

# Angus Council

## Annual report on the 2012/13 audit



Prepared for Members of Angus Council and the Controller of Audit  
October 2013

---

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

---

# Contents

<b>Key messages</b> .....	<b>4</b>
2012/13 Key Facts .....	4
Outlook.....	5
<b>Introduction</b> .....	<b>6</b>
<b>Financial statements</b> .....	<b>7</b>
Audit opinion .....	7
Accounting issues .....	8
Outlook.....	12
<b>Financial position</b> .....	<b>13</b>
Financial results .....	13
Capital investment and performance 2012/13 .....	16
Treasury management .....	18
Outlook.....	19
<b>Governance and accountability</b> .....	<b>21</b>
Corporate governance.....	21
Prevention and detection of fraud and irregularities.....	23
Standards of conduct and arrangements for the prevention and detection of corruption..	24
Outlook.....	25
<b>Best Value, use of resources and performance</b> .....	<b>26</b>
Management arrangements .....	26
Overview of performance in 2012/13.....	27
National performance reporting .....	28
Assurance and improvement plan update 2013-16.....	29
Equality Act 2010 .....	29
Outlook.....	29
<b>Appendix A: audit reports</b> .....	<b>30</b>
<b>Appendix B: action plan</b> .....	<b>31</b>

# Key messages

## 2012/13 Key Facts

This report summarises the findings from our 2012/13 audit of Angus Council. As part of the audit we assessed the key financial and strategic risks being faced by the council. We audited the financial statements and reviewed the council's financial position and aspects of governance, best value, the use of resources and performance

## Financial Statements

We have given an unqualified opinion that the financial statements of Angus Council and its group give a true and fair view of the state of affairs of the council and its group as at 31 March 2013 and of the income and expenditure for the year then ended.

## Financial position

In 2012/13, Angus Council spent £402.8m on the provision of public services including £41.4m on its capital programme. In overall terms, a favourable outturn against budget of £7.3m was achieved by the council. All services managed their budgets with most departments achieving underspends again this year. Once accounting adjustments are taken into account, the council increased its usable (cash backed) reserves by £0.12m during the year. At 31 March 2013, the general fund balance was £21m, of which unallocated balances amounted to £4.5m.

Angus has had relative financial stability. However, its revised medium term financial plan identifies an overall funding gap of £29.6m over the next four years. The council has taken important steps to address this shortfall. A management restructuring exercise commenced in 2012 which implemented a new organisational structure with effect from April 2013. There has been significant change in management as the majority of the former management team retired from the council between January and April 2013. The new leadership team has been in place since April 2013 and while it continues to embed changes to the organisational structures and focuses on identifying revised priorities for the council, significant work is now required to bring forward plans setting out how savings will be delivered to meet the estimated shortfall.

## Governance and accountability

Overall we concluded that the council's governance arrangements were generally satisfactory. No material weaknesses in the accounting and internal control systems were identified during the audit. In line with the council's plans to improve its scrutiny arrangements, the Scrutiny and Audit Committee has agreed its first programme of reviews and these are now underway.

---

## Performance and best value

Performance across key performance indicators and statutory performance indicators has been mixed for the year. As part of the Audit Scotland's housing benefit performance audit cycle, a follow-up audit in Angus confirmed that the council's benefits service provided a high standard of service despite increased demand.

## Outlook

Scotland's public bodies will continue to face increasing demand and cost pressures for their services in the foreseeable future. In addition, the impact of welfare reform will be significant.

Angus will have increasingly difficult decisions to make about services in future if it is continue to balance its budgets. The council recognises this and is in the early stages of developing a business transformation project to fundamentally examine service delivery options and resources.

Community planning partnerships are expected to provide the lead in delivering improved outcomes for the area. This should develop greater opportunities for partnership working to deliver service improvement. In particular, the integration of health and social care is an important national development which needs to be progressed in the year ahead.

# Introduction

1. This report is the summary of our findings arising from the 2012/13 audit of Angus Council. The purpose of the annual audit report is to summarise the auditor's opinions (i.e. on the financial statements) and conclusions, and to report any significant issues arising. The report is divided into sections which reflect the public sector audit model.
2. A number of reports have been issued in the course of the year in which we make recommendations for improvements (Appendix A). We do not repeat all of the findings in this report, but instead we focus on the financial statements and any significant findings from our wider review of the council.
3. Appendix B is an action plan setting out the high level risks we have identified from the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "planned management action". We do not expect all risks to be eliminated or even minimised. What we expect is that the council understands its risks and has arrangements in place to manage these risks. Members should ensure that they are satisfied with the proposed management action and have a mechanism in place to assess progress.
4. This report is addressed to members and the Controller of Audit and should form a key part of discussions with the audit committee, either prior to, or as soon as possible after, the formal completion of the audit of the financial statements. Reports should be available to other stakeholders and the public, where appropriate. Audit is an essential element of accountability and the process of public reporting.
5. This report will be published on our website after consideration by the council. The information in this report may be used for the Accounts Commission's annual overview report on local authority audits. The overview report is published and presented to the Local Government and Regeneration Committee of the Scottish Parliament.
6. The management of the council is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems. The auditor is responsible for auditing and expressing an opinion on the financial statements. Weaknesses or risks identified by auditors are only those which have come to their attention during their normal audit work, and may not be all that exist. Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.
7. The co-operation and assistance given to us by officers during the audit is gratefully acknowledged.

# Financial statements

8. Audited bodies' financial statements are an essential part of accounting for their stewardship of the resources made available to them and their performance in the use of those resources.
9. Auditors are required to audit financial statements in accordance with the timescales set by Audit Scotland, which may be shorter than statutory requirements, and give an opinion on:
  - whether they give a true and fair view of the financial position of audited bodies and their expenditure and income
  - whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements
10. Auditors review and report on, as appropriate, other information published with the financial statements, including the annual governance statement and the remuneration report. This section summarises the results of our audit on the financial statements.

## Audit opinion

11. We have given an unqualified opinion that the financial statements of Angus Council for 2012/13 give a true and fair view of the state of affairs of the council and its group as at 31 March 2013 and of the income and expenditure for the year then ended.

## Legality

12. Through our planned audit work we consider the legality of the council's financial transactions. In addition, the Head of Corporate Improvement and Finance has confirmed that, to the best of his knowledge and belief, and having made appropriate enquiries of the council's corporate management team, the financial transactions of the council were in accordance with relevant legislation and regulations. There are no legality issues arising from our audit which require to be brought to members' attention.

## Annual Governance Statement

13. As part of our annual audit we review the disclosures made in the Annual Governance Statement included in the financial statements, and the process for obtaining sufficient assurances to inform the content of the statement. Overall we are satisfied with the processes in place to obtain the necessary assurances. In line with good practice, the statement was considered and approved by the Scrutiny and Audit Committee in June 2013 prior to the financial statements being submitted for audit.

## Remuneration report

14. We are satisfied that the audited remuneration report has been prepared in accordance with the relevant legislation. The disclosures within the 2012/13 financial statements include all eligible remuneration for the relevant council officers and elected members under a number of categories including pension benefits.

## Accounting issues

15. Local authorities in Scotland are required to follow the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 (the Code). Overall we are satisfied that the council prepared the 2012/13 financial statements in accordance with the Code.

## Accounts submission

16. The council's unaudited financial statements were submitted to the Controller of Audit by the deadline of 30 June 2013. However the council resubmitted them to Audit Scotland on 2 July 2013 after changes were made to the remuneration report.
17. With the exception of non-current assets, the majority of the working papers package was available for audit broadly in line with the timetable agreed between the finance team and audit. Overall, we noted improvement in the package provided to support the 2012/13 accounts but in respect of non-current assets, earlier work is required to ensure that the asset register is updated and reconciled with the financial ledger prior to submission of the financial statements for audit. We understand that the finance team undertake most of this work in July which is inappropriate as the supporting papers should be prepared and reconciled by 30 June, the deadline for submission of the unaudited accounts.
18. During the year, a number of meetings were held between finance and audit to improve the final accounts process. While there were some positive steps, more can be done to streamline activities. It is also possible that the timetable for closure of the 2013/14 audited accounts will be brought forward in response to proposed changes in the Local Authority Accounts (Scotland) Regulations (refer paragraph 35). If those changes go ahead as envisaged, more fundamental change may be required by finance and audit in our collective approach to the preparation and audit of the council's financial statements.

**Refer to Action Point No 1**

19. The audit was concluded and the financial statements certified on 27 September 2013. The financial statements are now available for presentation to members and for publication.

## Presentational and monetary adjustments to the unaudited accounts

20. In line with International Standard on Auditing 260 *Communication of audit matters to those charged with governance*, we reported the conclusions of our audit to the Scrutiny and Audit Committee on 24 September 2013.



21. In our *'Report to those charged with governance on the 2012/13 audit'*, we reported several misstatements which were corrected in the revised accounts. The effect of these adjustments was a reduction in cost of services of £0.544m, an increase in net assets of £0.856m, an increase in the general fund of £0.321m and an increase in unusable reserves of £0.535m. In addition, a number of presentational changes to improve the disclosure within the accounts were made. The main monetary adjustments were:
- the remuneration report was revised to include redundancy costs and other payments of £0.343m made to officers within the former corporate management team who left the council as part of the restructuring exercise
  - depreciation charged on council dwellings for the year was calculated on the basis of gross book value rather than net book value and used the incorrect remaining useful life for this asset type. Consequently the charge was overstated by £0.223m
  - grants of £0.2m received in advance from the Scottish Government Change Fund were incorrectly carried forward within creditors. The correct accounting treatment is to recognise the income in the year and to carry the balance as an earmarked balance within the general fund
  - software and associated IT costs totalling £0.251m were accounted for within property, plant and equipment. The Code requires such assets to be disclosed as intangible assets within the Balance Sheet.
22. Adjustments were not made for other misstatements identified during the audit. These misstatements, while more than trivial, were immaterial to the accounts as a whole. As is normal practice, all misstatements and issues on the accounts were reported to the Head of Corporate Improvement and Finance and included within our *'Report to those charged with governance on the 2012/13 audit'* considered by the Scrutiny and Audit Committee on 24 September 2013.

## Council dwellings

23. Council dwellings are revalued every 5 years and the current basis of valuation is existing use for social housing (EUV-SH). The council's policy is to write off the revalued amount over the useful life of the housing stock which is expected to be 50 years. The Code permits this length of write off period but it also sets out expectations in respect of component accounting, which is commonly adopted by councils to separately account for elements of an asset which require to be written off over a shorter period. Angus' componentisation policy is triggered when a separate asset exceeding £1.5m and with a life of more than 25 years is identified, which means there is little use of componentisation. As a consequence, we would suggest that the write off period for council dwellings is higher than expected and therefore depreciation is low.

**Refer to Action Point No.2**

## Pension costs

24. Angus Council is a member of the Tayside Superannuation Fund which is a multi employer defined benefit scheme. In accordance with pension accounting standard IAS19 'Retirement Benefits', the council has recognised its share of the net liabilities for the pension fund in the balance sheet. The valuation as at 31 March 2013 provided by the scheme's actuaries reduced the council's share of the deficit from £165.234m in last year to £154.827m this year.
25. The favourable reduction in pension liabilities of £10.4m as at 31 March 2013 is mainly a result of changes in the underlying present value of the scheme liabilities and the discount rates used. The scale of the movements in the council's pension liability over the last 5 years, arising from the annual valuation, can be seen in Exhibit 1.

### Exhibit 1: Movement in Net Pension Liability 2008/09 - 2012/13

	2008/09	2009/10	2010/11	2011/12	2012/13
	£m	£m	£m	£m	£m
Fair Value of Assets	223.489	308.480	339.524	364.272	427.906
Liabilities - present value of defined benefits obligations	(305.146)	(495.379)	(442.149)	(529.506)	(582.733)
Net Pension Liability/Deficit	(81.657)	(186.899)	(102.625)	(165.234)	(154.827)
Discount Rate	6.7%	5.5%	5.5%	4.6%	4.5%

Source: Angus Council audited financial statements 2008/09 to 2012/13

26. It is important to note however, that this liability does not have any immediate impact on the council's financing requirements. The council will continue to make annual contributions to the pension fund, through employer contributions, in accordance with triennial valuations carried out by the actuaries.

## Group accounts

27. The diversity of service delivery vehicles used by local authorities means that consolidated group financial statements are required to give a true and fair view of the activities of the council. To enable the preparation of group financial statements, councils are required to consider their interests in all entities including companies, joint ventures and statutory bodies, such as police, fire and valuation joint boards, and where there is a material interest in other organisations, they should be consolidated.
28. For the purpose of consolidation and incorporation within the group accounts the council has three associates (Tayside Joint Police Board, Tayside Joint Fire and Rescue Board and Tayside Joint Valuation Board) and one jointly controlled entity (Tayside Contracts Joint Committee). The remaining shares are consolidated by Dundee City Council and Perth and Kinross Council.
29. Services provided by Tayside Contracts are shared by Angus Council, Dundee City Council and Perth and Kinross Council. In our 2011/12 Annual Report, we raised concerns about the appropriateness of accounting for Angus' share as an interest in a jointly controlled entity when the arrangements set out in the Minute of Agreement were significantly different from Tayside Contracts' working practices.
30. In light of a joint submission on accounting treatment from the 3 councils, and having considered the financial accounting requirements, there is sufficient flexibility within the Code to permit bodies which may not be entities in a legal sense to be regarded as separate bodies for accounting purposes. Consensus was reached between auditors that Tayside Contracts should be accounted for as a jointly controlled entity. This required changes in the presentation of the information within Angus' group accounts so that the council's share of income was correctly disclosed in the group comprehensive income and expenditure account. Previously, this had been reflected below the line, within the Movement in Reserves Statement.
31. The Minute of Agreement between the three councils covering the operation of Tayside Contracts needed to be reviewed to bring it into line with operational practices. We had anticipated that a revised Minute of Agreement would have been in place by summer 2013 and expect this to be resolved in the current year as a priority.

**Refer to Action Point No.3**

---

## Outlook

32. A full audit is required from 2013/14 of all registered charities where the local authority is the sole trustee irrespective of the size of the charity. This is due to the interaction of section 106 of the Local Government (Scotland) Act 1973 with the Charities Regulations.
33. Angus Council currently has 66 registered charitable trusts but plans are well progressed to amalgamate and reduce that number to two. If the proposed plans are approved by the Office of the Scottish Charity Regulator (OSCR), the council should only have two trusts in place at 31 March 2014.
34. The Assistant Auditor General (AAG) wrote to Local Government section 95 officers in June 2013 advising them of these new arrangements and the Accounts Commission's decision to appoint the auditor of each council as the auditor of its relevant charities. This is likely to result in an increase in audit costs and will form part of the fee discussions as part of the 2013/14 audit planning process.
35. The Scottish Government has recently carried out a consultation exercise in terms of the Local Authority Accounts (Scotland) Regulations. The draft regulations propose that audit committees should approve audited accounts by 30 September. This will effectively require the timetable for the audit and certification of the accounts to be brought forward by a couple of weeks. If the changes go ahead as envisaged, due consideration to their impact will be required when the council agrees its schedule of meeting dates for the Scrutiny and Audit Committee. Once the outcome of the consultation exercise is known, it will become clearer when the new regulations apply, and if there might be transitional arrangements.

# Financial position

36. Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based.
37. Auditors consider whether audited bodies have established adequate arrangements and examine:
  - financial performance in the period under audit
  - compliance with any statutory financial requirements and financial targets
  - ability to meet known or contingent, statutory and other financial obligations
  - responses to developments which may have an impact on the financial position
  - financial plans for future periods.
38. These are key areas in the current economic circumstances. This section summarises the financial position and outlook for the organisation.

## Financial results

39. In 2012/13 as recorded in the comprehensive income and expenditure statements, the council spent £361.351m on the provision of public services and had an accounting deficit of £14.226m. However, this includes certain elements of income and expenditure that are accounted for to comply with the 2012/13 Code, which are then adjusted to show their impact on statutory council reserves. Following these adjustments, there was an increase in the general fund balance of £1.356m (including HRA), £0.819m (excluding HRA).

## Budgetary control

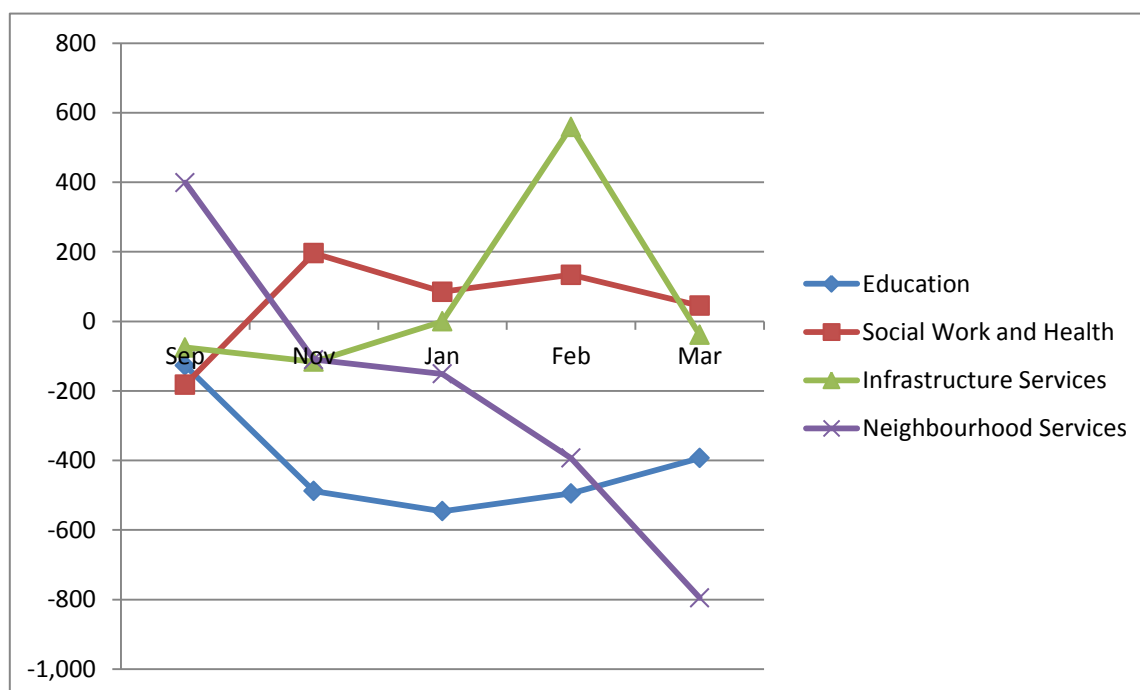
40. The council returned a favourable outturn of £7.3m in 2012/13 with controllable underspends being reported in three of the four key frontline services for the fifth year running. In relation to the council's key frontline services, Exhibit 2 demonstrates the underspend trend in recent years.

**Exhibit 2: Service (underspends)/overspends**

	2012/13	2011/12	2010/11	2009/10	2008/09
	£000	£000	£000	£000	£000
Education	(393)	(359)	(322)	(380)	(661)
Social Work and Health	45	(70)	(99)	(266)	(108)
Infrastructure Services	(39)	(400)	(16)	(261)	(1,102)
Neighbourhood Services	(795)	(1,431)	(2,217)	(1,730)	(530)

Source: Angus Council Final Outturn Reports 2008/09 to 2012/13

41. Exhibit 3 shows the departmental projected outturn results as reported to members during 2012/13. It should be noted that the level of variance is low in percentage terms for each department.

**Exhibit 3: 2012/13 projected outturn variance against budget**

Source: Angus Council Budget Reports 2012/13 (£000)

42. Exhibit 4 shows that the council planned to fund additional net expenditure of £2.236m between setting its budget in February 2012 and its revised budget position in January 2013. However, in reality, it spent £2.707m less than the original budget. The additional funding would have been provided through unspent budget balances which services are permitted to carry forward. The amount of budget underspent for a financial year, and therefore the amount available to services for carry forward to the next financial year, is confirmed at the last council meeting prior to recess in June each year when the outturn figures for the previous financial year are available.

#### Exhibit 4 - Outturn against budget 2012/13 (underspends)/overspends

	Outturn	Final Revised Budget	Provisional Budget Volume	Outturn Variance
	2012/13	March 2013	Feb 2012	March 2013
	£m	£m	£m	£m
Key services				
Education	110.034	110.427	99.868	(0.393)
Social Work	65.142	65.097	61.892	0.045
Infrastructure Services	33.156	33.195	24.257	(0.039)
Neighbourhood Services	27.037	27,832	24.563	(0.795)
<b>Total General Fund Services</b>	<b>257.320</b>	<b>262.263</b>	<b>260.027</b>	<b>(4.943)</b>

Source: Angus Council Budget Setting Papers and Budget Monitoring Reports

#### Financial position

43. The general fund reported a net surplus for 2012/13 of £1.356m, increasing the general fund balance to £21.237m as at 31 March 2013. This balance is made up of earmarked reserves of £0.599m, HRA reserves of £3.148m, commitments of £13.960m and a contingency sum of £3.25m leaving an unallocated balance of £0.280m. This provides continued financial stability for the council.
44. Exhibit 5 shows the balances in all of the council's funds at 31 March 2013 compared to the previous year. The council's usable reserves at 31 March 2013 totalled £28.1m, an increase of £0.2m on the previous year. As stated above, £17.7m (or 83%) of the total general fund balance has been is earmarked or committed for future use.

**Exhibit 5: Usable reserves**

Description	31 March 2012	31 March 2013
	£m	£m
General Fund	19.9	21.2
Insurance Fund	0.4	0.5
Repairs & Renewal Fund	4.9	4.1
Capital Fund	2.1	1.5
Usable Capital Receipts	0.5	0.2
Capital Grants Unapplied	0.1	0.6
<b>Total Usable Reserves</b>	<b>27.9</b>	<b>28.1</b>

Source: Angus Council 2012/13 financial statements

45. The overall increase in total usable reserves in 2012/13 is consistent with the picture across the majority of Scottish local authorities, as demonstrated in Exhibit 6 below. This indicates a more stable financial position going forward into 2013/14.
46. Exhibit 7 below presents the council's usable reserves position in relation to net revenue spends for the year in comparison to other Scottish local authorities. The graph demonstrates that Angus Council lies below the median point in relation to this financial ratio. The council needs to continue to ensure that it strikes a balance between meeting current obligations and preparing for future commitments and or reductions in funding.

**Capital investment and performance 2012/13**

47. The 2012/13 financial statements detail capital expenditure of £41.4m split between the housing revenue account (£13.8m) and the general services programme (£27.6m). In both cases, the programme for the year was delivered more or less in line with approved plans.

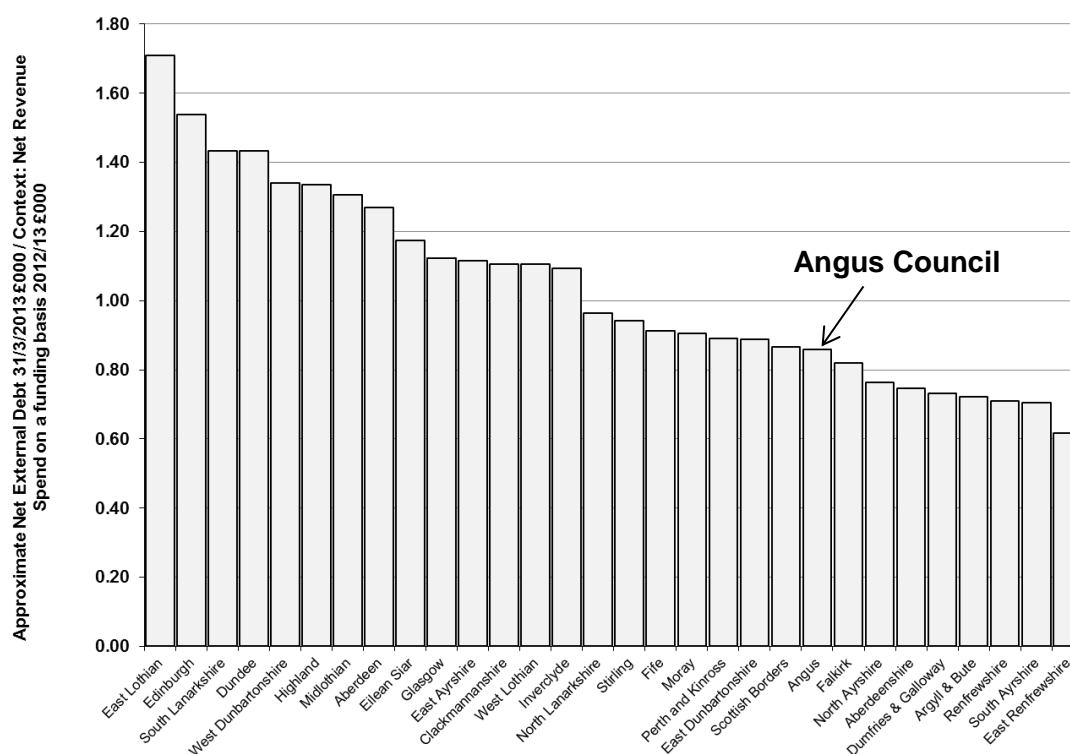




## Treasury management

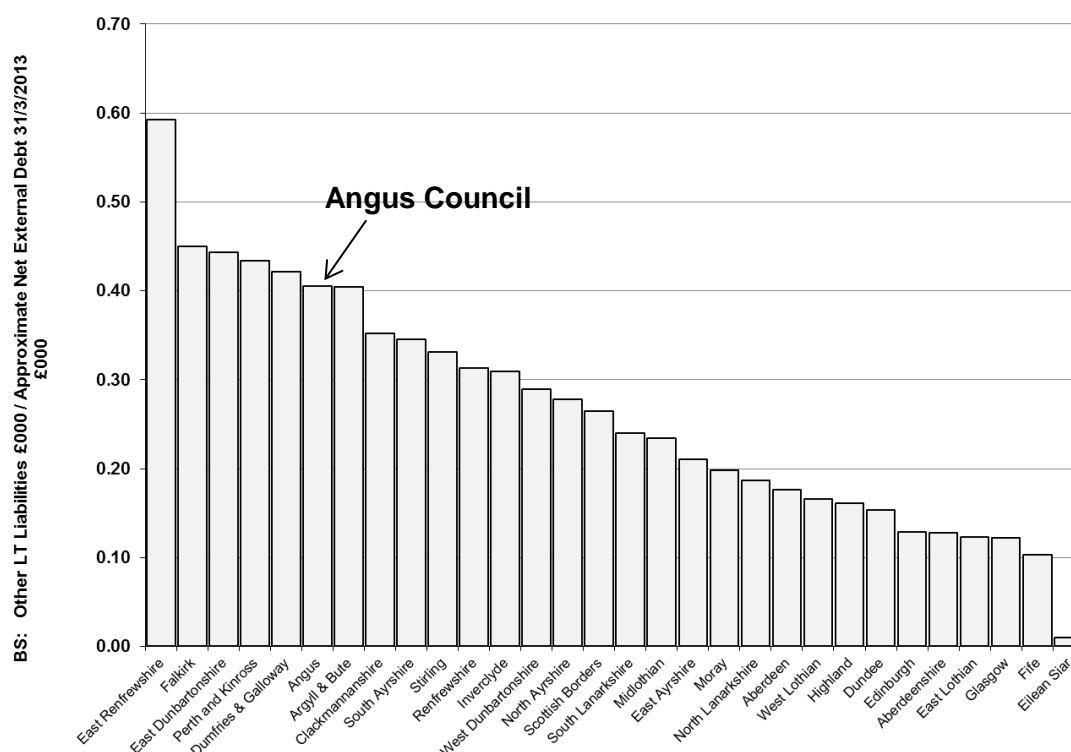
48. Treasury management activities are reported twice a year to the council and the strategy is updated annually. As at 31 March 2013, Angus Council held cash and temporary investments totalling £45.345m (£47.648m at 31 March 2012). Excluding PFI/PPP debt of £89.037m, the councils borrowing increased by £1.197m to £174.528m at 31 March 2013.
49. Exhibit 9 shows that Angus Councils debt as a proportion of net revenue spend is slightly below the median relative to other Scottish councils.

### Exhibit 9 : Net external debt as a proportion of net revenue spend



Source: Audit Scotland

### Exhibit 10: Long term PFI / PPP and lease debt as a proportion of net external debt



Source: Audit Scotland

50. The council's exposure to other long term liabilities, including PFI, is much greater as illustrated by Exhibit 10. Angus Council has seven schools, one care home and the A92 Dual Carriageway which have been delivered under PFI contracts. Under International Financial Reporting Standard requirements, the council must recognise both the asset acquired under the PFI scheme and the related liability in its balance sheet.

## Outlook

51. Looking ahead it is clear that the outlook for public spending remains challenging for the foreseeable future. At the same time the demand for public services is rising as the economy feels the effects of uncertainties in the world's financial markets, questions about the sustainability of the Eurozone and Scotland's changing population demographic. In addition there is welfare reform which is resulting in the biggest shake up in the UK welfare system in 60 years. There are early indications that welfare reform is resulting in increased rent arrears.
52. Angus has had relative financial stability supported by reasonable general fund balances. Unlike many councils, Angus has not yet been in the position of having to offer large scale voluntary early release schemes in order to secure significant long term cost savings. However, the revised 4-year medium term financial strategy covering the period 2014/15 to 2017/18 identified an overall funding gap of £29.6m which needs to be addressed.

- 
53. In June 2012, the council commenced a management restructuring exercise which led to the implementation of a new organisational structure with three new strategic directors. Six out of seven of the former management team left the council between January and April 2013 and this is discussed further at paragraphs 62 to 63. The new team were in post from April 2013 and are currently examining service delivery options and resources with a view to establishing revised priorities for the council.
54. Work is underway to revise workforce plans and to review service functions and costs. The council is continuing to develop its approach to priority based budgeting and have agreed that this approach be adopted. Development of the Transforming Angus programme is also ongoing. For the 2014/15 budget setting process, the council is being supported by a market research company to obtain service prioritisation data from a variety of stakeholders with a view to informing resource allocation over the medium term.

**Refer to Action Point No. 4**

55. The Public Bodies (Joint Working) (Scotland) Bill was published on 28 May 2013 and this proposed legislation requires local authorities and health boards to agree a model for integrated delivery of health and social care services from April 2015. Planning is underway with partner agencies to meet this requirement.

# Governance and accountability

56. The three fundamental principles of corporate governance – openness, integrity and accountability – apply to all audited bodies, whether their members are elected or appointed, or whether they comprise groups of people or an individual accountable officer.
57. Through its chief executive or accountable officer, each body is responsible for establishing arrangements for ensuring the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies usually involve those charged with governance, including audit committees, in monitoring these arrangements.
58. Consistent with the wider scope of public audit, auditors have a responsibility to review and report on audited bodies' corporate governance arrangements as they relate to:
  - corporate governance and systems of internal control
  - the prevention and detection of fraud and irregularity
  - standards of conduct and arrangements for the prevention and detection of corruption.
59. In this part of the report we comment on key areas of governance.

## Corporate governance

### Processes and committees

60. Effective scrutiny is central to good governance, with a significant role for members to scrutinise performance, hold management to account and support the modernisation agenda. In June 2012, the council created a full Scrutiny and Audit Committee to replace the former sub committee which had existed since 2009.
61. The committee met for the first time in September 2012. It has 13 members and is chaired by a member from the council's non-administration membership. The remit of the committee is in line with good practice principles set out in CIPFA's Guidance Note 'Audit Committee Principles in Local Authorities in Scotland'. A major development for the new committee is its decision to undertake scrutiny reviews. Following a consultation exercise the first reviews to be carried out will be:
  - Roads network maintenance and repairs
  - Progress towards zero waste.

## Organisational change

62. During the year the council approved and introduced a streamlined management structure. The revised structure replaced the previous five service directors and assistant Chief Executive post with three Strategic Directors covering work for the citizen, work for communities and work for the council (resources). This is intended to reinforce a 'one council' approach to deliver new cross cutting ways of working. The new Strategic Directors took up their posts from April 2013. The second phase was the realignment of existing business units against the three executive team roles and the new Chief Executive's Unit. The structures under the Chief Executive and Communities were agreed by the council in March 2013. In June 2013, the structures were agreed for the management of the work for citizens and resources directorates. More recently the structure at heads of service level has been reviewed and largely filled.
63. The revised management structure resulted in a complete change of the Senior Management Team with only the Chief Executive remaining. The previous directors left the council on the grounds of early retirement through redundancy at a cost of £0.543m. We reviewed these disclosures in our audit of the 2012/13 Remuneration Report and we concluded that payments were appropriate and in line with council policies.

## Internal control

64. While auditors concentrate on significant systems and key controls in support of the opinion on the financial statements, their wider responsibilities require them to consider the financial systems and controls of audited bodies as a whole. The extent of this work is informed by their assessment of risk and the activities of internal audit.
65. As part of our audit, we reviewed the high level controls in a number of the council's financial systems. Our work covered several systems including general ledger, cash and cash equivalents, council tax, non domestic rates and housing rents as well as aspects of the payroll and trade payable systems.
66. No material weaknesses in the accounting and internal control systems were identified during the audit which could adversely affect the ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.

## Internal audit

67. A key element of our work on internal controls is the extent of reliance that we place on the work of internal audit in terms of International Standard on Auditing 610 '*Considering the work of internal audit*'. The findings from our review of internal audit were reported in February 2013 and we concluded that the internal audit service operates in accordance with the CIPFA Code of Practice for Internal Audit in Local Government, and has sound documentation standards and reporting procedures in place.

68. During the year, we placed formal reliance on aspects of the work of internal audit in staff costs and duplicate creditor payments. This assisted us in gathering the necessary assurances for the purposes of our financial statement audit responsibilities.

### Public Services Network

69. The council exchanges data with many other public bodies and makes use of Cabinet Office sponsored arrangements for sharing electronic data with other public sector bodies. Previously this was done using the government secure network but this is being closed down on 31 March 2014 and being replaced by Public Services Network (PSN).
70. In order to use the network, councils require to be certificated by the Cabinet Office which requires compliance with a range of security measures involving, for example, integrity of computer equipment and disclosure checks for staff. In June 2013, we became aware of the Cabinet Office's concerns and the potential risk of interruption to existing data-sharing arrangements. This required the council to move quickly and review their continuity plans. A significant programme of work was identified to meet the new requirements, and while this work is ongoing, the council was granted a compliance certificate in October 2013.

### Prevention and detection of fraud and irregularities

71. Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity. These arrangements include, for example, a counter fraud strategy, a whistle blowing policy and codes of conduct for elected members and staff. Overall we concluded that arrangements for the prevention and detection of fraud and other irregularities were generally satisfactory.

### NFI in Scotland

72. Angus Council participates in the National Fraud Initiative (NFI). The NFI uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify circumstances (matches) that might suggest the existence of fraud or error.
73. NFI allows public bodies to investigate these 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. The most recent data matching exercise collected data from participants in October 2012 with identified matches provided for follow-up in February 2013.
74. This exercise identified 3,784 data matches of which 3,311 are considered high quality and 660 of those are recommended for investigation. Good progress has been made in the investigation of these data matches with 885 high quality matches investigated so far. To date there have been 6 cases of fraud identified with a value of around £15,000. As this is a

relatively small amount, the council can take assurance from the results of this exercise that systems and procedures are working well.

75. Overall, we concluded that the council has satisfactory arrangements in place for investigating and reporting data matches identified by the NFI.

## Welfare Reform

76. The Welfare Reform Act 2012, as reported last year represents the biggest reform of the UK welfare system for 60 years. The council receives regular reports on the potential impact of welfare reform on its communities and services. Some changes have already taken place since April 2013 particularly for those of working age.
77. The council carried out a review to consider the impact of welfare reform on services. There has already been a marked increase in rent arrears, a rise of 16.8% from £1.176m in 2011/12 to £1.373m in 2012/13. Other outcomes, reported to council in June 2013, are likely to lead to a number of changes in aspects of service delivery. For example,
- collection of rent to be transferred from Housing to Revenues and Benefits to be integrated with Council Tax and Housing Benefits administration
  - a new visiting officer role created to deliver a more comprehensive service to tenants and other service users relating to financial matters
  - Libraries and Community Learning and Development (CLD) computers to be upgraded so that they are fit for purpose for public internet access
  - a financial inclusion network is to be established with representation from all key internal and external partners to ensure a robust and holistic response can be made to the challenges arising from welfare reform.

## Standards of conduct and arrangements for the prevention and detection of corruption

78. Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and that they have proper arrangements in place for implementing and monitoring compliance with standards and codes of conduct, standing orders and financial instructions. Auditors consider whether bodies have adequate arrangements in place.
79. In our 2011/12 Annual Report, we highlighted that the council had yet to carry out a risk assessment to determine what further procedures were needed to comply with the Bribery Act 2010. A working group established to consider this matter confirmed that existing policies and procedures were sufficient to comply with the legislation. However, a Bribery Prevention Policy intended to bring existing practices together has not yet been finalised and approved by members.

**Refer to Action Point No. 5**



---

## Outlook

80. Welfare reform will continue for several years to come and from October 2013 the Universal Credit will start to be rolled-out nationally. This will replace a range of existing means-tested benefits and tax credits for people of working age. It is important that the council continues to monitor the impact of these reforms closely and develops efficient and effective strategies that address the welfare reform agenda.

# Best Value, use of resources and performance

81. Audited bodies have a specific responsibility to ensure that arrangements have been made to secure Best Value. The Local Government in Scotland Act 2003 places a duty on the auditors of local government bodies to be satisfied that proper arrangements have been made for securing Best Value and complying with responsibilities relating to community planning.
82. Additionally, auditors of local government bodies have a responsibility to review and report on the arrangements that specified audited bodies have made to prepare and publish performance information in accordance with directions issued by the Accounts Commission.
83. Furthermore, as part of their statutory responsibilities, the Auditor General and the Accounts Commission may procure, through Audit Scotland, examinations of the use of resources by audited bodies and publish reports or guidance. Auditors may be requested from time to time to participate in:
  - a performance audit which may result in the publication of a national report
  - an examination of the implications of a particular topic or performance audit for an audited body at local level
  - a review of a body's response to national recommendations.
84. This section includes a commentary on the Best Value/ performance management arrangements within the council. We also note any headline performance outcomes and measures used by the council and comment on any relevant national reports and the council's response to these.

## Management arrangements

### Best Value

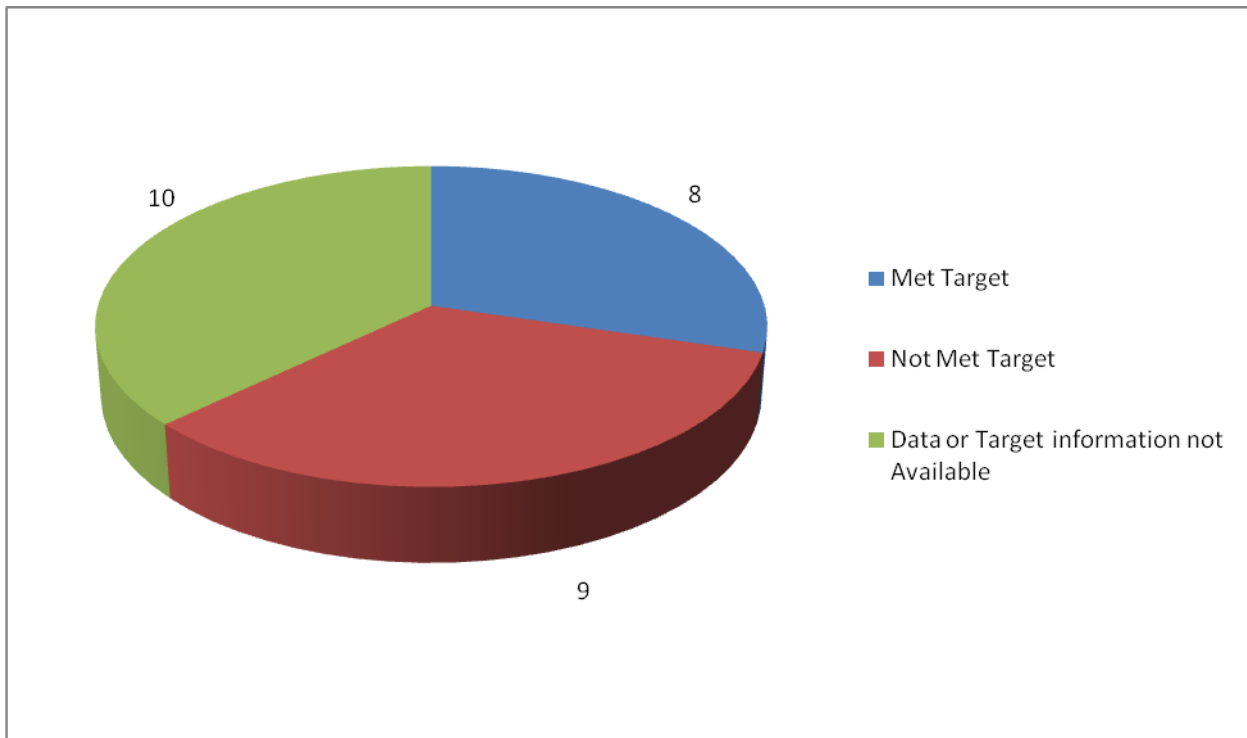
85. Angus Council was selected by the Accounts Commission as one of the authorities where a BV2 Pathfinder audit would be carried out. This BV report was issued in May 2010. One of the key findings was the need to improve governance arrangements by ensuring that all political groupings can work better together to improve outcomes for the people of Angus, and by establishing arrangements for more robust scrutiny and challenge. At that point, the BV2 improvement actions were incorporated into the 2010/11 Corporate Improvement Plan. The council has reported that all actions identified from BV2 have been completed.

## Overview of performance in 2012/13

### Performance management arrangements

86. Key performance indicators are included within the Corporate Improvement Plan Annual Report and summarised at Exhibit 11.

#### Exhibit 11: Council's key performance indicators (Total 27 indicators)

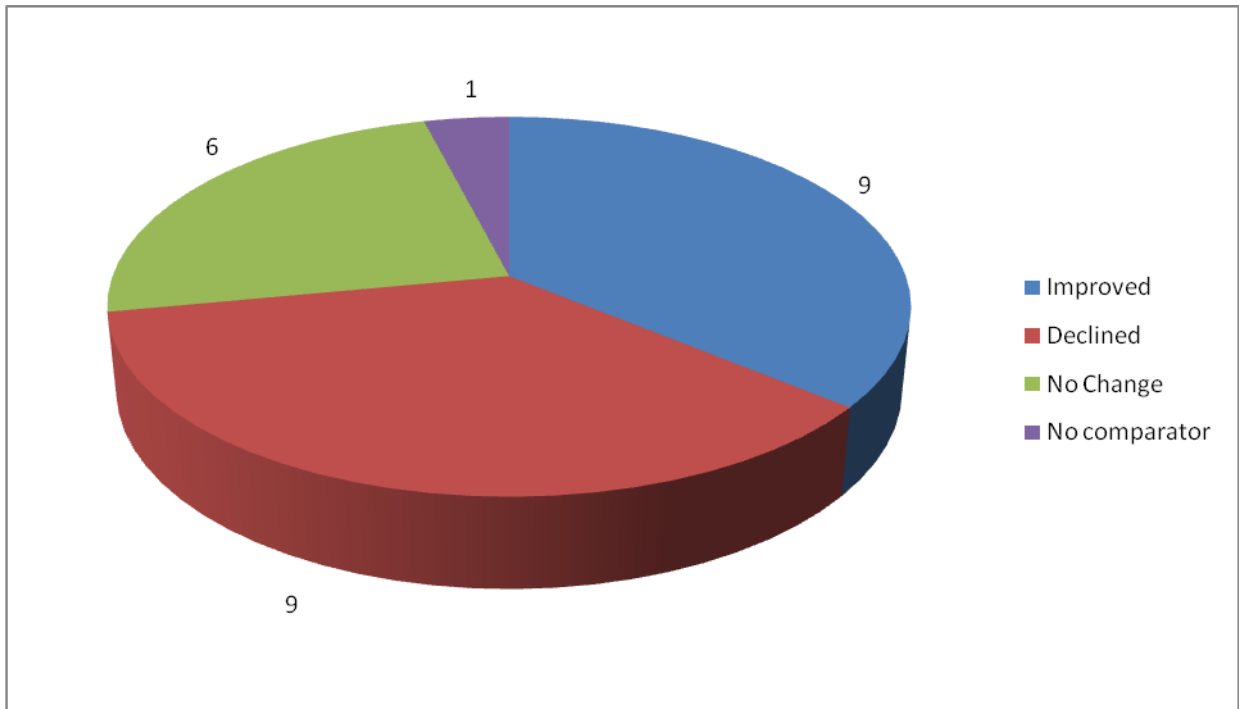


Source: Angus Council corporate improvement plan annual report 2012/13

### Statutory Performance indicators

87. In 2012/13, the council was required to produce 25 SPIs. Exhibit 12 shows that performance improved in 9 indicators, declined in 9 indicators and remained unchanged in a further 6. For one indicator the definition of how it should be calculated changed, therefore there was no comparison data available.

**Exhibit 12: Improvements demonstrated by SPIs (Total 25 indicators)**



Source: Angus Council SPI data returns

88. The improved indicators included payment of invoices processed, housing response repairs cost of refuse collection and museum services. Those which had declined included refuse collection and household waste being recycled and the use of libraries.

**National performance reporting**

89. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. Reports in the last year of direct interest are outlined in the exhibit below. In most cases these have been considered by the council's Scrutiny and Audit Committee, Strategic Policy Committee or the relevant service committee.

**Exhibit 13: A selection of National performance reports 2012/13**

- Responding to challenge and change - An overview of local government in Scotland 2013
- Improving community planning in Scotland
- Major capital investment in councils.
- Protecting consumers
- Using cost information to improve performance - are you getting it right?
- Health inequalities in Scotland
- Reducing reoffending in Scotland.

Source: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)

## Assurance and improvement plan update 2013-16

90. The Local Area Network of scrutiny partners for the council, conducted a Shared Risk Assessment (SRA), and produced an Assurance and Improvement Plan (AIP) covering the period 2013 to 2016. This was published on Audit Scotland's website and was submitted to the Scrutiny and Audit Committee in May 2013.
91. The AIP identified three main areas - corporate risk management, performance management and rent arrears as requiring further consideration by the LAN. Details of performance management arrangements and rent arrears issues are mentioned elsewhere in this report. In terms of corporate risk management, the council is reviewing and revising its arrangements. This is to ensure they are embedded throughout the organisation. Work is ongoing in this area and this is recognised in the council's Annual Governance Statement.
92. The AIP also drew attention to a forthcoming housing and council tax benefits performance audit. This was subsequently undertaken by Audit Scotland in June 2013 and findings confirmed that the council's benefits service provided a high standard of service despite increased demand. There were effective management arrangements combined with a strong performance culture. Consequently the risk assessment did not identify any risks to continuous improvement.

## Equality Act 2010

93. In April 2011, the Equality Act 2010 introduced a new public sector 'General Duty' which encourages equality to be mainstreamed into public bodies' core work so that it is not a marginal activity but part and parcel of how public bodies operate. One of the key requirements of the legislation is for public bodies to publish a set of equality outcomes (and reporting requirements) no later than 30 April 2013.
94. The council's equality outcomes and mainstreaming report entitled "Equalities mainstreaming Report and Equality Outcomes 2013 - 2017" was agreed by council in April 2013. The report sets out the council's approach to mainstreaming equality and provides details of quality outcomes (2013-2017) and employee information.

## Outlook

95. In response to a request from the Cabinet Secretary for Finance, Employment and Sustainable Growth, the Accounts Commission has led development work, with scrutiny partners, on how audit and inspection can support the delivery of better outcomes by Community Planning Partnerships (CPP). Initial audits, completed in 2013, concluded that partnerships have not been able to show that they have had a significant impact on delivering improved outcomes across Scotland.
96. Following on from the initial pilot work, CPP audits will be carried out at Falkirk, Moray, West Lothian, Orkney and Glasgow City during 2013/14. The findings from these areas will inform our future work programme.

# Appendix A: audit reports

## External audit reports and audit opinions issued for 2012/13

Title of report or opinion	Date of issue	Date presented to Audit Committee
Annual Audit Plan	22 February 2013	25 March 2013
Assurance and Improvement Plan	21 March 2013	24 June 2013
Report on financial statements to those charged with governance	13 September 2013	24 September 2013
Audit opinion on the 2012/13 financial statements	27 September 2013	12 November 2013
Audit opinion on the 2012/13 Whole of Government accounts consolidation pack	26 October 2013	Not applicable
Report to Members on the 2012/13 audit	31 October 2013	12 November 2013

# Appendix B: action plan

## Key Risk Areas and Planned Management Action

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1	18	<p>The timetable for the preparation and certification of the council's accounts needs to be reviewed to accommodate proposed improvements, for example earlier availability of reconciled fixed asset register.</p> <p><b>Risk: Delay in certification due to the non-availability of key working papers.</b></p>	We will review and revise our final accounts timetable to address the issues and concerns as best we can. Resourcing issues are however a challenge.	Service Manager (Finance Services)	March 2014
2	23	<p>Council houses are written off over 50 years which is a higher than average policy especially when the council makes limited use of componentisation.</p> <p><b>Risk: the council is not complying with the Code.</b></p>	We will review our depreciation and componentisation policies.	Service Manager (Finance Services)	March 2014
3	31	<p>We had anticipated that a revised Minute of Agreement between the three councils would have been in place by now and expect this to be resolved in the current year as a priority.</p> <p><b>Risk: The Minute of Agreement fails to reflect the operating arrangements of Tayside Contracts.</b></p>	We will complete this work and have a revised Minute of Agreement formally approved by elected members of the 3 councils	Head of Legal & Democratic Services	December 2013

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
4	54	<p>As the new management arrangements are embedded, revised priorities, actions and anticipated savings need to be formulated.</p> <p><b>Risk: The council does not deliver the necessary improvements and savings.</b></p>	<p>We will deliver our Transforming Angus programme and develop our Priority Based Budget approach to ensure members have adequate information and options to balance future budgets.</p>	Executive Management Team	March 2015
5	79	<p>The council has prepared a draft Bribery Prevention Policy. This needs to be finalised and approved by members.</p> <p><b>Risk: the council cannot easily demonstrate how it complies with the Bribery Act 2010.</b></p>	<p>We will submit this to members for approval</p>	Head of Legal & Democratic Services	December 2013