

Angus Council

2021/22 Annual Audit Report – DRAFT



 AUDIT SCOTLAND

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

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Contents

Key messages	3
Introduction	4
1. Audit of 2021/22 annual accounts	6
2. Financial management	15
3. Financial sustainability	19
4. Governance and transparency	21
5. Best Value	23
Appendix 1. Action plan 2021/22	26
Appendix 2. Summary of 2021/22 national performance reports and briefing papers	30

Key messages

2021/22 annual accounts

- 1 Our audit opinions on the annual accounts of Angus Council, its group and the two section 106 charities administered by the council are unmodified.
- 2 The council needs to improve its accounting for non-current assets, including a more robust approach to the valuation programme.

Financial management and sustainability

- 3 There is effective financial management and medium-term financial planning in place, but the council has not yet fully developed its long-term financial planning framework.
- 4 The council remained within its budget for 2021/22, reporting an underspend of £18.6 million. Covid funding and planned interventions caused part of this underspend.
- 5 There is significant financial uncertainty with scenario planning identifying a potential funding gap of between £48 million and £68 million by 2025/26.

Governance and transparency

- 6 Angus Council has appropriate governance arrangements in place to provide effective scrutiny, challenge and informed decision making.
- 7 There are improvements required to performance reporting to ensure that it is effective in monitoring and driving improvement.

Best Value

- 8 The Best Value Assurance Report published in July 2022 concluded that Angus Council has demonstrated a good pace of improvement since the last Best Value report in 2016. It has reshaped services and is an organisation that is focused on its priorities, working well with partners and keen to learn from good practice.
- 9 Angus Council complies with the Accounts Commission's Statutory Performance Indicators Direction.

Introduction

1. This report summarises the findings arising from the 2021/22 audit of Angus Council, its group and the two section 106 charities administered by the council. The scope of the audit was set out in our 2021/22 Annual Audit Plan presented to the 1 March 2022 meeting of the Scrutiny and Audit Committee.

2. This report comprises the findings from:

- our audit of the annual accounts, and the issue of independent auditor's reports setting out our opinions, for the council, its group and the statement of accounts of the two section 106 charities administered by the council
- a review of the council's key financial systems
- audit work covering the four audit dimensions that frame the wider scope of public audit set out in the Code of Audit Practice 2016 and consideration of the council's arrangements for securing best value as reported in the [Best Value Assurance Report](#) published in July 2022.

Adding value through the audit

3. We add value through the audit by:

- identifying and providing insight on significant risks and making clear and relevant recommendations and conclusions
- sharing intelligence and good practice through our national reports ([Appendix 2](#)) and good practice guides.

Responsibilities and reporting

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

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

6. Our responsibilities as independent auditor appointed by the Accounts Commission are established by the Local Government in Scotland Act 1973, the Codes of Audit Practice 2016, including supplementary guidance, and International Standards on Auditing in the UK.

7. As public sector auditors we give independent opinions on the annual accounts. Additionally, we conclude on financial management, the arrangements for securing financial sustainability, the suitability of the corporate governance arrangements and the effectiveness of the council's performance management.

8. Further details of the respective responsibilities of management and the auditor can be found in the Code of Audit Practice 2016 and supplementary guidance.

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

10. An agreed action plan is included at [Appendix 1](#) setting out specific recommendations, responsible officers and dates for implementation. It also includes details of the progress made against prior year recommendations.

Auditor Independence

11. 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 comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. 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 therefore the 2021/22 audit fee of £263,000 as set out in our Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

12. 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. We would like to thank the management and staff who have been involved in our work for their cooperation and assistance during the audit.

Audit appointment from 2022/23

13. The Accounts Commission is responsible for the appointment of external auditors to local government bodies. External auditors are appointed from Audit Scotland's Audit Services Group or a private firm of accountants. This is the final year of the current appointment round.

14. The procurement process for the new round of audit appointments was completed in May 2022. From financial year 2022/23 Audit Scotland will continue as the appointed auditor for Angus Council.

15. A new [Code of Audit Practice](#) applies to public sector audits for financial years starting on or after 1 April 2022 and includes some significant changes including the integration of Best Value into annual wider scope audit work.

1. Audit of 2021/22 annual accounts

The principal means of accounting for the stewardship of resources and performance

Main judgements

Our audit opinions on the annual accounts of Angus Council, its group and the two section 106 charities administered by the council are unmodified.

The financial statements were received on time but we did not receive a full package of working papers at the start of the audit process. Limited capacity due to staff vacancies and other workload pressures in the finance and payroll teams contributed to delays in obtaining audit evidence.

The council needs to improve its accounting for non-current assets, including a more robust approach to its valuation programme.

Material adjustments of £43.8 million have been made to the annual accounts because of the audit process. £40 million of this relates to accounting for non-current assets.

Our audit opinions on the annual accounts are unmodified

16. The accounts for the council and its group for the year ended 31 March 2022 were approved by the Scrutiny and Audit Committee on 29 November 2022. As reported in the independent auditor's report:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework
- 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. In the previous two years we have included an 'Emphasis of Matter' paragraph in our Independent Auditor's Report which referred to the impact of Covid-19 on the valuation of property. Emphasis of Matter paragraphs are added to auditors' reports where the auditor considers it necessary to draw users' attention to matters which are fundamental to the understanding of the

accounts. There is no Emphasis of Matter paragraph needed in our 2021/22 audit opinion as there is no longer material valuation uncertainty in the valuer's report as at 31 March 2022.

Delays in the audit process mean that the annual accounts were signed off later than planned

18. The unaudited annual report and accounts were received in line with our agreed audit timetable on 30 June 2022. A small number of disclosures were missing due to the unavailability of the information and these were provided during the audit process. We experienced some challenges accessing key working papers due to resourcing pressures within the finance and payroll teams and a reliance on a small number of key individuals to provide the necessary audit evidence. This included the year end bank reconciliation, reconciliation of the non-current assets register to the accounts, staff costs reports from the payroll system, source documents for income and non-pay expenditure transactions and reconciliation of some suspense accounts.

19. The pandemic continues to have an impact on the audit process. Our experience of remote working is that it takes longer to obtain, review and document audit evidence than when working onsite. We signed off the annual accounts on 29 November 2022, one month later than originally planned, but still within the revised statutory deadline.

Recommendation 1

The council should ensure that the Finance and Payroll teams are adequately resourced to prepare a full package of working papers and supporting documentation alongside the unaudited accounts, to support the audit process.

Our audit opinions on Section 106 charities were unmodified

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

21. Angus Council's two Section 106 charities are the Angus Council Charitable Trust (ACCT), which covers the Angus area, and the Robert and William Strang Mortification, which is specific to Forfar. No charitable awards were made by ACCT in 2021/22, or in the previous two years. The very small individual fund balances within ACCT have limited the distributable income available for making grant awards. As in previous years, Forfar-based ACCT applications were passed to the Strang Mortification which has more distributable income available for grant awards.

22. During 2021/22 the trustees agreed, following consultation with the Scottish Charity Regulator (OSCR), to amend the structure of the ACCT funds to a single Angus-wide fund, enabling larger grant awards to be approved. Officers

are following up with OSCR to check if the regulator has any further comment on the decision. The trustees' decision, which does not change the charitable purpose of the ACCT funds, should help the charity to fulfil its charitable objectives.

23. We identified one unadjusted misstatement of £133 in the Strang Mortification accounts. This was a transaction posted twice in the ledger, which has been reversed in 2022/23. This overstates 2021/22 expenditure on charitable activities in the Statement of Financial Activities and understates the total charity funds in the Balance Sheet. Management do not propose to amend the accounts for this as it is not a material amount.

24. Our audit opinions on the two Section 106 charities are unmodified.

There were no objections raised to the annual accounts

25. The Local Authority Accounts (Scotland) Regulations 2014 require local government bodies to publish a public notice on its website that includes details of the period for inspecting and objecting to the accounts. This must remain on the website throughout the inspection period. The council complied with the regulations. There were no objections to the 2021/22 accounts.

Overall materiality was revised on receipt of the unaudited annual accounts to £4.6 million

26. We apply the concept of materiality in both planning and performing the audit and in evaluating the effect of identified misstatement on the audit when forming the opinion in the auditor's report. We identify a benchmark on which to base overall materiality, such as gross expenditure, and apply what we judge to be the most appropriate percentage level for calculating materiality values. We also determine a lower performance materiality threshold.

27. The determination of materiality is based on professional judgement and is informed by our understanding of the entity and what users are likely to be most concerned about in the annual accounts. In assessing performance materiality, we have considered factors such as our findings from previous audits, any changes in business processes and the entity's control environment including fraud risks.

28. Our initial assessment of materiality for the annual accounts was carried out during the planning phase of the audit. On receipt of the unaudited annual accounts we reviewed our planning materiality calculations. The revised materiality levels summarised in [Exhibit 1](#) were not significantly different from planning levels and therefore did not require a change in our overall audit approach.

Exhibit 1

Materiality values

Materiality level	Planning	Revised
Overall materiality	£4.4 million	£4.6 million
Performance materiality	£2.9 million	£3 million
Reporting threshold	£110,000	£115,000

Source: Audit Scotland

29. We also set separate materiality levels for the Robert & William Strang Mortification and the Angus Council Charitable Trust. On receipt of the unaudited statements of accounts we reviewed and updated our planning materiality calculations to £23,250 for the Robert & William Strang Mortification and £9,000 for the Angus Council Charitable Trust (1.5 per cent of the gross assets for each charity). We also set a specific area materiality for the Statement of Financial Activities as the level of income and expenditure is significantly lower than the asset-based materiality. The specific area materiality was £978 for the Robert & William Strang Mortification and £249 for the Angus Council Charitable Trust (1.5 per cent of gross expenditure for each charity).

We have significant findings to report on the audited annual accounts

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. The significant findings are summarised in [Exhibit 2](#).

Exhibit 2

Significant findings from the audit of financial statements

Issue	Resolution
<p>1. Valuation of assets valued at Depreciated Replacement Cost (DRC)</p> <p>The valuer indicated in his valuation report that assets valued on a DRC basis between 2018 and 2021 would be understated. The net book value of assets on the balance sheet covered by this statement was £152.9 million.</p> <p>We requested that the council work with the valuer to determine the value of this understatement and adjust the accounts accordingly to ensure the balance sheet was not materially misstated.</p>	<p>A further 37 DRC assets, with a net book value of £141.1 million, have now been revalued as at 31 March 2022, resulting in an adjustment in the financial statements of £38.3 million for council assets and £4.6 million for Common Good assets.</p> <p>From an analysis of the valuation impact we are satisfied that any understatement in the remaining DRC assets would not be material.</p> <p>The removal of the valuation uncertainty alongside current market conditions contributed to this situation; however the council should revisit the current valuation programme to ensure it is robust enough to support the value of each asset category in each year of the programme.</p> <p>Recommendation 2</p>
<p>2. Non-current asset accounting</p> <p>There were a number of misstatements identified in our testing of non-current assets. This included depreciation calculations, revaluation calculations, discrepancies between Property Services records and Finance records for Assets Held for Sale and Land and Buildings and capitalisation of maintenance costs on community assets.</p>	<p>The council has adjusted non-current assets by £2.2 million (in addition to the DRC adjustment above) in the audited annual accounts.</p> <p>Recommendation 3</p>

Issue	Resolution
<p>3. Incorrect accounting treatment for prepayments</p> <p>During our audit testing of expenditure, we discovered two transactions that related to 2022/23 and therefore should have been accounted for as prepayments as these related to 2022/23.</p> <p>As a result the expenditure in the unaudited financial statements was overstated by £282,000 with an equal understatement in the current assets in the balance sheet.</p>	<p>We expanded our testing sample when we identified the first error, as the extrapolated error was above performance materiality. In discussion with officers we targeted the areas where prepayments were likely to be required. A further error was identified in the same area of expenditure as the first. The total error extrapolated over that area of expenditure was below performance materiality and we concluded that expenditure was not materially misstated.</p> <p>The council has made the relevant adjustments in the audited annual accounts.</p> <p>Recommendation 4</p>
<p>4. Exit packages disclosure in the remuneration report</p> <p>The unaudited annual accounts disclosed 12 employees who received exit packages during 2021/22.</p> <p>Audit testing identified that for three employees the total amounts disclosed were not in line with the guidance. Severance payments of £9,970 had not been included in the unaudited remuneration report.</p>	<p>The council has made the relevant adjustments in the audited annual accounts.</p>
<p>5. Group Accounts share of Tayside Contracts surplus and liabilities</p> <p>In preparing the group financial statements finance staff had used a 27.8 per cent figure to represent the council's share of Tayside Contracts' surplus and liabilities in the group accounts.</p> <p>Audit testing confirmed that the correct figure should be 30.3 per cent, resulting in total comprehensive expenditure in the group comprehensive income and expenditure statement being understated by £0.3 million and the group balance sheet reserves being overstated by £0.2 million.</p>	<p>The council has made the relevant adjustments to address this error in the audited accounts.</p>

31. We have obtained audit assurances over the identified significant risks of material misstatement to the financial statements. [Exhibit 3](#) sets out the significant risks of material misstatement to the financial statements we identified in our 2021/22 Annual Audit Plan. It summarises the further audit procedures we performed during the year to obtain assurances over these risks and the conclusions from the work completed.

Exhibit 3

Significant risks of material misstatement in the financial statements

Audit risk	Assurance procedure	Results and conclusions
<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"> • 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. 	<p>Results: We did not identify any significant issues within our work on journals. Our testing of accruals and prepayments identified errors in prepayments which are noted in Exhibit 2 and which were adjusted in the audited accounts. There were no significant transactions outside the normal course of business.</p> <p>Conclusion: No issues were identified that indicate management override of controls</p>
<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 (as at 31/3/21).</p>	<ul style="list-style-type: none"> • Review the information provided to the external valuer to assess for completeness. 	<p>Results: Our review of the work of the valuer confirmed that we could place reliance on the valuer's assessment of land and buildings as at 31 March 2022.</p>

Audit risk	Assurance procedure	Results and conclusions
<p>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"> • 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. 	<p>Our review of the accounting for revaluation identified errors which are noted in Exhibit 2.</p> <p>Conclusion: Following adjustment we concluded that the value of land and buildings in the audited financial statements is not materially misstated.</p>

Source: Audit Scotland

Other area of audit focus

32. In our 2021/22 Annual Audit Plan we identified another area where we considered there to be a risk of material misstatement to the financial statements. Based on our assessment of the likelihood and magnitude of the risk, we did not consider it to represent a significant risk. 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.

33. We carried out 'reliance on a management expert' work on the actuary. This included review of Audit Scotland's consulting actuary's report on actuarial assumptions. Based on the findings of the audit procedures performed we concluded that we could place reliance on the actuary's valuation of the pension liability. There are no matters which we need to bring to your attention.

Across the UK, a technical accounting issue has been identified covering infrastructure assets

34. Infrastructure assets typically include highways, footpaths, bridges and culverts and are included at depreciated historical cost in the financial statements (£134 million for Angus Council). A replaced component of an asset has to be derecognised and council records of additions do not permit compliance with the accounting code. A failure to derecognise assets correctly results in potential double-counting and an overstatement of the gross book value, accumulated depreciation and net book value of the assets.

35. CIPFA/LASAAC considered the matter and proposed amendments to the 2021/22 accounting code to allow a reasonable assumption that the net book value of replaced parts of infrastructure assets are £ nil and a temporary adaptation to remove the requirement to disclose gross book value and accumulated depreciation in the financial statements. The Scottish Government issued Finance Circular 9/2022 to implement these changes.

36. At Angus Council, management considered the detailed records available to support infrastructure additions since 2010 and concluded that the above statutory overrides were required and have amended the infrastructure disclosures in the audited accounts. This is explained at Note 11 of the annual accounts.

Identified misstatements of £43.8 million were adjusted in the annual audited accounts. These were higher than our performance materiality so we reviewed our audit approach and carried out further audit testing.

37. Total misstatements identified were £43.8million. We have reviewed the nature and causes of these misstatements. The majority of the misstatements related to the revaluation of the DRC based assets. This was an isolated area that was reviewed in full therefore further testing was not required. For other misstatements we expanded our testing sample and extrapolated the error across the relevant population of transactions or balances to assess whether the accounts could be materially misstated.

38. Adjustments made in the audited annual accounts decreased net expenditure in the Comprehensive Income and Expenditure Statement by £1.9 million and increased net assets in the Balance Sheet by £36.5 million. There was also an increase in unusable reserves in the Movement in Reserves Statement of £35 million.

Limited progress was made on prior year recommendations

39. The council has made limited progress in implementing our prior year audit recommendations. Workload pressures on staff and difficulties in filling vacancies have contributed to a delay in addressing several areas. For actions not yet implemented, revised responses and timescales have been agreed with management, and are set out in [Appendix 1](#).

2. Financial management

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

Main judgements

Financial management is effective with a budget setting process focused on priorities.

The council reported an £18.6 million underspend against its 2021/22 budget and 86 per cent of planned savings were achieved.

Financial systems of internal control operated effectively.

The council operated within its budget in 2021/22 and reported an underspend of £18.6 million

40. The council agreed its budget for 2021/22 in March 2021. It had a final budget for council services of £327.2 million and reported an underspend of £18.6 million. The most significant contribution to this underspend was £8.8 million relating to education and lifelong learning resulting from the phasing of Early Years Expansion funding and the impact of Pupil Equity Funding being tied to an academic year rather than the financial year. These underspends have been carried forward to 2022/23. The more significant under and overspends are summarised in [Exhibit 4](#).

Exhibit 4

Summary of significant under/overspends against budget

Area	£m	Reason for variance
Underspends		
Education and Lifelong Learning	£8.8 million	This relates to multi-year funding for Early Year expansion and Pupil Equity Fund. These grants are ring-fenced and the unspent balance is carried forward to 2022/23.

Area	£m	Reason for variance
Corporate Items	£3.2 million	This relates to Covid funding received in 2021/22 which was unspent and has been carried forward to 2022/23.
Vibrant Communities & Sustainable Growth	£2.3 million	The majority of this relates to unbudgeted additional income as a result of profit sharing from the waste incineration plant in Dundee.
Other Services	£2.4 million	This contains a number of contingency or harder to predict budgets. The main cause of the underspends here was employee slippage causing delays in expenditure.

Source: Angus Council 2021/22 Annual Accounts

Housing revenue account operated at a minor deficit in 2021/22

41. The council is required by legislation to maintain a separate housing revenue account and to ensure that rents are set a level which will at least cover the costs of its social housing provision. The 2021/22 Housing Revenue Account budget was set to achieve break even, i.e. cover its costs.

42. The Housing Revenue Account reported a deficit of £0.05 million in 2021/22. This was in large part due to higher-than-expected levels of void rents, which were £0.6 million higher than budgeted.

Budget processes were appropriate and 86 per cent of planned efficiency savings were achieved

43. We observed that senior management and members receive regular and accurate financial information on the council's performance against budgets. Angus Council has appropriate budget setting and monitoring arrangements in place.

44. The 2021/22 budget included planned savings and contributions from reserves to address the identified funding gap. The final Change Programme saving target for 2021/22 was £5.2 million. The council achieved actual savings of £4.4 million (86 per cent of this total).

There has been a significant increase in the level of General Fund reserves, but earmarked reserves are also increasing

45. One of the key measures of the financial health of a council is the level of reserves held. The level of usable general fund reserves held by Angus Council increased from £49.3 million in 2020/21 to £56 million in 2021/22.

46. As reported in the [Best Value Assurance Report](#), Angus Council has seen a significant increase in general fund reserves since 31 March 2017, but a large proportion of these reserves are earmarked for specific purposes. As at 31 March 2022, Angus Council had a usable general fund balance of £56 million, of which £49.6 million (89 per cent) was earmarked for specific purposes. This level has fluctuated between 75 per cent and 96 per cent over the last five years. This shows that the council generally has limited uncommitted reserves to support additional expenditure.

Capital expenditure in 2021/22 was under budget due to delays in capital projects

47. Total general fund capital expenditure in 2021/22 was £16.2 million against a budget of £22.6 million, reflecting an underspend of £6.4 million. The majority of this related to underspends on Infrastructure assets, with the main underspend (£3 million) relating to Flood Protection Schemes. This was driven by the contractors who advised that there was a need to delay the project to allow flood embankments to settle.

48. Total Housing Revenue Account capital expenditure in 2021/22 was £21.7 million against a budget of £17.6 million, reflecting an overspend of £4.1 million. This is a result of the council advancing capital spend on energy efficiency schemes to help combat rising energy costs.

Borrowing levels have remained static

49. Borrowing levels have remained relatively stable. Long-term borrowing as at 31 March 2022 was £138.2 million, a decrease of £0.9 million on the 2021 level of £139.1 million. During the same period, short term borrowing increased from £7.4 million to £9.6 million.

50. Total external debt, which includes the council's long-term liabilities, was within the authorised limit and operational boundary set by the treasury management strategy. There was one breach of authorised limits for an individual investment during 2021/22, as identified in the council's Treasury Management Mid-Year Report. A balance of £12.5 million was placed with a Non-UK Domiciled institution when the authorised limit should have been nil. This was due to a system error and the council has put measures in place to ensure this doesn't happen in future. The funds invested have been returned to the council as planned when the investment was made.

Financial systems of internal control operated effectively

51. We concluded that the controls tested were operating effectively. No significant internal control weaknesses were identified during the audit 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.

Standards of conduct and arrangements for the prevention and detection of fraud and error were appropriate

52. Angus Council is responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption. Furthermore, it is responsible for ensuring that its affairs are managed in accordance with proper standards of conduct by putting effective arrangements in place.

53. The risk profile of public bodies during 2021/22 has been significantly affected by the Covid-19 pandemic. This is likely to have increased the risk of fraud and error as control environments and internal controls have had to change to allow for services to operate effectively and respond to issues in a timely manner. We have reviewed the arrangements put in place by the council to address any heightened risks and concluded that there are appropriate arrangements for the prevention and detection of fraud, error and irregularities.

54. In addition, we have reviewed the arrangements in place to maintain standards of conduct including the Staff Handbook and Codes of Conduct for staff and councillors. There are established procedures for preventing and detecting any breaches of these standards including any instances of corruption. There have been two recent Standards Commission hearings involving Angus Council members: one concluded with a one-month suspension and the other, although it concluded that a breach of the Councillors' Code of Conduct did not occur, emphasised the Code requirement for councillors to behave in a respectful and courteous manner towards colleagues. It is important that the arrangements put in place by the council are fully complied with.

Audit work to address concerns raised in correspondence is still ongoing

55. Audit Scotland received correspondence in 2021/22 from a member of the public who raised concerns about decision making in the council, the calculation of developer contributions towards affordable housing and mitigation of the impact of housing development on local schools. The [Best Value Assurance Report](#) considered and concluded on the council's decision making including the quality of information provided to elected members to support decision making. We are carrying out a high-level review of the process for calculating developer contributions and this work is still ongoing. We will report the outcome to the council and to the correspondent when the work is concluded.

3. Financial sustainability

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

Main judgements

The Covid-19 pandemic has had a significant impact on the short to medium-term finances of the council. High inflation is placing even greater pressure on already tight finances.

The council faces significant financial uncertainty. Scenario planning has identified a potential funding gap ranging from £48 million to £68 million by 2025/26.

Angus Council still needs to implement its longer-term financial planning framework, which has been delayed to 2023.

The financial pressures on Angus Council including the cost of living crisis and the impact of the Covid-19 pandemic are significant and increasing

56. The financial pressures on Angus Council are significant and rising. The financial impact of the pandemic on Angus Council is likely to extend across several years and could include a reduction in income from business rates and council tax non-payments as well as a reduction in fees and charges and increased costs such as higher staff costs to cover the delivery of services. The cost of living crisis is driving greater demand for public services at the same time as the council faces rising costs due to high inflation, affecting energy, fuel, food, materials and pay costs.

57. The Finance and Change Plan 2022-2025 identified a funding gap of £13.9 million for 2022/23. This will be addressed through a combination of change programme savings, use of reserves and council tax increases. The main cost pressures currently facing the council relate to inflationary price increases and pay award costs, which will have a significant impact in the coming years. Based on the most recent budget monitoring information (data as at August 2022, reported in October 2022) it is currently projected that the council will overspend its general fund budget by around £6 million in 2022/23. This projection includes an estimate for 2022/23 pay awards, some of which are not yet agreed.

Medium term financial plans are in place and have been updated to reflect increasing financial pressures

58. The Finance and Change Plan 2022-25 is an accessible summary of the financial challenges the council faces and the plans in place to address these. The rolling three-year Medium Term Budget Strategy and Capital Plan ensure consistency. These are refreshed every year as part of the budget setting process and have been updated to reflect the increasing financial pressures such as inflation and the ongoing impact of Covid-19 including additional costs, delays in capital projects and potential impacts on income generation.

The council faces significant financial challenges with scenario planning identifying a potential funding gap between £48 million to £68 million by 2025/26

59. The council is currently projecting a baseline funding gap of £51.9 million over the three years 2023/24 to 2025/26. Sensitivity analysis identified a potential range from £48 million (optimistic) to £68 million (pessimistic). Change Programme savings of £14.6 million have been identified (not including 2025/26) alongside some use of reserves, but there is a £37.3 million funding gap which needs addressed. This represents a significant financial pressure and the council recognises that it will have to make difficult decisions.

Development of the long-term financial planning framework is delayed

60. Work to develop a long-term financial planning framework, setting out the main factors and pressures affecting the council's financial position, has not yet reached conclusion. The original plan was to present this alongside the 2022/23 budget; however, the council was unable to finalise this alongside the other documentation required for the budget. The council has an outline plan in place for this work and will continue to develop it over the coming months. Officers had planned to present this to the council in September 2022; however, this has been delayed due to staffing pressures and will now be completed in 2023.

Recommendation 5

The long-term financial planning framework should be concluded to support the financial sustainability of the council.

4. Governance and transparency

The effectiveness of scrutiny and oversight and transparent reporting of information

Main Judgements

Angus Council has appropriate governance arrangements in place to provide effective scrutiny, challenge and informed decision making.

There are improvements required to performance reporting to ensure that it is effective in monitoring and driving improvement.

Angus Council has appropriate governance arrangements in place to support effective scrutiny, challenge and informed decision making

61. The governance transparency arrangements we consider in reaching our conclusions include:

- council and committee structure and conduct
- overall arrangements and standards of conduct including those for the prevention and detection of fraud, error, bribery and corruption. This includes action in response to the National Fraud Initiative
- openness of council and committees
- reporting of performance and whether this is fair, balanced and understandable.

62. Our best value audit work considered the effectiveness of governance arrangements, including the changes introduced during the Covid-19 pandemic, lessons learned from governance reviews of decision making, and the training offered to elected members. In the [Best Value Assurance Report](#) published in July 2022 we concluded that:

- The council's committee structure supports effective scrutiny
- The council adapted its committee arrangements in response to the Covid-19 pandemic while retaining decision-making by elected members

- The council has an effective training programme to support elected members. This includes induction training for newly elected members and ongoing training.

63. The BVAR conclusions were based on arrangements prior to the May 2022 local government election. At the time of the BVAR audit the council was led by a Conservative / Independent coalition administration group. Following the election, Angus Council is now led by an SNP / Independent coalition administration group. No single party has an overall majority on the council. 11 of the 28 councillors are newly elected members. The committee structure has remained the same, with new committee memberships agreed. It is important that the new council works together to meet the significant challenges ahead.

64. All committee meetings held throughout 2021/22 were held virtually, however beginning in May 2022 Angus Council has started to hold full council meetings in person again. This is intended to support the new council and provide opportunities to network and build relationships between elected members following the May 2022 elections.

65. Overall we concluded that Angus Council has appropriate governance arrangements in place and our attendance at committees has confirmed that the level of scrutiny and challenge is appropriate and supports sound decision-making.

Performance reporting requires improvement

66. Management Commentaries included in the annual accounts should provide information on a body, its main objectives and the principal risks faced. It should provide a fair, balanced and understandable analysis of a body's performance as well as helping stakeholders understand the financial statements.

67. As in previous year there was a significant amount of performance information that was missing from the management commentary that was presented for audit. Some, but not all, of the performance data was available for inclusion in the audited version. Gaps in the data make it difficult to form a complete picture of the council's performance.

68. We reviewed the council's performance management arrangements during our 2021/22 Best Value audit work, which was reported in the [Best Value Assurance Report](#) published in July 2022. Annual performance reports are used to inform elected members and the public of progress against council priorities. We concluded that progress in embedding a council-wide performance management framework to drive improvement activity has been slow and Covid-19 had disrupted progress.

Recommendation 6

The council-wide performance management framework must now be fully embedded to drive improvement activity and support its ambition to be a performance-led council.

5. Best Value

Using resources effectively and continually improving services.

Main judgements

The Angus Council Best Value Assurance Report was published in July 2022. It concludes that the council has demonstrated a good pace of improvement since the last Best Value report in 2016. It has reshaped services and is an organisation that is focused on its priorities, working well with partners and keen to learn from good practice.

The Best Value Assurance Report was presented to the Council in September 2022 and a follow up of the recommendations in this report will be conducted in 2022/23.

Angus Council complies with the Accounts Commission's Statutory Performance Indicators Direction.

The Best Value Assurance Report concludes that the council has demonstrated a good pace of improvement since the last Best Value Audit in 2016

69. Best value is concerned with using resources effectively and continually improving services. Best value is assessed over the audit appointment, as part of the annual audit work. In addition, a Best Value Assurance Report for each council is considered by the Accounts Commission at least once in this period. The [Best Value Assurance Report](#) was published by the Accounts Commission in July 2022. Key messages are noted in [Exhibit 5](#).

Exhibit 5

Key Messages from the July 2022 BVAR

1. The council has demonstrated a good pace of improvement since the last Best Value report in 2016. It has reshaped services and is an organisation that is focused on its priorities, working well with partners and keen to learn from good practice.
2. The council and its partners have a clear vision for Angus. There is strong partnership working and collaboration. Partners across Angus worked well together to deliver services to those most in need during the Covid-19 pandemic. The council is looking to learn from others how to engage effectively with communities on the service redesign required.

- 3. The pandemic has increased existing inequalities, hitting the most disadvantaged groups hardest. Reducing inequality is a priority for the council and it is engaged in a range of local projects to provide support and increase opportunities for its most disadvantaged citizens.**
- 4. The leader of the council and chief executive provide effective leadership. Officers and members have constructive working relationships. Effective arrangements are in place to support decision-making and public scrutiny. Elected members have worked together to make difficult decisions to deliver financial sustainability.**
- 5. Angus Council has effective financial management and medium-term financial planning but has yet to fully develop its long-term financial plan. The council has delivered significant financial savings in recent years through its Change Programme, including comprehensive service reviews. Now increasing financial pressures mean even more radical change is required to the range and scale of services and how they are delivered.**
- 6. Annual performance reports are used to inform elected members and the public of progress against council priorities. These reports are improving year on year, but performance reporting needs to be more frequent to help drive improvement. Clearer links between performance data and the impact of improvement actions is also necessary.**
- 7. Progress in embedding a council-wide performance management framework to drive improvement activity has been slow. Covid-19 disrupted progress. Further change is needed if the council is to realise its ambition to be a performance-led council.**
- 8. The council's performance has improved or been maintained across three of the four key priority areas within its Council Plan. But in its priority area of the local economy, where many indicators do not have performance information available, there were already challenging performance issues before March 2020.**
- 9. The Local Government Benchmarking Framework indicators for 2021/22 show a mixed picture, with good performance in areas such as waste management alongside the need for improvement in the key area of housing. The proportion of indicators in the top quartile is the highest since 2016/17.**
- 10. Across the majority of areas the people of Angus are more satisfied with their council services than the Scottish average.**
- 11. The Angus Health and Social Care Partnership is a key partner for the delivery of health and social care services. Good progress has been made in shifting care from hospitals to community and home-based care settings, but changes in the demand for care and recruitment challenges are resulting in unmet need. New models of service delivery are being introduced, but further change is needed to ensure services remain financially sustainable.**

Angus Council complies with the Accounts Commission's Statutory Performance Indicators Direction

70. The Accounts Commission has a statutory responsibility to define the performance information that councils must publish. In turn, councils have their own responsibility, under their Best Value duty, to report performance to the public. 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.

71. The Accounts Commission issued a revised 2018 Statutory Performance Information Direction in December 2018 which requires a council to report:

- its performance in improving local public services provided by the council (on its own and with its partners and communities), and progress against agreed desired outcomes
- its own assessment and independent audit assessments of how it is performing against its duty of Best Value, and how it plans to improve these assessments and how it (with its partners where appropriate) has engaged with and responded to its diverse communities

72. The council's arrangements for publicly reporting its performance continue to develop. The council website 'spending and performance' section has links to the Local Government Benchmarking Framework to allow comparison across councils for specific indicators, and there are annual reports on the council's performance against its Council Plan and on community planning partnership performance against the Angus Community Plan.

73. We have evaluated Angus Council's arrangements for fulfilling the above requirements and concluded that appropriate arrangements are in place but services need to record performance data on a timely basis to support public performance reporting.

National performance audit reports are considered by committee, with local context supplied

74. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2021/22, Audit Scotland published a number of reports which may be of interest to the council. These are outlined in [Appendix 2](#). National audit reports are considered by the Scrutiny and Audit Committee, often accompanied by a summary of the local Angus context.

Appendix 1. Action plan 2021/22

2021/22 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>1. Provision of working papers</p> <p>There were a number of areas where working papers were not received on a timely basis, namely non-current assets, payroll and cash and bank.</p> <p>We recognise the resourcing pressures that exist within finance and payroll teams resulting in reliance on a small number of key individuals.</p> <p><i>Risk – There is a risk that lack of appropriate audit evidence could impact on the audit opinion.</i></p>	<p>The council should ensure that the Finance and Payroll teams are adequately resourced to prepare a full package of working papers and supporting documentation alongside the unaudited accounts, to support the audit process.</p> <p>Paragraph 19</p>	<p>Council officers will seek to ensure this is fulfilled within the limits of current and future staff resources</p> <p>Responsible officers: Service Lead (Finance) & Director of HR, Digital Enablement and Business Support</p> <p>Agreed date: 30 June 2023</p>
<p>2. Valuation of Non-Current Assets</p> <p>Our prior year recommendation remains valid. The revaluation programme needs to support the value of each asset category in each year of the programme.</p> <p>Additional revaluation work was required following the removal of the material valuation uncertainty that was included in the valuer's report in the previous two years. Material adjustments were required to the annual accounts as a result.</p> <p><i>Risk – Non-current assets are materially misstated in the financial statements.</i></p>	<p>A formal review of asset revaluation arrangements should be completed to ensure it is sufficiently robust to demonstrate that asset values across all categories remain appropriate in each year of the revaluation programme.</p> <p>Exhibit 2</p>	<p>A review of revaluation arrangements will be undertaken. This will be informed by the national dialogue underway regarding revaluation methodology and infrastructure assets in particular.</p> <p>Responsible officer: Service Lead (Finance)</p> <p>Agreed date: 11 March 2023</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>3. Accounting for Non-Current Assets</p> <p>There were several misstatements identified in non-current assets, including: depreciation calculations, revaluation calculations, discrepancies between Finance records and Property Services records, and capitalisation of maintenance costs on community assets.</p> <p><i>Risk – Non-current assets are materially misstated in the financial statements.</i></p>	<p>The council should formally review the detail in its asset register to ensure it supports accurate and robust non-current asset accounting. This would support timely engagement with Property Services and other council services on capital expenditure and other non-current asset changes.</p> <p>Exhibit 2</p>	<p>We will undertake the recommended review of the asset register and prepare a detailed plan to address the issues given this will be a significant piece of work. That will include liaison with other Council services.</p> <p>Responsible officer: Service Leader (Finance)</p> <p>Agreed date: 30 June 2023</p>
<p>4. Accounting for prepayments</p> <p>We noted two instances of transactions being accounted for as current year expenditure rather than as prepayments.</p> <p><i>Risk – Expenditure is overstated and current assets are understated in the financial statements.</i></p>	<p>The council should review its processes for identifying prepayments to ensure these are accounted for correctly.</p> <p>Exhibit 2</p>	<p>Officers will undertake a review of material multi-year contracts to determine if any others are not being accounted for in accordance with Code of Practice guidance.</p> <p>Responsible officer: Service Lead (Finance)</p> <p>Agreed date: 31 March 2023</p>
<p>5. Long-term financial planning</p> <p>Although the council has sound medium term financial planning arrangements the development of a long-term financial planning framework has suffered delays due to staffing pressures.</p> <p><i>Risk – There is insufficient longer term financial planning to support overall financial sustainability.</i></p>	<p>The long-term financial planning framework should be concluded to support the financial sustainability of the council.</p> <p>Paragraph 60.</p>	<p>Officers will continue developing the long-term financial planning framework and plan to conclude this piece of work in 2023. The report and plan will be presented to Angus Council in February/ March 2023 alongside the 2023/24 budget.</p> <p>Responsible officer: Service Lead (Finance)</p> <p>Agreed date: 31 March 2023</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>6. Performance management framework</p> <p>Progress on embedding a council-wide performance management framework has been impacting by the Covid-19 pandemic.</p> <p>Ongoing data gaps make it difficult to form a complete picture of the council's performance.</p> <p><i>Risk – The council cannot achieve its ambition of being a performance-led council.</i></p>	<p>The council-wide performance management framework must now be fully embedded to drive improvement activity and support its ambition to be a performance-led council.</p> <p>Paragraph 68.</p>	<p>Two actions related to this have already been initiated from the recent Best Value Assurance Report (recommendation 3) and are being progressed (Appendix 2 of Report 301/22 refers).</p> <p>Responsible officer: Service Leader (Governance & Change)</p> <p>Agreed date: 31 December 2022 (action 3a) 31 December 2023 (action 3b)</p>

Follow-up of prior year recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>PY1. Asset revaluation arrangements</p>	<p>A formal review of asset revaluation arrangements should be completed.</p>	<p>Replaced by Recommendation 2 above</p>
<p>PY2. Payroll information</p>	<p>A full package of working papers and supporting documentation should be available alongside the unaudited accounts to support the audit process.</p>	<p>Replaced by Recommendation 1 above</p>
<p>PY3. Procurement training records</p>	<p>The council should ensure that detailed training records are held for staff involved in procurement activity.</p>	<p>In Progress</p> <p>Revised action:</p> <p>Angus Council has a devolved procurement model so training records have been held at a devolved level within individual Services. A review of procurement delivery is now taking place and the Corporate Procurement Group has been reinstated. A combined</p>

Issue/risk	Recommendation	Agreed management action/timing
		<p>procurement training register shall be populated by the members of that group to create a central document. In addition a more structured training programme for procurement is being developed centrally and this will be based on the procurement competency framework</p> <p>https://www.gov.scot/publications/scottish-procurement-competency-framework/ to identify training needs. A training record file has been created and will be compiled once the new programme of training is launched in 2023.</p> <p>Responsible officer: Service Leader (Legal)</p> <p>Revised date: 30 September 2023</p>
PY4. Long-term financial planning	Long-term planning arrangements, including different financial scenarios, should be developed to support the Covid-19 recovery.	Replaced by Recommendation 5 above
PY5. Availability of performance information	Angus Council should review the sources of data used for its performance indicators to ensure that this data can be produced in a timely manner to aid in reliable performance monitoring.	Replaced by Recommendation 6 above

Appendix 2. Summary of 2021/22 national performance reports and briefing papers

May

[Local government in Scotland Overview 2021](#)

June

[Covid 19: Personal protective equipment](#)

July

[Community justice: Sustainable alternatives to custody](#)

September

[Covid 19: Vaccination programme](#)

January

[Planning for skills](#)

[Social care briefing](#)

February

[NHS in Scotland 2021](#)

March

[Local government in Scotland: Financial Overview 20/21](#)

[Drug and alcohol: An update](#)

[Scotland's economy: Supporting businesses through the Covid 19 pandemic](#)

Angus Council

Draft 2021/22 Annual Audit Report

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Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
Phone: 0131 625 1500 Email: info@audit-scotland.gov.uk
www.audit-scotland.gov.uk