

# Moray Council

Annual Audit Plan 2017/18



 AUDIT SCOTLAND

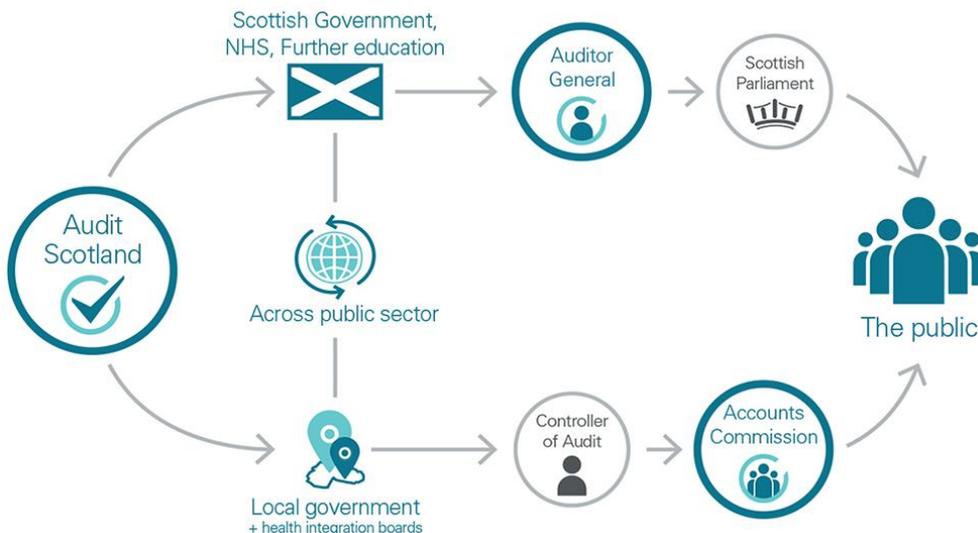
Prepared for Moray Council

March 2018

# Who we are

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

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



# About us

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

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

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

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# Risks and planned work

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

## Audit risks

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

## Exhibit 1

### 2017/18 Key audit risks

Audit Risk	Source of assurance	Planned audit work
<b>Financial statement issues and risks</b>		
<p><b>1 Risk of management override of controls</b></p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position disclosed in the accounts.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance.</p>	<p>Detailed testing of journal entries.</p> <p>Review of accounting estimates.</p> <p>Focused testing of accruals and prepayments.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p>
<p><b>2 Risk of fraud over income</b></p> <p>Moray 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>Annual internal audit plans include an assessment of the controls over selected income categories.</p>	<p>Analytical procedures on income streams.</p> <p>Detailed testing of revenue transactions focusing on the areas of greatest risk.</p> <p>Walkthrough of controls over income transactions and significant grant income.</p> <p>Review of National Fraud Initiative arrangements and results.</p>

Audit Risk	Source of assurance	Planned audit work
<p><b>3 Risk of fraud over expenditure</b></p> <p>The Code of Audit Practice expands the ISA assumption on fraud over income to aspects of expenditure. The council incurs significant expenditure in areas such as welfare benefits, and social care payments.</p>	<p>Annual internal audit plans include an assessment of the controls over selected expenditure categories.</p>	<p>Audit work on the National Fraud Initiative matches.</p> <p>Walkthrough of controls over social care payments.</p> <p>Detailed testing of expenditure including social care payments and housing benefit transactions.</p>
<p><b>4 Estimation and judgements</b></p> <p>There is a significant degree of subjectivity in the measurement and valuation of pensions and non current assets. This subjectivity represents an increased risk of misstatement in the financial statements.</p> <p>The council uses the Beacon Principle methodology to value its council dwellings. Last year we identified that the wrong social discount factor had been used resulting in council dwellings being understated by £0.5 million in the unaudited accounts.</p> <p>The 2017/18 accounts will also reflect the outcome of the triennial valuation of the pension fund, based on revised membership data and financial assumptions.</p>	<p>Use of professional actuaries appointed by the Pension Fund to value pension adjustments required by IAS19.</p> <p>Professionally qualified internal valuers prepare non-current asset valuations.</p> <p>Procedures will be updated to ensure that checks are made to ensure the updated discount factor is used.</p>	<p>Assessment of the scope, independence and competence of the professionals engaged.</p> <p>Review of the actuarial valuation including assumptions.</p> <p>Review of the social discount rate used as part of the Beacon Principle methodology.</p> <p>Substantive testing of journals and disclosures in connection with these estimates.</p>
<p><b>5 Changes in key finance staff</b></p> <p>The Principal Accountant responsible for the preparation of the annual accounts plans to retire in April 2018. There is a risk that appropriate arrangements are not put in place to ensure a smooth transition during the accounts preparation and audit processes.</p>	<p>The Principal Accountants are reviewing duties regarding the year end to ensure that appropriate arrangements are in place and that a transfer of knowledge is part of the planning process for the preparation of the annual accounts.</p>	<p>Clarify the arrangements for the preparation of the 2017/18 annual accounts.</p> <p>Confirm arrangements for regular and final clearance meetings during final accounts audit process.</p>
<p><b>6 Group boundary</b></p> <p>The council has not reviewed its group boundary since the introduction of the new definition of 'control' of group components was introduced in 2015/16. There is a risk that the group boundary is not complete and that Moray Leisure Limited is not appropriately consolidated within the group accounts.</p>	<p>The council will review its group boundary against the current definition of 'control'.</p> <p>Accounting for Moray Leisure Ltd will also take into account the findings of the Leisure Review, if relevant.</p>	<p>Review and assess the group boundary.</p> <p>Review the consolidation process to confirm appropriateness.</p>

Audit Risk	Source of assurance	Planned audit work
<p><b>7 Internal recharges</b></p> <p>Internal recharges were not eliminated from the gross income and gross expenditure figures included in the Comprehensive Income and Expenditure Statement (CIES) in 2016/17. Revised guidance will require these internal recharges to be eliminated in 2018/19. Revised guidance for 2017/18 has yet to be issued. There is a risk that gross income and gross expenditure are overstated in the 2017/18 accounts.</p>	<p>The 2017/18 Code requirements have not changed since last year and the revised guidance for 2017/18 has yet to be issued. Once received, it will be reviewed and considered as part of the preparation of the 2017/18 accounts.</p>	<p>Review the 2017/18 CIES and working papers to confirm that the revised LASAAC guidance for 2017/18 has been followed.</p>
<p><b>8 New financial systems</b></p> <p>The council introduced new payroll and income management software systems during 2017/18. There is a risk over the completeness and accuracy of the data migrated to the new systems and that they are not operating as intended resulting in misstatements within the annual accounts.</p>	<p>Both systems were tested before going 'live'. User groups have monitored the operation of the system since it went 'live' and year end processes have been reviewed to ensure the necessary information will be available for the preparation of the accounts.</p>	<p>Document the payroll and income management systems.</p> <p>Walkthrough of key controls within these systems.</p> <p>Substantive testing of payroll and income transactions.</p>
<p><b>Wider dimension risks</b></p>		
<p><b>9 Financial sustainability</b></p> <p>The council does not have a long-term financial plan for revenue resources. The current level of service provision is not financially sustainable and the council is currently using its reserves to maintain services at previous levels.</p> <p>In addition, the majority of the council's current 10 year Capital Plan is not directly linked to the council's priorities, but arises from the need to invest in the council's current asset base to bring it up to, or maintain it at, the approved standard for the asset type.</p> <p>Without long term planning there is a risk that the council is unable to agree and implement a sustainable model for service delivery before its reserves are exhausted.</p>	<p>Work is ongoing to develop a financially sustainable three year (2019/20 to 2021/22) plan for the council. Funding gap projections for 2019/20 have been identified and work has begun on the 2019/20 budget. Budget projections for 2020/21 were also reported as part of the 2018/19 budget papers.</p> <p>The council's revised Corporate Asset Management Plan for 2018/19 (approved on 13 March 2018) includes development of a plan to reduce the council's asset base, as part of the corporate planning process.</p>	<p>Undertake specific audit work on financial planning, progress of transformational change and leadership. This will include review of the 2018/19 budget and progress made with developing a medium term financial plan covering the period to 31 March 2023.</p>

Audit Risk	Source of assurance	Planned audit work
<p><b>10 Financial management</b></p> <p>The approved budget for 2017/18 includes £3.4 million of savings and uses £7.6 million of reserves to bridge the funding gap. The latest budget monitoring report to 31 December 2017 forecasts an overspend against budget of £0.9 million at the year end which will require to be funded from reserves. In addition, the council will have to fund half of any overspend by the Integration Joint Board. As there are limited reserves available, any overspend in 2017/18 is a risk to the council's future financial sustainability.</p>	<p>The projected use of reserves is closely monitored and reported to members on a quarterly basis.</p>	<p>Review financial monitoring reports and the financial position at the year end.</p> <p>Consider the robustness and completeness of financial monitoring during the year.</p> <p>Review the council's progress in achieving its planned savings.</p>

**3.** The Charities Accounts (Scotland) Regulations 2006 specify the accounting and auditing requirements for Scottish registered charities. The council administers 30 trusts with charitable status with total assets of £0.9 million. We will perform the audit of the council's charitable trusts in parallel with the audit of Moray Council's financial statements. There are no specific risks for this audit which we require to bring to your attention.

## Reporting arrangements

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

**5.** Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the relevant officers to confirm factual accuracy.

**6.** We will provide an independent auditor's report to Moray Council and the Accounts Commission setting out our opinions on the annual accounts. We will provide the members of Moray Council and the Accounts Commission with an annual report on the audit containing observations and recommendations on significant matters which have arisen in the course of the audit.

## Exhibit 2

### 2017/18 Audit outputs

Audit Output	Target date	Committee date
Management Report	9 May 2018	23 May 2018 (Audit & Scrutiny Committee)
Annual Audit Report	14 September 2018	26 September 2018 (Council)
Signed Independent Auditor's Report	28 September 2018	N/A

## Audit fee

**7.** The agreed audit fee for the 2017/18 audit of Moray Council is £231,050 (2016/17 £230,120). In determining the audit fee we have taken account of the risk exposure of Moray Council, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit. Our audit approach assumes receipt of the unaudited financial statements, with a complete working papers package on 29 June 2018.

**8.** We have also agreed an audit fee of £5,000 for the charitable trusts.

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

## Responsibilities

### Elected members and Head of Financial Services

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

**11.** The audit of the financial statements does not relieve management or elected members, as those charged with governance, of their responsibilities.

### Appointed auditor

**12.** Our responsibilities as independent auditor are established by the 1973 Act for local government and the Code of Audit Practice (including supplementary guidance) and guided by the auditing profession's ethical guidance.

**13.** Auditors in the public sector give an independent opinion on the financial statements and other specified information accompanying the financial statements. We also review and report on the arrangements within the audited body to manage its performance, regularity and use of resources. In doing this, we aim to support improvement and accountability.

# Audit scope and timing

## Financial statements

**14.** The statutory financial statements audit will be the foundation and source for the majority of the audit work necessary to support our judgements and conclusions. We also consider the wider environment and challenges facing the public sector. Our audit approach includes:

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

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

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

## Materiality

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

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



## Exhibit 3

### Council materiality values

Materiality level	Amount
<b>Planning materiality</b> – This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It has been set at 1% of gross expenditure based on the latest audited accounts for 2016/17.	£3.6 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 40% of planning materiality.	£1.4 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 planning materiality.	£0.1 million

Source: Moray Council 2016/17 Annual Accounts

18. We also set separate materiality levels for the charitable trusts as detailed below:

## Exhibit 4

### Connected Trusts materiality values

Materiality level	Amount
<b>Planning materiality</b> – set at 1% of gross assets based on the latest audited accounts (2016/17).	£9,500
<b>Performance materiality</b> – using our professional judgement we have calculated performance materiality at 60% of planning materiality.	£5,700
<b>Reporting threshold (i.e. clearly trivial)</b> – calculated at 5% of planning materiality.	£500

Source: Moray Council Connected Charity Trust Funds 2016/17 Trustees' Report and Financial Statements

19. We review and report on other information published with the financial statements including the management commentary, annual governance report and the remuneration report. Any issues identified will be reported to elected members at the Council meeting on 26 September 2018.

### Timetable

20. To support the efficient use of resources it is critical that a financial statements timetable is agreed with us for the production of the unaudited accounts. An agreed timetable is included at [Exhibit 5](#) which takes account of submission requirements and planned Committee dates.

## Exhibit 5

### Financial statements timetable

 Key stage	 Date
Consideration of unaudited financial statements by those charged with governance	28 June 2018
Latest submission date of unaudited annual accounts with complete working papers package	29 June 2018
Latest date for final clearance meeting with Head of Financial Services	31 August 2018
Agreement of audited unsigned annual accounts Issue of Annual Audit Report including ISA 260 report to those charged with governance	14 September 2018
Independent auditor's report signed	28 September 2018
Latest date for certifying WGA return	28 September 2018

## Internal audit

**21.** Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to rely on the work of internal audit wherever possible and as part of our planning process we carry out an assessment of the internal audit function. Internal audit is provided by the in-house internal audit section at Moray Council overseen by the Internal Audit Manager.

### Adequacy of Internal Audit

**22.** Our review of the council's internal audit section identified that an assessment against the Public Sector Internal Audit Standards (PSIAS) has not been completed and so internal audit cannot demonstrate compliance with these Standards (including reporting all areas of non-compliance to the Audit & Scrutiny Committee). Plans are, however, in place for the internal audit function to be externally assessed in June 2018. An internal assessment is currently underway and the results will be reported within Internal Audit's 2017/18 Annual Report.

**23.** Despite the above, our assessment concluded that the internal audit section has the skills, experience and competence to enable us to place formal reliance on their work in the areas set out below. Once completed we will review the work undertaken to confirm that the work meets our requirements and that appropriate documentation standards and reporting procedures are in place.

### Areas of Internal Audit reliance

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

- creditors and procurement (substantive testing of significant transactions)
- non domestic rates – billing and collection (controls)
- housing benefit payments (substantive testing).

**25.** In respect of our wider dimension audit responsibilities we also plan to consider other areas of internal audit work including:

- risk management
- governance arrangements
- review of National Fraud Initiative matches.

## Audit dimensions

**26.** Our audit is based on four audit dimensions that frame the wider scope of public sector audit requirements as shown in Exhibit 6.

### Exhibit 6

#### Audit dimensions



Source: Code of Audit Practice

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

### Financial sustainability

**28.** As auditors we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We will also comment on the council's financial sustainability in the longer term. We define this as medium term (two to five years) and longer term (longer than five years) sustainability. We will carry out work and conclude on:

- the effectiveness of financial planning in identifying and addressing risks to financial sustainability in the short, medium and long term
- the appropriateness and effectiveness of arrangements in place to address any identified funding gaps.

## Financial management

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

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

## Governance and transparency

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

- whether the council can demonstrate that the governance arrangements in place are appropriate and operating effectively including services delivered by, or in partnership with others
- whether there is effective scrutiny, challenge and transparency on the decision-making and finance and performance reports
- the quality and timeliness of financial and performance reporting.

## Value for money

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

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

## Strategic plan for the five year appointment

**32.** As part of our responsibility to report on the audit dimensions over the current audit appointment the areas of proposed audit work we have identified are outlined in [Exhibit 7](#). This will be subject to annual review.

## Exhibit 7

### Strategic plan

Dimension	2016/17	2017/18	2018/19 to 2020/21
<b>Financial sustainability</b>	Financial planning	Financial planning	Financial planning
<b>Financial management</b>	Financial governance and resource management	Financial reporting	Financial governance and resource management
<b>Governance and transparency</b>	Governance	Progress of transformational change and leadership	Digitalisation of services Community engagement / empowerment
<b>Value for money</b>			Performance/Outcomes

Source: Audit Scotland

## Best value

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

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

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

**35.** The six councils on which a BVAR will be published during the second year of the new approach are listed in [Exhibit 8](#). Reports will be considered by the Accounts Commission in the period between April 2018 and November 2018.

## Exhibit 8

### 2017/18 Best Value Assurance Reports

East Ayrshire Council	Glasgow City Council
Dumfries and Galloway Council	West Dunbartonshire Council
East Lothian Council	Fife Council

Source: Audit Scotland

**36.** The work planned in Moray Council this year will focus on the council's arrangements for demonstrating Best Value in financial planning, financial reporting, progress of transformational change and leadership. The work will be integrated with that described above in these areas. It will involve us gaining an understanding of how effective the council's self evaluation processes are in driving improvement across the council. The results of this work will be reported in the Annual Audit Report.

### Independence and objectivity

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

**38.** The engagement lead for Moray Council is Brian Howarth, Assistant Director. The engagement lead for the charitable trusts is Maggie Bruce, Senior Audit Manager. Auditing and ethical standards require the appointed auditor, Audit Scotland to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of Moray Council or the charitable trusts.

### Quality control

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

**40.** The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice (and relevant supporting guidance) issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards Audit Scotland conducts peer reviews, internal quality reviews and is currently reviewing the arrangements for external quality reviews.

**41.** As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We welcome feedback at any time and this may be directed to the engagement lead.

## **Adding value**

**42.** Through our audit work we aim to add value to Moray Council. We will do this by ensuring our Annual Audit Report provides a summary of the audit work done in the year together with clear judgements and conclusions on how well Moray Council has discharged its responsibilities and how well it has demonstrated the effectiveness of its arrangements. Where it is appropriate, we will recommend actions that support continuous improvement and summarise areas of good practice identified from our audit work.

# Moray Council

## Annual Audit Plan 2017/18

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