

Angus Council

Annual Audit Plan 2022/23



 AUDIT SCOTLAND

Prepared for Angus Council
March 2023

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Introduction

Summary of planned audit work

1. This document summarises the work plan for our 2022/23 external audit of Angus Council (the council). The main elements of our work include:

- evaluation of the key controls within the main accounting systems
- an audit of the annual accounts, and provision of an Independent Auditor's Report
- audit opinions on the financial statements and other statutory information published within the annual accounts including the Management Commentary, the Annual Governance Statement and the Remuneration Report
- consideration of arrangements in relation to wider scope areas: financial management; financial sustainability; vision, leadership and governance; and use of resources to improve outcomes
- 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
- review the council's arrangements for preparing and publishing statutory performance information.

Audit Appointment

2. We are pleased to be appointed as the external auditor of Angus Council for the period 2022/23 to 2026/27 inclusive. You can find a brief biography of your audit team at [Appendix 1](#).

3. In the first year of the audit appointment, we invest significant time gaining an understanding of your business and identifying and assessing the risks of material misstatement to the financial statements. While we use our initial assessment of risk to inform our planned audit approach, we keep our assessment of risks under review as the audit progresses. We will inform you of any significant changes in assessed risks and any resulting changes in our planned audit work.

4. The audit team will actively engage with you over the course of the audit to ensure our audit work continues to be focused on risk.

Adding value

5. We aim to add value to the council through our external audit work by being constructive and forward looking, by attending meetings of the Scrutiny and Audit Committee and by recommending and encouraging good practice. In so doing, we will help the council promote improved standards of governance, better management and decision making and more effective use of resources.

Respective responsibilities of the auditor and Audited Body

6. The [Code of Audit Practice 2021](#) sets out in detail the respective responsibilities of the auditor and the council. Key responsibilities are summarised below.

Auditor responsibilities

7. 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.

8. 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 wider scope arrangements in place at the council. In doing this, we aim to support improvement and accountability.

The council's responsibilities

9. The council is responsible for maintaining accounting records and preparing financial statements that give a true and fair view.

10. The 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.

Communication of fraud or suspected fraud

11. In line with the ISA (UK) 240 (*The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*), in presenting this plan to the Scrutiny & Audit Committee we seek confirmation from those charged with governance of any instances of actual, suspected or alleged fraud that should be brought to our attention. During our audit, should members of the council have any such knowledge or concerns relating to the risk of fraud within it, we invite them to communicate this to us for our consideration.

Financial statements audit planning

Introduction

12. The annual accounts are an essential part of demonstrating the council's stewardship of resources and its performance in the use of those resources.

13. As part of our planning process, we prepare a risk assessment highlighting the audit risks relating to each of the main financial systems relevant to the production of the financial statements. We focus our work on the areas of highest risk.

Materiality

14. The concept of materiality is applied by auditors in planning and performing the audit, and in evaluating the effect of any uncorrected misstatements on the financial statements. We are required to plan our audit to obtain reasonable assurance that 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 2022/23 audit

15. We assess materiality at different levels and the materiality values for the council and its group are set out in [Exhibit 1](#).

Exhibit 1

2022/23 Materiality levels for Angus Council and its group

Materiality	Amount
<p>Planning materiality – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. Materiality has been set based on our assessment of the needs of the users of the financial statements and the nature of the council's operations. For the year ended 31 March 2023 we have set our materiality at 2% of gross expenditure based on the audited financial statements for 2021/22.</p>	£10.3 million
<p>Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this could indicate that further audit procedures should be considered. Using our professional judgement, we have assessed performance materiality at 60% of planning materiality.</p>	£6.2 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. £250,000

Source: Audit Scotland

Significant risks of material misstatement to the financial statements

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

17. 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.

18. 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

2022/23 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 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>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance</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. Consider the need to test journal entries and other adjustments during the period. Evaluate significant transactions outside the normal course of business.

Significant risk of material misstatement	Sources of assurance	Planned audit response
<p>2. Estimation in the valuation of land and buildings.</p> <p>There is a significant degree of subjectivity in the valuation of land and buildings. Valuations are based on specialist and management assumptions and changes in these can result in material changes to valuations.</p> <p>All non-current assets are revalued on a five-year rolling basis. Values may also change year on year, and it is important that the council ensures the financial statements accurately reflect the value of the land and buildings.</p>	<p>Valuation and impairment review of non-current assets by professional valuer in line with 5 year rolling programme</p> <p>Confirmation from valuer that asset categories not valued in year are not materially misstated.</p>	<ul style="list-style-type: none"> • We will assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year. • Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year. • Focussed testing of accounting accruals and prepayments. <hr/> <ul style="list-style-type: none"> • Review the information provided to the valuer to assess for completeness. • Evaluate the competence, capabilities, and objectivity of the professional valuer. • Obtain an understanding of the management's involvement in the valuation process to assess if appropriate oversight has occurred. • Critically assess the approach the council has adopted to assess the risk that assets not subject to valuation are materially misstated and consider the robustness of that approach. • Challenge management's assessment of why it considers that the land and buildings not revalued in 2022/23 are not materially misstated. We will critically assess the appropriateness of any assumptions. • Critically assess the adequacy of the council's disclosures regarding the assumptions in relation to the valuation of land and buildings.

Source: Audit Scotland

19. 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 the 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. The income streams comprise of a high volume of low value transactions which are unlikely to result in a material manipulation of the financial statements.

20. 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 considered expenditure streams including payroll and depreciation and consider that these items can be readily forecast based on a predictable pattern of expenditure. We have concluded that opportunity for fraudulent manipulation is deemed to be limited. The council's other expenditure is made up of a high volume of low value items and therefore the risk of a material misstatement is deemed to be low. Practice Note 10 also introduces the concept of external fraud risk and we have assessed the levels of fraud in the public sector and concluded that there is a low risk of material fraud across payment streams.

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

Other areas of audit focus

22. As part of our assessment of audit risks, we have identified another area where we consider there is also a risk of material misstatement to the financial statements. Based on our assessment of the likelihood and magnitude of the risk, we do not consider these to represent significant risks. We will keep this area under review as our audit progresses.

23. The area of specific audit focus is estimation in the valuation of the pension liability. The actuarial valuation depends on a range of financial and demographic estimations about the future. The subjectivity around these estimates gives rise to a risk of material misstatement in the financial statements.

Group Consideration

24. As group auditors, we are required under International Standard on Auditing (ISA) (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.

25. The council has a group which comprises component entities, including subsidiaries, associates and joint ventures. Our planned audit approach for the components is informed by our assessment of risk at the component bodies and our consideration of the size and nature of assets, liabilities and transaction streams.

26. The audits of the financial information of some of the components are performed by other 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

27. 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.

28. Members of the council are sole trustees for two trusts registered as Scottish charities (Angus Council Charitable Trusts and Robert & William Strang Mortification), with total assets of some £2.1 million. The preparation and audit of financial statements of registered charities is regulated by the Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006.

29. Management override of controls has been identified as a risk of material misstatement in the trusts' accounts, which has also been identified as a risk in respect of the council's annual accounts has been identified. In response to this risk, we will review a significant proportion of income and expenditure transactions processed through the trusts.

Materiality levels for the 2022/23 audit of trusts registered as Scottish charities

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

Exhibit 3 2022/23 Materiality levels for charitable trusts

Charitable trust	Planning Materiality	Performance Materiality	Reporting Threshold
Angus Council Charitable Trust	£9,000 (Based on 1.5% of audited 2021/22 net asset value)	£6,750 (Based on 75% of planning materiality)	£100
Robert & William Strang Mortification	£23,500 (Based on 1.5% of audited 2021/22 net asset value)	£17,600 (Based on 75% of planning materiality)	£240

Source: Audit Scotland

31. We also set a specific account area materiality for each charitable trust's Statement of Financial Activities at 2 per cent of prior year gross expenditure.

This is £330 for the Angus Council Charitable Trust and £1,300 for the Robert & William Strang Mortification.

Wider Scope and Best Value

Introduction

32. The [Code of Audit Practice](#) sets out the four areas that frame the wider scope of public sector audit. The Code of Audit Practice requires auditors to consider the adequacy of the arrangements in place for the wider scope areas in audited bodies.

33. In summary, the four wider scope areas cover the following:

- **Financial management** means having sound budgetary processes. We will consider the arrangements to secure sound financial management including the strength of the financial management culture, accountability and arrangements to prevent and detect fraud, error and other irregularities.
- **Financial sustainability** – as auditors, we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. The council faces significant financial uncertainty. Scenario planning has identified a potential funding gap ranging from £48 million to £68 million by 2025/26. There is a risk that in the longer term, the council is unable to deliver the efficiencies required to balance its budget whilst meeting its strategic priorities. We look at planning for the medium term (two to five years) and longer term (longer than five years). We will also comment on financial sustainability in the longer term.
- **Vision, leadership and governance** – we conclude on the arrangements in place to deliver the vision, strategy and priorities adopted by the council. We also consider the effectiveness of the governance arrangements to support delivery.
- **Use of resources to improve outcomes** – we will consider how the council demonstrates economy, efficiency and effectiveness through the use of financial and other resources. Our Best Value Assurance Report in June 2022 highlighted the council's progress on embedding a council wide performance management framework has been slow. Good quality performance management and reporting is important to ensure elected members understand the impact of improvement actions and can make effective decisions. We will consider the actions taken in year to drive improvement through performance management and reporting.

34. Our planned work on our wider scope responsibilities is risk based and proportionate and in addition to local risks we consider challenges which are impacting the public sector as a whole. In 2022/23 we will consider tackling climate change and responding to cyber security threats.

Climate Change

35. Tackling climate change is one of the greatest global challenges. The Scottish Parliament has set a legally binding target of becoming net zero by 2045 and has interim targets including a 75% reduction in greenhouse gas emissions by 2030. The public sector in Scotland has a key role to play in ensuring these targets are met and in adapting to the impacts of climate change.

36. The Auditor General and Accounts Commission are developing a programme of work on climate change. In 2022/23, we will gather information on the council's arrangements for responding to climate change covering areas such as the development of climate change strategies and the monitoring and reporting of progress against targets for reducing emissions.

Cyber Security

37. There continues to be a significant risk of cyber-attacks to public bodies, and it is important that they have appropriate cyber security arrangements in place. A number of recent incidents have demonstrated the significant impact that a cyber-attack can have on both the finances and operation of an organisation. In 2022/23, we will consider the council's arrangements for managing and mitigating cyber security risks.

Best Value

38. Under the 2021 [Code of Audit Practice](#), the audit of Best Value in councils is fully integrated within our annual audit work.

39. Best Value at the council will be assessed comprehensively over the period of the audit appointment and will include an annual evaluation of the council's approach to demonstrating improvement in its strategic priorities and public performance reporting. We will also follow up findings reported previously on Best Value to assess the pace and depth of improvement. This work will be integrated with the wider scope audit areas discussed above.

40. In addition to our annual work on Best Value we will conduct thematic reviews as directed by the Accounts Commission. In 2022/23 the thematic review across the sector will be on the effectiveness of council leadership in developing new local strategic priorities following the elections in May 2022. Our conclusions and judgements will be reported in a separate report to management and summarised in our Annual Audit Report.

Controller of Audit reports

41. At least once every five years, the Controller of Audit will report to the Accounts Commission on Highland Council's performance in meeting its Best Value duties. The first year of the programme will be from October 2023 to August 2024 and will cover the following councils: Falkirk; Moray; Clackmannanshire; South Ayrshire; Dumfries and Galloway; Orkney Islands; City of Dundee and West Dunbartonshire.

Reporting arrangements, timetable, and audit fee

Reporting arrangements

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

43. 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.

44. We will provide an independent auditor's report to the council, and the Accounts Commission setting out our opinions on the annual report and 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.

45. [Exhibit 5](#) outlines the target dates for our audit outputs, and we aim to issue the independent auditor's report by the statutory deadline of 30 September 2023.

Exhibit 5 2020/21 Audit outputs

Audit Output	Target date	Scrutiny and Audit Committee Date
Annual Audit Plan	31 March 2023	25 April 2023
Management Report	30 June 2023	22 August 2023
Independent Auditor's Report	30 September 2023	TBC
Annual Audit Report	30 September 2023	TBC

Source: Audit Scotland



Timetable

46. 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 6](#) that has been discussed with management.

47. Covid-19 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. We are identifying ways to work more efficiently to expedite the 2022/23 audits whilst at the same time maintaining high standards of quality.

48. We intend to take a hybrid approach to the 2022/23 audit with a blend of onsite and remote working. We will continue to work closely with management to identify the most efficient approach as appropriate and will keep timeframes and logistics for the completion of the audit under review. Progress will be discussed with management and finance officers over the course of the audit.

Exhibit 6 Proposed annual report and accounts timetable

 Key stage	 Provisional Date
Latest submission date for the receipt of the unaudited annual report and accounts with complete working papers package.	30 June 2023
Latest date for final clearance meeting with the Director of Finance	22 September 2023
Agreement of audited and unsigned annual report and accounts	29 September 2023
Issue of Annual Audit Report, Letter of Representation and proposed Independent Auditor's Report to those charged with governance.	29 September 2023
Signed Independent Auditor's Report	29 September 2023
Certified Non-Domestic Rates Return	By end December 2023
Certified Housing Benefit subsidy claim	By end December 2023
Latest date for WGA assurance	To be confirmed

Source: Audit Scotland

Audit fee

49. In determining the audit fee, we have taken account of the risk exposure of the council and the planned management assurances in place. The proposed audit fee for 2022/23 is £300,960 (2021/22: £269,000).

50. Our fees have increased in 2022/23 and this is a reflection of the current audit market and the rising costs in delivering high quality audit work. There are increased regulatory expectations and risks placed on audit and its quality, as well as a widening in the scope of work audit must cover.

51. In setting the fee for 2022/23 we have assumed that the council has effective governance arrangements and will prepare comprehensive and accurate accounts for audit in line with the agreed timetable for the audit. The audit fee assumes there will be no major change in respect of the scope of the audit during the year and where our audit cannot proceed as planned, a supplementary fee may be levied.

Other matters

Internal audit

52. It is the responsibility of the council to establish adequate internal audit arrangements. We will review the internal audit plan and the results of internal audit's work.

53. While we are not planning to place formal reliance on the work of internal audit in 2022/23, we will review internal audit reports and assess the impact of the findings on our financial statements and wider scope audit responsibilities.

Independence and objectivity

54. 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.

55. 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 Executive Director of Innovation and Quality, who serves as Audit Scotland's Ethics Partner.

56. The appointed auditor for Angus Council is Pauline Gillen, 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 the council.

Audit Quality

57. Quality is at the core of public audit in Scotland and is the foundation for building consistency and confidence across all audit work. High quality audits provide assurance, add value and can support public bodies to achieve their objectives.

58. Until 2021/22, the applicable audit quality standard was International Standard on Quality Control 1 (ISQC (UK) 1). This set out an audit practice's responsibilities for its system of quality control for audits.

59. ISQC(UK) 1 has been replaced by two new audit quality standards: Internal Standards on Quality Management (ISQM (UK) 1) applicable from 15 December 2022 and (ISQM(UK) 2) effective for the 2023/24 audits. Work is underway at Audit Scotland to meet the requirements of these quality standards.

60. Audit Scotland is committed to delivering high quality audits. 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 supplementary 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 England and Wales (ICAEW) have been commissioned to carry out external quality reviews.

61. 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. Your audit team

62. The audit team involved in the audit of the council have significant experience in public sector audit.

Pauline Gillen

Audit Director

Pgillen@audit-scotland.gov.uk

Pauline has over 16 years of public sector auditing experience. Pauline has worked across the breadth of the public sector on both financial and performance audits.

Mark Laird

Senior Audit Manager

mlaird@audit-scotland.gov.uk

Mark has 13 years of public sector audit experience and has delivered external audit services to a range of bodies including local authorities, health boards and central government bodies.

Neil O'Connor

Senior Auditor

noconnor@audit-scotland.gov.uk

Neil has 25 years of public sector auditing experience and considerable experience in planning and delivering audits. Neil will manage the team and work alongside the Senior Audit Manager and Audit Director to deliver the audit.

63. The local audit team is supported by a specialist technical accounting team, all of whom have significant experience of public bodies and work with accounting regulatory bodies.

64. Where possible and appropriate, we use our data analytics team to enable us to capture whole populations of your financial data. This analysis allows us to identify specific exceptions and anomalies within populations to enhance the focus of audit testing and support efficiency.

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