

# Angus Council

Annual Audit Plan 2019/20



 AUDIT SCOTLAND

Prepared for Angus Council  
February 2020



## Who we are

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

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



## About us

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

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

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

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# Risks and planned work

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

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

## Adding value

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

## Audit risks

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

## Exhibit 1 2019/20 Significant audit risks

 Audit Risk	Source of assurance	Planned audit work
<b>Financial statements risks</b>		
<p>1 <b>Risk of material misstatement caused by management override of controls</b></p> <p>Auditing Standards require that audits are planned to consider the risk of material misstatement caused by fraud, which is presumed to be a significant risk in any audit. This includes the risk of management override of controls that results in fraudulent financial statements.</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"> <li>• Detailed testing of journal entries.</li> <li>• Review of accounting estimates.</li> <li>• Focused testing of accruals and prepayments.</li> <li>• Evaluation of significant transactions that are outside the normal course of business.</li> </ul>
<p>2 <b>Risk of material misstatement caused by fraud in income recognition.</b></p> <p>Angus Council receives a significant amount of income from several</p>	<p>Regular budget monitoring and reporting.</p> <p>Robust internal controls in finance streams to</p>	<ul style="list-style-type: none"> <li>• Analytical procedures on income streams.</li> <li>• Detailed testing of revenue transactions focusing on the areas of greatest risk.</li> </ul>

 <b>Audit Risk</b>	<b>Source of assurance</b>	<b>Planned audit work</b>
<p>sources including income from fees and charges. The extent and complexity of income means that, in accordance with International Standard on Auditing 240, there is an inherent risk of fraud.</p>	<p>mitigate risks of error or manipulation.</p> <p>Participation in the National Fraud Initiative.</p>	
<p><b>3 Risk of material misstatement caused by fraud in expenditure</b></p> <p>The Financial Reporting Council's Practice Note 10 (revised) and the Code of Audit Practice require consideration of the risk of fraud over expenditure. The extent and nature of expenditure, for example welfare benefits, social care payments and grants means that there is an inherent risk of fraud.</p>	<p>Regular budget monitoring and reporting.</p> <p>Robust internal controls in finance streams to mitigate risks of error or manipulation.</p> <p>Participation in the National Fraud Initiative.</p>	<ul style="list-style-type: none"> <li>Analytical procedures on expenditure streams.</li> <li>Detailed testing of revenue transactions focusing on the areas of greatest risk.</li> </ul>
<p><b>4 Estimation and judgment</b></p> <p>There is a significant degree of subjectivity in the measurement and valuation of the material account areas of non-current assets and pension figures. This subjectivity represents an increased risk of misstatement in the financial statements.</p>	<p>Valuation and impairment review of non-current assets by professional valuer in line with 5 year rolling programme.</p> <p>Actuarial valuation to provide pension figures for the financial statements.</p> <p>Officer review of actuarial information to ensure data and assumptions used are reasonable.</p>	<ul style="list-style-type: none"> <li>Completion of 'review of the work of an expert' file for the professional valuer (non-current assets) and actuary (pensions liability).</li> <li>Focused substantive testing of key areas.</li> </ul>
<p><b>5 Completeness and accuracy of Remuneration Report</b></p> <p>Angus Council liaises with Tayside Pension Fund when determining the costs of exit packages to be disclosed in the Remuneration Report. All exit packages for staff who leave in the year should be included in the report.</p> <p>There is a risk that the disclosure of curtailment costs within the Remuneration Report is not complete or accurate.</p>	<p>Ongoing liaison with Tayside Pension Fund regarding timescale for information being supplied to the actuary for estimation of curtailment costs.</p>	<ul style="list-style-type: none"> <li>Review of the number of departures that have been agreed by 31 March 2020.</li> <li>Focussed substantive testing on curtailment costs.</li> </ul>
<p><b>6 Assurances over component balances within group accounts</b></p> <p>ANGUSalve is a wholly owned subsidiary of Angus Council. It is consolidated into the group accounts each year but its audit timetable is not fully aligned to the audit timetable for the group accounts.</p> <p>Angus Council should ensure that it has audited accounts for all group components prior to the signing of</p>	<p>Liaison with ANGUSalve for earlier preparation of the annual accounts including Trustees' Report, and for an earlier Board meeting to consider the accounts: the ANGUSalve Finance and Audit Sub Committee will consider the annual accounts on 4 September, with the</p>	<ul style="list-style-type: none"> <li>Review of a component auditor questionnaire from ANGUSalve auditors, Scott-Moncrieff.</li> <li>Review of audited accounts, including Independent Auditor's Report, for all group components.</li> </ul>

	Audit Risk	Source of assurance	Planned audit work
	<p>the group accounts. Progress has been made in advancing the timetable for preparation and audit of ANGUSlive annual accounts, including scrutiny by the Finance and Audit Sub Committee, but the accounts will not be signed until after the group accounts are signed off.</p>	<p>Board meeting on 25 September.</p>	
<b>7</b>	<p><b>Non current assets</b></p> <p>We found misstatements in asset classification and depreciation in the 2018/19 financial statements.</p> <p>2019/20 is the first year of the new 5 year rolling programme of asset valuations: council dwellings will be revalued this year. This uses a Beacon approach to valuation: if the Beacon values are not correctly calculated this can result in a material misstatement in the financial statements.</p>	<p>Communication undertaken as part of the final accounts process with appropriate officers to ascertain any changes in the status of assets.</p>	<ul style="list-style-type: none"> <li>• Review of instructions given to valuers defining the Beacon to be used.</li> <li>• Review of Beacon calculations.</li> <li>• Review of Council Dwellings values in the financial statements to ensure the result of the valuation have been correctly accounted for.</li> <li>• Sample testing of asset classification and depreciation charges.</li> </ul>
<b>Wider dimension risks</b>			
<b>8</b>	<p><b>Financial sustainability</b></p> <p>Angus Council's medium-term budget strategy has identified a cumulative funding gap of £35.2 million from 2020/21 to 2022/23.</p> <p>The council's change programme has been successful in delivering savings and a further £20.5 million change programme savings are estimated over this 3 year period, but there remains a substantial £14.7 million funding gap that requires to be addressed.</p> <p>The council will have to review and prioritise service delivery arrangements to remain within its means. This will require a transformational level of change, driven by strong leadership, to maintain the financial sustainability of the council. Failure to deliver this transformation puts the financial sustainability of the council at risk.</p>	<p>Change Programme aligned with the Community Plan and Locality Plans, to identify savings and new ways of working.</p> <p>Development of long-term financial strategy.</p> <p>Annual update to medium term budget strategy.</p> <p>Setting of Annual Council Tax/Budget</p>	<ul style="list-style-type: none"> <li>• Review of progress in developing long-term financial strategy.</li> <li>• Ongoing review of implementation of the Change Programme.</li> <li>• Regular review of financial position and budgetary information presented to those charged with governance.</li> <li>• Monitoring of council budget for progress in reducing the funding gap.</li> </ul>

Source: Audit Scotland

## Reporting arrangements

**5.** Audit reporting is the visible output for the annual audit. All annual audit plans and the outputs as detailed in [Exhibit 2](#), and any other outputs on matters of public interest will be published on our website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

**6.** 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 officer(s) to confirm factual accuracy.

**7.** We will provide an independent auditor's report to Angus Council and the Accounts Commission setting out our opinions on the financial statements. We will provide the Section 95 officer and the Accounts Commission with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

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## Exhibit 2

### 2019/20 Audit outputs

Audit Output	Target date	Committee Date
Annual Audit Plan	31 March 2020	3 March 2020
Management Report	30 June 2020	16 June 2020
Independent Auditor's Report	30 September 2020	24 September 2020
Annual Audit Report	30 September 2020	24 September 2020

Source: Audit Scotland

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### The audit of trusts registered as Scottish charities

**8.** Members of Angus Council are sole trustees for two trusts, registered as Scottish charities, 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.

**9.** 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 Angus Council are sole trustees, irrespective of the size of the charity.

### Audit fee

**10.** The proposed audit fee for the 2019/20 audit of Angus Council is £249,840 [2018/19 £245,190]. There is also an additional fee of £6,000 [2018/19 £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. Our audit approach assumes receipt of the unaudited financial statements and full working papers package on 30 June 2020.

**11.** Where our audit cannot proceed as planned through, for example, late receipt of unaudited financial statements a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises out with our planned audit activity.

## Responsibilities

### Scrutiny and Audit Committee and Management

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

**13.** The audit of the financial statements does not relieve management or the Scrutiny and Audit Committee as those charged with governance, of their responsibilities.

### Appointed auditor

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

**15.** 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, regularity and use of resources. In doing this, we aim to support improvement and accountability.

# Audit scope and timing

## Financial Statements

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

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

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

- give a true and fair view of the state of affairs of Angus Council and its group as at 31 March 2020 and of the income and expenditure for the year then ended;
- have been properly prepared in accordance with the financial reporting framework.



characteristics



responsibilities



principal activities



risks



governance arrangements

## Statutory other information in the annual accounts

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

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

## Materiality

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

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

## Exhibit 3

### Materiality values

Materiality	Amount
<b>Planning materiality</b> – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. It has been set at 1% of gross expenditure for the year ended 31 March 2019 based on the latest audited accounts.	£4.0 million
<b>Performance materiality</b> – 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 calculated performance materiality at 65% of planning materiality.	£2.6 million
<b>Reporting threshold (i.e. clearly trivial)</b> – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. This has been calculated at 1.5% of planning materiality.	£60 thousand

Source: Audit Scotland

**22.** We also set separate materiality levels for the audit of the council's charitable trusts. For the Robert & William Strang Mortification this has been set at 1% of prior year gross expenditure (£520). We have set a specific account area materiality for the Balance Sheet at 1% of prior year gross asset balances (£15,000). For the Angus Council Charitable Trust, materiality has been set at 1% of prior year gross expenditure (£210). We have set a specific account area materiality for the Balance Sheet at 1% of prior year gross asset balances (£6,300).

### Timetable

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

## Exhibit 4

### Financial Statements timetable

 Key stage	 Date
Latest submission date of unaudited annual accounts with complete working papers package	30 June 2020
Consideration of unaudited financial statements by those charged with governance	25 August 2020
Latest date for final clearance meeting with Director of Finance	4 September 2020
Latest date for receipt of audited Group component accounts	15 September 2020
Issue of Letter of Representation and proposed Independent Auditor's Report	15 September 2020
Agreement of audited unsigned annual accounts	24 September 2020
Issue of Annual Audit Report to those charged with governance	24 September 2020
Independent Auditor's Report signed	By 30 September 2020

## Internal audit

**24.** Internal audit is provided by Angus Council's in-house team. As part of our planning process we carry out an annual assessment of the internal audit function to ensure that it operates in accordance with the main requirements of the Public Sector Internal Audit Standards (PSIAS). ISA 610 requires an assessment on whether the work of the internal audit function can be used for the purposes of external audit. This includes:

- the extent to which the internal audit function's organisational status and relevant policies and procedures support the objectivity of the internal auditors
- the level of competence of the internal audit function
- whether the internal audit function applies a systematic and disciplined approach, including quality control.

**25.** We concluded that Angus Council's internal audit function complies with the main requirements of PSIAS and that we can rely on its work. The internal audit function is due to have an external review of its compliance with PSIAS (required at least every 5 years). We will review the outcome of this review in due course.

### Using the work of internal audit

**26.** From our initial review of internal audit plans we plan to place formal reliance on internal audit work in the following area:

- Payroll – Leavers and Establishment changes

**27.** We will take account of internal audit's other reports to inform our wider dimension audit work.

## Audit dimensions

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

### Exhibit 5 Audit dimensions



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

### Financial sustainability

**30.** 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 longer term. We define this as medium term (two to five years) and longer term (longer than five years) sustainability. We will carry out work and conclude on:

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

### Financial management

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

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

**32.** Angus Council is considering whether to re-profile its Loans Fund repayments to match the repayments to the expected useful economic life of the assets funded by the borrowing. If this re-profiling takes place in 2019/20 we will review it to confirm that it represents a prudent approach.

**33.** We will review the council's engagement with the National Fraud Initiative (NFI) and progress in investigating data matches in the second year of the current 2018 NFI exercise. This work will help to inform the NFI national report (due for publication June 2020).

**34.** We will also review the council's arrangements for assessing the risk of fraud in relation to procurement and the effectiveness of arrangements to address the identified risks. All public sector auditors are asked to review this area in either 2019/20 or 2020/21.

### Governance and transparency

**35.** Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision – making and transparent reporting of financial and performance information. We will review, conclude and report on:

- whether Angus Council can demonstrate that the governance arrangements in place are appropriate and operating effectively (including services delivered by, or in partnership with others)

- whether there is effective public scrutiny, challenge and transparency on the decision-making and finance and performance reports
- the quality and timeliness of financial and performance reporting.

**36.** The Community Empowerment (Scotland) Act 2015 introduced new responsibilities for councils, including the requirement for a publicly available register of all Common Good assets and supporting the local community to participate in the design and delivery of local services. The Common Good is a matter of public interest in Angus and we have received correspondence from members of the public regarding Common Good over the course of our audit appointment. We will review how Angus Council is addressing key aspects of the new legislation.

### Value for money

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

- value for money in the use of resources
- there is a clear link between money spent, output and outcomes delivered
- that outcomes are improving
- there is sufficient focus on improvement and the pace of it

**38.** This work will include the areas of Best Value audit work in paragraph 42 and reviewing the arrangements Angus Council has in place to ensure that it complies with the Accounts Commission's 2018 Direction on the publication of Statutory Performance Indicators.

### Best Value

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

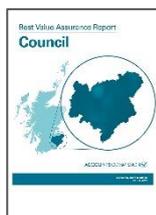
**40.** A key feature of this approach is that it integrates Best Value into the wider scope annual audit, which will influence audit planning and reporting. Best Value will be assessed comprehensively over the five-year audit appointment, both through the ongoing annual audit work, and through discrete packages of work to look at specific issues. Conclusions and judgements on Best Value will be reported through:

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

**41.** The seven councils on which a BVAR will be published during the fourth year of the new approach are listed in [Exhibit 6](#). Reports will be considered by the Accounts Commission in the period between March and November 2020.

## Exhibit 6

### 2019/20 Best Value Assurance Reports



Aberdeenshire Council

Dundee Council

Argyll and Bute Council

Falkirk Council

City of Edinburgh Council

Moray Council

North Ayrshire Council

Source: Audit Scotland

**42.** The work planned in Angus Council this year will focus on the council's arrangements for demonstrating Best Value in Working with Communities (community empowerment and engagement) and Fairness and Equality. The work will be integrated with that described above in these areas. It will involve us gaining an understanding of how effective the council's self-evaluation processes are in driving improvement across the council. The results of this work will be reported in the Annual Audit Report.

### Independence and objectivity

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

**44.** The engagement lead (i.e. appointed auditor) for Angus Council is Gillian Woolman, Audit Director. Auditing and ethical standards require the appointed auditor Gillian Woolman 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

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

**46.** 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.

**47.** 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

## Annual Audit Plan 2019/20

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