

# Angus Council

Annual Audit Plan 2016/17



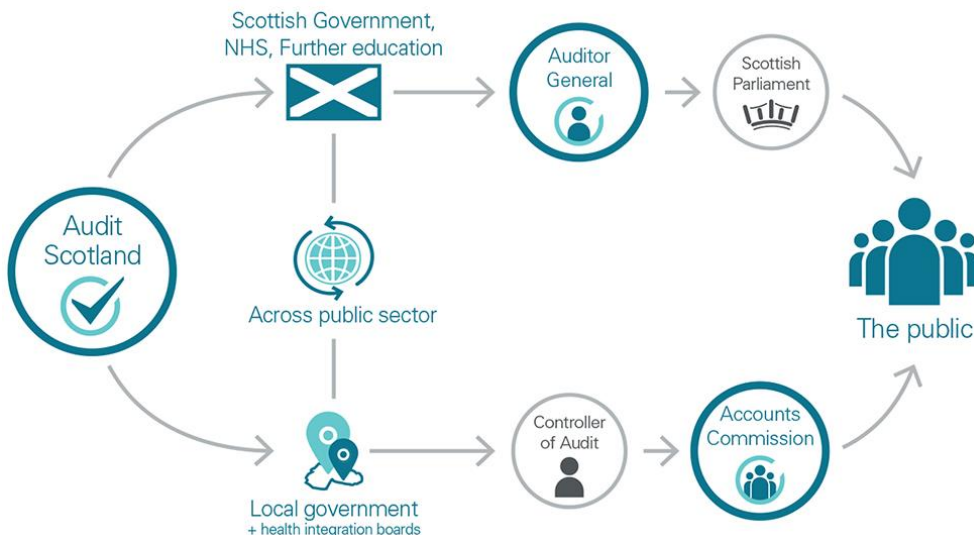
 AUDIT SCOTLAND

Prepared for Angus Council  
February 2017

# 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 and is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and any other relevant guidance. This plan identifies our audit work to provide an opinion on the financial statements and related matters and meet the wider scope requirements of public sector audit, including the new approach to Best Value. The wider scope of public audit contributes to conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

## Audit risks

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

## Exhibit 1

Audit Risk	Management assurance	Planned audit work
<b>Financial statement issues and risks</b>		
<p><b>1 Risk of management override of controls</b></p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance.</p>	<p>Detailed testing of journal entries.</p> <p>Review of accounting estimates.</p> <p>Focused testing of accruals and prepayments.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p>
<p><b>2 Risk of fraud over income</b></p> <p>Angus Council receives a significant amount of income in addition to Scottish Government funding. The extent and complexity of income means that, in accordance with ISA240, there is an inherent risk of fraud.</p>	<p>Regular budget monitoring and reporting.</p> <p>Robust internal controls in financial systems to mitigate risks of error or manipulation.</p> <p>Participation in the National Fraud Initiative.</p> <p>Annual assurance statements from services</p>	<p>Analytical procedures on income streams.</p> <p>Focused testing of revenue transactions focusing on the areas of greatest risk.</p>
<p><b>3 Risk of fraud over expenditure</b></p> <p>Practice Note 10 (Audit of financial statements of public</p>	<p>Regular budget monitoring and reporting.</p> <p>Robust internal controls in</p>	<p>Audit work on the National Fraud Initiative matches.</p> <p>Assessing the overarching</p>

Audit Risk	Management assurance	Planned audit work
<p>sector bodies in the UK) and the Code of Audit Practice expands the ISA assumption on fraud over income to aspects of expenditure. Angus Council incurs significant expenditure in areas such as welfare benefits, social care payments and grants.</p>	<p>financial systems to mitigate risks of error or manipulation. Participation in the National Fraud Initiative. Annual assurance statements from services</p>	<p>controls in grant schemes. Focused testing of expenditure and housing benefit transactions.</p>
<p><b>4 Estimation and judgements</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 provisions. 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. Actuarial valuation to provide pension figures for the financial statements. Officer review of actuary information to ensure data and assumptions used are reasonable. Confirmation from legal services of all potential cases together with an assessment of potential liability and likelihood of settlement.</p>	<p>Completion of 'review of the work of an expert' for the professional valuer. Focused substantive testing of key areas.</p>
<p><b>5 Highways network asset (HNA)</b></p> <p>Recognition in local authority financial statements of the Highways Network Asset as a separate class of property plant and equipment, measured at depreciated replacement cost, has been deferred until 2017/18. Angus Council needs to ensure it has complete information for all categories of highways assets.</p>	<p>Engagement will continue to take place with Technical &amp; Property Services colleagues to ensure that their highway asset register information is sufficiently robust to meet the requirements for annual accounts.</p>	<p>Review and assess the arrangements for implementing the new HNA requirements.</p>
<p><b>6 Charities Accounts</b></p> <p>Angus Council produce accounts for the Angus Council Charitable Trust and the Robert &amp; William Strang Mortification. It was noted in 2015/16 that the working papers provided to back up the figures in the accounts were not of the required standard and that the audit of the accounts required additional audit resource.</p>	<p>Periodic reconciliation will be undertaken during the course of the financial year to identify and correct any issues arising. Consideration will also be given on whether to continue with the receipts and payments basis of reporting.</p>	<p>Early liaison with Finance to agree on the required working papers to be provided for audit.</p>
<p><b>7 Asset Register - Double Counting of Assets</b></p> <p>It was reported in 2015/16 that the value of land and buildings in the asset register was overstated. This is due to capital spend being recorded on an asset in addition to a revised valuation of the asset.</p>	<p>For future accounts processes a review will be undertaken of all asset register records in excess of £0.5m to consider if there are any asset records which need combined / removed as a result of revaluation.</p>	<p>Early liaison with Finance to ensure robust processes are in place. Focussed substantive procedures on the asset spend in the asset register.</p>

Audit Risk	Management assurance	Planned audit work
<p><b>8 Angus Health and Social Care Integration Joint Board</b></p> <p>The Angus IJB was established on 3 October 2015 and assumed responsibility for delegated services from 1 April 2016. The IJB will need to be accounted for in the council's group financial statements for the first time in 2016/17.</p> <p>There is a risk that the IJB is not correctly accounted for in the group financial statements.</p>	<p>Agreed timetable with the IJB for the provision of figures and assurances required.</p> <p>Arrangements in place to receive assurances over the validity of IJB financial results.</p>	<p>Review treatment as part of financial statements audit.</p>
<p><b>Wider dimension risks</b></p>		
<p><b>9 Governance: Future provision of Internal Audit services</b></p> <p>Scott-Moncrieff currently provides an Internal Audit Manager to oversee the Angus Council internal audit team. This management contract continues until the end of 2017/18.</p> <p>In 2016/17 Scott-Moncrieff also provided additional audit resources to complete the planned Internal Audit work.</p> <p>There is an ongoing review of how Internal Audit services should be provided for the council. Early agreement will be required to ensure that a robust and compliant internal audit service is provided to the council.</p>		<p>Monitor progress of the council's review and any agreed arrangements for future Internal Audit provision.</p>
<p><b>10 Financial Sustainability</b></p> <p>Angus Council has recognised that major decisions on how to transform the delivery of services within the council are required.</p> <p>Change is required to help to ensure that Angus Council is providing the best possible service to residents within available financial resources.</p>	<p>Progress updates to full council on Transforming Angus</p> <p>Annual update to medium term financial strategy</p> <p>Planned development of a 3 year budget 2018/19 to 2020/21</p>	<p>Follow up of the October 2016 Best Value audit report to review Angus Council's progress in increasing the scale and pace of change through its Transforming Angus change programme.</p>
<p><b>11 Members</b></p> <p>Council elections are to be held in May 2017 and there are indications that a number of elected members are or may be standing down. This will represent a loss of skills and experience amongst members. To ensure members fully understand their roles and have</p>	<p>Training and support for current members is available and they are reminded regularly of opportunities and support available from officers.</p> <p>Training and induction will be provided to new members.</p>	<p>We will monitor the council's arrangements for developing members and preparations for inducting newly elected members.</p>

Audit Risk	Management assurance	Planned audit work
the necessary skills to make informed decisions and provide effective scrutiny, appropriate development and training will be required.		

3. The Charities Accounts (Scotland) Regulations 2006 specify the accounting and auditing requirements for Scottish registered charities. The council administers two trusts with charitable status. We will perform the audit of the council's charitable trusts in parallel with the audit of Angus Council's financial statements. As noted above, the initial working papers and audit trail for the charities accounts were inadequate last year. We will review progress of the agreed improvement actions and agree the 2016/17 working paper requirements with Finance in advance of the audit of the charities accounts.

### Reporting arrangements

4. 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).

5. 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.

6. We will provide an independent auditor's report to Angus Council and the Accounts Commission that the audit of the financial statements has been completed in accordance with applicable statutory requirements. We will provide them with an annual report on the audit containing observations and recommendations on significant matters which have arisen in the course of the audit.

## Exhibit 2

### 2016/17 Audit outputs

Audit Output	Target date	Scrutiny and Audit Committee Date
Interim Management Report	7 June 2017	22 June 2017
National Fraud Initiative (NFI) return	30 June 2017	N/A
Education Maintenance Allowance grant certification	31 July 2017	N/A
Annual Audit Report including ISA 260 requirements (Angus Council, Strang Mortification & ACCT)	30 September 2017	26 September 2017
Signed Independent Auditor's Report - Angus Council	30 September 2017	26 September 2017
Signed Independent Auditor's Report - Strang Mortification	30 September 2017	26 September 2017
Signed Independent Auditor's Report - Angus Council Charitable Trust	30 September 2017	26 September 2017

Audit Output	Target date	Scrutiny and Audit Committee Date
Criminal Justice Social Work Services return certification	30 September 2017	N/A
Non Domestic Rates return certification	31 October 2017	N/A
Housing Benefits return certification	30 November 2017	N/A

## Audit fee

**7.** The proposed audit fee for the 2016/17 audit of Angus Council is £239,800. There is also an additional fee of £3,000 for the audit of the charitable entities. 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, with a complete working papers package on 30th June 2017.

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

## Responsibilities

### Scrutiny and Audit Committee and Management

**9.** 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.

**10.** 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

**11.** Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice, and guided by the auditing profession's ethical guidance.

**12.** Auditors in the public sector give an independent opinion on the financial statements. 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

**13.** The statutory financial statements audit will be the foundation and source for the majority 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.

**14.** We will give an opinion on the financial statements as to whether they:

- give a true and fair view of the state of affairs of the council and its group as at 31 March 2017 and of the income and expenditure for the year then ended
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2016/17 Code
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, and the Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

## Materiality

**15.** Materiality defines the maximum error that we are prepared to accept and still conclude that that our audit objective has been achieved. It helps assist our planning of the audit and allows us to assess the impact of any audit adjustments on the financial statements. 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 level	Amount
<b>Planning materiality</b> - This is the calculated figure we use in assessing 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 2016 (the latest audited accounts).	£3.497 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 70% of planning materiality.	£2.448 million
<b>Reporting threshold</b> - We are required to report to those charged with governance on all unadjusted misstatements in excess of the 'reporting threshold' amount. This has been calculated at 3% of planning materiality and capped at £100,000.	£0.1 million

**16.** 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 gross payments (£975) for the Statement of Receipts and Payments and 1% of gross asset balances (£12,963) for the Statement of Balances. For the Angus Council Charitable Trust it has been set at 1% of gross receipts (£420) for the Statement of Receipts and Payments and 1% of gross asset balances (£6,450) for the Statement of Balances.



**17.** It should be noted that we continue to exercise our professional judgement and in certain areas of the financial statements such as the management commentary, remuneration report and annual governance statement. All unadjusted errors of a factual nature will be reported to the Scrutiny and Audit Committee.

#### Timetable

**18.** To support the efficient use of resources it is critical that a financial statements timetable is agreed with us for the production of the unaudited accounts. An agreed timetable is included at [Exhibit 4](#) which takes account of submission requirements and planned Scrutiny and Audit Committee dates:

## Exhibit 4

### Financial statements timetable

 Key stage	 Date
Consideration of unaudited financial statements by those charged with governance.	By 31 August 2017
Latest submission date of unaudited Angus Council financial statements with complete working papers package	30 June 2017
Latest date for final clearance meeting with Head of Corporate Improvement and Finance	8 September 2017
Agreement of audited unsigned financial statements; Issue of Annual Audit Report including ISA 260 report to those charged with governance.	26 September 2017
Independent auditor's report signed	By 30 September

	2017
Latest date for signing of Whole of Government Accounts assurance statement	30 September 2017

## Internal audit

**19.** Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to rely on the work of internal audit wherever possible and as part of our planning process we carry out an assessment of the internal audit function. Internal audit is provided by a team of Angus Council staff overseen by an Audit Manager from Scott-Moncrieff. The internal audit team was supplemented in 2016/17 with additional auditor resource from Scott-Moncrieff.

### Adequacy of Internal Audit

**20.** We seek to rely on the work of internal audit wherever possible and as part of our planning process we carried out an early assessment of the internal audit function. We concluded that internal audit has sound reporting procedures in place and complies with the main requirements of the Public Sector Internal Audit Standards (PSIAS). Further review of internal audit working papers will be undertaken for the planned areas of reliance.

### Areas of reliance

**21.** To support our audit opinion on the financial statements we plan to place formal reliance on the following planned internal audit review:

- IT User Access Management

**22.** In respect of our wider dimension audit responsibilities we will also consider other areas of internal audit work including:

- Culture and Leisure Trust - Management
- National Non-Domestic Rates,
- Corporate Budgeting and Financial Accounting

### National Fraud Initiative (NFI)

**23.** NFI is a data-matching exercise led by Audit Scotland to aid the detection of fraudulent payments. NFI allows public bodies to investigate matches and, if fraud or error has taken place, to stop payments and attempt to recover the amounts involved. It also allows auditors to assess the arrangements that the bodies have put in place to prevent and detect fraud, including how they approach the NFI exercise itself.

**24.** The current data matching exercise collected data in October 2016 and match investigation work is due to begin in February 2017. We will monitor the council's participation and progress with the NFI and complete an NFI audit questionnaire which will reflect the activity undertaken by the council to June 2017.

## Audit dimensions

**25.** 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



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

#### Financial sustainability

**27.** 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 the body's 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 the council can demonstrate the affordability and effectiveness of funding and investment decisions it has made.

**28.** The council's Transforming Angus change programme is critical in delivering the savings required to address the projected shortfall identified in the medium term financial strategy. The strategy projected a shortfall over the 4 year period from 2017/18 to 2020/21, ranging from £29.8m (optimistic view) to £51.5m (pessimistic view). The council agreed in November 2016 to increase the scale and pace of change for Transforming Angus. The council also authorised the procurement of additional services from its strategic partner, EY, to support this change. The recently approved 2017/18 budget includes budget savings of £1.301 million to be made through Transforming Angus. In following up last year's Best Value audit report we will review the council's progress in increasing the scale and pace of change.

## Financial management

**29.** 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:

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

## Governance and transparency

**30.** 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 such as ALEOs).
- whether there is effective scrutiny, challenge and transparency on the decision-making and finance and performance reports.
- the quality and timeliness of financial and performance reporting.

**31.** In 2016/17 Audit Scotland will conduct a follow-up of the national report on the Role of Boards. We will contribute to the intelligence by conducting a review of local arrangements at Angus Council.

## Value for money

**32.** Value for money refers to using resources effectively and continually improving services. We will review, conclude and report on whether:

- Angus Council can provide evidence that it is demonstrating value for money in the use of its resources.
- Angus Council can demonstrate that there is a clear link between money spent, output and outcomes delivered.
- Angus Council can demonstrate that outcomes are improving.
- there is sufficient focus on improvement and the pace of it.

## Best Value

**33.** The Accounts Commission agreed the overall framework for a new approach to auditing Best Value in June 2016. The introduction of the new approach coincides with the new five year audit appointments. As such, auditors will use the framework for their audit work from October 2016.

**34.** A key feature of the new approach is that it integrates Best Value into the wider scope annual audit, which will influence audit planning and reporting. Best Value will be assessed comprehensively over the five year audit appointment, both through the on-going annual audit work, and also through discrete packages of

work to look at specific issues. Conclusions and judgements on Best Value will be reported through:

- the Annual Audit Report.
- 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.

**35.** The first six councils on which a BVAR will be published during the first year of the new approach are listed in [Exhibit 7](#) below. Reports will be considered by the Accounts Commission in the period between May 2017 and March 2018.

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## Exhibit 7

### 2016/17 Best Value Assurance Reports

Clackmannanshire Council	Orkney Islands Council
East Renfrewshire Council	Renfrewshire Council
Inverclyde Council	West Lothian Council

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**36.** The work planned in Angus Council this year will focus on the council's arrangements for demonstrating Best Value in financial and service planning, financial governance and resource management. The work will be integrated with the follow up of the October 2016 Best Value audit report. 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

**37.** Auditors appointed by Audit Scotland must comply with the Code of Audit Practice. 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 in place robust arrangements to ensure compliance with these standards including an annual "fit and proper" declaration for all members of staff. The arrangements are overseen by the Assistant Auditor General, who serves as Audit Scotland's Ethics Partner.

**38.** The engagement lead for Angus Council is Gillian Woolman, Assistant Director. The other members of the core audit team are: Rachel Browne, Senior Audit Manager; Mary O'Connor, Senior Auditor; Mahrouf Shafi, Trainee Auditor and Martin Nolan, Trainee Auditor. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of Angus Council.

### Quality control

**39.** 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.

**40.** 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 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, internal quality reviews and is currently reviewing the arrangements for external quality reviews.

**41.** 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 2016/17

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