

# Moray Council

Annual Audit Plan 2019/20



 AUDIT SCOTLAND

Prepared for Moray Council  
March 2020



## 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 which is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and [guidance on planning the audit](#). This plan sets out the work necessary to allow us to provide an independent auditor's report on the annual accounts and meet the wider scope requirements of public sector audit including the audit of Best Value.

2. The wider scope of public audit contributes to assessments and conclusions on financial management, financial sustainability, governance and transparency, and value for money.

## Adding value

3. We aim to add value to Moray Council (the council) through our external audit work by being constructive and forward looking, by identifying areas for improvement and by recommending and encouraging good practice. In so doing, we intend to help the council promote improved standards of governance, better management and decision-making and more effective use of resources.

## Audit risks

4. Based on our discussions with staff, attendance at committee meetings and review of supporting information we have identified the following significant audit risks for Moray Council. We have categorised these risks into financial statements risks and wider dimension risks as detailed in [Exhibit 1](#).

## Exhibit 1 2019/20 Significant audit risks

 Audit Risk	Source of assurance	Planned audit work
<b>Financial statements risks</b>		
<p>1 <b>Risk of management override of controls</b></p> <p>Auditing Standards require that audits are planned to consider the risk of material misstatement caused by fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls to change the position disclosed in the financial statements for Moray Council and the connected charitable trusts.</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>Identification and evaluation of significant transactions that are outside the normal course of business.</p>

 <b>Audit Risk</b>	<b>Source of assurance</b>	<b>Planned audit work</b>
<p><b>2 Risk of fraud in income recognition</b></p> <p>As set out in ISA 240, there is a presumed risk of fraud in the recognition of income. Moray Council receives a significant amount of income from several sources including income from fees and charges. The extent and complexity of income means that, in accordance with ISA240, there is an inherent risk of fraud.</p>	<p>Procedures are designed to ensure that income due to the council is properly recorded and collected.</p> <p>Comparison of income against budget. Annual internal audit plans include an assessment of the controls over selected income categories.</p>	<p>Detailed testing of revenue transactions focusing on the areas of greatest risk.</p> <p>Walkthrough of key controls over council tax, NDR and housing rent income.</p>
<p><b>3 Risk of fraud in expenditure</b></p> <p>As most public-sector bodies are net expenditure bodies, the risk of fraud is more likely to occur in expenditure. Moray Council incurs significant expenditure in areas such as welfare benefits and social care payments where there is an inherent risk of fraud. The majority of expenditure incurred by the connected charitable trusts relates to grant payments where there is also an inherent risk of fraud.</p>	<p>Procedures designed to ensure that payments are only made where they are appropriate and have been properly authorised.</p> <p>Annual internal audit plans include an assessment of the controls over selected expenditure categories.</p>	<p>Walkthrough of key controls over social care payments.</p> <p>Detailed testing of expenditure including social care payments, housing benefit transactions, and grant payments made by the charitable trusts.</p>
<p><b>4 Risk of error in areas of estimation and judgement</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 pensions. The extent of judgement involved increases the risk of material misstatement and requires a specific audit focus.</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>Assessment of the scope, independence and competence of the professionals engaged in providing estimates for non-current assets and pensions.</p> <p>Review of the appropriateness of actuarial results including comparison with other councils.</p> <p>Review of officers' arrangements for ensuring the completeness and accuracy of professional estimations for non-current assets and pensions.</p> <p>Walkthrough of the processes for determining valuations.</p> <p>Review of actual experience of significant estimates made in the prior year.</p>
<p><b>The Moray Council - Connected Charity Trust Funds</b></p>		
<p><b>5 Compliance with the charity test</b></p> <p>20 of the council's 31 charitable trusts have not disbursed any funds in the last five years and so it is unclear how they meet the public benefit requirement set out in guidance issued by the Officer of Scottish Charity Regulator (OSCR).</p>	<p>The need to reorganise these charities has been recognised and a single trust 'The Moray Council Charitable Trust' was set up and registered with OSCR in August 2016. The plan is to transfer the</p>	<p>Review of progress made with reorganising existing trust funds, identify those that do not meet the public benefit requirement and report through the Annual Audit Report and to OSCR as appropriate.</p>

 <b>Audit Risk</b>	<b>Source of assurance</b>	<b>Planned audit work</b>
	remaining trusts into this single trust.	
<b>Wider dimension risks</b>		
<p><b>6 Risk to financial sustainability</b></p> <p>The current level of service provision is not financially sustainable, and the council has relied on reserves to bridge its annual funding gap for the last 4 years. This cannot continue as unearmarked general fund reserves are projected to be reduced to below the minimum level considered prudent by the Head of Financial Services by 31 March 2022.</p> <p>Reserves of £2.3 million will be required to balance the 2020/21 budget in addition to savings of £3.1 million. Further substantial savings will be required for 2021/22 (£4.2 million) and 2022/23 (£7.4 million).</p> <p>A significant number of the council's properties (mainly schools) are in poor condition and the council cannot afford the £142 million investment required to bring schools up to a satisfactory standard.</p> <p>There is a risk that the council is unable to agree and implement a sustainable financial model for service delivery.</p>	<p>A medium to long term financial strategy is being developed to support the delivery of the priorities set out in the revised Corporate Plan.</p> <p>An Improvement and Modernisation Programme is being developed to transform the delivery of council services.</p>	<p>Review the 2020/21 revenue budget, required savings and use of reserves.</p> <p>Review progress made in developing the council's Improvement and Modernisation Programme for the redesign and transformation of council services particularly in relation to transformation of Education and Children's Services.</p> <p>Once approved, review the council's medium and long term financial strategy.</p>
<p><b>7 Weaknesses in control environment</b></p> <p>In previous years we have reported control weaknesses across a few systems. The lack of payroll validation is a concern given the extent of expenditure incurred on staff costs. There is a risk that payroll information is inaccurate and is not identified by service departments resulting in incorrect payments.</p>	<p>Higher level budget management reports are issued monthly which detail variances in payroll spend.</p>	<p>Review and testing of key controls within payroll and HR associated with the recruitment of employees and the maintenance of the council's establishment.</p> <p>Detailed testing of changes in staff costs (new starts, leavers, promotions, etc) to ensure these are accurately processed.</p>

Source: Audit Scotland

## Reporting arrangements

**5.** Audit reporting is the visible output for the annual audit. All annual audit plans, 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).

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

7. We will provide an independent auditor's report to the Council and the Accounts Commission setting out our opinions on the annual accounts. We will also provide an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

## Exhibit 2

### 2019/20 Audit outputs

Audit Output	Target date	Committee Date
Management Report	06 May 2020	20 May 2020 (Audit & Scrutiny Committee)
Annual Audit Report and proposed Independent Auditor's Report	15 September 2020	30 September 2020 (Council)
Independent Auditor's Report signed	30 September 2020	N/A

Source: Audit Scotland

### The audit of trusts registered as Scottish charities

8. The preparation and audit of financial statements of registered charities is regulated by the Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006.

9. The 2006 Regulations require charities to prepare annual accounts and require an accompanying auditor's report where any legislation requires an audit. The Local Government (Scotland) Act 1973 specifies the audit requirements for any trust fund where some or all members of a council are the sole trustees.

10. Section 7 (1) of the regulations allows for a single set of accounts to be prepared incorporating all of the registered charities and this approach has been applied to the Moray Council charities. We will perform the audit of the council's charitable trusts in parallel with the audit of Moray Council's financial statements.

11. Based on our discussions with staff and initial planning work we have identified the following risks for the audit of the connected charitable trusts: management override of controls, fraud over expenditure, and inactive trusts. These risks have been included in [Exhibit 1](#).

### Audit fee

12. The agreed audit fee for the 2019/20 audit of Moray Council is £239,950 (2018/19: £235,400). In determining the audit fee, we have taken account of the audit 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 annual accounts, with a complete working papers package on 30 June 2020.

13. We have also agreed an audit fee of £5,200 (2018/19: £5,100) for the charitable trusts.

14. Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual accounts 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 out with our planned audit activity.

## Responsibilities

### Elected members and Chief Financial Officer

**15.** 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.

**16.** The audit of the annual accounts does not relieve management or elected members, as those charged with governance, of their responsibilities.

### Appointed auditor

**17.** Our responsibilities as independent auditors are established by the 1973 Act for local government, and the Code of Audit Practice (including supplementary guidance) and guided by the Financial Reporting Council's Ethical Standard.

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

# Audit scope and timing

## Annual accounts

**19.** The annual accounts, which include the financial statements, will be the foundation and source for most 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 the 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.

**20.** We will give an opinion on whether the financial statements:

- give a true and fair view in accordance with applicable law and the 2019/20 Code of the state of affairs of the Council and its group as at 31 March 2020 and of the income and expenditure of the Council and its group for the year then ended
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2019/20 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.

## Other information in the annual accounts

**21.** We also review and report on statutory other information published within the annual accounts including the management commentary, annual governance statement and the remuneration report. We give an opinion on whether these have been compiled in accordance with the appropriate regulations and frameworks in our independent auditor's report.

**22.** We also review the content of the annual report for consistency with the financial statements and with our knowledge. We report any uncorrected material misstatements in other information.

## Materiality

**23.** 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 opinions in the independent auditor's report.



characteristics



responsibilities



principal activities



risks



governance arrangements

24. 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	Amount
<b>Planning materiality</b> – this is the figure we calculate to assess 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 the year ended 31 March 2019.	£3.8 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 60% of planning materiality.	£2.3 million
<b>Reporting threshold (i.e. clearly trivial)</b> – we are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. This has been calculated at 4% of planning materiality.	£150,000

Source: Audit Scotland

25. We also set separate materiality levels for the charitable trusts as set out in [Exhibit 4](#).

### Exhibit 4 Connected charitable trusts materiality values

Materiality	Amount
<b>Planning materiality</b> – set at 2% of gross assets based on the latest on the latest audited accounts for the year ended 31 March 2019.	£19,000
<b>Performance materiality</b> – using our professional judgement, we have calculated performance materiality at 60% of planning materiality.	£11,000
<b>Reporting threshold (i.e. clearly trivial)</b> – calculated at 5% of planning materiality.	£1,000

Source: Audit

### Timetable

26. To support the efficient use of resources it is critical that a timetable is agreed with us for the audit of the annual accounts. [Exhibit 5](#) sets out the agreed timetable which takes account of submission requirements and planned Council meeting dates.

## Exhibit 5

### Annual accounts timetable

 Key stage	 Date
Consideration of unaudited annual accounts by those charged with governance	30 June 2020
Latest submission date of unaudited annual report and accounts with complete working papers package	30 June 2020
Latest date for final clearance meeting with Chief Financial Officer	09 September 2020
Agreement of audited unsigned annual accounts Issue of Annual Audit Report to those charged with governance	15 September 2020
Council meeting to consider the Annual Audit Report and approve the audited annual accounts for signature	30 September 2020
Independent auditor's report signed	30 September 2020

Source: Audit Scotland

### Internal audit

**27.** Internal audit is provided by Moray Council's internal audit section. As part of our planning process we carried out an early assessment of the internal audit function and concluded that, overall, it operates in accordance with the main requirements of the Public Sector Internal Audit Standards (PSIAS). During 2019/20 we will continue to monitor progress made in implementing the action plan resulting from the external quality assessment completed in April 2019.

#### Using the work of internal audit

**28.** Auditing standards require internal and external auditors to work closely together to make best use of available audit resources, and so we seek to rely on the work of internal audit, wherever possible, to avoid duplication. From our initial review of internal audit plans we plan to place formal reliance on internal audit work in the following area:

- housing benefits payments (substantive testing).

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

- risk management
- governance and corporate initiatives
- cyber security.

### Audit dimensions

**30.** 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

**31.** 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

**32.** 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 medium (two to five years) and longer term (longer than five years). We will carry out work and conclude on:

- the effectiveness of financial planning in identifying and addressing risks to financial sustainability in the short, medium and long term
- the appropriateness and effectiveness of arrangements in place to address any identified funding gaps
- whether Moray Council can demonstrate the affordability and effectiveness of its funding and investment decisions.

#### Financial management

**33.** 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 information
- 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

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

## Value for money

**35.** 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
- demonstrate that there is a clear link between money spent, output and outcomes delivered
- show that outcomes are improving.

## Best Value

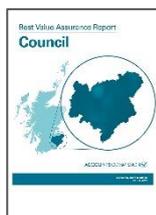
**36.** The Accounts Commission agreed the overall framework for a new approach to auditing Best Value in June 2016. The introduction of the new approach coincided with the new five-year audit appointments. Auditors started using the framework for their audit work from October 2016.

**37.** 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 ongoing annual audit work, and 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.

**38.** The seven councils on which a BVAR will be published during the fourth year of the new approach are listed in [Exhibit 7](#). Reports will be considered by the Accounts Commission in the period between March and November 2020.

## Exhibit 7 2019/20 Best Value Assurance Reports



Aberdeenshire Council	Dundee Council
Argyle and Bute Council	Falkirk Council
City of Edinburgh Council	Moray Council
North Ayrshire Council	

Source: Audit Scotland

### Strategic plan for the five-year appointment

39. 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 8](#). The work scheduled to be undertaken during the 2019/20 audit year will be reported in the Best Value Assurance Report to be published in May 2020. Work scheduled for future years will be subject to annual review.

## Exhibit 8 Strategic plan

Dimension	2016/17 & 2017/18	2018/19	2019/20	2020/21
<b>Financial sustainability</b>	Financial planning	Financial planning	Financial planning	Financial planning
<b>Financial management</b>	Financial governance and resource management Financial reporting	Financial governance and resource management	Financial governance and resource management	
<b>Governance and transparency</b>	Governance		Vision and leadership Digitalisation of services Community engagement / empowerment	Equalities
<b>Value for money</b>		Transformation	Performance outcomes Transformational change Partnership working	Best Value Audit Report follow-up

Source: Audit Scotland

## Independence and objectivity

**40.** 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 robust arrangements in place 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.

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

## Quality control

**42.** 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.

**43.** 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 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 and internal quality reviews. Additionally, the Institute of Chartered Accountants of Scotland (ICAS) have been commissioned to carry out external quality reviews.

**44.** 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.

# Moray Council

## Annual Audit Plan 2019/20

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