Angus Council

2015/16 Audit

Annual Audit Report to Members and the Controller of Audit

September 2016

Key contacts

Stephen Boyle, Assistant Director
sboyle@audit-scotland.gov.uk

Anne MacDonald, Manager
amacdonald@audit-scotland.gov.uk

Colin Morrison, Senior Auditor
cmorrison@audit-scotland.gov.uk

Audit Scotland

Business Hub 15, 3rd Floor South

Marischal College, Broad Street

Aberdeen

AB10 1AB

Telephone: 0131 625 1500

Website: www.audit-scotland.gov.uk

The Accounts Commission is a statutory body which appoints external auditors to Scottish local government bodies (www.audit-scotland.gov.uk/about/ac/). Audit Scotland is a statutory body which provides audit services to the Accounts Commission and the Auditor General (www.audit-scotland.gov.uk/about/).

Stephen Boyle is the engagement lead for the audit of Angus Council for the period 2012/13 to 2015/16

This report has been prepared for the use of Angus Council and no responsibility to any member or officer in their individual capacity or any third party is accepted.

The information in this report may be used for the Accounts Commission's annual overview report on local authority audits published on its website and presented to the Local Government and Regeneration Committee of the Scottish Parliament.

Contents

Key messages

Audit of financial statements	• The independent auditor's reports on the 2015/16 financial statements of Angus Council, Strang's Mortification and Angus Council Charitable Trust are unqualified. • Angus Alive was established during the year to manage cultural and leisure services transferred from the council. The audited group accounts have been amended to reflect the council's interest in the company as a subsidiary rather than an associate.
Financial management and sustainability	• The council's medium term financial plan identifies a funding gap of £26.5m over the next 3 years. Savings plans already in place are expected to release £15.2m leaving £11.3m to be identified from other projects being taken forward through the council's transformation programme. • The council has routinely underspent by 3 – 5 per cent against budget in recent years. Through the adoption of priority based budgeting principles, the council aims to review spend to better match funding with priorities.
Governance and transparency	• Systems of internal control operated well, internal audit is effective and there are sound anti-fraud and whistleblowing arrangements in place. National Fraud Initiative data matches were promptly followed up and identified cases with fraud amounting to £18k. • Regular progress updates are provided to elected members on the council's transformation projects. • The Scrutiny and Audit Committee continue to carry out scrutiny investigations and this year focused on customer care.

Best Value	• A Best Value audit in Angus Council carried out in spring 2016 recognised the important improvements made in the leadership provided by senior officers and elected members which helped the council to become more ambitious in modernising its business processes. • The increased pace of change in delivering the transformation programme since autumn 2014 was acknowledged but the momentum needs to be maintained. The support and challenge provided by Ernst and Young as a strategic partner in the change process has been successful. • For 2015/16, it's not yet totally clear how the council has performed based on its statutory performance indicators. Only 76 of the 177 performance indicators are currently available. The council needs to ensure there is more timely and balanced reporting against its targets.
Outlook	• Reductions in funding, at the same time as growing demands on services, mean that the council needs to continue to make difficult decisions to reduce its spending. • Angus Integration Joint Board was established in October 2015 and became operational in April 2016. The partnership faces financial pressures especially in a number of demand led services and will require to continue to work closely with the council and NHS Tayside. • The value of assets on local authority balance sheets will increase significantly from 2016/17 due to the inclusion of infrastructure assets using a depreciated replacement cost basis of valuation. Across Scotland this will add billions to balance sheets and in Angus this is expected to be around £1.8bn.

Introduction

1. This report is a summary of our findings arising from the 2015/16 audit of Angus Council.

Our Annual Audit Report

2. The report is divided into sections which reflect our public sector audit model.
    - financial statements
    - financial management and sustainability
    - governance and transparency; and
    - best value/value for money
3. Our responsibility, as the external auditor of Angus Council, is to undertake our audit in accordance with International Standards on Auditing, the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011 and the ethical standards issued by the Auditing Practices Board. A revised Code was issued in May 2016 and while it is effective from 2016/17, the principles have, where possible, been adopted early as part of the 2015/16 audit.
4. An audit of financial statements is not designed to identify all matters that may be relevant to those charged with governance. It is the auditor's responsibility to form and express an opinion on the financial statements; this does not relieve management of their responsibility for the preparation of financial statements which give a true and fair view.
5. The management of Angus Council is also responsible for:
    - implementing appropriate internal control systems
    - putting in place proper arrangements for the conduct of its affairs
    - ensuring that the financial position is soundly based.
6. A number of national reports have been issued by Audit Scotland during the course of the year. These reports, summarised at appendix II and include recommendations for improvements.
7. Appendix III is an action plan setting out our recommendations to address the high level risks we have identified during the course of the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "Management action/response". We recognise that not all risks can be eliminated or even minimised. What is important is that Angus Council understands its risks and has arrangements in place to manage these risks. The council and executive officers group should ensure that they are satisfied with proposed action and have a mechanism in place to assess progress and monitor outcomes.
8. We have included in this report only those matters that have come to our attention as a result of our normal audit procedures; consequently, our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

9. The cooperation and assistance afforded to the audit team during the course of the audit is gratefully acknowledged

Our audit appointment

10. Audit Scotland is responsible for public sector audit in Scotland with audit appointments generally covering a five year cycle. The financial year 2015/16 is the final year of the current cycle. From 2016/17, the auditor of Angus Council will continue to be Audit Scotland but it will be conducted under a different engagement lead (Gillian Woolman, Assistant Director). In accordance with agreed protocols and international standards on auditing we will be liaising with the incoming auditors as part of this transition.

11. From 2016/17, as well as the annual audit report, other significant outputs, such as the annual audit plan, will be published on Audit Scotland's website.

Audit of the 2015/16 financial statements

Audit opinion	• We have completed our audit and issued an unqualified independent auditor's report.
Going concern	• The financial statements of the council, its group and the associated charitable trusts have been prepared on the going concern basis. We are unaware of any events or conditions that may cast significant doubt on the council's, its group and associated charitable trusts' ability to continue as a going concern.
Other information	• We review and report on other information published with the financial statements, including the management commentary, annual governance statement and the remuneration report. We have nothing to report in respect of these statements.
Charitable trusts	• We have completed our audit of the 2015/16 financial statements of the charitable trusts administered by Angus Council and issued an unqualified independent auditor's report in each case. In respect of 2015/16, audits in respect of the Robert and William Strang Mortification and Angus Council Charitable Trust were undertaken.
Group accounts	• As the common good and trust funds are required to be accounted for as subsidiaries, Angus Council has accounted for the financial results of three subsidiaries in its group accounts for 2015/16. In addition, there are three associates in its group arrangement of which Tayside Contracts is the largest. The overall effect of consolidating these balances on the group balance sheet is to reduce total reserves and net assets by £5.250m.

Submission of financial statements for audit

12. We received the unaudited financial statements on 30 June 2016, in accordance with the agreed timetable. The working papers supporting the council's accounts were of a good standard but those provided in respect of the charities' accounts needed improvement. Council staff also provided good support to the audit team which assisted the delivery of the audit to deadline.

13. In 2015/16, for the first time, local government group accounts are required to include the financial results of Integration Joint Boards (IJBs) in their area, where material. The Angus IJB was established on 3 October 2015 but as agreed with Scottish Government and in line with the statutory deadline did not become operational until 1 April 2016. Consequently as the amounts concerned in 2015/16 are not material, they have nave not been consolidated into the group accounts.

Overview of the scope of the audit of the financial statements

14. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined in our Annual Audit Plan presented to the Scrutiny and Audit Committee on 8 March 2016.

15. As part of the requirement to provide full and fair disclosure of matters relating to our independence, we can confirm that we have not undertaken non-audit related services. The 2015/16 agreed fee for the audit was set out in the Annual Audit Plan and, as we did not carry out any work additional to our planned audit activity, the fee remains unchanged.

16. The concept of audit risk is of central importance to our audit approach. During the planning stage of our audit we identified a number of key audit risks which involved the highest level of judgement and impact on the financial statements and consequently had the greatest effect on the audit strategy, resources and effort. We set out in our Annual Audit Plan the audit work we proposed to undertake to secure appropriate levels of assurance. Appendix I sets out the significant audit risks identified during the course of the audit and how we addressed each risk in arriving at our opinion on the financial statements.

17. Our audit involved obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.

Materiality

18. Materiality can be defined as the maximum amount by which auditors believe the financial statements could be misstated and still not be expected to affect the decisions of users of financial statements. A misstatement or omission, which would not normally be regarded as material by amount, may be important for other reasons (for example, an item contrary to law).

19. We consider materiality and its relationship with audit risk when planning the nature, timing and extent of our audit and conducting

our audit programme. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.

20. We summarised our approach to materiality in our Annual Audit Plan. Based on our knowledge and understanding of Angus Council we set our planning materiality for 2015/16 at £3.843m (1% of gross expenditure). We report all misstatements greater than £100,000. Performance materiality was calculated at £1.741m, to reduce to an acceptable level the probability of uncorrected and undetected audit differences exceeding our planning materiality level.

21. On receipt of the financial statements and following completion of audit testing we reviewed our materiality levels and concluded that our original calculation remained appropriate.

Evaluation of misstatements

22. All council misstatements identified during the audit which exceeded our misstatement threshold, were discussed with officers and amended in the financial statements. The effect of these adjustments was to increase the cost of services by £3.213m, and other operating expenditure by £2.287m in the Comprehensible Income and Expenditure Statement. In the Balance Sheet, non-current assets and reserves decreased by £5.5m. In addition, a number of presentational changes were made within the financial statements during the course of our audit

23. Following receipt of revised working papers, there were a range of amendments to the charities' accounts.

Significant findings from the audit

24. International Standard on Auditing 260 requires us to communicate to you significant findings from the audit, including:
    - The auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures.
    - Significant difficulties encountered during the audit.
    - Significant matters arising from the audit that were discussed, or subject to correspondence with management.
    - Written representations requested by the auditor.
    - Other matters which in the auditor's professional judgment, are significant to the oversight of the financial reporting process.

25. The following table details those issues or audit judgements that, in our view, require to be communicated to those charged with governance in accordance with ISA 260.

Table 1: Significant findings from the audit

Issue	Resolution
1. **Angus Alive:** Angus Alive was established on 1 December 2015 and took responsibility for managing and running leisure and cultural facilities in Angus. The investment was consolidated in the council's group unaudited accounts as an associate on the basis that the council does not control the trust. Having reviewed the Principal Services Agreement, it is our opinion that the council has the capacity to influence the activities carried out by the trust. In addition, Angus Alive is currently supported by the council's central support services for which there is no charge. There is a similar arrangement in place with regard to an element of Angus Alive's premises costs. Overall, we would therefore conclude that the council does have the capacity to exert significant influence over Angus Alive and should therefore be treated as a subsidiary and be reflected in the group accounts on a line by line basis.	The accounts were revised to include Angus Alive in the group accounts as a subsidiary.
2. **Angus Alive: assurances from component auditor.** In accordance with standard audit practice, we obtain assurances from other parts of the group (known as component auditors) as part of our consideration of the council's group accounts. In respect of Angus Alive, the auditor has identified a number of weaknesses in internal controls around the recording of income including an absence of bank reconciliations. We understand that the key issues have been isolated to the fact that the relevant system was not correctly recording cash and consequently the sales ledger was not reducing to reflect cash received. We understand that the system has been rectified and that the figures included in the draft accounts for Angus Alive are correct but that the auditors have further work to do to confirm this is the position. That being the case, there are no significant concerns for the council's group accounts but we have recommended that reference be made to the need to strengthen controls within the group annual governance statement which appears within the council's accounts.	Verbal updates have been received from the component auditor confirming that an unqualified audit opinion is likely and no material changes to the Angus Alive accounts are expected. Witten confirmation from the component auditor expected on conclusion of their work.

Issue	Resolution
3. **Asset Revaluations:** Around 70 assets with a value of £20m were identified which not been revalued within the past 5 years as required by the Code of Practice on Local Authority Accounting in the United Kingdome 2015/16. In order to assess if valuations which were no longer current were likely to have a material effect on the financial statements, a sample of major assets from the list were selected and compared with the council's portfolio to determine if similar assets had been revalued recently. In addition, a high level review was undertaken to determine the average increase in valuation across the council's portfolio (excluding council stock) over the past five years and this factor was applied to the assets which had not been valued as an alternative comparison. Because valuations go up as well as down, our estimate of the net effect of the above was an increase of less than our materiality level and therefore no adjustment to the accounts would be necessary.	Assurances have been sought from the council's valuer to confirm the reasonableness of the approach.
4. Asset Register Review: A small number of assets on the asset register were identified that should have been written off when the asset was last revalued. Records for these assets were created in the asset register for capital spend on assets where an existing asset record already existed. On the subsequent revaluation of the assets, the 'new spend' should have been reflected in the revised valuation and the record spend on the register should have been deleted at that point. There is no issue with recording the new expenditure, the issue is not deleting the record when the revised valuation is reflected in the asset register. An example of this is Webster's theatre where an adjustment of £2.8m will be made to reduce the value of assets held. In addition, the old Brechin High School was included in non-current assets at £2.3m although it had been demolished by the date the unaudited accounts were prepared. **Refer Action Plan, Recommendation 1**	Adjustments made in the revised accounts to remove these items.

Issue	Resolution
5. **Charities' accounts:** The council's charities (Angus Council Charitable Trusts and Strang's Mortification) are regarded as S106 bodies under the Local Government (Scotland) Act 1973 and as such the charities' accounts come within the requirements of the Local Authority Accounts (Regulations) 2014. While this is the third year of the requirements being in place for Strangs and the second year for ACCT, we continue to experience difficulties and time delays in progressing the audit largely due to the absence of appropriate audit trails between the working papers and the draft accounts. **Refer Action Plan, Recommendation 2**	The charities' accounts and associated working papers were revised during the audit process to provide improved audit trails.

Future accounting and auditing developments

Health and social care integration

26. IJBs are required to produce financial statements in compliance with the Code of Practice on Local Authority Accounting in the United Kingdom (the Code). From 1 April 2016, Angus IJB is responsible for the provision of health and social care in the area and its financial results will need to be reflected in the council's 2016/17 group accounts. The council will therefore need to include the IJB in its future plans for the preparation and audit of group accounts, including consideration of assurance arrangements relating to the annual governance statement.

Highways network assets

27. The 2016/17 Code will adopt a new measurement requirement for the valuation of the highways network asset (roads etc). It will be measured on a depreciated replacement costs basis. This will have a significant impact on the value of local authority balance sheets. We have reviewed the council's arrangements in gathering the required information. We found the council had good information on carriageways, lengths and areas etc. which will be the most significant areas required to produce valuations.

28. Polygonisation measurement techniques using Ordinance Survey maps have been developed to accurately calculate the volume of carriageways. The council still have work to do in identifying other highway assets, such as road gullies and traffic calming where currently its information is incomplete.

Refer Action Plan, Recommendation 3

Financial management and sustainability

Net service budget expenditure **£258.070m**	Original planned capital expenditure £61.197m	Usable reserves
Service Outturn £244.418m	Outturn Capital spend £58.007m	Outturn usable reserves £43.481m
Service Budget Underspend £13.652m	Capital underspend £3.190m	Movement in usable reserves £10.711m

Financial management

29. In this section we comment on the council's financial outcomes and assess its financial management arrangements.

30. The council sets an annual budget to meet its service and other commitments for the forthcoming financial year. The setting of the annual budget impacts directly on residents as it determines council tax and other fees and charges. Regular monitoring of expenditure and income against agreed budgets is central to effective financial management.

Financial outcomes

31. The council reported a surplus of £8,905m on the provision of services in 2015/16. Adjusting this balance to remove the accounting entries required by the Code, the council increased its

general fund balance by £8.128m (inclusive of £2.128m in respect of the Housing Revenue Account).

32. Overall, the council underspent against budget by £15.588m (6.44% of the 2015/16 revenue budget). The approved budget assumed a break-even position after adjustments for carry forward balances and use of other earmarked balances. In reality, these adjustments were not required. The main reasons for the underspend included:

- an underspend in employee costs across all services due to slippage in filling posts or planned non-filling of posts. There has been continuous underspends of employee costs in recent years
- planned underspends on principle loan repayments of £2.89m
- additional Council Tax income of £1.122m.

33. The council has a history of underspends against budget. Exhibit 1 shows total underspends of £34.474m on departmental underspends over the past 5 years, and underspends on debt charges of £9.830m over the same period. Underspends on debt charges were, in the main, planned underspends as part of the council's long term planning for funding capital expenditure.

34. In common with other councils, Angus is facing a period of financial challenge and to assist in its response, the council implemented priority based budget principles as part of the 2016/17 budget setting process which will continue to be developed. This will provide the council with the opportunity of critically examining anticipated employee costs across services in order that funding can be released to meet priority areas.

Exhibit 1: Underspends

Description	2011/12 £m	2012/13 £m	2013/14 £m	2014/15 £m	2015/16 £m
Directorate Budgets underspends	4.989	3.106	6.660	7.918	11.801
Debt Charges	0.000	1.803	2.065	3.067	2.895
Additional Council Tax Income	0.394	0.41	0.655	1.328	1.122
Other	0.051	2.018	(0.753)	(0.628)	(0.230)
Total	5.434	7.337	8.627	11.685	15.588

Source: Angus Council 2011/12 - 2015/16 financial statements

Financial management arrangements

35. As auditors, we need to consider whether councils have established adequate financial management arrangements. We do this by considering a number of factors, including whether:

- the proper officer has sufficient status within the council to be able to deliver good financial management
- financial regulations are comprehensive, current and promoted within the council

- reports monitoring performance against budgets are accurate and provided regularly to budget holders
- monitoring reports do not just contain financial data but are linked to information about performance
- members provide a good level of challenge and question budget holders on significant variances.

36. We assessed the role and status of the proper officer against CIPFA's "Statement on the role of the Chief Financial Officer in Local Government" and concluded that the council complies with the statement's five principles.

37. We reviewed the council's financial regulations, which are revised regularly, and concluded that they are comprehensive and current. The council's financial regulations are available on the council's website.

38. Financial monitoring reports are submitted to the Policy and Resources Committee on a regular basis throughout the year. Similar information in respect of the Housing Revenue Account is submitted to the Communities Committee. In both cases, reports are comprehensive and well laid out with explanations for significant variances in the main body of the report.

Conclusion on financial management

39. We have concluded that the council's financial management arrangements are broadly satisfactory.

Financial sustainability

40. The council delivers a broad range of services, both statutory and discretionary, to its communities. Financial sustainability means that the council has the capacity to meet the current and future needs of its communities.

41. In assessing financial sustainability we are concerned with whether:
    - there is an adequate level of reserves
    - spending is being balanced with income in the short term
    - long term financial pressures are understood and planned for
    - investment in services and assets is effective.

42. Effective long-term financial planning, asset management and workforce planning are crucial to sustainability.

Reserves

43. The overall level of usable reserves held by the council increased by £10.711m compared to the previous year and totalled £43.481m, refer Exhibit 2. The general fund balance of £35.866m is made up of earmarked reserves of £0.586m, commitments of £28.285m leaving a balance of £6.995m in accordance with its policy to have a contingency of £5.0m leaving a further unallocated balance of £1.995m.

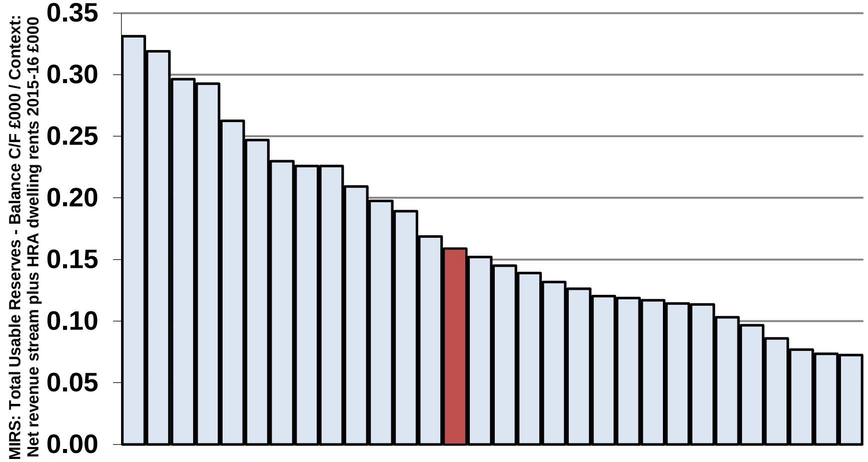
Exhibit 2: Usable reserves

Description	31 March 2015 £ m	31 March 2016 £ m
General fund	27.758	35.886
Insurance Fund	0.836	1.073
Repair and renewal fund	3.080	3.120
Capital Reserve unapplied	0.867	2.778
Usable Capital Receipts	0.049	0.294
Capital Grants Unapplied	0.180	0.330
Total usable reserves	**32.770**	**43.481**

Source: Angus Council 2015/16 financial statements

44. Exhibit 3 presents the council's usable reserves (red column) position in relation to net revenue stream for the year in comparison to other Scottish councils (net revenue stream being presented as general revenue grant, council tax, non domestic rates and dwelling rents). The level of reserves has increased over the past year, and the level of reserves remains below the Scottish average.

Exhibit 3: Total Usable Reserves as a proportion of net revenue stream



Source: Scottish councils' unaudited financial statements 2015/16

Financial planning

45. The council estimates that it needs to find cumulative savings of around £26.5m over the next three years. These estimates are based on its four-year financial strategy, which takes into account expected levels of income and expenditure including pay inflation, demographic change, council tax and levels of government grant. It also includes an assessment of risk to predict "base", "optimistic" and "pessimistic" levels of funding gaps and required savings.

46. At present, the council has agreed savings of £15.2 million. Some of these are planned to come from efficiency measures and service reductions. But the council expects to generate most of its savings through a series of change projects, known as Transforming Angus. The remaining £11.3 million of savings have not yet been identified, with a particularly noticeable shortfall in 2017/18 and 2018/19. The council expects these savings to be provided through a series of other measures, such as staff reductions, service redesigns, income generation, and a review of the schools estate. A programme of service reviews due to be carried out during 2016/17 aims to help develop detailed proposals.

Angus Alive

47. On 1 December 2015, the council transferred the majority of its culture and leisure services to the wholly-owned Angus Alive arm's length external organisation. This followed an evaluation process completed by the Transforming Angus programme. The new charitable structure may realise recurring savings of £897k each year, mainly VAT and non-domestic rates.

48. The annual value of the services transferred is around £9.5 million, of which around half is recoverable from fees and charges to users. The charity has also taken on the pension liabilities of its members, and these were estimated at £4.7 million by the actuary. The council supports Angus Alive by providing premises and back office support services. Together, these services are worth around £3.8 million, not including £0.6 million of non-domestic rates to which the charitable exemption applies. The council also pays Angus Alive a management fee, which will amount to around £3.6 million each year.

Capital programme 2015/16

49. The council approved its general services capital programme for 2015/16 in February 2015. Actual spend on the general services capital programme amounted to £ 48.277m, which was an underspend of £4.089m or 8% of the budgeted programme for the year.

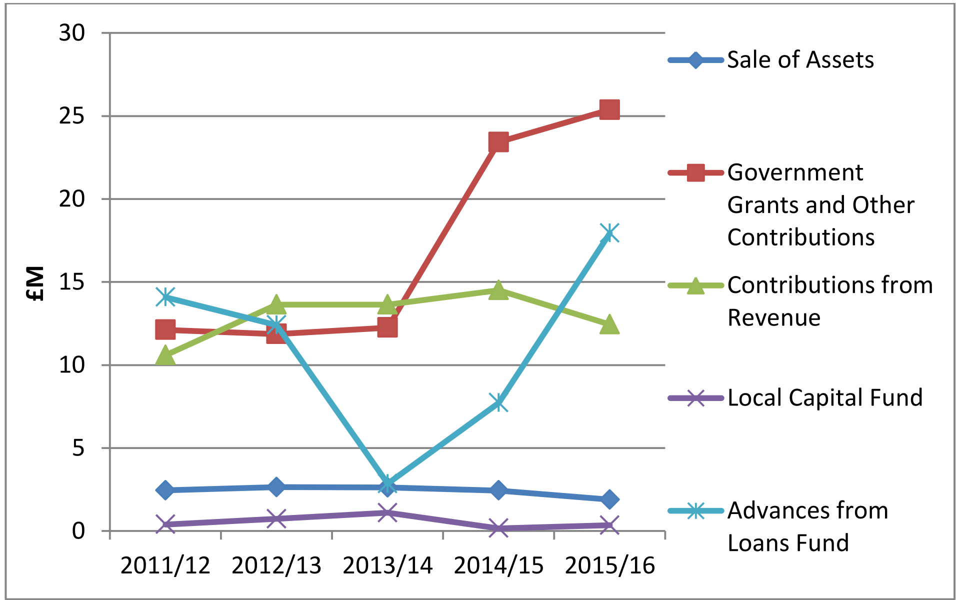
50. The reasons for the underspend include, delays in the replacement vehicles programme and slippage in the Brechin Flood Prevention scheme. There were also areas of capital expenditure incurred in 2015/16 brought forward from 2016/17, these include expenditure on Brechin High School and Timmergreens Primary School in Arbroath Primary which is ahead of schedule.

51. The HRA capital programme was also approved in February 2015. Actual expenditure exceeded the budget by £0.899m and was £9.730m. The reasons for this was that further Heating Replacement and footpath resurfacing programmes had been accelerated from 2016/17 into 2015/16 after an underestimate of the expenditure on the heating replacement programme for 2015/16.

52. Funding of capital expenditure is shown on Exhibit 4. There was a significant rises in Government Grants, mainly due to the capital grants provided for the schools estates programme and Brechin Flood Prevention Scheme. Advances from the loans fund have also

increased, this is a consequence of the increased capital expenditure between this year and last.

Exhibit 4: Funding capital expenditure 2011/12 – 2015/16



Source: Angus Council Annual Accounts 2011/12 – 2015/16

Workforce Management

53. In August 2015 the council approved a workforce strategy, which included a requirement for each directorate to develop a workforce plan linked to the Council Plan and directorate improvement plans.

54. Effective workforce management is essential to ensure that the council maximises the utilisation of its employees. A workforce strategy is key to setting out how the council will ensure it has appropriately skilled people in place to deliver services. Such a plan is particularly important when there is a need to ensure staff are in the right places to deliver priorities and in helping to identify the services which are lower priority when service reduction is required.

55. The Policy and Resources Committee received an update in February on the progress with the workforce strategy along with an action plan detailing the steps in the preparation of the plans. Since then there has been general slippage in the action plan, but the council apparently still expects to have a council wide plan in place by 31 December 2016. Given the work involved, we are unclear if this is achievable.

Refer Action Plan, Recommendation 4

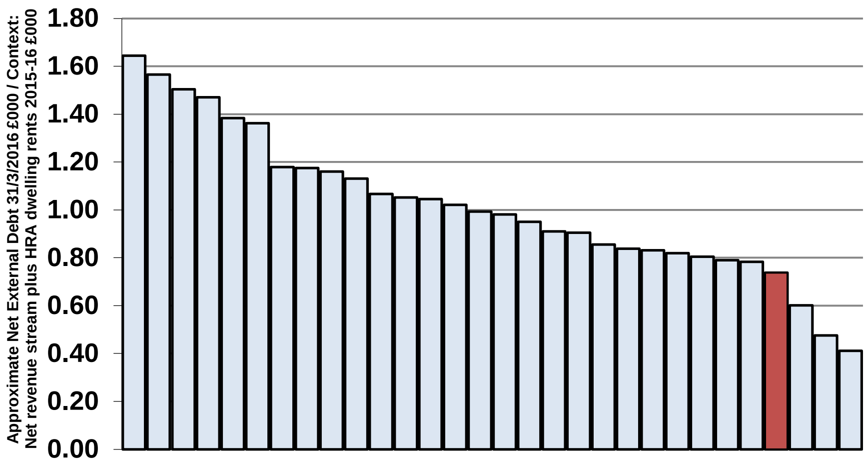
Treasury Management

56. At 31 March 2016 long term borrowing stood at £155.254m, an increase of £0.550m on the 2015 borrowing level of £154.704m. During the same period, short term borrowing reduced from £11.804m to £9.941m. This is in line with the council's Treasury Management Strategy for 2015/16. Interest payable and similar charges fell by £0.022m in 2015/16 to £15.638m.

57. Analysing long term borrowing as a proportion of net revenue stream gives an indication of the relative indebtedness of the council. Exhibit 5 shows long term borrowing held at 31 March 2015 for all mainland councils in Scotland. Angus Council's debt is low in

comparison to other Scottish Councils. Exhibit 5: Scottish councils' long term borrowing as a percentage of net revenue streams.

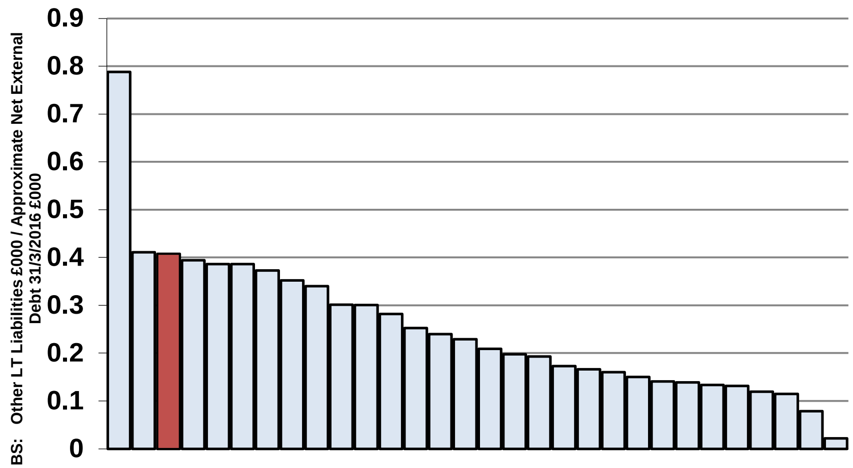
Exhibit 5: Net External Debt as a proportion of net revenue stream



Source: Scottish councils' unaudited accounts 2015/16 (excluding Orkney and Shetland Island councils

58. However the council's exposure to PFI debt is much greater as illustrated by Exhibit 6. Angus Council has seven schools, one care home and the A92 Dual Carriageway which have been delivered under PFI contracts. Under International Reporting Standards requirements, the council must recognise both the asset acquired under the PFI scheme and the related liability in the balance sheet. Exposure to PFI debt is of interest, as the debt is usually more expensive than traditional debt, which is demonstrated by Exhibit 7 which shows that despite low debt, the interest costs associated with it are around average when compared across all Scottish Councils'.

Exhibit 6: External PFI debt as a proportion of debt



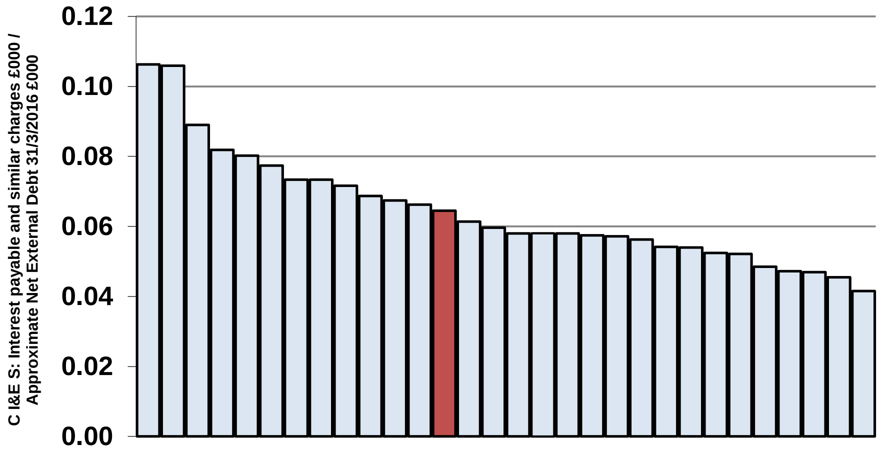
Source: Scottish councils' unaudited accounts 2015/16 (excluding Orkney and Shetland Island councils

Pension liability

59. During the year, the council's pension liability decreased by £21.693m to £124.665m. The pension liability represents the difference between future pension payments and the underlying value of the pension fund's assets available to meet this cost. Approximately £6m of this reduction is due to a liability transfer to Angus Alive, which represents the liability relating to staff who

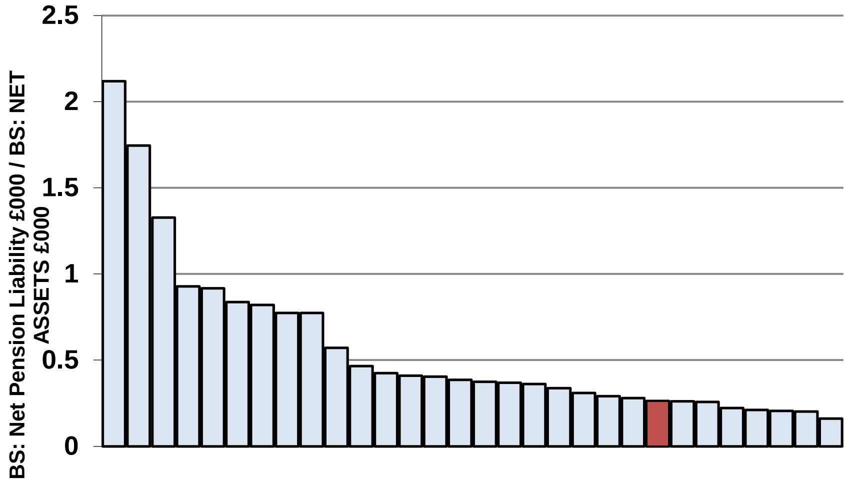
transferred on 1 December 2015. Exhibit 8 shows that the pension liability is amongst the lowest in Scotland.

Exhibit 7: Interest Paid as a proportion of debt



Source: Scottish councils' unaudited accounts 2015/16 (excluding Orkney and Shetland Island councils

Exhibit 8: Scottish councils' pension liability as a percentage of net assets



Source: Scottish councils' unaudited accounts 2015/16 (excluding Orkney and Shetland Island councils

Charities

60. The Angus Council Charitable Trust made a surplus for the year of £37.7k however this includes the sale of assets of £34.7k. The trust received £7k in interest and investment income which is a return of 1.5%.

61. The Strang Mortification has a more diverse set of investments, with a low to medium attitude to risk, and it achieved a rate of return of less than 1%. .

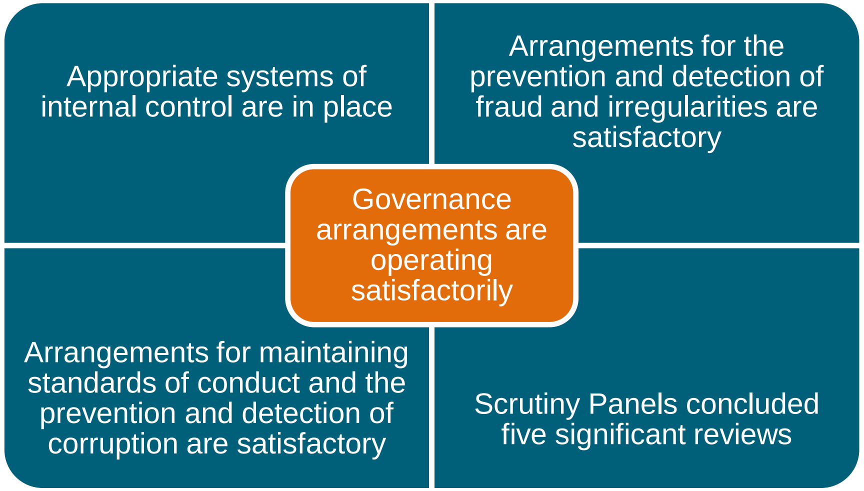
Conclusion on financial sustainability

62. We have concluded that the council has an adequate level of reserves, is containing its expenditure within annual budgets and has credible medium term financial plans in place. However, the council needs to ensure that its asset management planning is more closely aligned to the Council Plan and that project delivery is improved. Overall we conclude that the financial position is sustainable currently and in the foreseeable future, although rising demand for and costs of services will continue to place a strain on the council's capacity to deliver services at the current levels.

Outlook

63. The council faces increasing financial pressures. Reductions in funding, at the same time as growing demands on services, mean that the council needs to continue to make difficult decisions to reduce its spending.

Governance and transparency



64. Members of Angus Council, the Chief Executive, Monitoring Officer and the Head of Corporate Improvement and Finance are responsible for establishing arrangements for ensuring the proper conduct of the affairs of Angus Council and for monitoring the adequacy and effectiveness of these arrangements.

Corporate governance

65. The corporate governance framework within Angus Council is centred on the council which is supported by the following standing committees.

Children and Learning
Communities
Development Management Review
Development Standards
Policy and Resources
Scrutiny and Audit

66. Based on our observations and audit work, our overall conclusion is that the governance arrangements within Angus Council are operating satisfactorily. The Scrutiny and Audit Committee commenced a programme of scrutiny reviews in 2013/14 through the creation of scrutiny panels. A canvassing process involving all members and senior managers identified that one major review would be carried out in 2015/16 on Customer Care, which reported to Scrutiny and Audit in June 2016.

67. In addition four mini reviews were planned, one on Economic Development which reported to Scrutiny and Audit in March 2016, a SLA review is ongoing, but two others, Business Managers in Schools and Housing Repairs were postponed due to other reviews being carried out in in these areas.

Local code of corporate governance

68. The council has developed and adopted a local code of corporate governance which reflects the key components as set out in the CIPFA/SOLACE Framework Corporate Governance in Local Government: A Keystone for Community Governance. The code was last updated in June 2011 and is reviewed annually by the Corporate Governance Officers Group.

Internal control

69. As part of our audit we reviewed the high level controls in a number of the council's financial systems fundamental to the preparation of the financial statements. Our objective was to obtain evidence to support our opinion on the council's financial statements. Our overall conclusion was that Angus Council had appropriate systems of internal control in place during 2015/16. No material weaknesses in the accounting and internal control systems were identified 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

70. Internal audit provides members and management of the council with independent assurance on risk management, internal control and corporate governance processes. Generally, we seek to rely on the work of internal audit wherever possible and, as part of our 2015/16 planning process, we concluded that the internal audit service operates in accordance with relevant Public Sector Internal Audit Standards (PSIAS) which enabled us to take assurance from their documentation and reporting procedures.

71. Internal audit is provided through a co-source arrangement with Scott Moncrieff which works well in practice. An independent review of internal audit was carried out in summer 2014 and concluded that the function was fully compliant with PSIAS. The 2015/16 annual report for internal audit stated a number of governance improvement recommendations were still being taken forward but overall, concluded that the internal financial governance and control framework of the council was considered to be sound.

ICT audit

72. Internal audit provided effective ICT coverage in the year. Their findings on information governance and asset management were broadly consistent with our own work last year on information governance arrangements.

73. The decentralised model of delivery of ICT and information governance across the Council in which services have a significant level of budgetary and operational discretion, continues to generate audit findings.

74. Cyber-security is a topic of current interest. The council is in the process of updating its governance arrangements for information security. The distributed nature of the council's ICT assets may confer a measure of resilience and we are not aware of any major service impacts from computer viruses.

Arrangements for the prevention and detection of fraud

75. The council's arrangements in relation to the prevention and detection of fraud and irregularities were satisfactory.

National Fraud Initiative in Scotland

76. The National Fraud Initiative (NFI) in Scotland brings together data from councils, police boards, fire and rescue boards, health bodies and other agencies, to help identify and prevent a wide range of frauds against the public sector. Matching data obtained from the systems of participating bodies allows the identification of potentially fraudulent claims on the public purse including housing benefit fraud, occupational pension fraud and payroll fraud. If fraud or overpayments are not identified in a body, and the NFI exercise has been undertaken properly, assurances may be taken about internal arrangements for preventing and detecting fraud.

77. The NFI process identifies data matching cases, for example, residents in receipt of housing benefits, but also in receipt of a student loan or known to be working, or care home residents or blue badge holders who are known to have died. A match does not indicate that there is a fraud, but provides an opportunity for councils to review cases where there may be fraud.

78. There were 1,017 recommended matches and by 31 July 2016 the council had reviewed 819 of those matches and identified £18,350 of fraud. Overall, we concluded that the council has satisfactory arrangements in place for investigating and reporting data matches identified by the NFI.

Arrangements for maintaining standards of conduct and the prevention and detection of corruption

79. The arrangements for the prevention and detection of corruption in Angus Council are satisfactory and we are not aware of any specific issues that we need to record in this report.

Transparency

80. The council generally publishes agenda items for all its meetings around a week in advance. We commented earlier on the useful level of detail included in finance monitoring reports. Minutes are also available once they have been agreed. As part of our routine audit work, we review the minutes of the council and committees on an ongoing basis. This did not highlighted any excessive use of restrictions to exclude the press and public from meetings. The register of interests of councillors is also available on the council website and we also review this regularly.

81. The statutory guidance on Best Value requires key discussions and decision-making to be held in public meetings. In recent years, the emphasis on private briefings and member-officer working groups within Angus Council has had some benefits. However the council needs to establish more open and transparent forms of scrutiny and

encouraging more debate and questioning to be carried out in public.

Tayside Contracts – Minute of Agreement

82. Services provided by Tayside Contracts are shared by Angus Council, Dundee City Council and Perth and Kinross Council. Since 2012/13, we have recommended that 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. In February 2015, the council agreed a revised minute of agreement but this needed to be agreed by Dundee City and Perth and Kinross Councils. At July 2016, the document remained unsigned. This has taken longer than planned in part due to Tayside Contracts taking on new roles and services on behalf of the Councils, e.g. vehicle maintenance work for Angus Council. We understand that all of the legal work to revise the Minute of Agreement has now been concluded by each council and that this will be submitted to relevant committees in each council in autumn 2016.

Refer Action Plan, recommendation 5

Local scrutiny plan

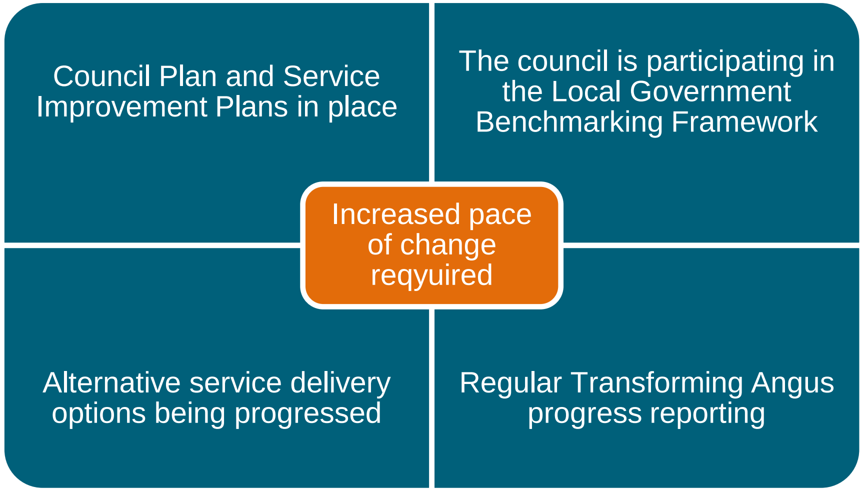
83. The 2016/17 Local Scrutiny Plan (LSP) prepared by the Local Area Network of scrutiny partners for the council was submitted to Angus Council on 31 March 2016. As identified in prior plans the LAN identified the need for a best value audit, which was carried out in April and May, and reported in August.

Outlook

84. Councils will continue to operate in a changing environment within continuing financial constraints. Under these circumstances councils will be obliged to consider the delivery of services by different means. Good governance will be particularly important where council resources and service delivery are devolved to third party organisations.

85. Partnership, joint working and arm's length organisations have become increasingly popular vehicles for planning and delivering council services and there is a sustained national focus on their use. Where council services are being delivered by third party organisations it will be crucial that the council implements robust assurance and governance arrangements to deliver best value while at the same time ensuring an appropriate level of accountability for public money. Community planning and health and social care integration will require an ongoing focus on governance and assurance to ensure that the council's priorities are being achieved.

Best Value



86. Best value is a key factor to consider when planning policies, programmes and projects and when taking any spending decisions. The council should have systems and processes to ensure that it can demonstrate that it is delivering best value by assessing and reporting on the economy, efficiency, effectiveness and equality in service provision.

Best Value audit

87. A Best Value review was carried out in May 2016 and reported to the Accounts Commission in August 2016. The review acknowledged the savings needed to be achieved and the link to the Transforming Angus programme. The review highlighted that the pace of implementation of Transforming Angus projects had to increase as well as

- Build on the progress made in supporting elected members to further develop: ○ more open and transparent forms of scrutiny,
    - a greater focus on priorities in service performance,
    - increased awareness of approaches being taken in other councils.
- Provide a more coherent approach to performance management, which helps prioritise areas for improvement and helps elected members scrutinise effectively.
- Ensure that improvements are made to its budgeting processes to help deliver better use of its resources.
- Develop more detailed workforce plans, linked to ongoing projects and service reviews and other key strategies.
- Ensure appropriate management capacity is in place once current external support ends and that ongoing leadership development activity is effective.

Procurement

88. In July 2015, the Scottish Government introduced the Procurement and Commercial Improvement Programme (PCIP) to replace the former Procurement Capability Assessment (PCA). The PCIP focuses on the policies and procedures that underpin procurement performance and the results they deliver. Due to the change in legislation and the requirement upon local authorities to prepare a procurement strategy in line with this legislation, and due also to the procurement transformation project being the focus for available resources in 2016, the PCIP has been postponed into 2017.

Following the public pound

89. Local authorities have a statutory responsibility to comply with the Accounts Commission/COSLA Code of Guidance and funding external bodies and following the public pound. When agreeing to transfer funds to an external body councils must be clear about its reasons for doing so. Proper considerations should always apply and the prime purpose of involvement with external bodies should be the achievement of the council's objectives in the most effective, efficient and economic manner and not the avoidance of controls or legal restrictions which are designed to secure probity and regularity in the use of public funds. We are not aware of any significant matters of the council's non-compliance with the Code.

90. The council uses the 'Covalent' performance management system to track these performance measures. There are 126 measures for

Performance management

91. Prior to the start of each financial year, the council approves directorate improvement plans. These are reported at the end of the year as part of departmental or annual reports, although to date none has been submitted for Communities for 2015/16. The latter is due to be submitted to committee in November.

92. We note that with while there is still a clear link between the departmental improvement plan and departmental report for the Resources Directorate, this is not so apparent in the Children and Learning Directorate and Chief Social Work Officer annual reports.

93. The 2015/16 Resources Directorate annual report includes 68 targets as well as 13 performance indicators, which are largely in line with their Directorate Improvement Plan. The performance indicators include indicators developed as internal Key Performance Indicators, Statutory Performance Indicators and those which are part of the Local Government Benchmarking Framework.

94. The other Directorate Improvement Plans also contain targets and indicators. However, though the Children and Learning Directorate and Chief Social Work Officer 2015/16 annual reports provide a good level of detail in terms of performance over the year, they lack clarity in terms of how these relate to the targets and indicators in the Peoples Directorate Improvement Plan. While some of the performance indicators are included in the reporting of the corporate and service performance information on the council's website, this is not consistent. There is consequently a risk that performance reporting may not be sufficiently balanced. Future annual reports would therefore benefit from the inclusion of an appendix providing a summary of performance against target and indicators as set out in Directorate Improvement Plans.

95. We understand the Communities Directorate has carried out a LEAN/Delta review on how performance management is presented and how this influences the way business planning is carried out within the directorate. The new format is due to be incorporated in the 2016/17 Communities Annual Report which will include the measures the directorate intends to use going forward.

Statutory performance indicators (SPIs)

96. The Accounts Commission places great emphasis on councils' responsibility for public performance reporting. The Commission does not prescribe how councils should report but expects councils to provide citizens with fair, balanced and engaging performance information reporting.

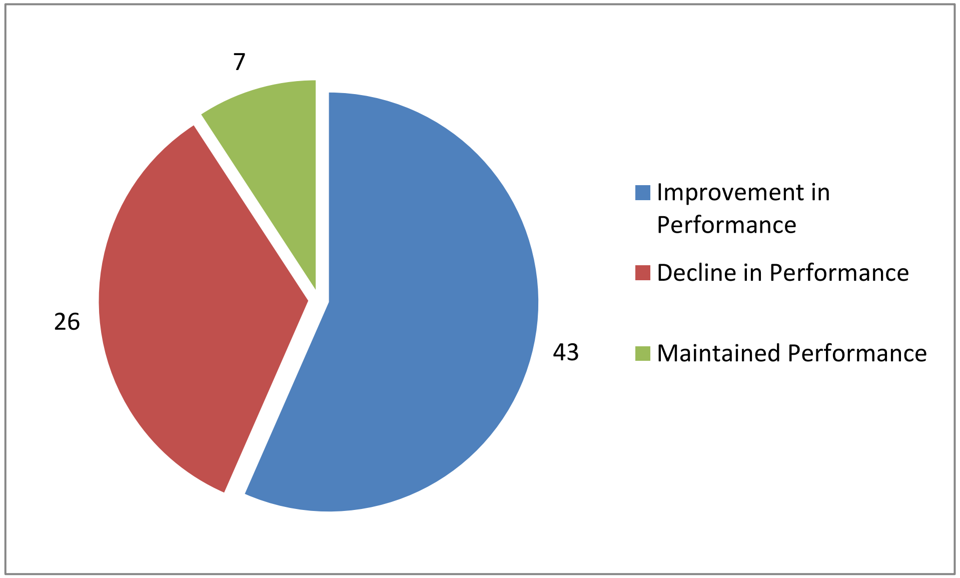
97. For 2015/16 three (SPIs) were prescribed:

- SPI 1: covering a range of information relating to areas of corporate management such as employees, assets and equalities and diversity
- SPI 2: covering a range of information relating to service performance
- SPI 3: relates to the reporting of performance information as required by the Local Government Benchmarking Framework.

98. The council reports corporate and service performance information on its website and this encompasses indicators covering the above categories. The council uses the 'Covalent' performance management system to track these performance measures.

99. The 76 indicators which have been published are summarised in Exhibit 9.

Exhibit 9: Council's Performance Indicators



Source: Angus Council website

100. There are 177 measures for 2015/16, however at present only 76 have been updated for 2015/16, leaving 101 still to be populated. Those which have still to be completed mainly fall under the SP1 categories of responsiveness to communities and sustainable

development and SP2 categories of culture, education and waste. Whilst the council have a year after 31 March 2016 to publish data, and there may be reasons why some of those indicators have not been updated, there is a risk that the information is no longer timely and relevant when it becomes available.

National performance audit reports

101. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2015/16, a number of reports were issued which are of direct interest to the council. These are outlined in appendix II. Angus Council has processes in place to ensure that all national reports and their impact on the council are considered by Members.

Equalities

102. The Equality Act 2010 introduced a new public sector 'general duty' which encourages equality to be mainstreamed into public bodies' core work. The Act requires that every two years, public bodies must publish a report on the progress made to achieve the quality of outcomes it has set. The council published an Annual Equality Report in 2015.

Outlook

103. In common with other councils, Angus Council faces the key challenges of reducing budgets, an aging population with higher levels of need and the public expectation of high quality services. Savings have been made in recent years largely by reductions in the workforce. However, as choices on how to address funding gaps become increasingly difficult, councils will have to focus on making the very best use of all available resources and to challenge existing ways of doing things. A strong and effective performance management framework will be critical to the success of the council achieving its key priorities and achieving best value.

Appendix I: Significant audit risks

The table below sets out the financial statement audit risks we identified during the course of the audit and how we addressed each risk in arriving at our opinion on the financial statements.

Audit Risk	Assurance procedure	Results and conclusions
Risk of material misstatement		
Fair values The 2015 Code requires authorities to account for fair value measurement of assets and liabilities in accordance with IFRS 13. There is a risk that valuations are not carried out as per the requirements of the Code and therefore the value of assets and liabilities are misstated.	• Early planning meeting held with Head of Corporate Improvement and Finance and his team to confirm expectations from new financial reporting requirements.	Reviewed valuation methodologies of the council's assets. No assets, other than those disclosed at Note 13 were identified as not being valued at fair value
Income Angus Council receives a significant amount of income in addition to Scottish Government funding. The extent and complexity of income means there is an inherent risk of fraud in accordance with ISA240.	• We will evaluate the effectiveness of systems of internal control for income recognition and recording including the analytical review of income streams and testing of controls • Detailed substantive testing of revenue transactions.	• Key Controls – Testing of the key controls in place did not highlight any significant weaknesses in financial controls systems • Income Transactions – 7 grants including the Revenue Support Grant were verified with supporting evidence. In addition, 30 items of other income were substantively tested. In all cases, no issues were identified

Audit Risk	Assurance procedure	Results and conclusions
		• Year end income – Cut off testing of 6 income items received at the year end found that all were allocated to the correct financial year. No fraud concerns identified in respect of income.
Management override of controls As stated in ISA240, management in all entities is in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.	• We will evaluate any significant transactions that are outside the normal course of business • We will test journal entries and review accounting estimates for bias.	• Journals – a sample of 61 journal entries were tested as part of debtors (24) and creditors (37) testing • Estimates – based on testing of debtors, creditors and provisions/contingencies, we found no evidence of bias in accounting estimates • Significant transactions – based on our work on the annual accounts, we did not find any evidence of transactions out with the scope of the council. Overall, we found no evidence to suggest that management were overriding controls.

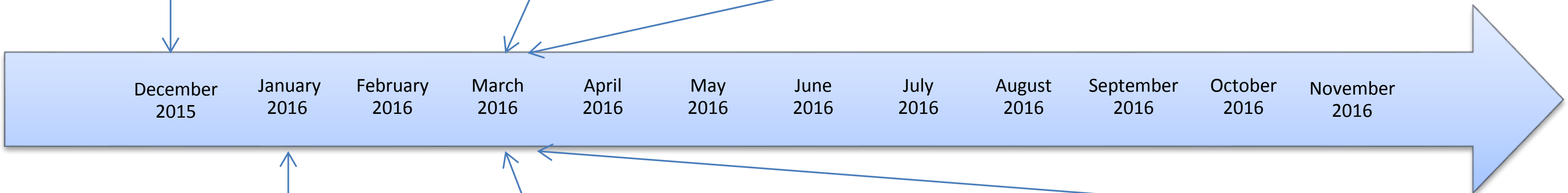
Audit Risk	Assurance procedure	Results and conclusions
Highway assets The 2016/17 Code requires highway assets to be measured for the first time on a depreciated replacement cost basis from 1 April 2016. This is a major change in the valuation basis for highway assets and will require the availability of complete and accurate management information. There is a risk that the new valuations will not be available when required.	• Ongoing discussions between finance and communities' staff to determine the approach being taken and progress made in preparing the revised valuations. • Finance Final Accounts Group meetings.	• The council has calculated the length and area of the road network, however they need to ensure they have complete information for all categories of highways assets such as gullies and traffic calming.
Council House Valuations The council revalued council houses in 2015/16, and will be subject to componentisation for the first time. When there is capital expenditure going forward it is important that the old components are removed appropriately. There is a risk that components will not be identified in line with the council's policy resulting in depreciation being incorrectly calculated.	• Finance Final Accounts Group meetings.	• From 2016/17 additions will be more closely matched to their components. There is no impact on the 2015/16 Financial Statements.

Appendix II: Summary of Audit Scotland national reports 2015/16

Health and social care integration (December 2015) – Significant risks must be addressed if a major reform of health and social care is to fundamentally change how services are delivered, and improve outcomes for the people who use them.

Community planning: an update (March 2016) – Progress on community planning has not yet achieved the major change needed to fulfil its potential to reduce inequalities and put communities at the heart of delivering public services.

An overview of local government in Scotland (March 2016) – Budget reductions mean starker choices ahead for councils which will not be met simply by continuing to cut staff and services.



Major capital investments in councils: follow-up (January 2016) - Councils need to improve further the way they manage major projects like schools, roads, housing and flood prevention, says the Accounts Commission.

Changing models of health and social care integration (March 2016) - A lack of national leadership and clear planning is preventing the wider change urgently needed if Scotland's health and social care services are to adapt to increasing pressures.

National scrutiny plan for local government (March 2016) – Provides a summary of strategic scrutiny activity for all councils in 2016/17.

Appendix III: Action plan

No.	Paragraph ref.	Issue/risk/Recommendation	Management action/response	Responsible officer / Target date
1.	25/Table 1, item 4	**Asset Register** The value of land and buildings in the asset register was overstated due to double counting. Several assets had two records, one recording the last valuation and the second recording capital spend since the previous valuation. When the subsequent valuation is carried out it will reflect the value of capital spend and consequently, records of interim spend should be deleted. ***Risk: figures in the asset register and the financial statements are materially overstated.*** **Recommendation:** ensure regular reviews of the asset register are carried out so that unusual items are identified and addressed as appropriate.	The accounting treatment of the specific items raised have been corrected through finalisation of the 2015/16 accounts. 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.	Finance Services Manager (Team C)

No.	Paragraph ref.	Issue/risk/Recommendation	Management action/response	Responsible officer / Target date
2.	25/Table 1, item 5	**Charities' Accounts** The audit trail and working papers initially provided to support the unaudited accounts were inadequate. ***Risk: additional resources are required to recreate working papers and address the matters arising.*** **Recommendation:** additional training and resource are devoted to the requirements of charities accounts so that there is ongoing involvement in the process including reconciliation with the financial ledger to avoid the matter being a significant challenge if only handled at the year end.	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.	Finance Services Manager (Team A)

No.	Paragraph ref.	Issue/risk/Recommendation	Management action/response	Responsible officer / Target date
3.	27	**Highways Assets** The Accounting Code requires the inclusion of highway assets in council balance sheets from 1 April 2016. In order to arrive at the value to be included in the accounts, the council needs to have arrangements in place to measure the relevant assets. The council has made good progress on measuring carriageways but has more to do with regard to other assets such as gullies and traffic calming. ***Risk: the information is incomplete and due to the sums involved may lead to material errors on the accounts.*** **Recommendation:** the council continues to address the relevant work to ensure that matters are addressed and keeps in touch with the national picture.	Engagement will continue to take place with Technical & Property Services colleagues to ensure that their highway asset register information is sufficiently robust to meet the needs for 2016/17 annual accounts.	Finance Services Manager (Team B)

No.	Paragraph ref.	Issue/risk/Recommendation	Management action/response	Responsible officer / Target date
4.	55	**Workforce strategy** The council has approved budget saving proposals involving significant staff reduction. A workforce strategy has been implemented but there has been slippage in the development of workforce plans. ***Risk: the council fails to set out plans for workforce reduction making it unclear what resources are required to deliver against corporate and improvement plans.*** Recommendation: effective workforce and financial planning is required to ensure the scale of change can be achieved.	More detail on the Council's workforce plans will be set out alongside the Council's budget proposals in February 2016.	Head of HR,IT & OD
5.	82	**Tayside Contracts** – Minute of Agreement The revised Minute of Agreement between the three councils is not yet concluded ***Risk: The minute of agreement fails to reflect the operating arrangements with Tayside contracts*** Recommendation: this matter has been outstanding for some time and should be concluded as a priority.	The revised Minute of Agreement has now been finalised by the relevant officers of each Council and will be submitted to relevant Committees of the 3 Councils in the October/November 2016 cycle of meetings.	Head of Legal & Democratic Services