

# Angus Council

2016/17 Annual Audit Report



 AUDIT SCOTLAND

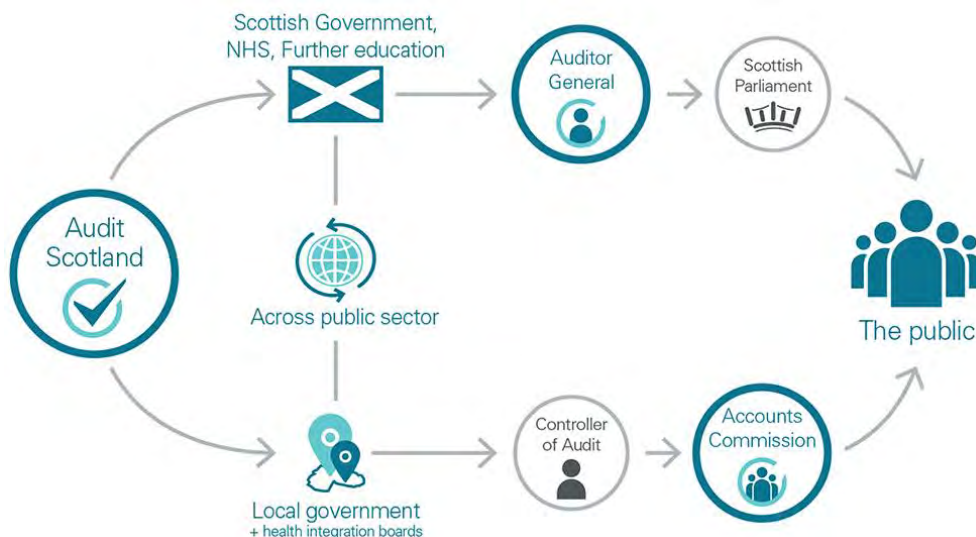
To Members of Angus Council and the Controller of Audit

29 September 2017

## Who we are

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

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



## About us

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

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

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

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# Key messages

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## Audit of the 2016/17 annual accounts

- 1 Our audit opinions were all unqualified. These covered the financial statements, management commentary, remuneration report and the annual governance statement.
- 2 Unqualified opinions were also issued for the Angus Council Charitable Trust and the Robert & William Strang Mortification, both charitable trusts administered by the Council.

## Financial management

- 3 Financial management is effective with a budget process focussed on the Council's priorities. The Council has a good track record of delivering services within budgets over the last six years.
- 4 Our testing of key internal controls over significant financial systems did not identify any significant weaknesses in the operation of these controls.

## Financial sustainability

- 5 The Council held a minimum contingency level of reserves in 2016/17 in line with policy. Almost all of the remaining reserves are committed for specific purposes, including planned use of over £2 million of reserves to achieve financial balance in 2017/18. On-going use of reserves to achieve a balanced budget will not be sustainable.
- 6 The Council has a medium-term financial plan that is aligned to the Council priorities and demonstrates how it will address future budget challenges. A long term financial plan is being developed.
- 7 The Council's financial plans demonstrate a considerable budget gap to be addressed beyond 2017/18. Service re-design and transformation through the Change Programme is intended to achieve most of these savings but not all of the required savings have been identified yet.

## Governance and transparency

- 8 The Council has appropriate governance arrangements in place that support the scrutiny of decisions made by the Council. The Council is open and transparent in the way it conducts its business and the public can attend meetings of the Council and its standing committees.

## Value for money

- 9 The Council has made good progress in revising its strategic plans to align its strategic priorities and budget strategy with its longer term Community Planning outcomes, to ensure that its programme of transformational change delivers the required significant savings and manages the impact on service users.

- 10** The depth of change required to achieve a sustainable financial position is unprecedented in the Council. Members must demonstrate that, to remain within the funding available, decisions are being taken on service redesign and delivery, which will require transformational change.

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# Introduction

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1. This report is a summary of the findings arising from the 2016/17 audit of Angus Council.

2. The scope of the audit was set out in our Annual Audit Plan presented to the March 2017 meeting of the Scrutiny and Audit Committee. This report comprises our findings arising from:

- an audit of the annual report and accounts
- consideration of the four dimensions that frame the wider scope of public sector audit requirements as shown in [Exhibit 1](#).

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## Exhibit 1 Audit dimensions



Source: Code of Audit Practice 2016

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3. The main elements of our audit work in 2016/17 have been:

- an interim audit of the Council's main financial systems and governance arrangements
- audit work following up progress since last year's Best Value audit report was published in October 2016
- an audit of the Council's 2016/17 annual report and accounts including the issue of an independent auditor's report setting out our opinions

4. Angus Council is responsible for preparing the annual report and accounts that show a true and fair view in accordance with the Local Authority Accounts

(Scotland) Regulations 2014. It is also responsible for establishing effective governance arrangements and ensuring financial management is effective.

- 5.** Our responsibilities as independent auditor are established by the Local Government in Scotland Act 1973 and the [Code of Audit Practice 2016](#) guided by the auditing profession's ethical guidance.
- 6.** As public sector auditors we provide an independent auditor's report on the annual report and accounts. We also review and report on the arrangements within Angus Council to manage its performance and use of resources such as money, staff and assets. Additionally, we report on the Council's best value arrangements. In doing this, we aim to support improvement and accountability.
- 7.** Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#).
- 8.** This report raises matters from the audit of the annual report and accounts, risks or control weaknesses. Communicating these does not absolve management from its responsibility to address the issues we raise, and to maintain adequate systems of control.
- 9.** Our annual audit report contains an action plan at [Appendix 1 \(page 28\)](#). It sets out specific recommendations, responsible officers and dates for implementation.
- 10.** As part of the requirement to provide fair and full disclosure of matters relating to our independence, we can confirm that we have not undertaken non-audit related services. The 2016/17 audit fee for the audit was set out in our Annual Audit Plan and as we did not carry out any work additional to our planned audit activity, the fee remains unchanged.
- 11.** This report is addressed to both the Council and the Controller of Audit and will be published on Audit Scotland's website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).
- 12.** We would like to thank all management and staff who have been involved in our work for their co-operation and assistance during the audit.

# Part 1

## Audit of 2016/17 annual report and accounts



### Main judgements

**Our audit opinions were all unqualified. These covered the financial statements, management commentary, remuneration report and the annual governance statement.**

**Unqualified opinions were also issued for the Angus Council Charitable Trust and the Robert & William Strang Mortification, both charitable trusts administered by the Council.**

### Unqualified audit opinions

**13.** The annual report and accounts for the year ended 31 March 2017 were approved by the Scrutiny and Audit Committee on 26 September 2017. We reported, within our independent auditor's report:

- an unqualified opinion on the financial statements
- unqualified opinions on the management commentary, remuneration report and annual governance statement.

**14.** Additionally, we have nothing to report in respect of those matters which we are required by the Accounts Commission to report by exception.

### Audit of charitable trusts administered by Angus Council

**15.** Due to the interaction of the Local Government in Scotland Act 1973 with the charities legislation, a full and separate audit and auditor's report is required for each registered charity where members of Angus Council are sole trustees, irrespective of the size of the charity.

**16.** We audit two charities where Angus Council elected members are the sole trustees: the Robert & William Strang Mortification and the Angus Council Charitable Trust. The Council previously consolidated a number of small charitable trusts where it is the sole trustee into the Angus Council Charitable Trust.

**17.** Our duties as auditors of the charitable trusts administered by Angus Council are to:

- express an opinion on whether the charities' financial statements properly present the charitable trusts' financial position and are properly prepared in accordance with charities legislation
- read the trustees' annual report and express an opinion as to whether it is consistent with the financial statements

The Council's annual report and accounts are the principal means of accounting for the stewardship of its resources and its performance in the use of its resources.



- report on other matters by exception to the trustees and to the Office of the Scottish Charity Regulator.

**18.** We received the trusts' accounts in line with the agreed timetable and after completing our audit we issued unqualified audit opinions in respect of the 2016/17 financial statements of Angus Council Charitable Trust and the Robert & William Strang Mortification.

**19.** The unaudited accounts submitted for both charities were of poor quality, containing a significant number of minor errors, which indicates a lack of management review prior to submission. Last year's Annual Audit Report reported that the audit trail and working papers to support the accounts were inadequate. This year, supporting working papers were improved but the accounts still contained errors. The errors were corrected in the audited accounts.

### Appendix 1, action plan no.1

## Submission of the Council's annual report and accounts for audit

**20.** We received the unaudited annual report and accounts on 30 June 2017, in line with the audit timetable set out in our 2016/17 Annual Audit Plan. In 2016/17, for the first time, the Council's group accounts included the financial results of Angus Integration Joint Board. The unaudited accounts, which are published for public inspection, contained some basic arithmetic errors that indicate a lack of management review prior to submission.

**21.** The working papers provided with the unaudited report and accounts were of a good standard but were not all received in line with the expected timescale. We will work with finance staff to agree working paper requirements and a timetable for next year's final accounts process.

## Risk of material misstatement

**22.** [Appendix 2](#) provides a description of those assessed risks of material misstatement that were identified during the planning process which had the greatest effect on the overall audit strategy, the allocation of resources to the audit and directing the efforts of the audit team. Also included within the appendix are wider audit dimension risks, how we addressed these and conclusions.

## Materiality

**23.** Materiality defines the maximum error that we are prepared to accept and still conclude that our audit objective has been achieved (i.e. true and fair view). The assessment of what is material is a matter of professional judgement. It involves considering both the amount and nature of the misstatement.

**24.** Our initial assessment of materiality for the annual report and accounts was undertaken during the planning phase of the audit and is summarised in [Exhibit 2 \(page 10\)](#). Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.

**25.** On receipt of the annual report and accounts and following completion of audit testing we reviewed our original materiality calculations and updated them to reflect the 2016/17 figures. Overall materiality has increased to £4.2 million as 2016/17 gross expenditure was higher than the 2015/16 expenditure that our planning materiality was based on. This did not change our audit approach.

## Exhibit 2

### Materiality values

| Materiality level   | Amount       |
|---|--------------|
| <b>Overall materiality</b> – This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It was set at 1% of gross expenditure for the year ended 31 March 2017.   | £4.2 million |
| <b>Performance materiality</b> – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement we have calculated performance materiality at 70% of overall materiality. | £2.9 million |
| <b>Reporting threshold (i.e. clearly trivial)</b> – We are required to report to those charged with governance on all unadjusted misstatements in excess of the 'reporting threshold' amount. This has been calculated at 3% of overall materiality, capped at £100,000.  | £100,000     |

### How we evaluate misstatements

**26.** A number of presentational and monetary adjustments were identified within the financial statements during the course of our audit. These were discussed with relevant officers who agreed to amend the unaudited financial statements. The effect of these adjustments is to increase the Council and group total net comprehensive expenditure by £0.077 million. Net assets as recorded in the Council and group balance sheets have decreased by £0.077 million.

**27.** There are no unadjusted misstatements over our reporting threshold to report.

### Significant findings

**28.** International Standard on Auditing 260 (UK & Ireland) requires us to communicate to you significant findings from the audit. As noted above, are no findings with a significant impact on the overall financial position as at 31 March 2017.

**29.** Adjustments to the figures in the financial statements as a result of the audit are listed below:

**30.** On the face of the Comprehensive Income and Expenditure Statement, Gross Income on the General Fund Net Expenditure line increased by £44 million due to an arithmetic error and presentation error in the unaudited accounts. The total comprehensive income and expenditure was not affected by this error.

**31.** In note 32 "Cash Flow Statement – Operating Activities," depreciation has been adjusted from £46.070 million to £39.616 million and the impairment and downwards revaluation figure of £3.227 million has been adjusted from a negative figure (revaluation gain) to a positive figure (revaluation loss). These compensating errors do not affect the Total Adjustments in the note or the Cash Flow Statement.

**32.** Our testing identified that one Property, Plant and Equipment asset, the Kinloch Care Centre, had not been moved from "Assets Under Construction" to "Other Land and Buildings" when it was completed two years ago. This resulted in depreciation of £0.077 million not being charged on the asset. Although this is not a material amount, the Council has adjusted the accounts to charge depreciation on this asset in 2016/17. This increases expenditure in the Comprehensive Income and Expenditure Statement and reduces the Property, Plant and Equipment balance in the Balance Sheet.

**33.** The Council has also adjusted the accounts for the following non-material error. Within Short Term Debtors in the Balance Sheet there are accounts with credit balances totalling £0.091 million; this understates both Debtors and Creditors. These balances have been moved to Short Term Creditors, which increases both Debtors and Creditors by £0.091 million but has no impact on the Balance Sheet's Net Assets total.

### Going concern

**34.** The financial statements of the Council, its group and the associated charitable trusts have been prepared on the going concern basis.

### Other findings

**35.** Our audit identified a number of presentational and disclosure issues which were discussed with management. These were adjusted and reflected in the audited annual accounts.

**36.** From our audit testing we found that not all supporting documentation was retained on file. We found sufficient evidence from other sources to conclude the validity of these transactions. The Council should ensure that all supporting documentation is retained to demonstrate the validity and timing of transactions.

### Management commentary, annual governance statement and remuneration report

**37.** The [Code of Audit Practice 2016](#) requires councils to prepare and publish, along with their financial statements, an annual governance statement, management commentary and remuneration report that are consistent with the disclosures made in the financial statements. The management commentary should be fair, balanced and understandable and also clearly address the longer-term financial sustainability of the body.

**38.** Based on our knowledge and work performed, we concluded that the management commentary, annual governance statement and remuneration report are consistent with the financial statements.

**39.** The management commentary aims to set out the key messages regarding the objectives and strategy of the Council and its financial performance over the year. We concluded that the management commentary could be developed to draw out the key points and performance without making the report overly detailed and unwieldy. Scott-Moncrieff, the firm which provides some internal audit services to the Council, has reviewed the Council's Annual Accounts to identify ways to streamline the content. The Council plans to use this to revisit and streamline the content, including management commentary, for 2017/18.

### Appendix 1, action plan number 2

### Objections and Whole of Government Accounts

**40.** The Local Authority Accounts (Scotland) Regulations 2014 require a local authority to publish a public notice on its website that includes details of the period for inspecting and objecting to the accounts. This must remain on the website throughout the inspection period. The Council complied with the regulations and no objections were received.

**41.** The Council had not yet submitted a consolidation pack for the whole of government accounts audit at the date of drafting this report. The submission deadline set by the Scottish Government and HM Treasury was 21 July; the audited pack is due for submission at the end of September 2017.

# Part 2

## Financial management



### Main judgements

**Financial management is effective with a budget setting process focused on the Council's priorities.**

**The Council has a good track record of delivering services within its budgets and over the last six years has contained its expenditure within annual budgets.**

**The Council has appropriate internal controls in place within its main financial systems and our testing did not identify any significant internal control weaknesses.**

### Financial performance in 2016/17

**42.** In February 2016 the Council approved a budget of £246.7 million for 2016/17. The budget was aligned to the Council's main priorities using priority based budgeting principles.

**43.** The Council has a good track record in delivering services within budget over the last 6 years. The Comprehensive Income and Expenditure Statement shows an underspend of £8.2 million against the Cost of Services budget. The Policy and Resources Committee received regular reports (in October, November, January and March) detailing the increases in the Council budget and the reasons for departmental over/under spends.

**44.** While the Council's spending has remained within its overall budget, there are significant variations in how different services have performed. The more significant over and underspends are summarised in [Exhibit 3](#) below.

Financial management is about financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.

### Exhibit 3

#### Summary of significant over and under spends against budget

| Area                  | Under/over spend (£m) | Reason(s) for variance  |
|-----------------------|-----------------------|---|
| Children and Learning | 3.406                 | Within Schools and Learning the underspend is due to difficulties in recruiting Permanent and Supply Teachers and delays in progressing projects,<br><br>Children's and Young People underspend is due to staff slippages and delays in progressing projects. |

| Area               | Under/over spend (£m) | Reason(s) for variance  |
|--------------------|-----------------------|---|
| Communities        | 2.114                 | The majority of underspend is due to staff slippage and savings associated with Angus Alive transfer. |
| Resources          | 0.789                 | Lower staff costs due to staff turnover and posts not being filled.                                   |
| Chief Executive    | 0.384                 | Staff slippages again contribute to the majority of underspends against budget.                       |
| Transforming Angus | 0.103                 | Underspend is due to the timing of projects under the Transforming Angus (Change) programme.          |

Source: Report 234/17 Appendix B (ii) – Commentary on General Fund Directorates Revenue Budget Versus Actual.

## Housing Revenue Account

**45.** The Council is required by legislation to maintain a separate housing revenue account and to ensure that rents are set to at least cover the costs of its social housing provision. Rent levels are therefore a direct consequence of the budget set for the year.

**46.** The 2016/17 net cost of Housing Revenue Account (HRA) services was £2.0 million, £1.1 million less than the budget for the year. Both expenditure and income were slightly below budget. A minimum HRA balance of £1 million is held, in line with Council policy. The remaining £3.9 million HRA balances are also earmarked for specific purposes.

## Efficiency savings

**47.** With reduced funding from government and increased demand for services, efficiency savings are an important means of bridging the gap between funding received and spending commitments.

**48.** In 2016/17 directorate budgets were reduced by £8.3 million and a further £1.8 million efficiency savings were anticipated from Transforming Angus (Change Programme) reviews. This cost reduction of £10.1 million was achieved in year.

**49.** The medium term budget strategy approved by the Council in September 2017 includes a mid-range estimated funding gap of £38.4 million over the three years from 2018/19 to 2020/21. The estimated gap is within a forecast range of £28.9 million (optimistic position) to £43.1 million (pessimistic position). Angus Council has committed to making these savings through the Change Programme. We will be monitoring the progress made by the Council in achieving these savings.

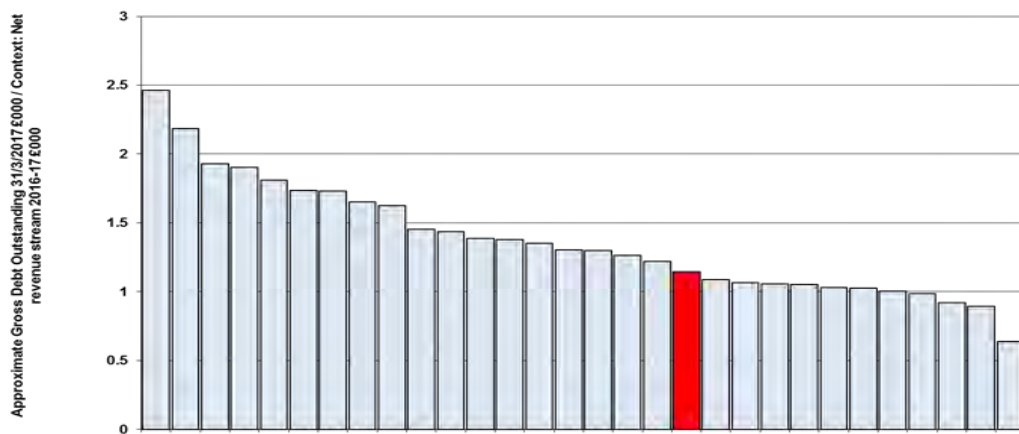
## Borrowing in 2016/17

**50.** The Council's outstanding loans at 31 March 2017 were £164.6 million, a decrease of £0.61 million on the previous year. £4.8 million of loan repayments were made and there were £4.2 million of new loans taken out.

**51.** Total external debt was within the authorised limit and operational boundary set within the Council's treasury management strategy. When compared to other Scottish councils in [Exhibit 4](#), the Council's overall borrowing position appears considered and sustainable.

## Exhibit 4

### Overall indebtedness as a percentage of annual income in 2016/17



Source: Scottish councils' unaudited financial statements 2016/17

## Capital programme 2016/17

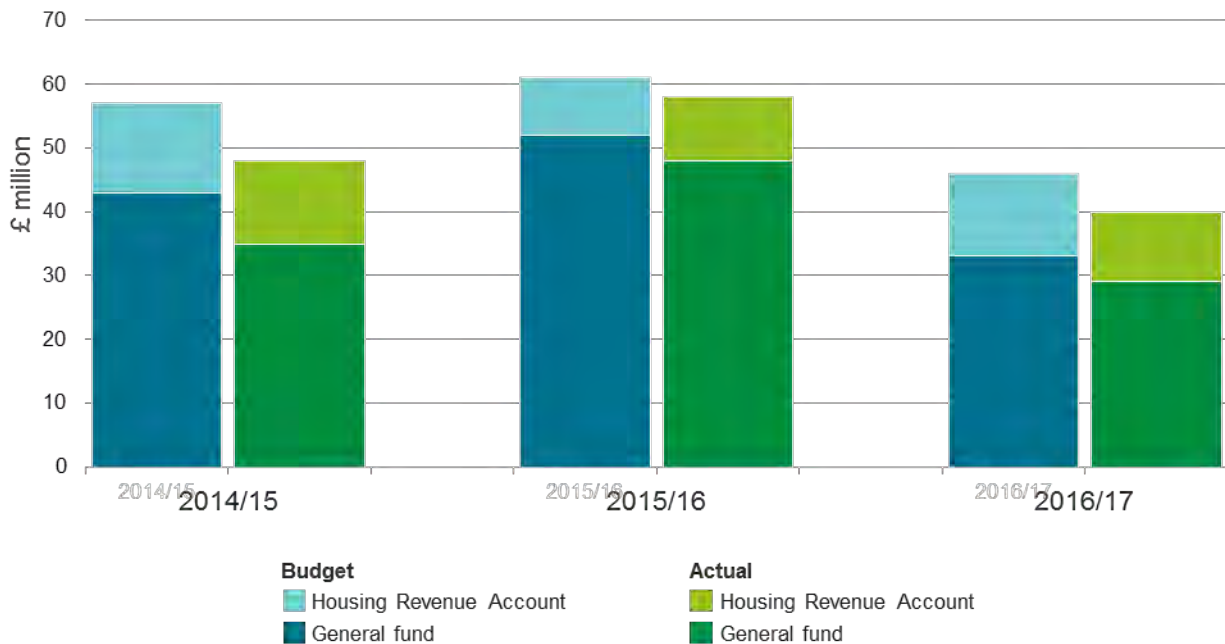
**52.** Total capital expenditure in 2016/17 was £39 million, £7 million below budget. Of the £46 million total capital budget, £33 million related to General Fund services and £13 million to the Housing Revenue Account.

**53.** The Council has a history of slippage in its capital programme as outlined in [Exhibit 5 \(page 15\)](#). The HRA slippage comprised 35% of the 2016/17 capital slippage.

**54.** The main reasons for the £7 million capital underspend in 2016/17 include delays in the planning process and purchase of land; not receiving replacement vehicles until after the year end; slippage of funding into the following year; delays in achieving building warrants; and delays in completion of planned work.

## Exhibit 5

### Capital slippage compared to budget (General Fund and HRA)



Source: Angus Council financial statements

## Budgetary monitoring and control

**55.** The *Local Government in Scotland: Financial overview 2015/16* (November 2016) highlighted that the need for budgets and forecasts to reflect actual spending becomes increasingly important for councils with decreasing (or low levels) of usable reserves to rely on. We noted that the Council's budget and savings plan is aligned to the Council priorities as set out in its Council Plan 2017-2022. This is consistent with good practice.

**56.** The medium term budget strategy approved by the Council in September 2017 includes an optimistic, base position and pessimistic values to allow the council to assess the size of the funding gap that it will be presented with over the period to 2020/21. The assumptions used in the production of the report are detailed in the report and have been tested by the finance department.

**57.** Within the Council the detailed scrutiny of financial performance is delegated to the Policy and Resources Committee which receives regular revenue and capital monitoring reports. The reports include detailed descriptions of the reasons behind the variances against budget that are reported. From our review of these reports we concluded that they provided an adequate overall picture of the budget position at service level.

## Financial capacity within the Council

**58.** The Section 95 officer is the Head of Corporate Finance. He is a member of the corporate management team and has direct access to the chief executive and Council members. We concluded that the Section 95 officer has appropriate status within the Council.

**59.** In common with other Council services, the finance service will need to seek efficiencies where possible; 2017/18 will see a reduction in the establishment posts within finance. There are currently 18.4 FTE permanent accountant posts and 2 temporary posts in the service. The finance service is also considering its capacity

to support the Council at a time when robust financial management and leadership are essential.

**60.** With the recent Council elections there have been a number of new members elected. It is important that they receive adequate training on how the Council works and how it is financed if they are to exercise their scrutiny responsibilities effectively. Members were given a briefing by the Service Manager (Financial Services) on the financial statements prior to their scrutiny of the unaudited financial statements.

## Internal controls

**61.** As part of our audit we identify and inspect the key internal controls in those accounting systems which we regard as significant for the production of the financial statements. Our objective is to gain assurance that the Council has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements.

**62.** No significant control weaknesses were identified which could affect the Council's ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.

**63.** No significant control weaknesses were identified by the Council in its Annual Governance Statement.

## Prevention and detection of fraud

**64.** We have responsibility for reviewing the arrangements put in place by management for the prevention and detection of fraud. We reviewed the Council's arrangements including policies and codes of conduct for staff and elected members, whistleblowing policies, anti-fraud and corruption strategy and fraud response plan.

**65.** Based on the evidence reviewed by us, we concluded that the Council has adequate arrangements in place for the prevention and detection of fraud.

## National Fraud Initiative

**66.** The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise co-ordinated by Audit Scotland. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify 'matches' that might suggest the existence of fraud or error.

**67.** Angus Council submitted its NFI data by the required deadline. We reviewed the Council's progress in following up and investigating data matches. The latest position on NFI investigations by the Council is summarised in [Exhibit 6 \(page 17\)](#).



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**Exhibit 6**

## National Fraud Initiative

Total number of matches



4,060

Number recommended for investigation



957

Completed/closed investigations



641

Source: NFI website

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**68.** 4,060 data matches have been returned to the council, 957 of which are recommended for investigation. 810 matches have been processed and 641 cleared already. 156 errors have been identified (six with a monetary outcome, totalling £10,577) and one fraud of £462. These outcomes amount to £11,039 which is in the process of being recovered.

**69.** We concluded that the council is well engaged with the NFI exercise; there is a dedicated Counter Fraud team which is overseen by a manager who reports directly to the Chief Executive. Members are regularly updated on the progress of the Counter Fraud team and the outcomes of the NFI exercise.

# Part 3

## Financial sustainability



### Main judgements

**The Council held a minimum contingency level of reserves in 2016/17 in line with policy. Almost all of the remaining reserves are committed for specific purposes, including planned use of over £2 million of reserves to achieve financial balance in 2017/18. On-going use of reserves to achieve a balanced budget will not be sustainable.**

**The Council has a medium-term financial plan that is aligned to the Council priorities and demonstrates how it will address future budget challenges. A long term financial plan is being developed.**

**The Council's financial plans demonstrate a considerable budget gap to be addressed beyond 2017/18. Service re-design and transformation through the Change Programme is intended to achieve most of these savings but not all of the required savings have been identified yet.**

### Financial planning

**70.** It is important that long-term financial strategies (typically covering five to ten years) are in place which link spending to the Council's strategies. Although councillors only approve the budget for a single year, this should be supported by indicative future spending plans (covering three years at least) that forecast the impact of relevant pressures on the Council.

**71.** The Council has approved a Medium Term Budget Strategy that is aligned to the Council priorities and outlines the anticipated financial position over this period. It is refreshed each year and is updated to reflect a more detailed understanding of the cost pressures, planning assumptions and Scottish Government grant settlement figures.

**72.** The rolling three year plan (and four year plan for capital) 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. A long term financial plan (5-10 years) is being developed.

### Funding position

**73.** The Council is facing a number of challenges in maintaining a sustainable financial position in future. These include rising demands for services, increasing costs of services and reductions in central government funding.

**74.** The Council approved its 2017/18 budget in February 2017. The budget was set at £248.7m million with a funding gap of £6.4m million. Plans to address this

Financial sustainability looks forward to the medium and longer term to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.

gap include £3.7 million of directorate savings, £1.2 million of corporate savings and a transfer of £2.3 million from balances and funds.

## Savings plans

**75.** The Council achieved its savings target of £10.1 million in 2016/17, removing £8.3 million from service budgets and making savings of £1.8 million from Transforming Angus/Change Programme reviews.

**76.** Angus Council has identified in its medium term budget strategy that it needs to make efficiency savings of £3.7 million for 2017/18 and £38.4 million in the following 3 years as part of its plans to maintain financial balance.

**77.** The projects currently included in the Change Programme have identified plans which will release £15 million of savings for the period to 2020/21, but this still leaves a significant funding gap of around £24 million to be addressed. The Council must identify further savings plans in order to achieve financial balance.

## Appendix 1, action plan no 3

## Reserves

**78.** One of the key measures of the financial health of a local authority is the level of reserves held. The level of usable reserves held by the Council decreased from £43.5 million in 2015/16 to £40.8 million in 2016/17.

**79.** The general fund reserve is the largest reserve. This reserve has no restrictions on its use. Its main purpose is to provide a contingency fund to meet unexpected expenditure and as a working balance to help cushion the impact of uneven cash flows.

**80.** The Council reviews the level of its uncommitted reserves when setting the budget each year. The Council holds a £4 million “contingency policy level” within its general fund reserves. Beyond this contingency, the level of uncommitted general fund reserves as at 31 March 2017 was very low at £0.3 million. In comparison, the level at 31 March 2016 was £2.0 million. The level of uncommitted reserves indicated in Council reports for 2017/18 is even lower and the Council recently agreed to use a further element of this balance in 2017/18. On-going use of reserves to achieve financial balance is not a sustainable approach.

## Business transformation

**81.** Audit Scotland's *An overview of local government in Scotland 2016* (March 2016) highlighted that local authorities have not made enough progress in developing alternative forms of service delivery to meet the challenges of tightened budgets and to transform public services in Scotland.

**82.** The Council recognises that rising demand, increasing costs of services and reductions to central funding will not allow it to continue to deliver services in the same and at the current levels. In last year's Best Value audit report we reported that the Council needed to raise its level of ambition and increase the pace and depth of change of the Council's business transformation programme.

**83.** The Council's Change Programme (formerly Transforming Angus) reviews have achieved savings of £1.8 million in 2016/17. In addition, services have had to deliver with £8.3 million less funding, to remain within budget. As noted above, the current financial forecast for 2017/18 indicates that as well as efficiency savings, reserves will be used to achieve financial balance and this approach is not sustainable.

**84.** In addition to the on-going programme of service reviews, the Change Programme has focussed in 2017 on aligning the Council's strategies and plans for transformational change with its long term planned outcomes as a Community Planning partner, set out in the draft Local Outcomes Improvement Plan. This should help focus Council resources on priority areas. Service reviews will need to redesign services that both deliver efficiency savings and have the desired impact on service users.

**85.** The Council is clear that it will become a much smaller, leaner organisation over the next 3-4 years and that transformation now needs to be delivered. With fewer financial resources available to it, the Council must now make difficult decisions on future service delivery.

## **Workforce planning**

**86.** Audit Scotland's [\*Local government in Scotland – performance and challenges 2017\*](#) report highlighted the need to plan and manage reductions to Council workforces. Failing to do this can affect the skills mix and ability of the organisation to deliver, manage and scrutinise services effectively.

**87.** The report advises councils to have effective systems in place for managing their workforce and monitoring staffing levels, and that information should be aligned to other long-term plans such as financial plans.

**88.** The Council has reported that its workforce has reduced by 500 FTE over the past 6 years, to 4,114 FTE, and that changes to working practices should enable further reductions. It is estimated that staff numbers may need to reduce further by up to 800 FTE over the next 3 years. This will assist the Council in addressing its estimated 3 year funding gap of £38.4 million.

**89.** The Council has an overarching workforce plan 2018-2021 which sets out at high level the planned actions to help the Council to manage the workforce changes required to deal with the projected funding gap. The detailed workforce planning at service level to deliver this is not fully developed; service reviews within the Change Programme (including Council-wide reviews of manager posts and clerical and administration support) are intended to provide this detail.

## **Appendix 1, action plan no 4**

# Part 4

## Governance and transparency



### Main Judgements

**The Council has appropriate arrangements in place that support scrutiny of decisions made by the Council and its standing committees.**

**The Council is open and transparent in the way that it conducts its business, with the public able to attend meetings of the Council and its committees. Minutes of committee meetings and agenda papers are readily available on the Council's website for public inspection.**

### Governance arrangements

**90.** As part of the 2016/17 audit all public sector auditors were asked to complete a governance and accountability questionnaire based on the recommendations of the September 2010 national report on the [Role of Boards](#). The completed questionnaires will provide the Accounts Commission and the Auditor General with an understanding on Scotland's public sector governance arrangements and in particular the extent to which public bodies have implemented the recommendations in the 2010 report.

**91.** We collected information on these key areas: *Are governance, decision-making and scrutiny arrangements effective? To what extent do non-executives and staff demonstrate high standards of behaviour? To what extent do non-executives and staff receive sufficient training and development?*

**92.** Our findings on Angus Council's arrangements were generally positive: the governance framework in place is subject to regular review and updating; agendas, reports and minutes are publicly available and council and committee meetings are held in public, with the rationale for exemptions clearly recorded.

**93.** Codes of conduct are in place for officers and elected members. "Declarations of interest" is a standing item on council and committee agendas and any declarations are recorded in the minutes.

**94.** There is a programme of induction training for newly elected members and the CPD Framework for Elected Members in Scottish Local Government provides all elected members with professional and personal development opportunities. An Elected Members' Development page has been added to the council's intranet as a 'one stop shop' for members to view development opportunities available to them.

**95.** We concluded that the Council has appropriate arrangements in place which support good governance and accountability.

Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making and transparent reporting of financial and performance information.

## Internal audit

**96.** Internal audit provides senior management and elected members with independent assurance on the Council's overall risk management, internal control and corporate governance processes.

**97.** The internal audit function is managed by Scott-Moncrieff using Angus Council and Scott-Moncrieff staff to complete the work. We carried out a review of the adequacy of the internal audit function and concluded that it operates in accordance with the Public Sector Internal Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place.

**98.** To avoid duplication of effort we place reliance on the work of internal audit wherever possible. In 2016/17 we did not place any formal reliance on internal audit reviews for the purpose of obtaining direct assurance for our financial statements work. We considered internal audit report findings as part of our wider dimension work.

## Local code of corporate governance

**99.** The Council reviews its local code of corporate governance annually. The code reflects the key components of good governance as set out in the CIPFA/SOLACE framework for local government. The local code was revised in June 2017 to reflect the revised CIPFA/SOLACE "Delivering Good Governance in Local Government Framework (2016)".

## Transparency

**100.** Transparency means that the public, in particular local residents, have access to understandable, relevant and timely information about how the Council is taking decisions and how it is using resources such as money, people and assets.

**101.** There is evidence from a number of sources which demonstrate the Council's commitment to transparency. Members of the public can attend meetings of the full Council, executive and other committees. Minutes of these committee meetings and supporting papers are readily available on the Council's website.

**102.** The Council's website allows the public to access a wide range of information including the register of members' interests, current consultations and surveys and how to make a complaint.

**103.** The Council makes its annual accounts available on its website. These include a management commentary which provides details of performance against budget, information on the use of reserves and risks and uncertainties facing the Council.

**104.** Overall, we concluded that the Council conducts its business in an open and transparent manner.

## Correspondence referred to the auditor by Audit Scotland

**105.** We received two items of correspondence during 2016/17. One related to the alleged removal of a Brechin Common Good Fund asset. We confirmed the current status and accounting treatment of the Common Good asset in question. The asset has not been disposed of (although some parts of it have been removed) and is recorded in the Common Good asset register at nil net book value. The other item of correspondence related to a financial bond which should be held by the Council. We obtained evidence of the financial bond required to cover planned de-commissioning costs in line with planning consent. We are satisfied as to the sufficiency of the financial bond put in place to cover planned de-commissioning costs in line with the requirements of the planning consent.

## Recruitment of new Chief Executive

**106.** In February 2017 Angus Council appointed a new Chief Executive, effective from June 2017, through an internal recruitment process. The Accounts Commission has previously recommended that all recruitment to senior posts should be open to external competition in order to be able to demonstrate that the best candidate has been appointed.

**107.** We reviewed the process for recruitment including reporting to members, the involvement of an external recruitment firm and consideration of the Accounts Commission's recommendations. The Council was aware of the practice recommended by the Accounts Commission and retained the option of going external if the internal recruitment process was unsuccessful. The business case behind the Council's decision to recruit without external competition as a first step involved planned savings from reducing the number of directorates if a Strategic Director was appointed as Chief Executive. The Council has recruited several senior staff from external sources in recent years, as acknowledged in the 2016 Best Value audit report. These staff members are still in post so the Council considered it still had the benefit of the earlier external recruitment. Several options for recruitment, internal and external, were presented to the full Council for approval.

**108.** The appointment of an internal candidate and the associated restructuring of directorates saved the Council in excess of £0.1 million. We are satisfied that options appraisal papers for the recruitment process were provided to enable scrutiny by elected members.

## Integration of health and social care

**109.** Legislation to implement health and social care integration, passed by the Scottish Parliament in February 2014, came into force on April 1, 2016. This brings together NHS and local council care services under one partnership arrangement for each area.

**110.** The Scottish Government's 2020 Vision places a greater emphasis on enabling people to stay in their homes, or another homely setting, where possible, sharing their lives with their family and friends and doing the things that give life meaning and value. Integration of health and social care is seen as a means of achieving this.

**111.** The Angus Integration Joint Board (IJB) is provided in partnership with NHS Tayside and became fully operational on 1 April 2016. The financial transactions of the Angus IJB have been consolidated into the Council's group accounts.

**112.** Audit Scotland's publication [\*Health and Social Care Integration\*](#) (December 2015) suggested that IJBs were unlikely to make a major impact in the first year of operation. A Strategic Progress and Performance Report on the first operational year of Angus IJB was presented to the IJB meeting on 28 June 2017. The report assesses the performance of Angus IJB in relation to national health and wellbeing outcomes, reporting by localities in addition to the IJB as a whole, and includes a review of the strategic plan. The report shows that Angus is performing well against the local and national outcomes. However the "Readmissions within 28 days of discharge" figure had increased for Angus as a whole. The IJB has highlighted a number of initiatives that it is hoped will improve readmission rates.

**113.** Audit Scotland, as part of a series of reports, will be reporting on integration authorities' progress after the first year of IJBs being established. This report is due in spring 2018.

## Local scrutiny plan

**114.** The 2017/18 Local Scrutiny Plan (LSP) prepared by the Local Area Network (LAN) of scrutiny partners for the Council was submitted to Angus Council in May 2017. The LAN did not identify any new scrutiny risks in the year which would require specific scrutiny work during 2017/18. The Council will be subject to a range of nationally driven scrutiny activity as set out in the LSP.

## Equalities

**115.** The Equality Act 2010 introduced a public sector general duty that encourages public bodies to mainstream equality, that is, ensure it is part of their core work. The Act requires that by no later than 30 April 2015 and every two years thereafter, public bodies must publish a report on the progress made to achieve the quality of outcomes it has set.

**116.** We reviewed the current (April 2017) equalities report and concluded the Council has met its statutory duty to:

- publish information on progress made in mainstreaming equality within the Council
- report on progress made towards achieving equality outcomes published in 2013
- publish annual employee information and details of the progress made in gathering and using information to better meet the duty
- publish updated gender pay gap information.

**117.** We concluded, on the basis of evidence reviewed, that the Council is proactive in ensuring that equality is mainstreamed.



# Part 5

## Value for money



### Main judgements

**The Council has made good progress in revising its strategic plans to align its strategic priorities and budget strategy with its longer term Community Planning outcomes, to ensure that its programme of transformational change delivers the required significant savings and manages the impact on service users.**

**The depth of change required to achieve a sustainable financial position is unprecedented in the Council. Members must demonstrate that, to remain within the funding available, decisions are being taken on service redesign and delivery, which will require transformational change.**

### Best Value

**118.** The Accounts Commission agreed the overall framework for a new approach to auditing Best Value in June 2016. Best Value will be assessed over the five year audit appointment, as part of the annual audit work. This year's Best Value audit work was following up the progress made by the Council in response to the Best Value report published in October 2016.

**119.** The Council agreed to increase the pace and depth of change of its business transformation programme. The pace of change has increased, with good progress made in aligning revised strategic plans with the longer term outcomes in the Community Planning Partnership's draft Local Outcomes Improvement Plan and Locality Plans.

**120.** Change Programme projects across the Council are on-going to identify new ways of working that will achieve the Council's planned outcomes and deliver the required savings. The savings for 2016/17 have been achieved; the savings for 2017/18 are on track for delivery but a significant gap in identified savings exists from 2018/19 onwards.

**121.** Governance arrangements for the Change Programme have been updated to ensure sufficient capacity to support the programme. The post of Head of Strategic Policy & Transformation and Public Sector Reform has been created within the Chief Executive's department. This post is intended to link together the various Change Programme initiatives with the Council's policy objectives and its community planning commitments, as evidenced by the alignment of the revised strategic plans for 2018/19 to 2020/21 with longer term planned outcomes.

**122.** The Council's strategic partnership with EY ended in 2017. This partnership started in 2014 to provide additional capacity and external experience of business transformation. The Council paid EY £0.829 million over the course of the partnership, which is within the £0.9 million cost approved by the Council. The Council has reported that savings (or costs avoided) of £3.883 million were

**Value for money is concerned with using resources effectively and continually improving services.**

delivered as a result of the partnership. Using the experience gained since 2014, an in-house team will lead the Change Programme going forward.

**123.** The changes already delivering savings include:

- the creation of Angus Alive as an arms' length culture and leisure trust, which had its first full year of operation in 2016/17;
- the Help to Live at Home programme, which aims to shift the balance of care from hospitals or residential settings to enabling more people to be cared for at home. Resources have moved to alternative providers, which has delivered savings;

**124.** Change programme initiatives which are on-going include:

- Agile working/Estates rationalisation - this allows staff to work more flexibly, using new technology, and will reduce the number of building needed by the Council;
- Process automation, using technology to streamline internal processes and systems to ultimately enable customers to access council services online 24 hours a day, 7 days a week;
- Review of manager posts (overall numbers and specific roles);
- Review of clerical and administration roles to support a smaller workforce;
- Schools investment strategy to establish a sustainable schools estate that supports learning and community activity.

**125.** The depth of change required to address the funding gap up to 2020/21 is recognised by the Council in all its strategic plans and in the Change Programme proposals, but translating this into more radical change has not yet happened.

**126.** This extent of change will require service delivery to look very different in future, including extensive workforce reductions and service reshaping and reduction to become a "better, stronger, more sustainable and smaller" council. As noted at paragraph 86, difficult decisions need to be taken to deliver the required transformation.

## Following the public pound

**127.** Local authorities have a statutory responsibility to comply with the Accounts Commission / COSLA Code of Guidance on funding external bodies and following the public pound. The Council's financial regulations contain a code of guidance on funding external bodies which confirms the principles of following the public pound.

**128.** Audit Scotland is currently carrying out a performance audit of Scottish councils' use of arms' length external organisations. The [scope](#) for this exercise is on our website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk). Our aim is to support councils by identifying good practice and also lessons learned, and give assurance to the public over this means of service delivery.

## Performance management

**129.** The Council's performance management arrangements were considered in our Best Value report issued in October 2016. We identified that arrangements could be improved through the use of a corporate overview of performance.

**130.** The Council continues to report on a directorate basis without a high level overview of council wide performance. The recent reduction from three directorates

to two could facilitate the introduction of a council wide performance report that reports on the newly aligned council priorities.

## Appendix 1 Action plan point no 5

### Overview of performance targets

**131.** Performance Information on Angus Council is reported publicly through the Council website. The website includes the indicators that are required through the [Local Government Benchmarking Framework](#) (LGBF), the statutory performance indicators and the Council's Key Performance Indicators. Within Angus Council this information is held within the Covalent System (soon to be rebranded as Pentana Performance) which allows Council services to update the information as it is obtained and for the public to view performance information through the website.

**132.** To date, one 2016/17 directorate annual report is currently published: Children & Learning Services' Annual Evaluation and Standards & Quality Report. Performance for the Children and Learning Directorate was assessed as "good" overall and the report was balanced between identified strengths and areas for improvement. Other 2016/17 performance information is expected to be published by March 2018.

### Statutory performance indicators (SPIs)

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

**134.** For 2016/17 two (SPIs) were prescribed:

- SPI 1: covering a range of information relating to areas of performance such as improving local public services, improving local outcomes, engaging with communities and achieving Best Value
- SPI 2: relates to the reporting of performance information as required by the Local Government Benchmarking Framework.

**135.** We reviewed the council's arrangements for collecting, recording and publishing data in 2016/17. Overall we concluded that they are adequate.

### National performance audit reports

**136.** Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2016/17, a number of reports were issued which are of direct interest to the Council. These are outlined in [Appendix 3](#).




**137.** Most of these national reports are considered by the Scrutiny and Audit Committee. Other relevant reports are taken to the most appropriate committee for consideration. In addition, the "Local Government in Scotland: Performance and Challenges 2017" report formed the basis for elected member training in September 2017. Overall we concluded that the Council's arrangements for consideration of national reports are satisfactory.

# Appendix 1

## Action plan 2016/17

### 2016/17 recommendations for improvement

| Page no. | Issue/risk   | Recommendation   | Agreed management action/timing   |
|----------|--|--|---|
| 9        | <p><b>1. Management review of unaudited financial statements</b></p> <p>The quality of the unaudited charitable trusts accounts was poor. The accounts contained a number of minor errors that should have been picked up by management review. The unaudited Council accounts also contained some basic arithmetic errors that should have been picked up by management review.</p> | <p>Unaudited financial statements should be reviewed before submission for audit, to remove arithmetic errors and inconsistencies.</p>   | <p>Review of the Annual Accounts production process and content is part of the Finance Services Review. This action will be addressed through that process.</p> <p><b>Responsible officer:</b><br/>Service Manager (Finance Services)</p> <p><b>Target date:</b> 30 June 2018</p> |
| 11       | <p><b>2. Management commentary and streamlining accounts</b></p> <p>The management commentary could be developed to draw out the key points and performance outcomes without making the report overly detailed.</p> <p>The Council has undertaken an external review of its Annual Accounts document and plans to use this to revisit and streamline the content for next year.</p>  | <p>The Council should review its management commentary and the recommendations of the external accounts review to streamline the accounts and ensure the management commentary is appropriately focussed.</p>                | <p>Review of the Annual Accounts production process and content is part of the Finance Services Review. This action will be addressed through that process</p> <p><b>Responsible Officer:</b><br/>Service Manager (Finance Services)</p> <p><b>Target Date:</b> 30 June 2018</p>  |
| 19       | <p><b>3. Projected funding gap</b></p> <p>Projects within the Change Programme have identified almost £15 million of savings for the period covered by the medium term budget strategy, but there is still a residual funding gap of around £24 million for the</p>  | <p>The Council should ensure that savings plans are developed which identify how the remainder of the savings required to meet the residual funding gap of £24 million for the four year period to 2020/21 will be made.</p> | <p>The Council is well aware of the need to bridge the funding gap and of the challenge of doing so. This will be a focus for the Council Management Team on an ongoing basis.</p> <p>Updated position on funding gap and the means to address it will be provided in</p>         |

| Page no. | Issue/risk   | Recommendation  | Agreed management action/timing   |
|----------|--|---|---|
|          | <br>four year period to 2020/21.  | <br>Recommendation   | <br><b>Agreed management action/timing</b><br>February 2018 as part of budget setting.<br>Further update to address the gap in full will be provided in the Medium Term Budget Strategy (MTBS) update in September 2018<br><b>Responsible Officer:</b> Head of Corporate Finance<br><b>Target dates:</b><br>10 March 2018 (budget update)<br>30 September 2018 (MTBS update)   |
| 20       | <b>4. Workforce planning</b><br>The Council has revised its strategic Workforce Plan to align with the new Council Plan, medium term budget strategy and the Change Programme. This plan anticipates a smaller, more flexible workforce in future as part of achieving the required financial savings.<br>More detailed service level plans showing the workforce implications of service redesign are not yet in place. | The Council should ensure that the Change Programme projects set out the workforce implications of service redesign along with the anticipated savings. | Those projects in the Change Programme which have workforce implications detail the Full Time Equivalent (FTE) reductions anticipated and the potential savings. As projects are added the Change Programme and Workforce Plan will be updated to reflect further workforce implications.<br>Service review documentation will detail the workforce implications associated with each review e.g. Managers' review, Business Support reviews<br><b>Responsible officer:</b> Head of HR, IT and Organisational Development<br><b>Target date:</b> Currently up to date. Requires ongoing review as projects are added. |
| 27       | <b>5. Performance reporting</b><br>The Council currently reports its performance at service level, rather than having a corporate summary of performance. As the Council has restructured into two directorates rather than three, this may make it easier to report on a council-   | The Council should develop and report a corporate overview of performance against the Council's priorities.   | A new Council Plan was approved on 7 September 2017. This plan includes a commitment to report performance to Scrutiny & Audit Committee and Angus Council on a regular basis.<br>The first reports will be produced for financial year 2017/18.  |



**Page  
no.**

**Issue/risk**

**Recommendation**

**Agreed management  
action/timing**

wide basis. The council has also refreshed its strategic plans to align and clarify its priorities; reporting on progress against these would also provide useful information on the service impact of the Change Programme.

**Responsible officer:** Head of Quality & Performance

**Target date:** 31 August 2018

# Appendix 2

## Significant audit risks identified during planning

The table below sets out the audit risks we identified during our planning 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  |
|--|--|--|
| <b>Risks of material misstatement in the financial statements</b>  |  |  |
| <p><b>1 Risk of management override of controls</b></p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.</p> | <p>Detailed testing of journal entries.</p> <p>Review of accounting estimates.</p> <p>Focused testing of accruals and prepayments.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p> | <p>No unusual or inappropriate transactions were identified as part of detailed testing of journal entries.</p> <p>A review of accounting estimates did not show any instance of bias.</p> <p>Focussed testing of cut-off assertions showed controls were operating effectively.</p> <p>No significant transactions outside the normal course of Council business were identified.</p> <p>Our testing identified no evidence of management override of controls.</p> |
| <p><b>2 Risk of fraud over income</b></p> <p>Angus Council receives a significant amount of income in addition to Scottish Government funding. The extent and complexity of income means that, in accordance with ISA240, there is an inherent risk of fraud.</p>  | <p>Analytical procedures on income streams.</p> <p>Focused testing of revenue transactions focusing on the areas of greatest risk.</p>   | <p>Sample testing of income and expenditure confirmed that these were in the normal course of business.</p> <p>We obtained satisfactory reasons for any significant movements in income or expenditure.</p> <p>Our sample cut-off testing confirmed that transactions are processed in the correct accounting year.</p> <p>Our conclusion is that the Council has arrangements in place to minimise the risk of fraud over income and expenditure.</p>               |
| <p><b>3 Risk of fraud over expenditure</b></p> <p>Practice Note 10 (Audit of financial statements of public sector bodies in the UK) and the Code of Audit Practice expands the ISA assumption</p>   | <p>Audit work on the National Fraud Initiative matches.</p> <p>Assessing the overarching controls in grant schemes.</p> <p>Focused testing of expenditure and housing</p>  | <p>We reviewed the Council's progress in investigating NFI data matches. Outcomes of £11,039 have been identified and the Council is pursuing recovery of this money. We concluded that the Council is well engaged with</p>   |

| Audit risk  | Assurance procedure  | Results and conclusions   |
|---|--|---|
| <p>on fraud over income to aspects of expenditure. Angus Council incurs significant expenditure in areas such as welfare benefits, social care payments and grants.</p>   | <p>benefit transactions.</p>   | <p>NFI.</p> <p>Sample testing of expenditure confirmed that these were in the normal course of business.</p> <p>We obtained satisfactory reasons for any significant movements in expenditure.</p> <p>Our sample cut-off testing confirmed that transactions are processed in the correct accounting year.</p> <p>Our conclusion is that the Council has arrangements in place to minimise the risk of fraud over expenditure.</p>  |
| <p><b>4 Estimation and judgements</b></p> <p>There is a significant degree of subjectivity in the measurement and valuation of the material account areas of non current assets and provisions. This subjectivity represents an increased risk of misstatement in the financial statements.</p>   | <p>Completion of 'review of the work of an expert' for the professional valuer.</p> <p>Focused substantive testing of key areas.</p> | <p>A number of estimations and judgements in the accounts are based on the opinion of experts. We assessed the reliability of these experts and reviewed their work, with satisfactory results.</p> <p>We tested samples of accruals and agreed them to appropriate supporting evidence.</p> <p>The accounting policies of the Council are appropriate.</p> <p>We concluded that estimations and judgements included in the accounts are supported by audit evidence.</p> |
| <p><b>5 Highways network asset (HNA)</b></p> <p>Recognition in local authority financial statements of the Highways Network Asset as a separate class of property plant and equipment and measurement at depreciated replacement cost has been deferred until 2017/18. Angus Council needs to ensure it has complete information for all categories of highways assets.</p> | <p>Review and assess the arrangements for implementing the new HNA requirements.</p>   | <p>The proposed arrangements for the Highways Network Asset have been deferred indefinitely. This is no longer considered an audit risk.</p>  |
| <p><b>6 Charities Accounts</b></p> <p>Angus Council produce accounts for the Angus Council Charitable Trust and the Robert &amp; William Strang Mortification. It was noted in 2015/16 that the working papers provided to back up the figures in the accounts were not of the required standard</p>  | <p>Early liaison with Finance to agree on the required working papers to be provided for audit.</p>                                  | <p>We have audited the two charitable trusts' financial statements and note that appropriate working papers were available but the quality of the accounts was poor. Refer to Appendix 1 action plan number 1.</p>  |























| Audit risk   | Assurance procedure   | Results and conclusions   |
|--|---|---|
| <p>and that the audit of the accounts required additional audit resource.</p>  |   |   |
| <p><b>7 Asset Register - Double Counting of Assets</b></p> <p>It was reported in 2015/16 that the value of land and buildings in the asset register was overstated. This is due to capital spend being recorded on an asset in addition to a revised valuation of the asset.</p>   | <p>Early liaison with Finance to ensure robust processes are in place.</p> <p>Focussed substantive procedures on the asset spend in the asset register.</p> | <p>Our sample testing of non current assets did not identify any double counting of assets.</p> <p>We noted one new asset that had not been depreciated appropriately in 2016/17; the depreciation charge has now been included in the audited accounts.</p>  |
| <p><b>8 Angus Health and Social Care Integration Joint Board</b></p> <p>The Angus IJB was established on 3 October 2015 and assumed responsibility for delegated services from 1 April 2016. The IJB will need to be accounted for in the council's group financial statements for the first time in 2016/17.</p> <p>There is a risk that the IJB is not correctly accounted for in the group financial statements.</p>  | <p>Review treatment as part of financial statements audit.</p>  | <p>We reviewed the accounting treatment of the IJB in the council's financial statements.</p> <p>We concluded that the IJB has been appropriately accounted for in Angus Council's financial statements.</p>  |
| <p><b>Risks identified from the auditor's wider responsibility under the Code of Audit Practice</b></p>  |   |   |
| <p><b>9 Governance: Future provision of Internal Audit services</b></p> <p>Scott-Moncrieff currently provides an Internal Audit Manager to oversee the Angus Council internal audit team. This management contract continues until the end of 2017/18.</p> <p>In 2016/17 Scott-Moncrieff also provided additional audit resources to complete the planned Internal Audit work.</p> <p>There is an on-going review of how Internal Audit services should be provided for the council. Early agreement will be required to ensure that a robust and compliant internal audit service is provided to the council.</p> | <p>Monitor progress of the council's review and any agreed arrangements for future Internal Audit provision.</p>  | <p>There are currently no confirmed arrangements in place regarding the end of the management contract with Scott-Moncrieff who provide the current Internal Audit Manager. However, the Internal Audit team are aware of this issue and plans are expected to be put into place in the next few months. We will continue to monitor progress in this area.</p> <p>Scott-Moncrieff provided resources to fill two vacant full time posts (Senior Auditor and Auditor) for delivery of the 2016/17 Internal Audit Plan. Following an internal recruitment process, the Senior Auditor post was filled from mid-June 2017. There were no applications for the Auditor post and it is now proposed that this post be left vacant until 31 March 2018. Again, we will continue to monitor Internal Audit's progress in filling this post.</p> |

| Audit risk   | Assurance procedure   | Results and conclusions   |
|--|---|---|
| <p><b>10 Financial Sustainability</b></p> <p>Angus Council has recognised that major decisions on how to transform the delivery of services within the council are required.</p> <p>Change is required to help to ensure that Angus Council is providing the best possible service to residents within available financial resources.</p>  | <p>Follow up of the October 2016 Best Value audit report to review Angus Council's progress in increasing the scale and pace of change through its Transforming Angus change programme.</p> | <p>The Council is making progress with the range of Change Programme initiatives, but the scale of change required to deliver the required savings is unprecedented and will test members' willingness to make very difficult decisions to reduce the size of the workforce and target service provision to priority areas.</p> |
| <p><b>11 Members</b></p> <p>Council elections are to be held in May 2017 and there are indications that a number of elected members are or may be standing down. This will represent a loss of skills and experience amongst members. To ensure members fully understand their roles and have the necessary skills to make informed decisions and provide effective scrutiny, appropriate development and training will be required.</p> | <p>We will monitor the council's arrangements for developing members and preparations for inducting newly elected members.</p>  | <p>We reviewed the induction training and materials provided to new members and concluded that it was fit for purpose.</p> <p>We also provided training to elected members in September 2017 based on the "Local government in Scotland: Performance and Challenges 2017" report.</p>   |

# Appendix 3

## Summary of national performance reports 2016/17



|      |   |  |  |
|------|---|--|--|
| Apr  |   |  |  |
| May  |  Common Agricultural Policy Futures programme: an update           |  |  |
| Jun  |  South Ayrshire Council: Best Value audit report                   |  The National Fraud Initiative in Scotland                  |  |
| Jul  |  Audit of higher education in Scottish universities                |  Supporting Scotland's economic growth                      |  |
| Aug  |  Maintaining Scotland's roads: a follow-up report                 |  Superfast broadband for Scotland: a progress update       |  Scotland's colleges 2016                  |
| Sept |  Social work in Scotland   |  Scotland's new financial powers                          |  |
| Oct  |  Angus Council: Best Value audit report                          |  NHS in Scotland 2016                                     |  |
| Nov  |  How councils work – Roles and working relationships in councils |  Local government in Scotland: Financial overview 2015/16 |  |
| Dec  |  Falkirk Council: Best Value audit report                        |  East Dunbartonshire Council: Best Value audit report     |  |
| Jan  |   |  |  |
| Feb  |  Scotland's NHS workforce  |  |  |
| Mar  |  Local government in Scotland: Performance and challenges 2017   |  i6: a review   |  Managing new financial powers: an update |

### Local government relevant reports

[The National Fraud Initiative in Scotland](#) – June 2016

[Maintaining Scotland's roads – a follow up report](#) – August 2016

[Social work in Scotland](#) – September 2016

[Local government in Scotland: Financial overview 2015/16](#) – November 2016

[Local government in Scotland: Performance and Challenges 2017](#) – March 2017

# Angus Council

## 2016/17 Annual Audit Report

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