

Angus Council

Annual Audit Plan 2021/22



Prepared for Angus Council
February 2022

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Introduction

Summary of planned audit work

1. This document summarises the work plan for our 2021/22 external audit of Angus Council. The main elements of our work include:

- evaluation of the key controls within the main accounting systems
- an audit of the annual accounts of Angus Council and its group and the issue of an independent auditor's report setting out our audit opinions on the financial statements and other statutory information including the Management Commentary, Annual Governance Statement and Remuneration Report
- consideration of arrangements in relation to the audit dimensions: financial management, financial sustainability, governance and transparency and value for money, that frame the wider scope of public sector audit
- consideration of Best Value arrangements
- providing assurance on the Housing Benefit Subsidy Claim, Non-Domestic Rates Return and the Whole of Government Accounts (WGA) return
- reviewing the arrangements for preparing and publishing statutory performance information
- reviewing the council's participation in the National Fraud Initiative.

Impact of Covid-19

2. The Covid-19 pandemic has had a significant impact on public services and public finances, and the effects will be felt well into the future. The Auditor General for Scotland, the Accounts Commission and Audit Scotland continue to assess the risks to public services and finances from Covid-19 across the full range of our audit work, including annual audits and the programme of performance audits. The well-being of audit teams and the delivery of high-quality audits remain paramount. Changes in our approach may be necessary and where this impacts on annual audits, revisions to this Annual Audit Plan may be required.

Adding value

3. We aim to add value by being constructive and forward looking, by identifying areas for improvement and by recommending and encouraging good practice. In so doing, we will help Angus Council promote improved standards of governance, better management and decision making and more effective use of resources. Additionally, we attend meetings of the Scrutiny and Audit Committee and actively participate in discussions.

Respective responsibilities of the auditor and Angus Council

4. The [Code of Audit Practice \(2016\)](#) sets out in detail the respective responsibilities of the auditor and Angus Council. Key responsibilities are summarised below.

Auditor responsibilities

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

6. 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.

Angus Council responsibilities

7. Angus Council is responsible for maintaining accounting records and preparing financial statements that give a true and fair view.

8. Also, Angus Council has 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 deliver their objectives.

Managing the transition to 2022/23 audits

9. Audit appointments are usually for five years but were extended to six years due to the Covid-19 pandemic. 2021/22 is the final year of the current appointment and we will work closely with our successors to ensure a well-managed transition.

Financial statements audit planning

Materiality

10. Materiality is an expression of the relative significance of a matter in the context of the financial statements as a whole. We are required to plan our audit to determine with reasonable confidence whether the financial statements are free from material misstatement. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement.

Materiality levels for the 2021/22 audit

11. We assess materiality at different levels and the materiality values for Angus Council are set out in [Exhibit 1](#).

Exhibit 1

2021/22 Materiality levels for Angus Council

Materiality	Amount	Group
Planning materiality – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. For the year ended 31 March 2022 it has been set at 1 per cent of gross expenditure based on the latest audited financial statements for 2020/21.	£4.4 million	£4.7 million
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this would indicate that further audit procedures should be considered. Using our professional judgement, we have assessed performance materiality at 65 per cent of planning materiality.	£2.9 million	£3.1 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.	£110,000	£120,000

Source: Audit Scotland

Significant risks of material misstatement to the financial statements

12. Our risk assessment draws on our cumulative knowledge of Angus Council, its major transaction streams, key systems of internal control and risk management processes. Also, it is informed by our discussions with management, meetings with internal audit, attendance at committees and a review of supporting information.

13. Based on our risk assessment process, we identified the following significant risks of material misstatement to the financial statements. These are risks which have the greatest impact on our planned audit procedures. [Exhibit 2](#) summarises the nature of the risk, the sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurance over the risk.

Exhibit 2

2021/22 Significant risks of material misstatement to the financial statements

Significant risk of material misstatement	Sources of assurance	Planned audit response
<p>1. Risk of material misstatement due to fraud caused by the management override of controls</p> <p>As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p>	<ul style="list-style-type: none"> Owing to the nature of this risk, assurances from management are not applicable in this instance 	<ul style="list-style-type: none"> Assess the design and implementation of controls over journal entry processing. Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments. Test journals at the year-end and post-closing entries and focus on significant risk areas. Evaluate significant transactions outside the normal course of business. We will assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year. Focused testing of accounting accruals and prepayments.

Significant risk of material misstatement	Sources of assurance	Planned audit response
<p>2. Estimation in the valuation of land and buildings.</p> <p>Angus Council holds land and buildings with a value of £864.7 million. A five-year rolling programme of valuations, carried out by an external valuer, is in place.</p> <p>There is a significant degree of subjectivity in the valuation of land and buildings. Valuations are based on assumptions made by specialist valuers and management. Changes in these can have a material impact on the valuation.</p> <p>Management must also assure themselves of the appropriateness of the valuation of assets that are not revalued in year. Specific consideration is required for the asset valuations that have been subject to 'Material Valuation Uncertainty' in the past 2 financial years.</p> <p>Finally our prior year audit testing has identified errors in the accounting for valuations.</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 	<ul style="list-style-type: none"> Review the information provided to the external valuer to assess for completeness. Evaluate the competence, capabilities, and objectivity of the professional valuer. Meet with the professional valuer to discuss the work they have carried out. Obtain an understanding of the management's involvement in the valuation process to assess if appropriate oversight has occurred. Establish and critically assess management's assessment of the appropriateness of the assets valuations that were subject to 'Material Valuation Uncertainty' in prior years. Challenge management's assessment of the valuation of assets not subject to revaluation in year. Focused testing of the accounting for revaluations.

14. As set out in International Standard on Auditing (UK) 240: *The auditor's responsibilities relating to fraud in an audit of financial statement*, there is a presumed risk of fraud over the recognition of revenue. There is a risk that revenue may be misstated resulting in a material misstatement in the financial statements. We have rebutted this risk for Angus Council because the majority of income is from government grants and is easily verified to external sources and therefore there is little risk of fraud in this area. We have reviewed the other sources of income and do not consider these to present a significant risk of fraud, due to the level of fraudulent transactions that would need to occur to present a material risk.

15. In line with Practice Note 10: *Audit of financial statements and regularity of public sector bodies in the United Kingdom*, as most public-sector bodies are net spending bodies, the risk of material misstatement due to fraud related to expenditure recognition may in some cases be greater than the risk relating to revenue recognition. We have rebutted this risk for Angus Council as our assessment of the expenditure transaction streams has confirmed that many are low risk e.g. staff costs, depreciation, pensions IAS 19 charges and our standard audit procedures will involve focused testing on accruals in any higher risk areas. Practice Note 10 also introduces the concept of external fraud risk and we have assessed the levels of fraud in the public sector per the National Fraud Initiative and this, as well as the analysis of expenditure, indicates that there is not a high risk of fraud across payment streams.

16. We have not, therefore, incorporated specific work into our audit plan in these areas over and above our standard audit procedures. 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.

Other area of audit focus

17. As part of our assessment of audit risks, we have identified one other area where we consider there are also risks of material misstatement to the financial statements. The area of specific audit focus is the pension liability valuation due to the material value and significant assumptions used in the calculation of the liability.

18. Based on our assessment of the likelihood and magnitude of the risk, we do not consider this to represent a significant risk. We will keep this area under review as our audit progresses and if our assessment of risk changes we will communicate this to management and those charged with governance and revise our planned audit approach accordingly.

Group Consideration

19. As group auditors, we are required under International Standard on Auditing (UK) 600: *Audits of group financial statements (including the work of component auditors)* to obtain sufficient appropriate audit evidence on which to base our audit opinion on the group financial statements.

20. Angus Council has a group which comprises component entities, including subsidiaries, associates and joint ventures. The audits of the financial information of some of the components are performed by other auditors. We plan to place reliance on the work of the component auditors. We will obtain sufficient appropriate audit evidence in relation to the consolidation process and the financial information of the components on which to base our group audit opinion.

Audit of the trusts registered as Scottish charities

21. Members of Angus Council are sole trustees for two trusts registered as Scottish charities, with total assets of £2.2 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.

22. The 2006 Regulations 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.

Materiality levels for the 2021/22 audit of trusts registered as Scottish charities

23. Materiality levels for the trusts are set out in [Exhibit 3](#).

Exhibit 3

2021/22 Materiality levels for charitable trusts

Charitable trust	Planning Materiality	Performance Materiality	Reporting Threshold
Angus Council Charitable Trust	£9,200 (Based on 1.5 per cent of audited 2020/21 net assets value)	£6,900 (Based on 75 per cent of planning materiality)	£100
Robert & William Strang Mortification	£23,600 (Based on 1.5 per cent of audited 2020/21 net assets value)	£17,700 (Based on 75 per cent of planning materiality)	£240

Source: Audit Scotland

24. We also set a specific account area materiality for each charitable trust's Statement of Financial Activities at 1.5 per cent of prior year gross expenditure. This is £230 for the Angus Council Charitable Trust and £920 for the Robert & William Strang Mortification.

25. There are no significant financial statement risks or other areas of audit focus identified for the audit of the trusts.

Audit risk assessment process

26. Audit risk assessment is an iterative and dynamic process. Our assessment of risks set out in this plan may change as more information and evidence becomes available during the progress of the audit. Where such changes occur, we will advise management and where relevant, report them to those charged with governance.

Audit dimensions and Best Value

Audit dimensions

27. The [Code of Audit Practice](#) sets out the four dimensions that frame the wider scope of public sector audit and requires auditors to consider the adequacy of the arrangements in place. The four dimensions that frame our audit work are shown in [Exhibit 4](#).

Exhibit 4 Audit dimensions



Source: Code of Audit Practice

28. In summary, the four dimensions cover the following:

- **Financial management** – financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.
- **Financial sustainability** – 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 (two to five years) and longer term (longer than five years).

- **Governance and transparency** – governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership, decision-making and the transparent reporting of financial and performance information.
- **Value for money** – value for money refers to using resources effectively and continually improving services.

29. A Best Value Assurance Report (BVAR) is due to be published for Angus Council in June 2022. This will cover the above wider audit dimensions in detail and any wider dimension risks will be addressed through this work. Our 2021/22 Annual Audit Report will cross-refer to the BVAR as necessary to avoid duplication of reporting.


Best Value

30. 2021/22 is the final year of the extended six-year approach to auditing Best Value in councils. Best Value work is integrated within the annual audit. It is to be assessed comprehensively over the period of the audit appointment, both through ongoing annual audit work and through discrete packages of work focussing on specific issues. Conclusions and judgements on Best Value are 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 Accounts 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 over the period of the audit appointment.

31. BVARs will be considered by the Accounts Commission between February and September 2022 on the councils listed in [Exhibit 5](#).

Exhibit 5 2022 Best Value Assurance Reports

	Comhairle nan Eilean Siar	Angus Council
	Shetland Islands Council	Moray Council follow-up

32. As noted above, Angus Council is subject to a full BVAR during 2021/22. Based on our audit work, we will be reporting an overall judgement on the pace, depth and continuity of improvement since the previous Best Value report published in 2016. We intend to reflect the work Angus Council has carried out in recent years, and relevant findings from our Annual Audit Reports.

33. The proposed scope of the work reflects a proportionate and risk-based approach and the audit will focus on:

- How the council plans the use of its resources to support delivery of its priorities, including reducing inequalities and ensuring sustainability. This will include reviewing the effectiveness of service planning, financial planning, asset management, workforce planning and digital / ICT strategy.
- How the council works with partners to tackle its specific challenges.
- How the council encourages and supports community engagement, in setting its priorities and the delivery of services. This will include the effectiveness and impact of public engagement.
- How the council's self-assessment framework drives continuous improvement and drives the council's change programme.
- How effectively the council assesses its outcomes and performance and reports this both to elected members and the general public. This may be supplemented by audit analysis of Local Government Benchmarking Framework data where it is considered appropriate to support the report.

Reporting arrangements, timetable, and audit fee

Reporting arrangements

34. Audit reporting is the visible output for the annual audit. All audit outputs, will be published on our website: www.audit-scotland.gov.uk.

35. 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.

36. 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 council and the Accounts Commission with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

37. [Exhibit 6](#) outlines the target dates for our audit outputs, and we will aim to issue the independent auditor's report by the statutory deadline of 31 October 2022. We acknowledge this will be challenging due to the ongoing pressures and uncertainties caused by the Covid-19 pandemic.

Exhibit 6 2021/22 Audit outputs

Audit Output	Target date	Audit and Risk Committee Date
Annual Audit Plan	04/02/2022	01/03/2022
Management Report	30/05/2022	23/06/2022
Independent Auditor's Report	31/10/2022	TBC
Annual Audit Report	31/10/2022	TBC

Source: Audit Scotland

Timetable



38. To support an efficient audit, it is critical that the timetable for producing the annual report and accounts for audit is achieved. We have included a proposed timetable for the audit at [Exhibit 7](#) that has been discussed with management.

39. The Covid-19 pandemic has had a considerable impact on the conduct and timeliness of the audit. We recognise that it is in the best interests of public accountability to get the reporting of audited accounts back to pre-pandemic timelines. To this end, 2021/22 is a transition year with the reporting deadline brought forward by one month relative to the two prior years. We are identifying ways to work more efficiently to expedite the 2021/22 audits whilst at the same time maintaining high standards of quality.

40. We will continue to work in close partnership with management with clarity over timescales and the requirement for high quality unaudited accounts and supporting working papers. Progress will be discussed with management and finance officers over the course of the audit.

Exhibit 7

Proposed annual accounts timetable

 Key stage	 Provisional Date
Latest submission date for the receipt of the unaudited annual accounts with complete working papers package	30 June 2022
Latest date for final clearance meeting with the Director of Finance	23 September 2022
Agreement of audited and unsigned annual accounts	30 September 2022
Issue of Annual Audit Report, Letter of Representation and proposed Independent Auditor's Report	TBC October – Committee dates to be finalised
Signed Independent Auditor's Report	TBC October - Committee dates to be finalised

Source: Audit Scotland

Audit fee

41. The proposed audit fee for the 2021/22 audit of Angus Council is £263,000 (2020/21: £260,930). There is also an additional fee of £6,000 (2020/21: £6,000) for the audit of the two charitable bodies. In determining the audit fee, we have taken account of the risk exposure of Angus Council, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit.

42. Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual report and accounts, the absence of adequate supporting working papers 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.

Other matters

Internal audit

43. International standards on Auditing (UK) 610: *Considering the work of internal audit* requires us to:

- consider the activities of internal audit and their effect on external audit procedures;
- obtain an understanding of internal audit activities to inform our planning and develop an effective audit approach that avoids duplication of effort;
- perform a preliminary assessment of the internal audit function when there is scope for relying on internal audit work which is relevant to our financial statements' responsibilities; and
- evaluate and test the work of internal audit, where use is made of that work for our financial statements responsibilities to confirm its adequacy for our purposes.

44. From our initial review of the internal audit plans, we do not plan to place formal reliance on internal audit's work for our financial statements' responsibilities. We will consider the findings of all internal audit reports to inform our work on our wider dimension responsibilities.

Independence and objectivity

45. Auditors appointed by the Auditor General for Scotland or Accounts Commission 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.

46. 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

47. International Standard on Quality Control (UK) 1 (ISQC1) requires a system of quality control to be 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.

48. 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.

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

Angus Council

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Audit Scotland's published material is available for download on the website in a number of formats. For information on our accessibility principles, please visit:

www.audit-scotland.gov.uk/accessibility

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