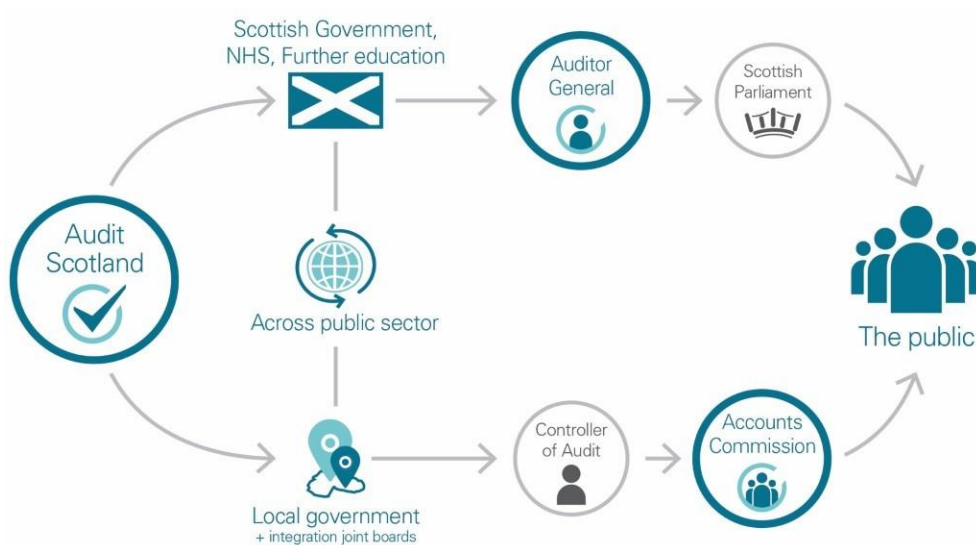
Prepared for Angus Council
April 2021



Who we are

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

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



About us

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

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

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

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Risks and planned work

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

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

3. The public health crisis caused by the coronavirus disease 2019 (Covid-19) pandemic has had a significant and profound effect on every aspect of Scottish society. Public services have been drastically affected, requiring immediate changes to the way they are provided. The impact on public finances has been unprecedented, which has necessitated both the Scottish and UK governments providing substantial additional funding for public services as well as support for individuals, businesses and the economy. It is likely that further financial measures will be needed and that the effects will be felt well into the future.

4. Public audit has an important contribution to make to the recovery and renewal of public services. The Auditor General, the Accounts Commission and Audit Scotland are responding to the risks to public services and finances from Covid-19 across the full range of audit work including annual audits and the programme of performance audits. The wellbeing of audit teams and the delivery of high-quality audits remain paramount. Maintaining a pragmatic and flexible approach will enable change at short notice as new issues emerge, or current risks change in significance. We have recently published an update report [Covid-19: What it means for public audit in Scotland](#).

Adding value


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


Audit risks


6. Based on our discussions with staff, attendance at committee meetings and a review of supporting information we have identified the following significant risks for Angus Council. We have categorised these risks into financial statements risks and wider dimension risks as detailed in [Exhibit 1](#).

Exhibit 1

2020/21 Significant audit risks

	Audit Risk	Source of assurance	Planned audit work
Financial statements risks			
1	<p>Risk of material misstatement due to management override of controls</p> <p>International Auditing Standards (ISAs) require that audits are planned to consider the risk of material misstatement in the financial statements caused by fraud, which is presumed to be a significant risk in any audit. This includes consideration of management override of controls to change the financial statements disclosures.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance.</p>	<ul style="list-style-type: none"> • Detailed testing of journal entries. • Assessment of the appropriateness of accounting estimates. • Focused testing of accruals and prepayments. • Identification and evaluation of significant transactions that are outside the normal course of business.
2	<p>Risk of error in areas of estimation and Judgements</p> <p>There is a significant degree of subjectivity in the measurement and valuation of the material account areas of non-current assets and pension figures. This subjectivity represents an increased risk of misstatement in the financial statements.</p> <p>A material uncertainty was disclosed in the 2019/20 accounts over non-current asset valuations as a result of the Covid-19 pandemic. The council has a rolling programme of valuations with specific categories revalued each year. For 2020/21 coastal schools and office buildings are being revalued.</p> <p>Given some categories of assets have not been subject to valuation since the impact of Covid-19, there is a risk of material uncertainty over non-current asset valuations in the 2020/21 accounts.</p>	<ul style="list-style-type: none"> • Valuation and impairment review of non-current assets by professional valuer in line with 5 year rolling programme. • Actuarial valuation to provide pension figures for the financial statements. • Officer review of actuarial information to ensure data and assumptions used are reasonable. 	<ul style="list-style-type: none"> • Assess the scope, independence and competence of the professionals engaged in providing estimates for non-current assets and pensions. • Focused substantive testing of classification and valuation of non-current assets. • Establish and assess the arrangements for getting assurances over the impact of Covid-19 on the accuracy of non-current assets not subject to valuation in year. • Assess the appropriateness of the actuarial assumptions. • Review the actual experience of significant estimates made in the prior year.
3	<p>Risk of incorrect accounting for non-current assets</p> <p>Our 2019/20 audit identified material misstatements in the accounting for non-current assets including the valuation of council dwellings and issues when reconciling the fixed asset register to the financial statements.</p>	<ul style="list-style-type: none"> • Communication undertaken as part of the final accounts process with appropriate officers to ascertain any changes in the status of assets. 	<ul style="list-style-type: none"> • Focused substantive testing of non-current asset transactions to ensure these are correctly accounted for. • Review of appropriateness of year-end fixed asset register reconciliations including any adjustments.

	Audit Risk	Source of assurance	Planned audit work
	<p>There is a risk that non-current asset accounting is incorrect resulting in a material misstatement in the 2020/21 accounts.</p>		
4	<p>Risk of misstatement due to Covid-19 disclosure requirements</p> <p>During 2020/21 the council has administered significant Covid-19 support grants on behalf of the Scottish Government in excess of £35 million to date. Under IFRS 15, these payments are made on an 'agency' basis and will therefore not be recognised in the council's Comprehensive Income and Expenditure Statement in the annual accounts. Instead, additional disclosures will be required to report these grant payments accurately, and to promote transparency for users of the accounts.</p> <p>There is a risk of disclosure misstatement for this new area of agency expenditure. This will need to be separated from the Covid-19 funding the council has received to support its own budget.</p>	<ul style="list-style-type: none"> The council finance team will liaise with LASAAC on this matter and follow agreed local government practice. 	<ul style="list-style-type: none"> Review further technical guidance when available and discuss with the council's finance team. Review Covid-19 disclosures in the 2020/21 annual accounts for accuracy and completeness.
Wider dimension risks			
5	<p>Financial sustainability</p> <p>Angus Council's medium-term budget strategy has identified a cumulative funding gap of £34.6 million from 2021/22 to 2023/24.</p> <p>The council's change programme has been successful in delivering savings, however there remains a £3.5 million funding gap that requires to be addressed.</p> <p>The council will have to review and prioritise service delivery arrangements. This will require a transformational level of change, driven by strong leadership, to maintain the financial sustainability of the council. Failure to deliver this transformation will put the financial sustainability of the council at risk.</p>	<ul style="list-style-type: none"> Change Programme aligned with the Community Plan and Locality Plans, to identify savings and new ways of working. Development of long-term financial strategy. Annual update to medium term budget strategy. Setting of Annual Council Tax/Budget 	<ul style="list-style-type: none"> Review of progress in developing long-term financial strategy. 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.
6	<p>Governance and controls over Covid-19 grant schemes</p> <p>COSLA analysis indicates that over £1.3 bn additional support to business has been routed through</p>	<ul style="list-style-type: none"> Covid-19 grants register maintained by Finance team. Counter fraud checks on bank accounts 	<ul style="list-style-type: none"> For the most significant grants (by value) we will establish the governance and controls arrangements in place.

	Audit Risk	Source of assurance	Planned audit work
	<p>councils as part of the response to the Covid-19 pandemic.</p> <p>Due to the pace of establishing some of these schemes there is a risk that insufficient governance and control frameworks were in place.</p>	related to Covid support payments.	<ul style="list-style-type: none"> Confirm existence and operation of key controls by walkthrough.

Source: Audit Scotland

7. We have considered the risk of fraud over income recognition as required by ISA 240 and the risk of fraud over expenditure in accordance with Practice Note 10. We have rebutted the presumption that a significant fraud risk exists, with the exception of management override as noted at [Exhibit 1](#), no.1 above. This is on the basis of the extent of income and expenditure which is received and issued to other parts of the public sector (including Scottish Government funding and expenditure on the IJB and other public bodies).

8. For the areas that are subject to some risk, we have considered the incidence of fraud using National Fraud Initiative and Counter Fraud Service outcomes. We have assessed that the volume of transactions that would need to be fraudulent to prove a material risk is implausible. Our audit testing is directed towards testing significant and unusual transactions, and towards assessing accounting estimates to address any residual risk, as part of our standard fraud procedures. We review controls over key areas of risk and will review any additional controls required due to Covid-19 additional funding and expenditure.

Reporting arrangements

9. Audit reporting is the visible output for the annual audit and is detailed in [Exhibit 2](#). All outputs will be published on our website: www.audit-scotland.gov.uk.

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

11. We will provide an independent auditor's report to Angus Council and the Accounts Commission setting out our opinions on the annual accounts. We will provide the members of Angus Council and the Controller of Audit with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

12. The management of the unique and continuing challenges presented by Covid-19 means that we need to continue to take into consideration that audits are taking longer, and we are starting the current year's audit later. This has an impact on the proposed reporting timescales, based on resources available and prioritisation decisions. This is reflected in the timetables below which we will endeavour to meet, whilst recognising that greater uncertainty exists during the Covid-19 pandemic.

Exhibit 2

2020/21 Audit outputs

Audit Output	Target date	Committee Date
Annual Audit Plan	19 April 2021	27 April 2021
Management Report	By 30 June 2021	24 August 2021
Independent Auditor's Report	By 31 October 2021	TBC
Annual Audit Report	By 31 October 2021	TBC

Source: Audit Scotland

The audit of trusts registered as Scottish charities

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

14. The Charities Accounts (Scotland) Regulations 2006 require charities to prepare annual accounts and require an accompanying auditor's report where any legislation requires an audit. The Local Government (Scotland) Act 1973 specifies the audit requirements for any trust fund where some or all members of a council are the sole trustees. Therefore, a full and separate audit and independent auditor's report is required for each registered charity where members of the council are sole trustees, irrespective of the size of the charity. This applies to Angus Council Charitable Trust and the Robert & William Strang Mortification.

15. There are no specific risks for these audits which we require to bring to your attention.

Audit fee

16. The proposed fee for the 2020/21 audit of Angus Council is £260,930 (2019/20: £249,840). There is also an additional fee of £6,000 (2019/20: £6,000) for the audit of the two charitable bodies. In determining the audit fee, we have taken account of the risk exposure of the council, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit. Our audit approach assumes receipt of the unaudited annual accounts, with a complete working papers package on 30 June 2021.

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

Responsibilities

Scrutiny and Audit Committee and Management

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

19. The audit of the annual accounts does not relieve management or the Scrutiny and Audit Committee, as those charged with governance, of their responsibilities.

Appointed auditor

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

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

22. Our audit team membership has changed since last year. We include full details of the current team in [Appendix 1](#).

Audit scope and timing

Financial Statements

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

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

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

- give a true and fair view of the state of affairs of Angus Council and its group as at 31 March 2021 and of the income and expenditure of the council and its group for the year then ended;
- have been properly prepared in accordance with the financial reporting framework.

Statutory other information in the annual accounts

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

26. We also review the content of the annual report for consistency with the financial statements and with our knowledge. We report any uncorrected material misstatements in statutory other information.

Materiality

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

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



Exhibit 3

Materiality values

Materiality	Amount
Planning materiality – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. It has been set at 1% of gross expenditure based on the 2019/20 audited accounts.	£4.0 million
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this indicates that further audit procedures should be considered. Using our professional judgement, we have calculated performance materiality at 65% of planning materiality.	£2.7 million
Reporting threshold (i.e. clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. This has been calculated at 2.5% of planning materiality.	£100,000

Source: Audit Scotland



29. We also set separate materiality levels for the audit of the council's charitable trusts. For the Robert & William Strang Mortification this has been set at 1.5% of prior year gross asset balances (£21,000). We have set a specific account area materiality for the Statement of Financial Activities at 1.5% of prior year gross expenditure (£740). For the Angus Council Charitable Trust, materiality has been set at 1.5% of prior year gross asset balances (£9,300). We have set a specific account area materiality for the Statement of Financial Activities at 1.5% of prior year gross expenditure (£300).

Timetable

30. To support the efficient use of resources it is critical that the annual accounts timetable is agreed with us to produce the unaudited accounts. We have included a proposed agreed timetable at [Exhibit 4](#).

Exhibit 4

Annual accounts timetable

 Key stage	 Date
Latest submission date of unaudited annual accounts with complete working papers package	30 June 2021
Consideration of unaudited annual accounts by those charged with governance	24 August 2021
Latest date for receipt of audited Group component accounts	30 September 2021
Latest date for final clearance meeting with Director of Finance	1 October 2021
Agreement of audited unsigned annual accounts	TBC
Issue of Annual Audit Report, Letter of Representation and Proposed Independent Auditor's Report	
Consideration of the audited accounts and audit reporting by those charged with governance	TBC – S&A Committee meeting
Signing of Independent Auditor's Report	TBC

Internal audit

31. Internal audit is provided by Angus Council’s in-house team. As part of our planning process we carried out an assessment of the internal audit function and concluded that it operates in accordance with the main requirements of the Public Sector Internal Audit Standards (PSIAS).

32. The internal audit function also recently had an external review of its compliance with PSIAS (required at least every 5 years). The review concluded that the Internal Audit Service generally conforms with the PSIAS. Several areas of good practice were identified and there were 2 recommendations for improvement. Of the 13 areas reviewed, 11 “fully conform” and 2 “generally conform” with PSIAS. There were no areas identified where the Internal Audit team did not comply with PSIAS.

Using the work of internal audit

33. International Auditing Standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to rely on the work of internal audit wherever possible to avoid duplication.

34. We do not plan to place any formal reliance on internal audit’s work for our 2020/21 financial statements audit work. We will review all of internal audit’s reports to inform our wider audit dimensions work.

Audit dimensions

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

Exhibit 5 Audit dimensions



Source: Code of Audit Practice

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

Financial sustainability

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

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

Financial management

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

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

Governance and transparency

39. Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision-making and transparent reporting of financial and performance information. We will be assessing the council's revised governance arrangements implemented in 2020/21 as a result of the Covid-19 pandemic.

40. We will review, conclude and report on:

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

Value for money

41. Value for money refers to using resources effectively and continually improving services. We will review, conclude and report on whether Angus Council can demonstrate:

- the timely and appropriate distribution of new Covid-19 related grants
- value for money in the use of resources
- there is a clear link between money spent, output and outcomes delivered
- that outcomes are improving
- there is sufficient focus on improvement and the pace of it.

Best Value

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

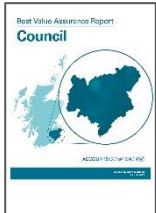
43. A key feature of the new approach is that it integrates Best Value into the wider scope annual audit, which will influence audit planning and reporting. Best Value will be assessed comprehensively over the audit appointment (extended from five to six years due to the impact of the Covid-19 pandemic), both through the ongoing annual audit work, and through discrete packages of work to look at specific areas. Conclusions and judgements on Best Value will be reported through:

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

44. The four councils on which a BVAR will be published during the fifth year of the new approach are listed in [Exhibit 6](#). Reports will be considered by the Accounts Commission in the period between March and November 2021.

Exhibit 6

2020/21 Best Value Assurance Reports

	Aberdeen City Council	Falkirk Council
	South Ayrshire Council	
	East Dunbartonshire Council	

Source: Audit Scotland

45. The work planned in Angus Council this year will focus on the council's arrangements for performance reporting and the follow up of prior year recommendations for improvement. The work will be integrated with the wider dimensions audit work described above. It will involve us gaining an understanding of how effective the council's self-evaluation processes are in driving improvement across the council. The results of this work will be reported in the Annual Audit Report.

46. We expect work on Angus Council's BVAR to start in late 2021, immediately after the conclusion of the 2020/21 audit.

Independence and objectivity

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

48. The engagement lead (i.e. appointed auditor) for Angus Council is Carole Grant, Audit Director. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of Angus Council.

Quality control

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

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

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

Appendix 1: The Audit Team

The core audit team consists of the following staff and might be supported at peak times with additional resources to ensure key reporting deadlines are met:



Carole Grant CPFA

Audit Director

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Carole is the appointed independent auditor established under the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice and guided by the auditing profession's ethical guidance.

She has 20 years public sector audit experience working across all sectors.



Rachel Browne CPFA

Senior Audit Manager

✉ rbrowne@audit-scotland.gov.uk ☎ 0131 625 1976

Rachel will continue to have overall control of the delivery and quality of the audit including audit engagement and ensuring the audit is properly planned, resourced and concluded within time.

She has over 20 years of experience in public sector audit across the local government, health and central government sectors. Prior to that she worked in the voluntary sector for 5 years.



Christopher McClelland CA

Senior Auditor

✉ cmcclelland@audit-scotland.gov.uk ☎ 0131 625 1808

Chris will lead the audit team and will be the main contact for the audit.

Chris has worked with Audit Scotland for 7 years and is a qualified CA. He has a broad range of experience in public sector audit and has been involved in audits in the central government, health, local government and further education sectors.

Angus Council

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