

# Annual Audit Report for Moray Council

## Financial year ended 31 March 2023

Prepared for those Charged with Governance and the  
Controller of Audit

27 October 2023



# Contents



Your key Grant Thornton  
team members are:

**Angela Pieri**

**Engagement Lead**

**T: 0161 214 6337**

**E: [Angela.L.Pieri@uk.gt.com](mailto:Angela.L.Pieri@uk.gt.com)**

**Andrew Wallace**

**Audit Manager**

**T: 0141 223 0671**

**E: [Andrew.D.Wallace@uk.gt.com](mailto:Andrew.D.Wallace@uk.gt.com)**

Section	Page
Executive Summary – Financial Statement Audit	3
Introduction	7
Audit of the annual report and accounts	8
Wider scope and best value conclusions	35
<b>Appendices</b>	
1. Audit adjustments	54
2. Action plan and recommendations – Financial statements audit	64
3. Action plan and recommendations – Wider scope and best value	66
4. Follow up of prior year recommendations	71
5. Audit fees, ethics and independence	79
6. Communication of audit matters	84

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our external audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect Moray Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and Audit Scotland (under the Audit Scotland Code of Practice 2021). We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

# Executive Summary (1)

This table summarises the key findings and other matters arising from the external audit of Moray Council and its Group and the preparation of the financial statements for the year ended 31 March 2023 for those charged with governance (full Council) and the Controller of Audit.

## Financial Statements

### Summary

Under International Standards of Audit (UK) (ISAs) and Audit Scotland's Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- The Group and Council financial statements give a true and fair view of the state of affairs of the Council and its group as at 31 March 2023 and of the income and expenditure of the Council and its for the year then ended;
- the Group and Council financial statements have been properly prepared in accordance with UK adopted international accounting standards, as interpreted and adapted by the 2022/23 Code;
- the Group and Council's financial statements 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; and
- the audited part of the Remuneration Report has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014.

We are required to report whether the information given in the Management Commentary is consistent with the financial statements and has been prepared in accordance with statutory guidance issued under the Local government in Scotland Act 2003. We are also required to report on whether the information given in the Annual Governance Statement is consistent with the financial statements and prepared in accordance with the Delivering Good Governance in Local government: Framework (2016).

**We issued an unmodified opinion on 27 October 2023 for Moray Council.**

**We issues an unmodified opinion on 27 October 2023 for The Moray Council Connected Charity.**

We have concluded that the Remuneration Report has been prepared in accordance with requirements. We have concluded the work on the Governance Statement has been prepared in accordance with the relevant guidance.

We have concluded that the other information to be published alongside the financial statements is consistent with our knowledge of the Council.

### Draft financial statements

The draft financial statements were presented for audit by the deadline of 30 June 2023, with the Council authorising their financial statements on 28 June 2023. We have been supported by Moray Council's officers during the audit process with effective working relationships and commitment to the audit process.

The working papers presented for audit were a good quality, and any supplementary working papers, sample requests and queries were responded to effectively.

### Target completion dates

The target completion dates for the 2022/23 audit moved back to pre-Covid timetables, with 30 September 2023 as the target dates set. The target timeline has not been achieved, with this Auditor's Annual Report planned to be presented to full Council on 25 October 2023.

During 2022/23 there were some new areas of work required that added to the complexity of the accounting process for the Council;

# Executive Summary (2)

## Financial Statements (continued)

- the draft financial statements presented for audit included a prior period adjustment (PPA) to increase the Council's balance sheet by £17.07 million. This was due to a change identified by the Council in the previously audited 2021/22 financial statements in buildings valuations. The PPA impacted unusable reserves only;
- the Council's financial statements were subject to a detailed technical review and many adjustments to the primary statements and disclosure notes were identified;
- the Council transferred their fixed asset register from a spreadsheet to a formal fixed asset register system, and some adjustments were identified to the financial statements due to reconciliation issues noted when audited. The summary is shown below; and
- the draft financial statements presented for audit had an £161.095 million IAS19 pension asset and associated reserve. As this was an asset position rather than a liability position, the Council were requested to perform an IFRIC14 assessment to justify the inclusion of the asset within the balance sheet. The result of this is shown in the summary of adjustment below, but this has been a significant issue for all bodies with IAS19 pension assets during 2022/23 to work through.

### Amendments to the primary financial statements

There have been material primary statement adjustments and disclosure amendments. The significant adjustments are summarised in more detail, with all amendments noted in Appendix 1. The impact upon the primary statements has been material, to decrease the balance sheet net assets by £178.652 million, noting that all adjustments are to unusable reserves. The resulting change in the comprehensive income and expenditure account was a £178.652 million reduction in the net surplus position.

The significant adjustments from the draft financial statements in the primary statements are summarised below and have all been adjusted by management:

- the Pension Asset in the balance sheet reduced from £161.095 million to £7.484 million, a decrease of £153.611 million. This was due to the IFRIC14 where the Council capped the asset in the final set of financial statements;
- the Pension Liability increased from nil to £10.257 million. This was due to a pension scheme being incorrectly netted from the pension asset when it should be shown separately as a liability;
- the valuation of Property, Plant and Equipment reduced by £14.804 million from £1.248 billion to £1.233 billion. The largest element was a decrease of £19.816 million in the Council house valuation due to an updated indexation rate applied. The remaining (£5.012) million were adjustments due to reconciliation issues identified in the draft financial statements when compared to the fixed asset register. A recommendation on PPE reconciliations is noted at Appendix 2.
- the classification of the split of financial information within Note 15 for PPE was incorrect as it did not balance to the balance sheet, and the presentation within the note for revaluations required adjustment. This included the omission of the reversal of depreciation for revalued assets of £8.592 million for council houses and £28.257 million for buildings within the disclosure note.

### Journals authorisation processes

Our work on journals identified that the Council does not have journal authorisation processes within the general ledger, and processes are more informal. There is a reliance upon reactive controls through the budget monitoring process, whereas proactive controls would enhance the ability to reduce the risk of fraud or error from the opportunity to override management controls. Our work on journals therefore had a higher risk category resulting in a larger number of journals tested. A recommendation on journal authorisation processes is noted at Appendix 2.

# Executive Summary (3)

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## Financial Statements (continued)

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### Audit fee

Due to the issues outlined on pages 3 to 4, this led to additional time required by the Council to work through the revised set of financial statements, and additional time for the audit team in identifying all the issues, and to audit the amended version of the financial statements.

We are charging additional audit fee for the new issues during 2022/23 as well as for the additional work required due to the number of errors encountered. This has been set at £19,800. This is further set out in Appendix 5.

### Unadjusted misstatements and recommendations

We also identified potential misstatements during the audit from our testing. Management have decided not to adjust the financial as they are not material. Further detail is in Appendix 1 .

We have raised four recommendations for management from our audit work on the financial statements. These are set out in Appendix 2.

Our follow up of the recommendations made by the predecessor auditor last year are detailed in Appendix 4.

As noted, we would like to record our appreciation for the assistance provided by the finance team and other staff including the internal valuer and revenues staff during the audit.

# Executive Summary (4)

## Wider scope

Under the Audit Scotland Code of Audit Practice ('the Code'), the scope of public audit extends beyond the audit of the financial statements. The Code requires auditors to consider the Council's arrangements in respect of financial management, financial sustainability, vision leadership and governance and use of resources to improve outcomes.

In our External Audit Plan for the year ended 31 March 2023 we documented our assessment of the wider scope risks and planned audit work. At the planning stage we identified two risks in respect of financial sustainability and vision leadership and governance with the cross-party working arrangements and progression of Council priorities.

We outline our work undertaken in response to the arrangements in place and the risks identified and conclude on the effectiveness and appropriateness of the arrangements in place based on the work carried out.

Further details of the work undertaken are outlined on pages 35 to 52.

We have raised seven recommendations for management as a result of our audit work on wider scope. These are set out in Appendix 3.

There remains a significant risk in respect of financial sustainability given the significant financial challenges the Council faces over the longer term. We have concluded there remains a significant risk in respect of the cross-party arrangements to progress Council priorities, appreciating the specific challenges the Council has faced since the May 2022 elections.

In accordance with the 2022/23 planning guidance issued by Audit Scotland, there is also a requirement to complete a thematic review.

The theme for 2022/23 is an overview on the effectiveness of Council's leadership in developing new local strategic priorities following the elections in May 2022.

The key findings from the thematic review are summarised in this report at pages 50 to 51, but a separate thematic report is finalised and will be presented to the 25 October 2023 full Council.

The topics within the thematic review are as follows:

- The clarity of the Council's vision and its priorities
- How effectively the views of citizens and communities have been reflected in the priorities and decisions taken by the Council
- How effectively the Council's priorities reflect the need to reduce inequalities and climate change
- The quality of the Council's delivery plans and whether the Council's financial, workforce, asset and digital plans are aligned with the Council's priorities
- Overall, how effective the Council's leadership has been in setting clear priorities and a sustainable approach to delivering them.

An action plan within the thematic review notes recommendations and the Council's response to the actions suggested.

We thank the officers of the Council for their detailed portfolio of evidence for the wider scope work and thematic review, and for providing pertinent updates to the date of issue.

# Introduction

## Scope of our audit work

This report is a summary of our findings from our external audit work for the financial year at Moray Council. The scope of our audit was set out in our External Audit Plan.

The core elements of our audit work in 2022/23 have been:

- An audit of the Council and Group's annual report and accounts for the financial year ended 31 March 2023 [findings reported within this report];
- Consideration of the wider dimensions that frame the scope of public audit as set out in Audit Scotland's Code of Audit Practice 2021 ('the Code') [within this report];
- An audit of the Connected Charity annual report and accounts for the financial year ended 31 March 2023.
- Monitoring the Council's participation in the National Fraud Initiative (NFI); and
- Any other work requested by Audit Scotland.
- We have concluded our work on the certification of the NDR return (Non-Domestic Rates)

Note that the following work is also required that is currently in progress:

- certification of Housing Benefits subsidiary claim. The audit deadline is by 31 January 2024, but this will be started during November.

Our work has been undertaken in accordance with International Standards of Auditing (ISAs) (UK) and the Code.

This report is addressed to 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) in due course.

## Responsibilities

The Council has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual accounts in accordance with proper accounting practices. The Council is also responsible for compliance with legislation, and establishing arrangements over governance, propriety and regularity that enable it to successfully deliver its objectives.

Our responsibilities as independent auditors, appointed by the Accounts Commission, are set out in the Local Government in Scotland Act 1973, the Code and supplementary guidance, and International Standards on Auditing in the UK.

The recommendations or risks identified in this report are only those that have come to our attention during our normal audit work and may not be all that exist. Communication in this report of matters arising from the audit or of risks or weaknesses does not absolve officers from their responsibility to address the issues raised and to maintain an adequate system of control.

## Adding value through our audit work

We aim to add value to the Council throughout our audit work. We do this through using our wider public sector knowledge, we invited the Council to our annual local government accounting workshop. Through our expertise we provide constructive, forward-looking recommendations where we identify areas for improvement and encourage good practice around financial management and financial sustainability, risk management and performance monitoring. In so doing, we aim to help the Council promote improved standards of governance, better management and decision making, and more effective use of resources.

# Audit of the annual report and accounts

## Our approach to the audit of the financial statements



### Overall materiality

Group: £6.48 million, which represents 1.5% of the group's gross expenditure;

Council: £6.462 million, which represents 1.5% of the Council's gross expenditure.

### Key audit matters

#### Key audit matters were identified as:

- valuation of land and buildings including council dwellings; and
- valuation of the defined benefit pension scheme.

### Significant risks

#### Other than the key audit matters noted above the other significant risks were identified as:

- management override of controls; and
- migration of data to the new fixed asset system.

### Internal control environment

In accordance with ISA requirements we have developed an understanding of the Council's control environment. Our audit is not controls based and we have not placed reliance on controls operating effectively as our audit is substantive in nature. In accordance with ISAs, over those areas of significant risk of material misstatement we consider the design of controls in place.

However, we do not place reliance on the design of controls when undertaking our substantive testing.

We identified one weakness in the authorisation process for journals, and as a result we had to increase our level of testing in this area. A recommendation is noted at Appendix 2.

### Recap of our audit approach and key changes in our audit strategy

We have not identified any changes in our approach since our Audit Plan was presented to you on 10 May 2023. The risks identified remain the same.



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# Status of Audit Work

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As an audit team we have focused on concluding our work on the key audit matters, the significant audit risks and the significant classes of transactions we have identified in our scoping. These are the areas of the accounts that are, in our view, at greater risk of material misstatements, with a potential to impact our auditor's opinion.

We presented our Annual Audit Report to the Audit and Scrutiny Committee on 25 October 2023. Any outstanding matters within the report have been cleared, and we issued an unmodified opinion on Moray Council's financial statements on 27 October 2023 once the final officer sign offs were obtained.

We issued an unmodified opinion on The Moray Council Connected Charity financial statements on 27 October 2023.

Audit quality is important to us, and it is important as auditors that we take a step back to consider all our audit evidence and the quality of our audit work on file on completion. This includes sufficient documentation of our key auditor judgements and conclusions.

# Our audit opinion

## Auditor's report on the financial statements

### Subject to the satisfactory completion of outstanding items, we anticipate issuing an unmodified audit opinion.

We draw your attention to adjusted misstatements to primary statements. The impact upon the financial statements is to decrease the net surplus in the CIES and assets in the balance sheet by £178.652 million and the adjustments are noted at Appendix A.

There are two unadjusted misstatements at Appendix A. There is no impact upon the proposed opinion for the unadjusted misstatements identified. These are set out at Appendix A.

As reported in the independent auditor's report, our opinion will cover:

- The Group and Council financial statements give a true and fair view of the state of affairs of the Council and its group as at 31 March 2023 and of the income and expenditure of the Council and its for the year then ended;
- the Group and Council's financial statements have been properly prepared in accordance with UK adopted international accounting standards, as interpreted and adapted by the CIPFA Code of Practice on Local Authority Accounting 2022/23 ('the 2022/23 Code');
- the Group and Council's financial statements 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; and
- the audited part of the Remuneration Report has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014.

We are required to report whether the information given in the Management Commentary is consistent with the financial statements and has been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003.

We are also required to report on whether the information given in the Annual Governance Statement is consistent with the financial statements and prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016).

Our work relating to the review of Management Commentary and Annual Governance Statement is complete and we have no significant or material matters to report to you in respect of the Management Commentary and the Annual Governance Statement.

### Receipt of the draft financial statements

The draft financial statements were presented for audit by the deadline of 30 June 2023, with the Council authorising their financial statements on 28 June 2023. We have been supported by Moray Council's officers during the audit process with effective working relationships and commitment to the audit process. The working papers presented for audit were a good quality, and any supplementary working papers, sample requests and queries were responded to effectively.

### Target audit deadlines

The target completion dates for the 2022/23 audit moved back to pre-Covid timetables, with 30 September 2023 as the target dates set. The target timeline has not been achieved, with this Auditor's Annual Report planned to be presented to full Council on 25 October 2023. The number of new issues during 2022/23 as well as the impact of the technical review of the accounts combined with year 1 of the audit have all contributed to the later date of completion compared to the target deadline. The Audit Scotland guidance notes the targets dates should not be to the detriment of audit quality or to wellbeing.

# Our application of materiality

As communicated in our Audit Plan dated 10 May 2023, we determined over materiality at the planning stage as £5.836 million for the group based on 1.5% of gross expenditure and £5.825 million for the Council. At year-end, we have reconsidered planning materiality based on the final group financial statements.

We will report to you all misstatements identified in excess of £0.25 million, in addition to any matters considered to be qualitatively material.

A lower level of materiality of £25,000 is set for the senior officers' disclosures within the Remuneration Report.

## Materiality was determined as follows:

### Materiality and performance materiality for financial statements as a whole

	Group	Council
<b>Headline Materiality threshold</b>	Overall materiality has been set at £6.48 million which represents 1.5% of the group's gross expenditure. Overall materiality is £2.38 million higher than the materiality level set by the predecessor auditor last year.	Overall materiality has been set at £6.462 million which represents 1.5% of the Council's gross expenditure. Overall materiality is £2.362 million higher than the materiality level set by the predecessor auditor last year.
<b>Performance Materiality threshold</b>	Performance materiality for the year has been set at £3.888 million which represents 60% of financial statement materiality. Performance materiality is £1.388 million higher than the materiality level set by the predecessor auditor last year.	Performance materiality for the year has been set at £3.877 million which represents 60% of financial statement materiality. Performance materiality is £1.377 higher than the materiality level set by the predecessor auditor last year.
<b>Significant judgements made by auditor in determining the materiality</b>	The determination of materiality involves the exercise of professional judgement. In determining materiality, we made the significant judgements in selecting the appropriate benchmark of expenditure and the appropriate percentage to apply to the benchmark.	The determination of materiality involves the exercise of professional judgement. In determining materiality, we made the significant judgements in selecting the appropriate benchmark of expenditure and the appropriate percentage to apply to the benchmark.
<b>Significant revision(s) of materiality threshold that were made as the audit progressed</b>	We calculated materiality during the planning stage of the audit and then during the course of our audit, we re-assessed initial materiality based on actual gross expenditure for the year ended 31 March 2023 and adjusted our audit procedures accordingly.	We calculated materiality during the planning stage of the audit and then during the course of our audit, we re-assessed initial materiality based on actual gross expenditure for the year ended 31 March 2023 and adjusted our audit procedures accordingly.

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# An overview of the scope of our audit

We performed a risk-based audit that requires an understanding of the group's and the Council's business and in particular matters related to:

## Understanding the group, the Council, and its components, and their environments, including group-wide controls

- The engagement team obtained an understanding of the Council, the group and its environment, including group-wide controls, and assessed the risks of material misstatement at the group and Council only level;

## Identifying significant components

- We evaluated the significance of each component of the group and determined the planned audit response based on a measure of materiality.

## Work to be performed on financial information of Council and other components (including how it addressed the key audit matters)

- A full scope audit was performed Moray Council. Specified procedures were performed over material balances with an analytical approach for other balances. No additional key audit matters were identified in group transactions.

## Performance of our audit

- The full scope audit was conducted on Moray Council. Our work has covered all material balances and transactions in expenditure, income, assets, liabilities and reserves as well as other primary statements and disclosure notes.
- The analytical procedures for the consolidation of the joint ventures and associated accounting entries and reserves agreed the basis of the consolidation and the values to the other entity financial statements.
- Specific procedures were conducted on material balances of Property. Plant and equipment balances within the common goods and trust funds consolidation, including any material reserves.

## Changes in approach from previous period

- There are no additional components in the group compared to 2021/22. This is our first year of audit, and there are no changes from our approach noted in our Audit Plan from 10 May 2023.

## Detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to Moray Council and its Group and determined that the most significant which are directly relevant to specific assertions in the financial statements are those related to the reporting frameworks; International Financial Reporting Standards and the 2022/23 Local Government Accounting Code of Practice.
- We enquired of Senior Officers and the Chair of the Audit and Scrutiny Committee, concerning the Council's policies and procedures relating to the identification, evaluation and compliance with laws and regulations; the detection and response to the risks of fraud; and the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.
- We enquired of Senior Officers and the Chair of the Audit and Scrutiny Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.
- We assessed the susceptibility of the Council and its group financial statements to material misstatement, including how fraud might occur, by evaluating officers incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls. We determined that the principal risks were in relation to journal entries that altered the Council's financial performance for the year and potential management bias in determining accounting estimates in relation to the valuation of land and buildings, the estimations in respect of the Council's defined pension liability and the transfer of data to the new fixed asset register. Our audit procedures are documented within our response to the significant risk of management override of controls below.
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. However, detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as those irregularities that result from fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.
- The team communications in respect of potential non-compliance with relevant laws and regulations, included the potential for fraud in in certain account balances and significant accounting estimates.
- In assessing the potential risks of material misstatement, we obtained an understanding of:
  - Moray Council and its group operations, including the nature of its operating revenue and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
  - The Council's control environment, including the policies and procedures implemented by the Council to ensure compliance with the requirements of the financial reporting framework.

# Group audit approach

In accordance with ISA (UK) 600, as group auditor we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

The table below summarises our final group scoping, as well as the status of work on each component.

Component	Significant	Scope – planning	Scope – final	Auditor	Status	Comments
Moray Council	Yes			Grant Thornton UK LLP	●	Our findings for the Council are summarised on pages 15 to 33.
Other Trust Funds and Common Goods Funds	No			Grant Thornton UK LLP	●	The audit team performed audit procedures on any material balances.
Connected Charitable Trust Funds, Grampian Valuation Joint Board, Moray Leisure Board and Moray Integration Joint Board	No			Grant Thornton UK LLP (except for Moray Leisure Board)	●	The audit team performed analytical procedures.

## Moray Council

Full scope audit procedures will be performed to component materiality, either by the group audit team or by component auditors.

## See above

Audit of specified financial statement line items will be performed by the Group audit team to group materiality.

## See above




Out of scope components are subject to analytical procedures performed by the Group audit team to group materiality.




- Planned procedures are substantially complete with no significant issues outstanding.
- Planned procedures are ongoing/subject to review with no known significant issues.
- Planned procedures are incomplete and/or significant issues have been identified that require resolution.

# Overview of audit risks

The table below summarises the key audit matters and significant risks discussed in more detail on the subsequent pages. The status of the work is noted after any amendments identified during the audit process to the financial statements have been actioned by the Council.

Risk title	Risk level	Change in risk since Audit Plan	Fraud risk	Key audit matter	Level of judgement or estimation uncertainty	Testing approach	Status of work
Valuation of land and buildings including council dwellings	Significant	↔	✘	✓	High	Substantive	●
Defined benefit pension scheme valuation	Significant	↔	✘	✓	High	Substantive	●
Management override of controls	Significant	↔	✓	✘	Low	Substantive	●
Migration of data to the new fixed asset register	Significant	↔	✘	✘	Low	Substantive	●

 Assessed risk increase since Audit Plan  
 Assessed risk consistent with Audit Plan  
 Assessed risk decrease since Audit Plan

 Not considered likely to result in material adjustment or change to disclosures within the financial statements  
 Potential to result in material adjustment or significant change to disclosures within the financial statements  
 Likely to result in material adjustment or significant change to disclosures within the financial statements

# Significant risks and Key Audit Matters (1)

## Responding to significant financial statement risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement. This section provides commentary on the significant audit risks communicated in the External Audit Plan.

## Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the group and Council's financial statements of the current year and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified.

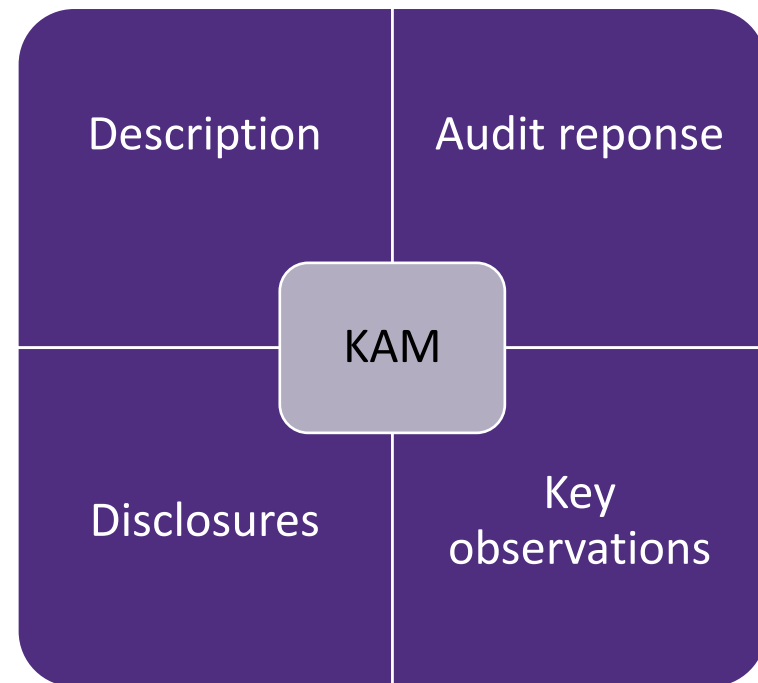
These matters included those that had the greatest effect on:

- the overall audit strategy;
- the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

## Other risks

Other risks are, in the auditor's judgment, those where the risk of material misstatement is lower than that for a significant risk, but they are nonetheless an area of focus for our audit.





## Significant risks and Key Audit Matters (2)

### Key Audit Matter identified in our Audit Plan – Group

#### Risk 1: Valuation of land and buildings including council dwellings

In accordance with the CIPFA/LASAAC Code of Practice, subsequent to initial recognition, Moray Council is required to hold property and property, plant and equipment (PPE) on a valuation basis. The valuation basis used depends on the nature and use of the assets. Specialised land, buildings, equipment, installations and fittings are held at depreciated replacement costs, as a proxy for current value. Non-specialised land and buildings, such as offices, are held at current value. Council dwellings are determined using the basis of existing use value for social housing.

Moray Council employs an internal valuer to undertake a rolling programme of valuations across their asset base, valuing land, buildings and council dwellings at least once every five years. In the intervening periods Moray Council carries out a desktop review to assess the material accuracy of the assets not revalued. This includes an indexation assessment performed by the valuer. As at 31 March 2023, Moray Council held PPE of £1.256 billion including land, buildings of £520.135 million and council dwellings of £412.074 million.

Given the significant value of the land, and non specialised buildings and the council dwellings held by Moray Council, and the level of complexity and judgement involved in their estimation process, there is an inherent risk of material misstatement in the year end valuation of some of these assets. However, the risk is less prevalent in other assets as these are generally held at depreciated historical costs, as a proxy of fair value.

We therefore focussed our audit attention on assets that had large and unusual changes in valuations compared to last year and / or unusual approaches to their valuations, as a significant risk requiring special audit consideration and one of the most significant assessed risks of material misstatement due to error and a key audit matter.

### How our scope addressed the matter –

In responding to the key audit matter, we performed the following audit procedures:

- evaluated management’s processes and controls for the calculation of the valuation estimates, the instructions issued to their valuer and the scope of their work;
- evaluated the valuer’s report to identify assets that had large and unusual changes and/or approaches to the valuation and tested these valuations substantively for reasonableness;
- challenged the key data and assumptions used by management’s experts in the valuation process for these assets;
- evaluated the valuer’s report to identify assets that have large and unusual changes and/or approaches to the valuation – these assets were substantially tested to ensure the valuations were reasonable;
- tested a selection of other asset revaluations made during the year to ensure they had been input accurately into the Council's asset register, and the revaluations had been correctly reflected in the financial statements;
- evaluated the assumptions made by management for any assets not revalued during the year and how management had satisfied themselves that these valuers were not materially different to current value and
- reviewed your impairment assessment as to whether there are indicators of impairment for key components of assets under construction (AUC).

# Significant risks and Key Audit Matters (3)

## Risk 1: Valuation of land and buildings including council dwellings (continued)

### Commentary

#### Relevant disclosures in the Statement of Accounts for the year ended 31 March 2023

- Note 15 - Property, Plant and Equipment

#### Our results

- As a result of our audit testing, the valuation of Property, Plant and Equipment reduced by £14.804 million from £1.248 billion to £1.233 billion.
- The largest element was a decrease of £19.816 million in the Council house valuation due to an updated indexation rate applied.
- The remaining (£5.012) million were adjustments due to reconciliation issues identified in the draft financial statements when compared to the fixed asset register.
- In addition to the issues identified and adjusted above, the classification within Note 15 was amended as £5.669 million of assets under construction were operational and to note the reversal of depreciation from the revaluation reserve as this had been netted off in the draft financial statements.
- Note 15 required adjustment due to the entries recorded for valuations as they did not reconcile to the fixed asset register. This included the omission of the reversal of depreciation for revalued assets for £8.592 million for council houses and £28.257 million for buildings.
- Reconciliation and narrative disclosures were added for infrastructure assets as required by CIPFA Bulletin 14.
- The Council has one minor part of a school building impacted by the reinforced autoclaved concrete (RAAC) issue, the valuation of this school is not materially impacted as a result.
- We reviewed management's assessment that any assets not revalued during 2022/23 are not materially different from their carrying value and did not raise any issues.
- Our sample testing of valuations including a review of assumptions including floor areas did not raise any issues.
- A recommendation has been raised at Appendix 2 with regards the reconciliation processes in place from the fixed asset register to the draft financial statements.

# Significant risks and Key Audit Matters (4)

## Key Audit Matter identified in our Audit Plan - Council

### Risk 2: Defined benefit pension scheme valuation

The Council participates in the North East Scotland Pension Fund, a local government pension scheme. There is an established protocol in place with Pension Fund auditors to provide external auditors with relevant assurance. The scheme is a defined benefit pension scheme and in accordance with IAS 19: Pensions, Moray Council is required to recognise its share of the scheme assets and liabilities in its balance sheet. As at 31 March 2023 in the draft financial statements, the Council had a pension fund asset of £161.095 million. This has subsequently been reduced to a pension asset of £7.484 million, with a pension liability of £10.257 million. The reason for this is due to an IFRIC14 assessment, and this is set out further on page 21.

The Council's actuary Mercer Limited provide an annual IAS 19 actuarial valuation of Moray Council's net liabilities in the pension scheme. There are a number of assumptions contained within the valuation, including: discount rate; future return on scheme assets; mortality rates; and, future salary projections. Given the material value of the scheme's gross assets and gross liabilities and the level of estimation in the valuation, there is an inherent risk that the defined benefit pension scheme net asset could be materially misstated within the financial statements. This risk is focussed on the appropriateness and reasonableness of the underlying assumptions adopted by the actuary and the suitability of these for the Council.

We identified the defined benefit pension scheme valuation as one of the most significant assessed risks of material misstatement due to error and a key audit matter.

## How our scope addressed the matter

In responding to the key audit matter, we performed the following audit procedures:

- **evaluated management's processes and controls for the calculation of the gross asset and gross liability and estimates, the instructions issued to the actuarial expert and the scope of their work;**
- evaluated the assumptions made by Mercer Limited in the calculation of the estimate, using work performed by **an auditor's expert** commissioned on behalf of Audit Scotland;
- **evaluated the data used by management's experts in the calculation of the estimates;**
- performed substantive analytical procedures over the **gross assets, gross liabilities and in year** pension fund movements, investigating any deviations from audit expectations;
- assessed the accuracy and completeness of the IAS 19 estimates and related disclosures made within the Council's financial statements; and
- challenged management to perform an IFRIC14 assessment and to assess the implications for the financial statements including accounting policies and related disclosures.

# Significant risks and Key Audit Matters (5)

## Risk 2: Defined benefit pension scheme valuation (continued)

### Commentary

#### Relevant disclosures in the Statement of Accounts for the year ended 31 March 2023

- Note 42 – Defined Benefit Pension Schemes

#### Our results

- Usually local government scheme (LGPS) pension liabilities calculated on an IAS 19 basis exceed any pension assets and members of the LGPS recognise a net pension liability on their balance sheet. However, a net defined benefit asset may arise where the defined benefit plan has been overfunded or where actuarial gains have arisen. This was the case in the draft financial statements where an asset of £161.095 million was recorded.
- IFRIC 14 addresses the extent to which an IAS 19 surplus can be recognised on the balance sheet and whether any additional liabilities are required in respect of onerous funding commitments. IFRIC 14 limits the measurement of the defined benefit asset to the 'present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The pension asset can be recognised at the lower of the net pension asset or the present value of any economic benefits available.
- The Council requested an IFRIC14 assessment from the actuary during the audit and the pension asset in the balance sheet reduced from £161.095 million to £7.484 million, a decrease of £153.611 million. This was due to the IFRIC14 assessment where the present value of the benefits available were lower than the pension asset. Additional disclosure was added to the financial statements to explain the critical judgement also in Note 5.
- The Pension Liability increased from nil to £10.257 million. This was due to a pension scheme being incorrectly netted from the pension asset when it should be shown separately as a liability. This is due to IAS 19 paragraph 131 only permitting offsetting where there is a legal right to use a surplus in one plan to settle obligations in another plan, and this is not the case with the unfunded benefits.

# Significant risks and Key Audit Matters (6)

## Other significant risks identified in our Audit Plan    Commentary

### Risk 3: Management override of controls

As set out in ISA (UK) 240 (Revised May 2021) 'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements' there is a presumed risk that management override of controls is present in all entities. Our risk focuses on the areas of the financial statements where there is potential for management to use their judgement to influence the financial statements alongside the potential to override the entity's internal controls, related to individual transactions. Our work focuses on journals, critical estimates and judgements, including accounting policies, and unusual transactions.

In response to the risk highlighted in the audit plan we carried out the following work:

- documented our understanding of and evaluated the design effectiveness of management's key controls over journals;
- analysed your full journal listing for the year and used this to determine our criteria for selecting high risk journals;
- tested the high-risk journals we have identified;
- gained an understanding of the critical judgements applied by management in the preparation of the financial statements and considered their reasonableness;
- gained an understanding of the key accounting estimates made by management and carried out substantive testing on in scope estimates.; and
- evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.

### Our results

Our work on journals identified that the Council does not have journal authorisation processes within the general ledger, and processes are more informal. There is a reliance upon reactive controls through the budget monitoring process, whereas proactive controls would enhance the ability to reduce the risk of fraud or error from the opportunity to override management controls. Our work on journals has required extra testing to mitigate this risk.

A recommendation on journal authorisation processes is noted at Appendix 2

# Significant risks and Key Audit Matters (7)

## Other significant risks identified in our Audit Plan    Commentary

### Risk 4: Migration of data to the new fixed asset system

During COVID because of the move to remote working, access was unable to be obtained to the old fixed asset register module and as such, manual spreadsheets were held to keep a record of fixed assets.

Moray Council launched a new fixed asset register module relevant to the production of the financial statements for 2022/23.

When implementing a new significant asset management system, it is important to ensure that sufficient controls have been designed and operate to ensure the integrity of the data. There is also a risk over the completeness and accuracy of the data transfer from the previous fixed asset register.

We therefore identified the completeness and accuracy of the transfer of information to the new fixed asset register as a significant risk of material misstatement.

In response to the risk highlighted in the audit plan we carried out the following work:

- performed a walk-through of the migration process from the previous fixed asset register to the new fixed asset register to evaluate the design and implementation effectiveness of controls pertaining to the transfer of data from the previous fixed asset system;
- completed an information technology (IT) environment review to document and evaluate the IT controls designed and implemented within the new fixed asset register system;
- performed substantive validity checks to obtain assurance that balances, both at the individual and aggregate level have been transferred completely and accurately; and
- sample tested the data transferred from the old system to the new, and from the new system back to the old, to gain assurance over the completeness and accuracy of data transferred.

### Our results

There were no issues we identified from our testing of the transfer of data to the new fixed asset register.

The Council identified in their draft financial statements that the audited 2021/22 financial statements had some variances in the 2021/22 figures when compared to the new fixed asset register. This has formed part of the prior period adjustment (PPA) documented further on page 32.

## Significant risks and Key Audit Matters (8)

### Other significant risks identified in our Audit Plan    Commentary

#### The revenue cycle includes fraudulent transactions

As set out in ISA (UK) 240 (Revised May 2021) there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.

**(rebutted)**

Auditing standards require us to consider the risk of fraud in Revenue. This is considered a presumed risk in all entities.

Having considered the risk factors set out in ISA 240 and the nature of the revenue streams at Moray Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted as there is deemed to be little incentive to manipulate revenue recognition and opportunities to manipulate revenue recognition are deemed to be limited.

As part of our work on material transactions and balances we have undertaken sample based substantive testing of income streams as well as an assessment of the income recognition accounting policies and relevant disclosures.

#### Our results

Our work has not identified any issues to raise in relation to revenue recognition.

#### Risk of fraud in expenditure

As set out in practice note 10 (Revised 2022) 'The Audit of Public sector Financial Statements', issued by the Public Audit Forum, which applies to all public sector entities, we consider there to be an inherent risk of fraud in expenditure recognition.

**(rebutted)**

Having considered the risk factors set out in ISA 240 and the nature of the revenue streams at Moray Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted as there is deemed to be little incentive to manipulate revenue recognition and opportunities to manipulate revenue recognition are deemed to be limited.

As part of our work on expenditure we have undertaken sample based substantive testing of transactions before and after the year-end to confirm transactions are recorded in the correct period. We have also reviewed expenditure recognition accounting policies and relevant disclosures.

#### Our results

Our work has not identified any issues to raise in relation to expenditure recognition.

## Other areas impacting the audit

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan.

Issue	Commentary	Conclusion
<p><b>Nil net book value assets</b></p> <p>The Council's asset register includes £22.973 million of assets with a nil net book value that are fully depreciated. The majority of these (£16.621 million) are within plant and machinery.</p>	<p>There are two risks in relation to this issue:</p> <ul style="list-style-type: none"> <li>• if these assets are no longer operational, the gross cost and accumulated depreciation balance will be overstated; and</li> <li>• if these assets are operational, there is a risk that the Council is not assigning appropriate asset lives to its plant and equipment assets.</li> </ul> <p>The potential impact of these risks is that the gross cost and accumulated depreciation disclosed Property, plant and equipment is overstated.</p>	<ul style="list-style-type: none"> <li>• There is no impact upon the balance sheet as the balances are held at nil. Any impact of any assets not held would be in the classification in the Property, Plant and Equipment note only.</li> <li>• We have requested representation on this matter within the letter of representation.</li> <li>• We have raised an associated recommendation within Appendix 2 for the Council to perform a review of nil net book value assets.</li> </ul>



# Financial Statements – key judgements and estimates (1)

As required in the Council's Accounting Policies note, officers outline critical judgements in applying accounting policies and in addition, assumptions about the future and other sources of estimation uncertainty. In particular, where estimates and judgements are identified, these should be quantified.

This section provides commentary on key estimates and judgements in line with the enhanced requirements for auditors.

The estimate for PPE valuation including council dwellings has already been reported on pages 18 and 19, and the estimate for the pension asset on pages 20 to 21.

This section covers other material estimates within the financial statements.

## Assessment

- [Red] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Orange] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Yellow] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Green] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

# Financial Statements – key judgements and estimates (4)

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Property, Plant and Equipment: depreciation including useful economic lives (UEs). £28.146 million	<p>As reported in Note 15 the Council's approach to depreciation.</p> <p>Depreciation is provided for on all Property, Plant and Equipment assets. An exception is made for assets without a determinable useful life (i.e., land and certain community assets) and assets that are not yet available for use (i.e., assets under construction).</p> <p>Depreciation is calculated using the straight-line method. In the year of acquisition, a full year's depreciation is provided for on all assets except for vehicles, where the calculation is pro-rata based on the month of acquisition. In the year of disposal, no depreciation is charged.</p> <p>Where a material item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.</p>	<p>We examined the estimate, considering the:</p> <ul style="list-style-type: none"> <li>appropriateness of the underlying information, consistency of the estimate and the adequacy of the disclosure of the estimate.</li> </ul> <p><b>Conclusion</b> We were satisfied with the methodology for the calculation of the depreciation charge.</p> <p>Note the findings on page 24 regarding the number of nil net book value assets.</p>	Green
Provisions for debt impairment £15.944 million	<p>The Council is responsible for calculating the allowance for impaired debt based upon the latest information about collectability of debt.</p> <p>There is not a requirement in the CIPFA Code to disclose the full amount of impaired debt within the disclosures in the debtors note. The requirement is to disclose the local taxation which forms part of the total.</p> <p>The local taxation element of the allowance for impaired debt is £15.944 million as disclosed in Note 22.</p>	<p>We examined the estimate, considering the:</p> <ul style="list-style-type: none"> <li>appropriateness of the underlying information, consistency of the estimate and the adequacy of the disclosure of the estimate.</li> </ul> <p><b>Conclusion</b> We were satisfied with the methodology for the calculation of the allowance.</p>	Green

# Financial Statements – key judgements and estimates (5)

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Public Private Partnerships (PPP) and similar contracts	<p>Moray Council has a PPP for the construction, maintenance and operation of two schools in Keith and Elgin. There is also a design, build, finance and maintain (DBFM) scheme for a new school in Elgin.</p> <p>These are accounted for under IRIC 12 Service Concession Arrangements, as interpreted by the FReM, as “on-balance sheet” by Moray Council.</p> <p>The accounting models are updated annually to reflect actual charges and RPI. Future years' service costs are estimated based on the latest actual charges and current RPI rates. Interest and finance lease liability charges are unaffected by changes in RPI.</p>	<p>We reviewed your assessment of the estimate considering:</p> <ul style="list-style-type: none"> <li>• review of key assumptions input into the accounting models;</li> <li>• use of specialist software to gain assurance that the HUB model has been appropriately updated for the period ended 31 March 2023;</li> <li>• agreeing that accounting entries from the accounting model have been accurately recorded in Moray Council's accounts.</li> </ul> <p><b>Conclusion</b></p> <p>We are satisfied in the calculation and disclosure of the public private partnerships and similar contracts.</p> <p>The financial statements at Note 40 disclose all the required information.</p>	Green
Annual Leave Accruals £8.462 million	<p>Moray Council accrues for annual leave expenditure to ensure that all expenditure due to be accrued in the financial year, not yet been taken and effectively paid, is reflected within the financial statements.</p> <p>The Council base the estimate upon a sampled approach of outstanding leave in each department and extrapolate the findings across the whole population.</p>	<p>We reviewed your assessment of the estimate considering:</p> <ul style="list-style-type: none"> <li>• appropriateness of the underlying information, consistency of the estimate and the adequacy of the disclosure of the estimate.</li> </ul> <p><b>Conclusion</b></p> <p>We were satisfied with the methodology for the calculation of the annual leave accrual.</p>	

## Other key elements of the financial statements (1)

As part of our audit there were other key areas of focus during the course of our audit. Whilst not considered a significant risk, these are areas of focus either in accordance with the Audit Scotland Code of Audit Practice or ISAs or due to their complexity or importance to the user of the accounts:

Issue	Commentary
<b>Matters in relation to fraud and irregularity</b>	It is the Council's responsibility to establish arrangements to prevent and detect fraud and other irregularity. As auditors, we obtain reasonable assurance that the financial statements as a whole are free from material misstatement, whether due to fraud or error. We obtain annual representation from officers and those charged with governance regarding the Council's assessment of fraud risk, including internal controls, and any known or suspected fraud or misstatement. We have also made inquires of internal audit around internal control, fraud risk and any known or suspected frauds in year. We have not been made aware of any incidents in the period and no issues in relation to these areas have been identified during the course of our audit procedures that are outside of the usual expected investigations.
<b>Accounting practices</b>	We have evaluated the appropriateness of Moray Council's accounting policies, accounting estimates and financial statement disclosures. We have identified disclosure adjustments required to the financial statements which have been detailed in Appendix 1.
<b>Matters in relation to related parties</b>	The Council added related party transactions for the intra group balances as they had been omitted. We are not aware of any other related parties or related party transactions which have not been disclosed.
<b>Matters in relation to laws and regulations</b>	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work. We have not identified any cases of money laundering or fraud at the Council.
<b>Other information</b>	We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.  Minor amendments have been made to the Annual Report and we are satisfied that there are no material inconsistencies to report.

## Other key elements of the financial statements (2)

Issue	Commentary
<b>Governance statement</b>	<p>We are required to report on whether the information given in the Annual Governance Statement is consistent with the financial statements and prepared in accordance with the Delivering Good Governance in Local government: Framework (2016). No inconsistencies have been identified; we plan to issue an unmodified opinion in this respect.</p>
<b>Matters on which we report by exception</b>	<p>We are required by the Accounts Commission to report to you if, in our opinion: adequate accounting records have not been kept; or the financial statements and the audited part of the Remuneration Report are not in agreement with the accounting records; or we have not received all the information and explanations we require for our audit or there has been a failure to achieve a prescribed financial objective. We have nothing to report in respect of these matters.</p>
<b>Written representations</b>	<p>A letter of representation has been requested from the Council as required by auditing standards. Additional representation was sought regarding the net nil book value assets and the prior period adjustment.</p>
<b>Going concern</b>	<p>In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2022). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies.</p> <p>Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Council meets this criteria, and so we have applied the continued provision of service approach.</p> <p>In accordance with Audit Scotland guidance: Going concern in the public sector, we have therefore considered management’s (senior officer’s) assessment of the appropriateness of the going concern basis of accounting and conclude that:</p> <ul style="list-style-type: none"> <li>• a material uncertainty related to going concern has not been identified</li> <li>• management’s (senior officer’s) use of the going concern basis of accounting in the preparation of the financial statements is appropriate.</li> </ul>

## Other responsibilities under the Code (1)

Issue	Commentary
<b>National Fraud Initiative</b>	<p>The National Fraud Initiative (NFI) in Scotland is a biennial counter-fraud exercise led by Audit Scotland, and overseen by the Cabinet Office for the UK as a whole. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems that might suggest the existence of fraud or error. Participating bodies, including the Council, receive matches for investigation.</p> <p>Officers review matches with anything requiring further attention referred to Internal Audit. Internal Audit also provide an overview for the completion of the NFI exercise including the closing off final reports.</p> <p>It is expected that any findings will be reported to Committee in the new year, and thus far some duplicate payments have been identified of minor value.</p>
<b>WGA return</b>	<p>For local government audits we are required to complete Whole of Government Accounts (WGA) work, and provide an assurance statement on Moray Council's WGA return. as mandated by National Audit Office. The audit guidance for 2022/23 is not yet issued. Based upon previous years it is not expected that Moray Council would exceed Audit Scotland's prescribed testing threshold. We will complete the relevant specified procedures and prepare and submit a partial assurance statement once we have completed all our work on your financial statements, and when the final guidance is received.</p>
<b>Other returns to Audit Scotland</b>	<p>In accordance with the Audit Scotland Planning Guidance, as appointed auditors we have prepared and submitted Fraud Returns and Current Issues Returns to Audit Scotland, sector annual reports, shared intelligence on health and social care, sector meetings and Technical Guidance Notes. There is nothing we need to bring to your attention in this respect.</p>

## Other responsibilities under the Code (2)

Issue	Commentary
<b>Grants</b>	<p>In accordance with Audit Scotland planning guidance, as appointed auditors we undertake grant certification work on behalf of the Council. For 2022/23 we are required to provide the following certifications:</p> <ul style="list-style-type: none"> <li>• National Non-Domestic Rates Income Return (NDR) and</li> <li>• Housing Benefit certification</li> </ul> <p>We anticipate that our work on the grant claims will be concluded by the 31 January 2024 deadline for Housing benefits, with work starting in November 2023. Our work on NDR is complete and our assurance certificate has been submitted to government, with no issues to report.</p> <p>We are also carrying out work on the bus transport grant as an additional piece of audit related work with a separate audit fee of £5,000.</p>
<b>Section 106 Charities</b>	<p>Our audit appointment as the Council's auditor includes the audit of any trust funds falling within Section 106 of the Local Government ((Scotland) Act 1973 that are registered charities. For Moray Council we have therefore been appointed as auditors of the connected charitable trust funds. The audit fee for this work is outside of the main fee and is £6,500.</p> <p>Work is complete, and we issued an unmodified opinion on 27 October 2023.</p> <p>Expenditure has occurred in all unrestricted funds in 2022/23.</p> <p>As part of our work, we are awaiting the external confirmations of the investment balances. The Council has provided the evidence of the investment balances from each investment manager, we are also confirming these independently also.</p> <p>We do not require any additional representation in the Letter of Representation for the Charity.</p>

## Other findings – other matters

Other matter	Commentary	Conclusion
<p>Prior year adjustment (PPA) – Note 2</p>	<p>The Council has included a £17.07 million PPA for 2021/22 and associated disclosures within Note 2. This increased the balance sheet and unusable reserves by £17.07 million, all reflected in the 2021/22 year only.</p> <p>The reason for the PPA is that £21.936 of valuations within buildings were identified as understated in the previous audited accounts. In addition, when transitioning to the new fixed asset register an overstatement of £4.326 million was identified in the reconciliation.</p> <p>We challenged the Council if all of the PPA was related to 2021/22 only as the PPA had only been adjusted through the 2021/22 financial year.</p> <p>The Council identified that £2.02 million should have been recorded within the opening balance at 31 March 2021 instead of 31 March 2022. This impact is to classification only and does not impact the total.</p> <p>The Council have elected to not amend for this misstatement.</p>	<ul style="list-style-type: none"> <li>• Note 2 for the Prior Period Adjustment has been agreed in total detailing the £17.07 million increase in assets in 2021/22.</li> <li>• There is an unadjusted misstatement at Appendix A for the £2.02 million that should be reflected in the 31 March 2021 opening balance.</li> <li>• Some minor disclosure amendments have been made to Note 2 to enhance the signposting to the group accounts disclosures also impacted by the PPA.</li> <li>• International Standards on Auditing 580 requires auditors to obtain specific representation made to restate prior period financial statements and comparative information. We have therefore requested specific representation with the Letter of Representation.</li> </ul>



## Other findings – Information Technology

This section provides an overview of results from our assessment of Information Technology (IT) environment and controls which included identifying risks from the use of IT related to business process controls relevant to the financial audit. This includes an overall IT General Control (ITGC) rating per IT system and details of the ratings assigned to individual control areas.

IT application	Level of assessment performed	Overall ITGC rating	ITGC control area rating			Related significant risks/other risks
			Security management	Technology acquisition, development and maintenance	Technology infrastructure	
Advance Business Solutions e5 system – general ledger	ITGC assessment (design and implementation effectiveness only)	●	●	●	●	All significant risk areas
iTrent – payroll	ITGC assessment (design and implementation effectiveness only)	●	●	●	●	N/A
CIPFA's Asset Manager – fixed assets	ITGC assessment (design and implementation effectiveness only)	●	●	●	●	Property, Plant and Equipment

### Assessment

- Significant deficiencies identified in IT controls relevant to the audit of financial statements
- Non-significant deficiencies identified in IT controls relevant to the audit of financial statements/significant deficiencies identified but with sufficient mitigation of relevant risk
- IT controls relevant to the audit of financial statements judged to be effective at the level of testing in scope
- Not in scope for testing

**Wider scope and best value  
conclusions**

# Wider scope audit (1)

This section of our report sets out our conclusions from our audit work on the wider scope audit dimensions. We take a risk-based audit approach to wider scope. Within our audit plan we identified one wider scope risk in relation to financial sustainability.

As part of our ongoing audit planning audit work during the year we have not identified any additional wider scope audit risks.

Wider scope dimension	Plan risk	Wider scope audit response and findings	Conclusion
<p><b>Financial Management</b></p> <p>Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.</p>	<p>No significant risks identified.</p>	<p><b>Council Financial Management Arrangement's</b></p> <p>Financial performance is reported to Council as an integral part of the Medium-Term Financial Strategy and future budget setting process. It compares assumptions that were used to develop the budget to actual activity (income and expenditure) during the year. Where assumptions are determined unrealistic or changes significant from budget, this is captured, and this learning built into the following year's budget setting process.</p> <p>Members are provided with the opportunity to review, challenge and scrutinise the financial performance. The finance team within the Council have access to real time information through the finance ledger systems to provide accurate financial monitoring reports.</p> <p>There is a scheme of delegation, including financial instructions. The scheme of delegation was approved by full Council on 24 May 2023 and financial policies were reviewed at full Council on 23<sup>rd</sup> August 2023, following comments received these are due to be approved at the September 2023 full Council.</p> <p><b>Financial Performance- Revenue</b></p> <p>The Council approved budgeted net expenditure of £240.7 million. The final forecast budgeted expenditure by the end of the year was £258.2 million, which recognised in-year additional grant funding as well as in-year savings achieved. This included the use of ear-marked reserves of £18.968 million which included proposed utilisation of £14.8 million from Covid reserves.</p> <p>The final outturn for 2022/23 was an underspend against budget of £17 million; £5.04 million more underspend than was forecast at quarter three of 2022/23. The main areas of underspend related to Education (£1.4 million), Education Resources &amp; Communities (£1.8 million), Childrens Services (£1.8 million), Economic Growth and Development (£1.1 million) and loans charges (£8.3 million). The loans pool holiday resulted in a significant saving of £7.6 million that had not been budgeted for and led to most of the underspend against budget. The council budgeted to use £19 million of reserves however the actual utilisation of reserves was £0.752 million. This significant variance against budget was due to; lower expenditure than forecast in departments, some of which have been requested to be funded from Covid reserves in 2023/24; lower loans charges than expected; and additional funding for the pay award via the capital grant.</p>	<p>We are satisfied that key Council policies relating to financial management are reviewed and updated on a regular basis.</p> <p>Although significant variances were not identified against services, we do note some issues over the revenue forecasting process, given the significant outturn variance against budget at year end.</p> <p>The prior year annual audit report also reported significant variances between the forecast outturn and that achieved at year end resulting in large underspends against budget. A recommendation was raised in the prior year annual audit report that <i>“the Council should review its forecasting process to ensure the most accurate projection possible of the year end position”</i>. We conclude that this recommendation remains relevant to the Council and forecasting undertaken by the Council should be subject to further review.</p> <p>There is a risk that where forecasting is inaccurate this could impact the decisions taken by members on the allocation of financial resources to deliver Council priorities.</p>

# Wider scope audit (2)

Wider scope dimension	Plan risk	Wider scope audit response and findings	Conclusion
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Financial management (continued)

## Financial Performance- Revenue (continued)

The housing revenue accounts incurred a £47,000 net overspend.

## Financial Performance- Capital

The Council approved budgeted capital expenditure of £54.1 million, which was then amended to £43.4 million during the year to reflect changing timescales for projects. The actual capital expenditure incurred by the Council for the year was £28.3 million, resulting in a £15 million underspend against budget. Reasons for the underspend include delays in a major construction project and delays due to supply chain difficulties.

The below table illustrates the underspends incurred by the Council in the previous five years. There is a theme of recurring underspends at the Council, however this has significantly increase in the past two years. It is important the Council look to ensure that the budget provides a realistic reflection of the anticipated spend for the year and monitor and report for projects that look to be slipping. The Council should ensure there is appropriate challenge and scrutiny of delivery, to ensure projects are delivered on time and to budget to avoid projects slipping into future years which impacts on future capital planning and financing. We do however understand that shortage of labour and rising inflation costs have impacted delivery of projects, however the Council should ensure that it is appropriately monitoring delivery of capital spend.

	2022/23	2021/22	2020/21	2019/20	2018/19
	£m	£m	£m	£m	£m
<b>Budget</b>	43.4	44.4	41.9	68.8	30.7
<b>Spend</b>	28.3	31	39.2	56.7	27.9
<b>(Under)/Over Spend</b>	-15.1	-13.4	-2.7	-12.1	-2.8
<b>Underspend as a percentage of total budget</b>	35%	30%	6%	18%	9%

**Overall, we are satisfied that the Council have appropriate financial management arrangements in place. The council has achieved a balanced budget for 2022/23.**

We do however note some issues over the revenue and capital forecasting process given the significant outturn variance against budget at year end.

# Wider scope audit (3)

## Wider scope dimension

## Plan risk

## Wider scope audit response and findings

## Conclusion

### Financial sustainability

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.

Significant risk identified:

There is a risk that where savings and transformation plans are not identified and delivered in the short to medium term this could provide financial sustainability challenges for the Council.

### Background

There are significant funding gaps identified from 2023/24 and beyond. The Council faces significant challenges in dealing with future funding gaps where funding is not matched by the Scottish Government. To achieve financial sustainability and reduce reliance on useable reserves to bridge funding gaps, the Council will need to identify and deliver significant savings and transformation to reduce funding gaps and continue to deliver key services and Council priorities. There is a risk that where savings and transformation plans are not delivered in the short to medium term this could provide financial sustainability challenges for the Council .

Moray Council, like all councils across Scotland, is facing unprecedented financial challenges. The Council have estimated a cumulative funding gap of £26.5 million over the next three years after use of reserves of circa £20 million. The level of funding gap has increased due to challenges out with the Council's control; ongoing economic challenges, recovery from the pandemic, and Russia's war in Ukraine has had a global impact driving a cost-of-living crisis. These external factors coupled with increasing demands for local services provide a perfect storm for local authority bodies. Local Government bodies must find a way to respond to reducing financial settlements in real terms from Government, whilst meeting the needs and expectations of local communities.

The MTFS currently extends to 2025/26, however the Council are currently undergoing work in relation to the MTFS to extend the period of review to assess longer term future funding gaps.

The MTFS has been superseded by a Short to Medium Term Financial Strategy, covering 2023/24 to 2025/06, which was approved by Council on 27 September 2023, and will be complemented by an extended Medium to Long term Financial Strategy which is being currently being drafted with the aim of submission to full Council on 25 October 2023.

# Wider scope audit (4)

Wider scope  
dimension

Plan risk

Wider scope audit response and findings

Conclusion

Financial  
sustainability

## Medium Term Financial Strategy

Moray Council approved the 2023/24 revenue and capital budgets in March 2023 as part of agreeing the wider Medium Term Financial Strategy (MTFS). A balanced budget has been set for 2023/24 however this requires £5.85 million of savings to be delivered. The funding gap then rises to over £25 million by 2025/26. The financial pressures for 2024/25 and beyond are significant with a £19.6 million funding gap forecast in 2024/25.

	2023/24	2024/25	2025/26	Total
<b>Expenditure</b>	268,901	265,986	250,070	
<b>Revenue Funding</b>	243,228	245,192	249,029	
<b>Use of Reserves</b>	19,818	1,136	-	
<b>Funding Gap</b>	5,855	19,658	1,041	26,554
<b>Identified Savings</b>	4,881	1,475	292	6,648
<b>Unidentified Savings</b>	974	18,183	749	19,906

Reducing the underlying overspend for 2024/25 will be challenging and use of reserves in 2022/23 has been sheltered by a loans pool holiday (non-recurring saving) which delays the need to find some of the savings by up to one year. This however does not address the fundamental challenge Moray Council has in delivering future balanced budgets.

By way of further update to the date of this report, current estimates are for a reduced funding gap of £15 million as reported to full Council on 27/09/2023.

# Wider scope audit (5)

Wider scope dimension	Plan risk	Wider scope audit response and findings	Conclusion
Financial sustainability (continued)		<p><b>Medium Term Financial Strategy (continued)</b> Risks such as potential reduction in future local government funding settlements, pay negotiations, rising inflation, cost of living crises and supply chain pressures are embedded within the MTFs however given the economic uncertainty of these factors, this could result in a growth of the cumulative funding gap.</p> <p><b>Savings</b> A total funding gap of £5.8 million has been identified for 2023/24 from the original budgeting process. To bring about a balanced position in 2023/24, the Council will need to deliver £5.8 million of savings on top of managing current budget and cost pressures. The savings to be delivered for 2023/24 have been identified by management and expect to be generated through areas such as service concession flexibilities (which are largely one off non-recurring savings and relate to the reprofiling of debt for service concession arrangements) and some additional income streams. A proportion of the savings identified are non-recurring. As part of the 2022/23 budget setting process, the budget included a requirement to deliver savings of £1.576 million. Additional savings were identified after the budget was set with £3.318 million savings being delivered for the year £2.032 million of these savings have been identified as recurring by the Council. It is positive to note that the Council have delivered more savings than budgeted, however the scale of savings delivered is much smaller than that which is required over the next three financial years.</p> <p><b>Reserves</b> Reserves are a key performance indicator of monitoring the financial health of a body. At 31 March 2023 the council held £1,089 million of reserves. This is split between £5 million general fund reserves, £41 million general earmarked, £14 million statutory earmarked reserves and £1,029 million unusable reserves. The council budgeted that it would use an estimated £18.968 million of earmarked reserves to balance the budget however, the final outturn for 2022/23 was an underspend against budget and therefore the Council only utilised £0.725 million of reserves. A large proportion of the use of reserves was expected to come from Covid reserves, however this was not required due to lower expenditure than forecast, lower loans charges than expected and additional funding for the pay award via the capital grant.</p> <p>The Council has budgeted to utilise £20 million of general earmarked reserves in 2023/24 to achieve a balanced budget. This will reduce general earmarked reserves from £41 million to £21 million by 31 March 2024, which is almost half of the earmarked reserves it has available for specific priorities. The use of reserves to balance the revenue budget should not be relied upon, is finite, and is not a way to create financial sustainability for the Council. As mentioned above the Council will need to prioritise and focus on transformation to ensure that reserves are used for their intended purpose to and not to meet budget gaps.</p>	<p>The 2023/24 financial plan identifies that £20 million of savings have been unidentified. The size and scale of the savings that would need to be delivered by the Council to eliminate this funding gap would be unprecedented for the Council. There is a significant risk that the Council does not identify or deliver the level of savings required to reduce the funding gap. This is coupled with the potential for budget pressures to expand which would increase the current funding gap. The Council therefore need to prioritise transformation and identify efficiencies to tackle the large funding gap identified, and identify additional income or service reductions which can be delivered within the next 2 years to balance the budget by 2025/26, accordingly to the approach set out in the SMTFS.</p> <p>The continued reliance on reserves is not sustainable and although helps achieve a balanced budget in 2023/24, the Council will not have sufficient available earmarked reserves to draw upon to meet the 2024/25 funding gap.</p> <p>The Council will need to continue to monitor the percentage level of adequate general reserves as funding gaps continue to grow and the Council looks to transformation in future years to ensure reserves do not dip to an unsustainable level.</p> <p><b>An action plan recommendation has been raised in Appendix 3.</b></p>

# Wider scope audit (6)

Wider scope dimension	Plan risk	Wider scope audit response and findings	Conclusion
Financial sustainability (continued)		<p><b>Reserves (continued)</b> The Council currently hold £46 million of general reserves, this equates to circa 10.6% of gross revenue expenditure. We believe this is a sufficient level of reserves currently, however it is noted that a significant percentage of this is earmarked for specific purposes of revenue expenditure and therefore should not be utilised to bridge funding gaps.</p> <p><b>Transformation Plans</b> The increase in the cumulative funding gap position in the next five years is significant and outlines serious concerns over the future financial sustainability of the local authority, where additional funding is not provided or where the Council do not operate within its funding allocation. This creates a risk, as Moray Council will have to balance ensuring that it maintains financial sustainability with ensuring it continues its service delivery to meet Council priorities.</p> <p>To reduce the current funding gap a major transformation programme will need to be developed. The Council has recognized the fact that it will require substantial transformation to reduce future funding gaps and reshape the organisation to ensure efficient service delivery. The Council’s transformation programme is the Improvement and Modernisation Programme (IMP), which is overseen by the Corporate Committee. Work is on-going to further develop this programme, with a potential number of transformation projects designed to deliver savings in the medium to long term. These are however at the concept stage. The Council has an earmarked reserve of just under £4 million for funding transformation projects. Transform Boards have been revised to focus on programme management functions and enhancements are being made to stakeholder engagement, including elected members with member briefings having taken place on the overall IMP programme. Several projects are already in progress as part of the IMP, however this will not reduce the estimated funding gap. Therefore, further work on change and transformation projects to reduce the projected funding gap will be required as well as to safeguard future financial sustainability.</p> <p>Substantial transformation is required to bring about financial sustainability. The Council has been working on transformation for several years. However, the size and scale of transformation required to deliver the savings and efficiencies required to close the projected funding gap is unprecedented. It is important that Council members have oversight of the transformation programme to ensure the savings and efficiencies required to reduce future funding gaps can be delivered.</p>	<p>The Council has not yet identified all the savings and efficiencies required to eliminate the large funding gap predicted for 2024/25. A depth of pace will need to be undertaken on implementing the SMTFS to ensure the Council can bridge the significant funding gap in a short space of time. It is important that the Council and committees monitor the progress and delivery of the transformation programme and outcomes at a close level to ensure that not only efficiencies can be delivered but that financial sustainability can be achieved.</p> <p>To ensure financial sustainability for the medium to longer term, the Council will need to ensure that it is able to deliver increased income and efficiency initiatives to reduce costs and deliver financial benefits. The Council will need to upscale the pace and delivery of transformation to achieve and mitigate the risk of becoming financially unsustainable. <b>An action plan recommendation has been raised in Appendix 3.</b></p>



# Wider scope audit (7)

Wider scope dimension	Plan risk	Wider scope audit response and findings	Conclusion
Financial sustainability (continued)		<p data-bbox="562 331 987 363"><b>Capital and Long-Term Borrowings</b></p> <p data-bbox="562 403 1630 715">The Council have an asset strategy which spans a ten-year period to 2032/33. The capital plan was approved at the March 2023 full Council meeting alongside the revenue budget. The capital plan shows a total expenditure between 2023/24 and 2032/33 of £501 million of which £400.5 million (80%) is planned to be financed through loans. This is a significant amount of planned borrowing and there will be revenue implications for the Council. It is not clear from the capital plan what the estimated revenue costs will be to the Council across this ten-year period. There are risks associated within the capital plan, and it not evident how these risks have been considered, such as potential interest rate rises in future years and the revenue implication of this.</p> <p data-bbox="562 754 1630 962">The capital plan forecasts circa £501 million of capital expenditure in the next ten years which will have a significant impact on the revenue budget in relation to borrowing costs. Determining whether the current plan is affordable is a key issue, because currently it will create further financial sustainability risks to the Council in the medium to longer term. The Council will need to review the capital programme and prioritise capital projects ensuring best value, as well as assisting with the delivery of Council priorities.</p>	<p data-bbox="1648 331 2168 786">The Council will need to review the affordability of the proposed capital plan and its revenue implications. A review of the capital plan and estates strategy should be carried out and identify through scenario planning and sensitivity analysis whether the proposed capital plan is affordable in the short to medium term. It is also important that the Council considers what is affordable to ensure continued financial sustainability as well as identifying what capital priority areas are, to ensure delivery of Council plan priorities.</p> <p data-bbox="1648 794 2168 858"><b>An action plan recommendation has been raised in Appendix 3.</b></p>

# Wider scope audit (8)

Wider scope dimension	Plan risk	Wider scope audit response and findings	Conclusion
<p><b>Vision, Leadership and Governance</b></p> <p>Vision, Leadership and Governance is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.</p>	<p><b>Significant risk identified:</b></p> <p>There is a risk that progression of council priorities is hindered due to lack of effective cross party working arrangements.</p>	<p><b>Leadership and committee effectiveness</b></p> <p>Following the local government elections, the new Council met for the first time on 18 May 2022. The results of the local government elections in May 2022 led to a change in Council leadership from a minority SNP administration to a minority Conservative administration. However, there have been several changes to the leadership of the Council since the elections including two members who left the administration group and the Convenor resigning from their post resulting in a decision to approve a new structure consisting of a Leader, Depute Leader and Civic Leader. A by-election was also held in early November 2022 following the resignation of one of the new intake of councilors in May. Over half of the councillors elected in the latest elections are new councillors, and a number being new to local government. The current membership profile of the Council remains finely balanced as can be seen in the graph below.</p>	<p>The nature of the political make up of the council continues to be finely balanced which creates challenges in progressing key decisions and Council priorities. The Council will need to ensure that members work effectively together to act on key decisions in an effective and efficient manner, especially in what will be a challenging financial climate.</p>

**MORAY COUNCIL MEMBERSHIP**



# Wider scope audit (9)

Wider scope dimension	Plan risk	Wider scope audit response and findings	Conclusion
Vision, Leadership and Governance (continued)		<p><b>Leadership and committee effectiveness (continued)</b></p> <p>Moray Council hold a committee-based structure which has delegated functions to several committees which subsequently become responsible for the administration of services. There are currently eleven different committees including the Council which range from Audit and Scrutiny Committee to service committees and Corporate Committee. There are several other committees in place which hold specific duties such as joint partnerships and boards.</p> <p>The Audit and Scrutiny Committee undertakes the role of Those Charged with Governance (TCWG) and looks to consider reports and obtain assurance through internal and external audit reports concerning Council functions. The Committee also have a scrutiny remit, whereby the committee looks to scrutinise the policies of the Council and their effectiveness in meeting the action plans of the Council as set out in the Corporate Plan Delivery Framework and evaluating the actions of Committees in implementing the action plans set out in the Corporate Development Plan. The Committee also obtain assurance over performance monitoring and receive reports on the performance of and trends within the Council’s services in terms of service standards and performance information.</p> <p>The 2022 Best Value Assurance Report (BVAR) and most recent annual audit report for 2021/22 both highlighted that <i>“members had yet to conclude on the Audit and Scrutiny Committee’s remit and agree a shared view on the role and nature of scrutiny”</i>. In response to this finding, a workshop was led in late 2022 for elected members by the Improvement Service to clarify the scrutiny remit of the Audit and Scrutiny Committee and approve a Scrutiny Guide. The Council have also appointed two external members (co-opted independent members) to provide appropriate technical expertise. It is positive to note the steps that the Council have taken to address this issue and provide further clarification on the remit of the Audit and Scrutiny committee for members in the way of producing a formal scrutiny guide.</p> <p>Our attendance at recent Audit and Scrutiny committees since being appointed as new external auditors has identified instances where there have been challenges between members in relation to actions to be taken regarding the remit of Audit and Scrutiny Committee. There continues to be some confusion between members on what should be escalated to Council and what should be contained and actioned within the remit of the Audit and Scrutiny Committee. We have found that there has been lengthy debates on which Committee issues should be escalated to, rather than focusing on how to resolve the issue at hand. This presents a risk to resolving identified issues in a timely manner.</p>	<p>We recommend that further training is provided to members to provide further clarification and guidance on the remit of Audit and Scrutiny Committee to ensure implementation of the scrutiny guide for members is being actioned.</p> <p><b>An action plan recommendation has been raised in Appendix 3.</b></p>

# Wider scope audit (10)

Wider scope dimension	Plan risk	Wider scope audit response and findings	Conclusion
Vision, Leadership and Governance (continued)		<p><b>Leadership and committee effectiveness (continued)</b></p> <p>The most recent BVAR Report also noted "<i>The council works with three tiers of governance. The CMT meet with the administration group; group leaders meet at least once a month; and business goes through formal committees. In December 2020, the Chief Executive met with group leaders to discuss political management and ways of working, but this can still be difficult especially where there are areas of political difference. Cross-party working arrangements can be affected by longstanding political differences between some groups and some poor relationships. The administration group has been able to gain support for key decisions, but this can be time-consuming, challenging and relies on the support of other elected members</i>".</p> <p>Review of meeting minutes and observation of Council meetings has identified that there continues to be issues in cross party working arrangements to progress key decisions. Our review has found that key decisions are being made however due to issues in cross party working, the ability to gain support for key decisions continues to be time-consuming and challenging. This is largely due to the political make up of the council where there the political balance is finely balanced and therefore provides challenges in progression in key decision-making areas and creating pace for change. A recent example of this extends to the production of the new Council plan which has been delayed due to the changes in members in the following months after the local government elections in May 2022. This is combined with the finely balanced political views, the nature of producing the plan as well as the fact a number of councillors are new to the Council.</p> <p>The risk identified has been highlighted within Audit Scotland Best Value Assurance Reports for several years, and it is important that the Council urgently act upon this issue to mitigate against future risks of non-delivery of Council priorities. The Council is aware of the significant financial challenges that it faces in the short to medium term and significant decisions will need to be made on areas such as finances and service delivery.</p> <p>Monitoring of service plan progress and service performance in key areas is monitored and reported to ensure a process of continuous improvement. However, self-evaluation is something that could be improved upon at the Council. There are examples of best practice in other councils that undertake an annual self evaluation questionnaire considered by committees such as Audit Committees using various frameworks and tools such as the Public Service Improvement Framework (PSIF). This allows councils with the opportunity to evaluate on strengths and weaknesses and draw any themes arising from results of self evaluations. This will allow the implementation of any necessary action plans to support continuous improvement in priority areas and ensure it is demonstrating compliance against the CIPFA Code of Principles for Delivering Good Governance (revised 2016). The process of implementing a self evaluation in committees such as the Audit and Scrutiny Committee and in full Council may help members identify strengths and weaknesses within the Committee that can be further improved and implemented through an action plan.</p>	<p>There is a continued risk that progression of council priorities is hindered due to issues in cross party working arrangements. Issues in cross party working will make it extremely difficult for members to agree on difficult decisions that need to be made which could impact on pace of delivery of priorities, effective service delivery and financial sustainability. The council will need to ensure that members work effectively together in order to act on key decisions in an effective and efficient manner.</p> <p><b>An action plan recommendation has been raised in Appendix 3.</b></p> <p>We recommend that Moray Council look to implement an annual self evaluation and consider the results of this evaluation on an annual basis to identify strengths as well as areas for improvement in order to support continuous improvement.</p> <p><b>An action plan recommendation has been raised in Appendix 3.</b></p>

# Wider scope audit (11)

Wider scope dimension	Plan risk	Wider scope audit response and findings	Conclusion
Vision, Leadership and Governance (continued)		<p><b>Internal Audit (IA)</b></p> <p>As at March 2023, Internal Audit completed 18 out of 19 of planned audit reports in support of the annual internal audit opinion in 2022/23, with the remainder carried forward into 2023/24. The Audit and Scrutiny Committee received quarterly audit and inspection reports from internal audit which outline the work undertaken in each quarter alongside any follow up audits and the results of the audits. This provides Audit and Scrutiny Committee members the opportunity to gain assurance that internal controls are operating as expected. The internal audit opinion notes that <i>“reasonable assurance can be placed on the adequacy and effectiveness of the Council’s internal control system for the year ending 31 March 2023”</i>.</p> <p>From our review of internal audit reports and Audit and Scrutiny Committee reports we have not identified any evidence of significant gaps in the assurance obtained by the Audit and Scrutiny Committee in relation to the work programme undertaken. Numerous high priority recommendations have been made by the internal auditor in the areas covering General Data Protection Regulation (GDPR) and Self-Directed Support. The Council has noted increased numbers of data breaches across several service areas. The Council in response to this and the IA findings have developed a refresher training course for staff to complete on an annual basis. Action plans have also been developed and agreed with management for re-activation during 2023/24, that were paused during the pandemic. The Council will need to ensure it is able to appropriately respond to IA findings in this area and implement agreed recommendation to ensure there are no of breaches of GDPR.</p>	<p>The Council has in place a wide range of policies and procedures designed to ensure compliance with laws and regulations, including for example codes of conduct for employees and councillors, policy to combat fraud and HR policies and procedures. Our review of these policies have found the policies to be relevant, up to date and promoted within the Council.</p> <p>The Council have an effective internal audit function in place to assist with assurance over governance framework, risk and internal controls. The Council also have appropriate policies and procedures in place to support the governance of the Council.</p>

# Wider scope audit (12)

Wider scope dimension	Plan risk	Wider scope audit response and findings	Conclusion
<p><b>Use of Resources</b></p> <p>Bodies need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities. This includes demonstrating economy, efficiency, and effectiveness with financial and other resources and reporting performance against outcomes.</p>	<p>No significant risks identified.</p>	<p><b>Council Performance</b></p> <p>The corporate plan has four strategic priorities including; our people, our place, our future and sustainability. Underpinning these strategic priorities are several corporate priorities with key performance Indicators (KPIs) and measures to measure and monitor performance. A performance report is published annually which outlines annual performance against the corporate plan.</p> <p>At the time of drafting this report the current data available from the Council illustrated that overall performance against children and family priorities were improving year on year however, performance against adults' priorities had declined from 2020/21 to 2021/22. Our review of the most recent 2022/23 annual performance report for Moray IJB highlights that out of 11 indicators, three were showing as green and on target with the remaining nine indicators showing as amber (performing worse than target but within agreed tolerance). The area where performance has significantly decreased include the 'Rate of emergency occupied bed days for over 65s per 1000 population'. Other indicators have either been stable year on year or improved but still fall out with the agreed tolerance. Our review of the latest available local government benchmarking report (2021/22) shows that Moray Council are in the lower quartile of Councils for council spend on providing residential care for older people (per person, per week). The trend in this area for most councils has generally increased, however the Council are currently showing a decline in this area.</p> <p>Review of performance against indicators against 'Our Place' priority generally show that performance is improving however there is still underperformance noted against the percentage of participatory budgeting (PB) expenditure achieved. The Scottish Government have set a target of 1% of a local authority's budget to be allocated by PB. Moray Council have set a target to achieve 100% of the SG target, however in 2022/23 the Council only achieved 13.42%. The percentage achieved is an increase from the two previous years however continues to be significantly under target.</p>	<p>Moray faces the challenge of an increasing older population with a decline in working age population, staff recruitment challenges and lack of available accommodation against a backdrop of significant financial challenge. Adult social care is widely publicised as being under pressure in all local government authorities, so this issue is not specific to Moray Council. The Council will need to ensure that it is able to continue to deliver safe and effective adult services considering the challenging financial background faced alongside a growing aging demographic. This will require wider transformation of the Council which is outlined within the Financial Sustainability section of this report.</p> <p>We have outlined in the Best Value thematic that the Council should do more to ensure there is engagement with local citizens and communities around financial planning and future budgeting priorities given the financial challenges faced by the Council which will impact on the local community.</p>

# Wider scope audit (13)

Wider scope dimension	Plan risk	Wider scope audit response and findings	Conclusion
Use of Resources (continued)		<p><b>Council Performance (continued)</b></p> <p>Performance against 'Our Future' priority shows a mix of increasing and decreasing performance against indicators. Areas of increasing performance include; the economic impact of tourism in Moray which has more than doubled since 2020/21. The proportion of people earning less than the living wage has also reduced (improved) and the median gross weekly earnings and modern apprenticeship achievement rate has also improved. The population of 16–29-year-olds in Moray has however stayed the same which results in an ageing demographic which impacts on wider adult social care issues as mentioned above.</p> <p>Moray Council perform significantly below the national average in relation to 'Proportion of council dwellings meeting Scottish Housing Quality Standards'. In 2021/22 this indicator saw a drastic decline from 84.3% to 6.3%. The latest 2022/23 service report shows this has slightly increased to 15.5% however given the national average for the prior year was 68.5%, the Council are continuing to underperform in this area. The reason for this was in-year / late clarifications in requirements around fire and electrical safety standards which meant large numbers were no longer compliant and which compounded existing non-compliance against energy efficient social housing (EESH). This was reported to Committee.</p>	<p>We have obtained assurance that appropriate performance monitoring and reporting arrangements are in place at the Council. We have however identified areas including housing and adult social care where performance sits below target and against the average Scottish council, and therefore focus by the Council on these areas.</p> <p>We have noted good practice in relation to the community stakeholder engagement with regards to the refresh of the corporate plan (as highlighted within our Best Value Thematic Report). Extensive work was undertaken by the Council in ensuring stakeholders were engaged in helping form the new corporate plan which has helped drive Council priorities for the future. However, more could be done by the Council alongside ongoing budget engagements and consultation where possible to ensure more stakeholders are involved in participatory budgeting exercises that will be key in allocating pressured financial resources to priority areas. This will in turn help to demonstrate economy, efficiency and effectiveness of use of resources.</p> <p><b>An action plan recommendation has been raised in Appendix 3.</b></p>

# Wider scope audit (14)

## Plan risk

## Conclusion

### Other wider scope areas

We did not identify any specific risks in relation to climate change at Moray Council.

### Climate Change

We have considered six specified questions related to climate change, as mandated by Audit Scotland. We are also required to submit a questionnaire to Audit Scotland responding to the questions by the reporting deadline. We have not identified any significant risks in respect of climate change. As part of the Council's commitment to climate change mitigation, Moray Council introduced of this Climate Change Strategy in 2020 which, together with the Local Development Plan, is designed to provide a co-ordinated and appropriate response to help all with Moray to deal with the challenges that climate change is expected to bring. On the 27 June 2019, Moray Council declared a Climate Change Emergency. It was agreed that a Climate Change Strategy and action plan would be prepared and adopted with the aim of Moray Council becoming carbon neutral by 2030. Further that the Council would work with the wider community to promote and facilitate local action on Climate Change.

A working group with cross-party member and key service representation was initiated and has co-ordinated the development of the Climate Change Strategy and associated action plan. The strategy was developed with consideration to the environmental, economic and social aspects of climate change and sustainability. The accompanying Action Plan details the significant changes and challenges required to achieve a net zero carbon council by 2030. It demonstrates the scope and extent of the direction the council needs to take to realise its stated targets and deliver upon the aspirations contained within the Strategy.

We are satisfied that the Council have a climate change action plan in place which sets out how the Council intend to achieve its targets. There are appropriate arrangements in place for internal monitoring and progress is reported externally on the Council's website. We are also satisfied that the Council includes climate change in its narrative reporting which accompanies the financial statements.

The Council has considered the impact of climate change on its financial statements. The areas in which climate change will have the most material impact on the financial statements is in relation to capital and as outlined in the financial sustainability section of this report, the Council will need to assess the affordability of its capital plan and prioritise capital projects which includes consideration of the delivery of the climate change strategy.

We did not identify any specific risks in relation to cyber security at Moray Council.

### Cyber Security

We have considered risks related to cyber security at Moray Council as part during our audit of Moray Council's financial statements in line with the guidance issued by Audit Scotland's Digital Audit team. We have not identified any significant issues in relation to cyber security or the arrangements in place at the Council in relation to cyber security .

Note that our judgement is based on our IT general work performed on the arrangements in place, but this this does not involve detailed testing of system penetration controls.



# Best Value (1)

## Best Value audit response and findings

Under the new Code of Audit Practice, the audit of Best Value in councils is fully integrated within the annual audit work performed by appointed auditors and their teams. Auditors are required to evaluate and report on the performance of councils in meeting their Best Value duties. As part of our integrated wider-scope annual audit work, we as appointed auditors use a risk-based approach to assess and report whether the audited body has made proper arrangements for securing Best Value and is complying with its community planning duties, including reporting progress against previous Best Value findings and recommendations.

We have not identified any significant risks in relation to Moray Council's Best Value arrangements however as part of our review of arrangements embedded within our wider scope work for Vision, Leadership and Governance, we have reviewed the theme of Leadership and Governance and the arrangements the Council has in place to in this area. Our work in this area can be found within 'Vision, Leadership and Governance' section of this report. From our review of leadership and governance we have identified that there are the issues that have not been fully resolved at the Council which have been highlighted in previous best value assurance reports. This includes the fact that clarification on the remit of Audit and Scrutiny Committee continues to be a challenge for members. The Council have introduced formal scrutiny guides and training to further resolve this issue. However there continues to be issues in this area. We have raised an action plan recommendation to help members and the Council look to resolve this matter.

The nature of the political make up of the council continues to be finely balanced which creates challenges in progressing key decisions and Council priorities. The Council will need to ensure that members work effectively together to act on key decisions in an effective and efficient manner, especially in what is and will continue to be a challenging financial climate.

## Best Value – previous Best Value Assurance Reports (BVAR)

During the last audit appointment, a Best Value Assurance Report was produced and considered by the Accounts Commission at least once during the audit appointment. The BVAR for Moray Council was published in August 2020, with a progress report issued in March 2022. The progress report noted that while good progress had been made in a number of areas, there were challenges remaining in delivering the Council's strategic priorities.

The Council produced an updated Action Plan in response to the progress report. This was presented to full Council in June 2022 following the local government elections in May 2022. The key themes raised in the progress report and action plan relate to:

- Increase the pace of transformational change
- Improve performance management reporting
- Financial Planning
- Continue to progress the Governance Review
- Improve Educational Attainment
- Committed and Decisive Leadership
- Workforce and capacity

## Best Value (2)

### Best Value – previous Best Value Assurance Reports (BVAR) (continued)

Our best value and wider scope work has considered the findings from the BVAR and progress report and incorporated any themes into the wider scope work including the thematic review performed in 2022/23 by way of follow up.

The Council produced an update to the Action Plan reported to the Corporate Committee in April 2023, and the date of implementation for five of the seven recommendations were amended, with some changed to September 2023.

The covering report to the April 2023 Corporate Committee acknowledged the pace of change for some areas is impacted by the settling period following the elections, and from competing priorities. The report noted from the seven recommendations that four were rated ‘amber’ referring to caution in completion. The remaining three were ‘green’ in terms of on target for completion. The Council expects to complete the actions with the extended timescales, but it is too early to comment on the full progress due to the revised timelines for completion.

The pace of implementation of the Best Value Audit Report Action Plan recommendations in April 2023 has stalled compared to the expected timelines for recommendations presented in June 2022. The ability to respond to action identified from external reviews is an important part of the scrutiny function and governance of the Council.

### Best Value – Controller of Audit reports

For this audit appointment from 2022/23 onwards, the Controller of Audit also reports to the Accounts Commission on each council’s performance in meeting its Best Value duties at least once over the five-year appointment. The reports will be prepared for the Controller with support from Audit Scotland’s Performance Audit and Best Value business group and will be a summary of information. Moray Council is scheduled to be included in the first year of the programme of visits in 2024.

### Best Value Thematic

Auditors are required to report on Best Value or related themes prescribed by the Accounts Commission. The thematic work for 2022/23 requires auditors to carry out an overview of the effectiveness of Council leadership (officers and elected members) in developing new local strategic priorities following the elections in May 2022.

A summary of our conclusion reported within the Best Value Thematic can be found below:

#### 1) How clear is the new Council vision and its priorities?

We are satisfied that the new draft Council plan includes a clear vision with clear priorities for the Council. The draft plan was included in Council papers published on 16 August and approved on 23 August 2023. We are satisfied that the new plan priorities are broad enough that they capture the main issues impacting the local economy. Given the delays in producing a new corporate plan, the Council will need to ensure there is a depth of pace attached to the finalisation of the corporate plan to ensure delivery of implementation, monitoring of outcomes and progress on delivering new council priorities can commence. We have gained assurance that in preparation for the new corporate plan, priorities are being informed and developed in conjunction with a range of stakeholders and community partners through the Local Outcome Improvement Plan (LOIP).

# Best Value (3)

## Best Value Thematic (continued)

### **2) How effectively have the views of citizens and communities been reflected in the priorities and decisions taken by the Council?**

We have found the work undertaken by the Council in relation to community engagement in forming the new corporate plan to be highlighted as an area of strength for the Council, and an example of good practice. The Council have effectively listened to the views of citizens and communities and reflected these in the priorities within the new Council plan. It is currently too early to assess the effectiveness of decisions taken by the Council in line with the new corporate plan.

### **3) How effectively do the Council priorities reflect the need to reduce inequalities and climate change?**

We are satisfied that the priorities of the Council within the Council plan clearly articulates the importance of its plans to reduce inequalities as well as ensuring stakeholders have been involved in identifying local needs and inequalities to inform priorities. The Council also has appropriate arrangements in place to reflect the sustainability of the environment and in particular climate change as a key priority in its vision and council plan.

### **4) How good are the delivery plans and is there alignment of financial, workforce, asset and digital plans with the Council's priorities?**

Overall, we are satisfied that the council has appropriate delivery plans and that there is alignment of financial, workforce and asset plans with council priorities however digital plans are yet to be finalised.

The Council will need to review the affordability of the capital plan and prioritise capital projects in line with its priorities. The Council also faces significant financial challenges with a significant funding gap estimated for 2024/25. As a result of a challenging financial future, it is important that there is increased focus on ensuring there is engagement with local citizens and communities especially around financial planning and future budgeting priorities.

### **5) Overall, how effective has the leadership been (political and officer) in setting clear priorities and a sustainable approach to delivering them?**

There has been some issues in cross party working between members in to finalise the council plan and set council priorities. There has been a delay in finalising the Council plan due to a number of changes with the leadership and members since the local government election in 2022. Factors including the emerging national financial position of local government and the Verity House agreement have also contributed towards delays in finalising the new Corporate Plan. The Council remains finely balanced which provides some challenges in progressing key decisions including finalising the new council plan. Further work has been planned around the theme "Collaborative leadership" to improve the way councilors and officers work together and to ensure that Council meeting time is used effectively.

# Best Value (4)

## Service Improvement and Reporting

The Accounts Commission has a statutory responsibility to define the performance information that councils must publish. In turn, councils have their own responsibility, under their Best Value duty, to report performance to the public. 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.

The Accounts Commission issued the Statutory Performance Information Direction in December 2021 which requires a council to report: “its performance in improving local public services (including those provided with its partners and communities), and progress against agreed desired outcomes its own assessment and audit, scrutiny and inspection body assessments of how it is performing against its duty of Best Value, and how it has responded to these assessments”.

The Council has yet to publish its Annual Performance Report 2022/23, with plans to publish this in November 2023. One of the requirements set out in the direction is that the reporting is undertaken in a timely manner. Although this has not been defined in the guidance, the Council is yet to report the outcomes. It was anticipated that reporting would be to the September full Council, but this was delayed, and it is anticipated that the report will be presented to the Corporate Committee on 7 November and then with full Council.

The 2022/23 Annual Governance Statement outlines the Council’s assessment of how it is performing against its duty of Best Value and the progress and status of recommendations raised in previous best value assurance reports.

We have followed up the previous auditor’s recommendations in Appendix 4.

### Conclusion on service improvement and reporting

We are unable at this stage to evaluate the effectiveness and appropriateness of the arrangements in place at the Council, including assessing the appropriateness of the information provided to members in responding to the new Direction as this has yet to be published.

We have raised a recommendation regarding the timeliness of the performance reporting in Appendix 3.

# Appendices

# 1. Audit Adjustments (1)

We are required to report all non-trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

## Impact of adjusted misstatements

All adjusted misstatements made during the course of the audit are set out in the table below, together with their impact on the Comprehensive Income and Expenditure Statement (CIES), the balance sheet, and the reported net expenditure of the Council for the year ending 31 March 2023.

**Note that with any of the adjustments there is no impact upon usable reserves.**

Detail	CIES £'000	Balance sheet £' 000
DR Pension reserve		163,868
CR Pension asset		(163,868)
	163,868	
DR Remeasurement of net defined liability	(163,868)	
CR MIRS		

**The gross impact of the capped IAS19 asset calculation due to the IFRIC14 assessment. The impact is through the CIES but mitigated through the MIRS.**

DR Pension asset		10,257
CR Pension liability		(10,257)

**The unfunded liabilities IAS19 liability had been incorrectly netted off from the pension asset when it should have been a liability. This is classification only.**

**The impact of both of adjustments above is the reduction in the pension asset of £153.611 million and in increase in the pension liability of £10.257 million. This is classification only.**

# 1. Audit Adjustments (2)

## Impact of adjusted misstatements (continued)

Detail	CIES £'000	Balance sheet £' 000
DR Revaluation Reserve		13,768
CR Capital Adjustment Account		1,016
CR Property, Plant and Equipment		(14,804)
DR Investment Property		20
DR Cost of Services	1,016	
DR Revaluation of PPE	13,768	
CR MIRS	(14,784)	

**The impact of movements in PPE due to revaluation issues noted during the audit. The main part of this is the overstatement in council house indexation of £19.816 million with other PPE adjustments of (£5.012 million) netting to a reduction of £14.804 million in PPE.**

**The impact is through the CIES but mitigated through the MIRS.**

DR Short Term Creditors		2,007
CR Short Term Revenue Grants Received in Advance		(2,007)
DR Long Term Liabilities		4,066
CR Long Term Revenue Grants Received in Advance		(4,066)

**Adjustment to record the grants received in advance balance separately and not within other balances. This is classification only.**

# 1. Audit Adjustments (3)

## Impact of adjusted misstatements (continued)

Detail	CIES £'000	Balance sheet £' 000
DR Group Creditors		2,196
CR Group Cash		(2,196)

**The cash for the group was incorrectly stated as the cash for the Council are the same value and the adjustment should have been through creditors instead. This is classification only.**

DR Grants Received in Advance		656
CR Short Term Creditors		(656)

**The grants received in advance included an item that should have been in creditors. This is classification only.**

<b>Overall impact to usable reserves</b>	<b>Nil – all reversed in the MIRS</b>	<b>Nil – all impact is in unusable reserves</b>
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# 1. Audit Adjustments (4)

## Impact of unadjusted misstatements

The table below provides details of all non-trivial errors which we identified during the course of our 2022/23 audit which management decided not to amend within the final set of financial statements. The unadjusted misstatements will be included in the Letter of Representation.

Detail	Comprehensive Income and Expenditure Statement £'000	Balance sheet £' 000
<b>Prior Period Adjustment</b>	(2,018)	2,018
The PPA for £17.07 million for PPE valuations was all accounted for through the 31/3/22 balance, but an element related to the 1/4/21 opening position. Although the total would not change, there should be £2.018 million recorded in the 1/4/21 position within the restated accounts and a third balance sheet added to show this amendment.	2,018	(2,018)
<b>Overall impact</b>	<b>0</b>	<b>0</b>

Management have not amended for this adjustment as it is not material and is in classification only, and does not impact upon the total value of the PPA of £17.07 million.

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# 1. Audit Adjustments (5)

## Impact of unadjusted misstatements in the prior year

There were no unadjusted misstatements in the 2021/22 financial statements.

# 1. Audit Adjustments (6)

## Misclassification and disclosure changes

The table below provides details of substantive misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements. This is not a complete list, as this does not include minor changes requested by the audit team, including typos and formatting requests.

This list of misclassification and disclosure changes reflects presentational adjustments to the financial statements which have no impact on the Council's reported financial position.

Disclosure	Comments	Adjusted?
General	There were minor changes noted to grammar and to correct spelling and other consistency issues. The Council has corrected these in the final version of the financial statements, they are expected and do not warrant detailed explanation.	Yes
Comprehensive income and expenditure account (CIES)	The CIES included the original and restated figures for the 2021/22 comparators, whereas only the restated figures were required, so they were removed.	Yes
	For information, the group figures in the CIES are only shown net by the Council, as the gross changes to the group services income and expenditure are not material. This is acceptable but gross disclosure would provide more information.	N/A
Balance Sheet	The balance sheet included the original and restated figures for the 2021/22 comparators, whereas only the restated figures were required, so they were removed.	Yes
	The General Fund was split to show the element for the Council and the element for the Group consolidation for the Trust Funds identified separately for both 2022/23 and the comparator.	Yes
Cashflow statement	The cashflow statement included the original and restated figures for the 2021/22 comparators, whereas only the restated figures were required, so they were removed.	Yes
	For the group cashflow the starting point should have been the deficit on the provision of services and not the provision of services and the associates' equity balance. This was adjusted in the 2022/23 and comparator balances.	Yes
	The group cashflow statement did not balance to the group cash balance sheet figure by £2.196 million. This was due to an incorrect value in the balance sheet for the group cash, as the £2.196 million should have been in creditors instead.	Yes
	The cashflow statement disclosure was expanded to analyse non-cash movements and investing and financing entries in more detail.	Yes

# 1. Audit Adjustments (7)

Disclosure	Comments	Adjusted?
Movement in Reserves Statement	Disclosure within the MIRS was amended to ensure the link from the general fund is fully reconcilable with the group reserves.	Yes
	Disclosure within the balance sheet for the share of associates reserves and the minority interest were not attributable to unusable or unusable reserves. These are not material balances, and this has not been amended by the Council for this classification issue. A recommendation is raised at Appendix 2.	No
Note 2 – Prior Period Adjustment	Changes were made to add further narrative to improve the signposting that the prior period adjustment in Note 2 is for the Council and that other disclosures for Trust Funds and Common Goods are in those respective notes also.	Yes
Note 6 – Estimation Uncertainty	Some disclosure changes were made within this note, but further enhancements could be made to include PPE valuations and provide sensitivity analysis for each disclosure.	Yes
Note 7 – Events after the Reporting Period	This note was updated as expected to bring it up to date to the signing of the financial statements	Yes
Note 8 – Expenditure and Funding Analysis (EFA)	<p>The first column in the Expenditure and Funding Analysis should reconcile to the outturn figures within the management commentary. This is not the case in Note 8 as bad debt provision is in the service lines in the outturn.</p> <p>Management have added narrative disclosure to note the reason for the difference in the figures compared to the management commentary but have not adjusted the figures. This would involve adding more columns within the EFA. We are satisfied that the differences are not material, and that narrative disclosure has been added both in Note 8 and in the management commentary.</p>	Partially

# 1. Audit Adjustments (8)

Disclosure	Comments	Adjusted?
Note 10 – Adjustments between accounting and funding basis	The other entry within the capital reserve for £1.014 million had been omitted from the disclosure note. The MIRS was correct, this is merely the number being missed from the disclosure.	Yes
Note 15 – Property, Plant and Equipment	The PPE note did not balance to the balance sheet figure even when infrastructure assets were added in, therefore adjustments were required to ensure the balance sheet figure agreed to the PPE note, most notably in the revaluation disclosures.	Yes
	Within the PPE note £5.669 million was identified within assets under construction that were operational, and they were moved into the correct operational categories.	Yes
	Within the PPE note there were no reversals of depreciation recorded for any revaluations and the figures netted elsewhere from the note, so these were amended to show the figures as £8.592 million for the council houses and £28.257 million for buildings.	Yes
	The valuations table within Note 15 did not reconcile to the cost figures for the valuations in the PPE table, the final set of statements has adjusted this, so it is now reconcilable.	Yes
	The adjustments noted on page 16 highlight that the PPE balance reduced by £14.802 million due to all identified amendments, therefore the disclosure note was amended to incorporate these changes. A recommendation is made at Appendix 2 regarding Note 15 to aid improvements in future years in the compilation of this disclosure note.	Yes
Note 15 – Property, Plant and Equipment	Disclosure was added as required by CIPFA Bulletin 14 for infrastructure assets to include a reconciliation note as infrastructure assets are not disclosed in the PPE note and a reconciliation is required to then note how the PPE note reconciles back to the balance sheet.	Yes

# 1. Audit Adjustments (9)

Disclosure	Comments	Adjusted?
Note 19 – Financial instruments	The debtors' financial instruments balance was increased by £2.05 million for both 2021/22 and 2022/23 due to the inclusion of local taxation debtors that had been omitted.	Yes
	The cash balance had been excluded from the financial instruments disclosure, so this was added to include £11.034 million for 2022/23 and £15.409 million for the comparator year 2021/22.	Yes
	Further disclosure was added to split out the LOBO balance separately in the financial liabilities table.	Yes
	The annual leave accrual was incorrectly included within the short-term creditors balance, so this was removed for 2022/23 as well as the comparator year 2021/22. This is because the accrual is not a financial instrument.	Yes
	The 2022/23 value for PPP and finance lease liabilities decreased by £4.066 million due to capital grants in advance being correctly included.	Yes
	Minor changes in narrative were added to enhance the existing information for the reader within the financial instruments note.	Yes
Note 34 – External audit fees	Additional disclosure was added due to the update in the final external auditor's fee and to disclose the work on the bus certification grant and the trust funds audit separately.	Yes
Note 35 – Councillors' Remuneration	A new disclosure note was added as Councillors' Remuneration is required to be shown within the financial statements. The note had already been included within the Remuneration report, so the new note within the financial statements, signposts to the Remuneration report.	Yes

# 1. Audit Adjustments (10)

Disclosure	Comments	Adjusted?
Note 37 – Related Party Transactions	The related party transaction note was amended to add disclosure about the trust funds and common good intra group transactions as they were missing from the draft accounts.	Yes
	The 2021/22 comparator was changed for the funding received from Moray IJB from £66.311 million to £65.049 million, a decrease of £1.262 million.	Yes
	The 2021/22 comparator was changed for the contribution to Moray IJB from £47.475 million to £50.731 million, an increase of £3.256 million.	Yes
	The changes in the comparators were due to the incorrect figures in the disclosure in the previous year, this did not impact the primary statements.	
Note 43 – Defined Benefit Pension Schemes	Disclosure was added to include the accounting policy for the IFRIC14 pensions asset	Yes
	The adjustments noted on page 20 highlight that the Pension Asset reduced by £153.611 million due to the IFRIC14 asset capping and the amendment of the unfunded pensions as a pension liability, therefore the disclosure note was amended to incorporate these changes.	
Trust Funds – Balance Sheet	The description of reserves for Trust Funds refers to terminology that is applicable to Council only reserves. Although the impact of the consolidation adjustments relating to these reserves is not material, the Council should refer to the correct terminology with the financial statements. A recommendation is added at Appendix 2.	No

## 2. Action plan and recommendations – Financial statements audit (1)

We have identified four recommendations for Moray Council and the group during our audit of the financial statements for the year ended 31 March 2023. We have agreed our recommendations with management and will report on progress on these recommendations during our 2023/24 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
High	<p><b>Journals</b></p> <p>Our work on journals identified that the Council does not have journal authorisation processes within the general ledger, and processes are more informal. There is a reliance upon reactive controls through the budget monitoring process, whereas proactive controls would enhance the ability to reduce the risk of fraud or error from the opportunity to override management controls.</p>	<p>Review the processes in place for the authorisation of journals and consider introducing a formalised method of journal authorisation.</p> <p><b>Management response and Officer and deadline</b></p> <p>We will review and document processes for authorising journals with the General Ledger with a view to establishing the risks to the Council of current procedures and introducing mitigations where risk are considered unacceptably high.</p> <p><b>Responsible officer: Principal Accountant</b></p> <p><b>Target date: 31 March 2024</b></p>
High	<p><b>Property, Plant and Equipment</b></p> <p>The draft financial statements presented for audit including the disclosure note did not reconcile to the balances within the fixed asset register. There were various issues identified that required amendment as a result in the draft financial statements.</p>	<p>Review the reconciliation processes in place for the compilation of the Property, Plant and Equipment balances and associated disclosure in the financial statements to ensure they reconcile to the fixed asset register.</p> <p><b>Management response and Officer and deadline</b></p> <p>We will review and document our PPE reconciliation processes to ensure the financial statement reconcile to the FAR.</p> <p><b>Responsible officer: Senior Accountant</b></p> <p><b>Target date: 31 March 2024</b></p>

### Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice



## 2. Action plan and recommendations – Financial statements audit (2)

Assessment	Issue and risk	Recommendations
<b>Medium</b>	<p><b>Nil net book value assets</b></p> <p>The Council's asset register includes £22.973 million of assets with a nil net book value that are fully depreciated. The majority of these (£16.621 million) are within plant and machinery.</p> <p>There are two risks in relation to this issue:</p> <ul style="list-style-type: none"> <li>• if these assets are no longer operational, the gross cost and accumulated depreciation balance will be overstated; and</li> <li>• if these assets are operational, there is a risk that the Council is not assigning appropriate asset lives to its plant and equipment assets.</li> </ul>	<p>Perform a detailed review of their useful economic lives policy and updated where appropriate.</p> <p>Embed a formal process for reviewing assets which have outlived their useful economic lives on an annual basis, to ensure the assets are still in existence.</p> <p><b>Management response and Officer and deadline</b></p> <p>Assets with nil NBV will be reviewed during 2023/24 with a view to removing asset which have been disposed of and accounting policies will be assessed in the light of the review of assets.</p> <p><b>Responsible officer: Chief Financial Officer</b></p> <p><b>Target date: 31 March 2024</b></p>
<b>Medium</b>	<p><b>Reserves categorisation</b></p> <p>The Council's financial statements for the group include some references to terminology specifically attributable to Council only reserves. All reserves on the balance sheet should also be attributable to either usable or unusable reserves</p> <p>The descriptors noted were not relating material group consolidated reserves, but the Council should be using the correct terminology within the financial statements.</p>	<p>Review the terminology within the financial statements regarding the descriptors for the group reserves and ensure all reserves on the balance sheet are categorised to unusable or usable reserves.</p> <p><b>Management response and Officer and deadline</b></p> <p>We will review the terminology as part of the next financial statements compilation process.</p> <p><b>Responsible officer: Principal Accountant</b></p> <p><b>Target date: 30 June 2024</b></p>

# 3. Action plan and recommendations – Wider scope and Best Value (1)

We have set out below, based on our audit work undertaken in 2022/23, the key recommendations arising from our wider scope and Best Value audit work:

Recommendation	Agreed management response/Officer/Date
<p><b>1. Financial Sustainability - Reserves</b></p> <p><b>Risk:</b> There is a risk that continued reliance on reserves to bridge funding gaps will create financial sustainability issues for the Council.</p> <p><b>Recommendation:</b> The Council will need to continue to monitor the percentage level of adequate general reserves as funding gaps continue to grow and the Council looks to transformation in future years to ensure reserves do not dip to an unsustainable level.</p>	<p>The Short to Medium Term Financial Strategy reported on 27/9/23 clarifies the role of reserves in that time frame, sets out options by which the budget gap for 2024/25 and 2025/26 may be balanced including through service reductions and income generation, and emphasis the fact that reliance on reserves to balance budgets is not sustainable.</p> <p><b>Responsible officers: Chief Executive and Chief Financial Officer</b></p> <p><b>Target date: 31 March 2026</b></p>
<p><b>2. Financial Sustainability - Transformation</b></p> <p><b>Risk:</b> The council has not yet identified the savings and efficiencies required in order to eliminate the large funding gap predicted for 2024/25.</p> <p><b>Recommendation:</b> A depth of pace will need to be undertaken on the transformation programme to ensure the Council can bridge the significant funding gap in a short space of time. It is important that the Council and sub committees monitor the progress and delivery of the transformation programme and outcomes at a close level to ensure that not only efficiencies can be delivered but that financial sustainability can be achieved. To ensure financial sustainability for the medium to longer term, the Council will need to ensure that it is able to deliver increased productivity and efficiency initiatives to reduce costs and deliver financial benefits. The Council will need to upscale the pace and delivery of transformation to achieve and mitigate the risk of becoming financially unsustainable.</p>	<p>As is recognised in the Short to Medium Term Financial Strategy, service reductions and income generation are likely to be key components in bridging the gap for 2024/25 and proposals in line with this approach have been prepared and will be reported at a series of council meetings from October 2023. In the Medium to Long Term, further opportunities for transformation are being developed and scoped and these will be reflected in the Medium to Long Term Financial Strategy due to be reported in October. Meantime, pace and progress in the existing Improvement and Modernisation Programme continues to be regularly monitored.</p> <p><b>Responsible officers: Chief Executive and CMT</b></p> <p><b>Target date: 31 March 2026</b></p>

# 3. Action plan and recommendations – Wider scope and Best Value (2)

We have set out below, based on our audit work undertaken in 2022/23, the key recommendations arising from our wider scope and Best Value audit work:

## Recommendation

## Agreed management response/Officer/Date

### 3. Financial Sustainability - Capital

**Risk:** The capital plan shows a total expenditure between 2023/24 and 2032/33 of £501 million of which £400.5 million (80%) is planned to be financed through loans. This is a significant amount of planned borrowing and therefore will be revenue implications for the Council. The current capital plan could represent a risk to the Council in the longer-term.

**Recommendation:** The Council will need to review the affordability of the proposed capital plan and its revenue implications. A review of the capital plan and estates strategy should be carried out and identify through scenario planning and sensitivity analysis whether the proposed capital plan is affordable in the short to medium-term. It is also important that the Council considers what is affordable to ensure continued financial sustainability as well as identifying what capital priority areas are to ensure delivery of Council plan priorities.

A review of the Capital Plan has commenced, this will incorporate the level of borrowing at current interest rates which will result in the Council remaining within the percentage loans charges PI adopted by the Council to ensure borrowing is sustainable. Options to reduce the Council asset base, extend predict asset lives and reduce asset standards will also be developed.

**Responsible officer: Chief Financial Officer**

**Target date: 31 January 2024**

### 4. Vision, Leadership and Governance - Audit and Scrutiny Committee

**Risk:** There continues to be some confusion between members on what should be escalated to Council and what should be contained and actioned within the remit of the Audit and Scrutiny Committee. We have found that there has been lengthy debates on which committee issues should be escalated to rather than focusing on how to resolve the issue at hand. This presents a risk to resolving identified issues in a timely manner.

**Recommendation:** We recommend that further training is provided to members to provide further clarification and guidance on the remit of Audit and Scrutiny to ensure implementation of the scrutiny guide for members is being actioned.

All members of the Audit and Scrutiny committee are shortly to complete a self-assessment questionnaire to help them understand their role on that committee and identify knowledge gaps. Further training is scheduled for Dec 23 to cover questioning techniques and the mechanics of effective scrutiny. This will be monitored through the council's Best Value action plan.

**Responsible officers: Head of Governance, Strategy & Performance**

**Head of HR, ICT & OD**

**Target date: 31 March 2024**

# 3. Action plan and recommendations – Wider scope and Best Value (3)

We have set out below, based on our audit work undertaken in 2022/23, the key recommendations arising from our wider scope and Best Value audit work:

## Recommendation

## Agreed management response/Officer/Date

### 5. Vision, Leadership and Governance - Cross Party Working

**Risk:** Key decisions are being made by Council members however due to issues in effective cross party working, the ability to gain support for key decisions continues to be time-consuming and challenging. This is largely due to the political make up of the Council where there the political balance is finely balanced and therefore provides challenges in progression in key decision-making areas and creating pace for change. There is a risk that progression of Council priorities is hindered due to issues in cross party working arrangements.

**Recommendation:** Issues in cross party working will make it extremely difficult for members to agree on difficult decisions that need to be made which could impact on pace of delivery of priorities, effective service delivery and financial sustainability. The council will need to ensure that members work effectively together to act on key decisions in an effective and efficient manner. We recommend that Moray Council look to implement an annual self evaluation and consider the results of this evaluation on an annual basis to identify strengths as well as areas for improvement to support continuous improvement.

Further work has been planned around the theme of “Collaborative Leadership” by the Council including the use of external support as set out in the Best Value Thematic Review. This work is currently in progress and we aim to capture findings in a Revised Best Value Action Plan.

**Responsible officer: Chief Executive**

**Target date: 31 December 2023**

# 3. Action plan and recommendations – Wider scope and Best Value (5)

We have set out below, based on our audit work undertaken in 2022/23, the key recommendations arising from our wider scope and Best Value audit work:

## Recommendation

## Agreed management response/Officer/Date

### 6. Use of Resources to Improve Outcomes - Participatory Budgeting

**Risk:** Given the financial challenges that lie ahead for the Council, decisions will need to be made regarding available financial resource and how it is allocated and prioritised, which has the potential to have a knock-on impact on service delivery.

**Recommendation:** It is important that the Council undertake more work around participatory budgeting and ensure key stakeholders including partners and individuals are involved within participatory budgeting exercises to ensure that financial resources are distributed to priority areas and is reflecting of priority areas for the local population.

Financial planning in both the short to medium term and medium to long term is being progressed through separate financial strategies across these timescales, the former reported in September and the latter in October. Key stakeholders will be involved in that process through the budget engagement activities which commenced in September and which will continue in terms of the Communications and Engagement Strategy 2023. Participatory budgeting will continue to be used within services to ensure that service developments, eg refurbishment of play areas and active travel, are tailored to the aspirations of communities. This is in conformance with the Framework for PB in Scotland which states “PB is a democratic process in which citizens decide directly how to spend part of a public budget” and which recognises the PB sits along with community engagement. Community Engagement will be the strand of activity used to inform prioritisation of resource

**Responsible officers: Chief Executive and Chief Financial Officer and CMT**  
**Target: 31 March 2024**

# 3. Action plan and recommendations – Wider scope and Best Value (4)

We have set out below, based on our audit work undertaken in 2022/23, the key recommendations arising from our wider scope and Best Value audit work:

## Recommendation

## Agreed management response/Officer/Date

### 7. Best Value – Service improvement and reporting

**Risk:** That performance reporting required in the Statutory Performance Information Direction is not considered in a timely manner.

**Recommendation:** It is important that the Council produces and presents the performance report required from the Statutory Performance Information Direction in a timely manner.

Performance information is reported to service Committees for review and scrutiny on a 6 monthly basis. Quarter 4 reporting tends to be June depending on when Committee dates fall. The overall Council performance information for public performance reporting is collated from that final cycle of information and reporting for approval as soon as possible. A range of other communications and engagement work and staff vacancies for 2 of 3 posts delayed this from September to November for 2023. It is hoped that filling of vacancies will enable this to revert to the planned timescale and consideration will also be given to whether this could be achieved earlier than September in future years.

**Responsible officer: Head of HR, ICT & OD**

**Target: 30 September 2024**

# 4. Progress against prior year recommendations (1)

## Progress against prior year audit recommendations

The predecessor auditor identified the following issues in their 2021/22 audit of Moray Council's financial statements and their wider scope work. This resulted in seven recommendations being reported in their 2021/22 Annual Audit Report. The prior auditor also reported six recommendations that were not complete from their reports prior to 2021/22 and these are also included and not reported elsewhere. Therefore, there are thirteen recommendations within Appendix 4 in relation to the prior auditor recommendations.

See below the follow up on the implementation of these prior year recommendations and an assessment of the progress and whether any are not yet implemented.

**For the thirteen recommendations made by the predecessor auditor, we have only classed one as still outstanding, as the same issue has arisen in 2022/23 (recommendation 1). For all the others they are either closed, superseded or currently in progress.**

Recommendation / Prior auditor finding	Agreed management response and action taken	Auditor conclusion
<p><b>1. Non-current assets</b></p> <p>Audit testing identified that £0.9 million of expenditure on a third-party asset had been incorrectly included as an addition to Council assets. We also identified that £2.6 million of assets were classified as assets under construction (AUC) when they had been completed by 31 March 2022.</p> <p>Risk – non-current assets are misclassified in the accounts.</p>	<p>Procedures have been amended and through the monitoring processes we are aware of expenditure that would be on third party assets.</p> <p>A complete review of assets under construction was undertaken during the audit last year so it is not anticipated to be any issues this year however, a full review will be undertaken in conjunction with Property.</p>	<p><b>Outstanding</b></p> <p>No issues were identified in additions, so this element of the recommendation is closed.</p> <p>The same error in assets under construction has occurred in 2022/23 for £5.669 million.</p> <p>This recommendation still stands. The final accounts process should ensure there is a thorough assessment of assets under construction.</p>

# 4. Progress against prior year recommendations (2)

Recommendation / Prior auditor finding	Agreed management response and action taken	Auditor conclusion
<p><b>2. Loans Fund advances</b></p> <p>The Council made loans fund advances of £21.5 million to services in 2021/22 but did not include these in its loans fund working papers, set out the repayment period for each loans fund advance nor calculate the amount of repayment due in each financial year. In addition, the Council has not included the disclosures required by Finance Circular 7/2016 in either the Management Commentary or the annual Treasury Management Strategy or Annual Report.</p>	<p>Working Papers for this year will be amended to show this and the appropriate disclosures will be included in the Management Commentary.</p>	<p><b>Closed</b></p>
<p>Risk – the Council does not comply with the requirements set out in Finance Circular 7/2016.</p>		



# 4. Progress against prior year recommendations (3)

Recommendation / Prior auditor finding	Agreed management response	Auditor conclusion
<p><b>3. Charities</b></p> <p>The Moray Council Charitable Trust has £0.3 million of assets at 31 March 2022 but has not disbursed any funds since it was set up in August 2016.</p> <p>Risk – the charity does not provide public benefit requirements and so does not meet the charity test.</p>	<p>In October last year, a Cost of Living Working Group was set up to identify short term actions that would help people in poverty.</p> <p>The group reported to full Council on 7 December 2022 with recommendations which included using money from three trust funds with charitable purposes of benefitting the poor, and one of those is the Moray Council Charitable Trust.</p> <p>The minutes confirm that available funds for disbursement for 2022 (£10,700) from the 3 trust funds listed in the report be allocated to support Moray Food Plus, warm banks and the social work crisis fund and increase the funding to Moray Food Plus by £15,700 to £20,000.</p> <p>As The Moray Council Charitable Trust has geographical restrictions, correspondence was to be made with Community Groups in those areas to invite applications for the Warm Banks funding. The total they've allocated from this trust is the full amount approved by Committee (£3800). From the financial management system, nothing has been paid out yet but it is in progress.</p>	<p><b>Closed</b></p>

# 4. Progress against prior year recommendations (4)

Recommendation/ Prior auditor finding	Agreed management response	Auditor conclusion
<p><b>4. Financial management</b></p> <p>Budget monitoring reports did not satisfactorily forecast and report the development of the final position shown in the audited financial statements.</p> <p>Risk – members do not have up to date and accurate financial information on which to base their decision-making.</p>	<p>This point was around the planned use of reserves, and this has been reviewed on how this is being reported upon.</p>	<p><b>Superseded</b></p> <p>Similar recommendation made as part of our wider scope review; therefore, this is superseded.</p>
<p><b>5. Payroll user access</b></p> <p>There is no formal review of user access to the ‘iTrent’ payroll and HR system to ensure access rights remain appropriate.</p> <p>Risk – individuals continue to have inappropriate access to the payroll and HR system.</p>	<p>Checks are completed quarterly as part of quarterly bulletin implementation.</p> <p>The quarterly check is undertaken when bulletins are implemented. Managers have been reminded that if someone leaves Payroll are to be notified.</p> <p>If Payroll receive a request to set up a new user, they check who they are replacing and whether their access needs to be removed.</p>	<p><b>Closed</b></p>

# 4. Progress against prior year recommendations (5)

Recommendation/ Prior auditor finding	Agreed management response	Auditor conclusion
<p><b>6. Council tax discounts and non-domestic rates reliefs</b></p> <p>Regular reviews are not undertaken to ensure those in receipt of continuing discounts and reliefs awarded in prior years are still eligible to receive them.</p> <p>Risk – discounts and reliefs are awarded to ineligible taxpayers.</p>	<p><b>Council Tax:</b></p> <p>An exercise commenced in Q3 to review exemptions and discounts. This resulted in review forms being issued to CTAX-payers asking them to confirm if there has been any changes regarding the exemption that they has received. Based on the responses received, CTAX will be updated. A summary of this work will follow. At this point any reminders to follow-up non-returned forms has not yet been issued. This exercise will be conducted after annual billing is completed.</p> <p>The ‘no change’ responses received in regard to “Deceased – No Grant of Confirmation Awarded” have been validated with the Sheriff Court. This has resulted in a number of fraudulent declarations being identified, and CTAX has been updated to accurately reflect the date on which the grant of confirmation was obtained.</p> <p>Arrangements are being made in conjunction with Moray Council’s procurement team to contract Datatank to review all Single Person Discount awards. These will be completed post 1 April, with a view of conducting a full review of single person discounts in Q1 of 2023/24.</p> <p>Review of “Deceased – no grant of confirmation” is complete. Single Person Discount exercise is underway but commenced later than originally planned.</p> <p><b>Non-Domestic Rates:</b></p> <p>The intention remains to cancel all awards of Small Business Bonus Scheme relief and a number of other reliefs on 31 March 2023. This means that when 2023/24 commences and the new rateable values are in place, there will be a ‘clear’ NDR database.</p> <p>NDR reliefs have been cancelled with rate payers invited to re-apply. This will validate all reliefs awarded in 2023/24.</p>	<p><b>Closed</b></p>

# 4. Progress against prior year recommendations (6)

Recommendation / Prior auditor finding	Agreed management response	Auditor conclusion
<p><b>7. Statutory Performance Indicators (SPIs)</b></p> <p>Going forward, the Council should ensure it completes its own internal assessments of performance against its duty of Best Value. These assessments should include action plans for improvement</p> <p>Risk – the Council does not comply with the requirements of the SPI Direction.</p>	<p>A report was presented to Moray Council in June 2022 on the Best Value Assurance Report including an action plan. A report submitted to Moray Council on 7 December 2022 approved revised remit of Audit and Scrutiny committee and scrutiny guide, with an update to Corporate Committee on 25 April 2023.</p> <p>A refreshed Best Value self-corporate self-assessment report is under development, and it expected to be reported to committee in October/November 2023.</p> <p>A programme of continuous improvement self-assessments (based around the psif model) for each service within the Council is being reinstated and will commence in 2024.</p>	<p><b>Superseded</b></p> <p>Similar recommendation made as part of our wider scope review around the performance reporting; therefore, this is superseded.</p>
<p><b>8. Moray Leisure Limited</b></p> <p>The Council has not reviewed its treatment of Moray Leisure Limited and has incorporated MLL as an associate within the group financial statements, whereas the opinion was it should be a subsidiary. The amounts are not material.</p>	<p>We have reviewed the accounting treatment of MLL and are of the opinion that MLL should continue to be accounted for as a subsidiary.</p>	<p><b>Closed</b></p> <p>We are satisfied with the accounting treatment.</p>

## 4. Progress against prior year recommendations (7)

Recommendation / Prior auditor finding	Agreed management response	Auditor conclusion
<p><b>9. Cyber security</b></p> <p>The council should reapply for PSN and Cyber Essentials Plus accreditations as soon as practical.</p>	<p>The current window of opportunity for remedial work arising from the current health check to comply with Cabinet Office PSN Accreditation has been extended and work is ongoing to complete the remedial work within this timeframe.</p>	<p><b>Closed</b></p>
<p><b>10. Internal controls</b></p> <p>The Council should ensure that a robust payroll validation process is introduced across all services, and any differences on the annual housing rents reconciliation are timeously investigated and cleared.</p>	<p>Regular establishment lists are issued to managers for checking with queries raised with HR for investigation. Non-responders are reminded to consider the information or confirm no changes are required.</p>	<p><b>Closed</b></p>
<p><b>11. Business continuity planning</b></p> <p>The Council should review its business continuity arrangements to ensure that they are up to date and fit for purpose. Lessons learned from the pandemic should also be incorporated.</p>	<p>A comprehensive review of Business Continuity plans is being undertaken with a planned completion date of April 2024. A Business Continuity officer within the Internal Audit team is assisting departments in bringing their arrangements up to date.</p>	<p><b>Ongoing</b> Not yet due.</p>

# 4. Progress against prior year recommendations (8)

Recommendation / Prior auditor finding	Agreed management response	Auditor conclusion
<p><b>12. Money laundering policy</b></p> <p>The Council should ensure that the money laundering guidance is updated.</p>	<p>Updated, reported to Council in August 2023 for consultation and reported for approval in September 2023.</p>	<p>Closed</p>
<p><b>13. Risk Management</b></p> <p>The Council should ensure that adequate resources are put in place to support its risk management processes.</p>	<p>The Council has appointed a business continuity and Risk Management officer who has updated the Corporate Risk register (reported to Corporate Committee on 29 September 2023 and who is working with services on their individual risk registers and business continuity plans. It is expected that the business continuity work will be completed by March 2024, and will then be subject to regular review.</p>	<p>Closed</p>

# 5. Audit fees, ethics and independence (1)

## Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention and consider that an objective reasonable and informed third party would take the same view. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements.

As part of our assessment of our independence we note the following matters:

Matter	Conclusion
Relationships with Grant Thornton	We are not aware of any relationships between Grant Thornton and the Moray Council that may reasonably be thought to bear on our integrity, independence and objectivity
Relationships and Investments held by individuals	We have not identified any potential issues in respect of personal relationships with the Group or investments in the Group held by individuals
Employment of Grant Thornton staff	We are not aware of any former Grant Thornton partners or staff being employed, or holding discussions in respect of employment, by the Group as a director or in a senior management role covering financial, accounting or control related areas.
Business relationships	We have not identified any business relationships between Grant Thornton and the Group.
Contingent fees in relation to non-audit services	No contingent fee arrangements are in place with regard to non-audit services.
Gifts and hospitality	We have not identified any gifts or hospitality provided to, or received from, a member of the Group's board, senior management or staff.

# 5. Audit fees, ethics and independence (2)

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention and consider that an objective reasonable and informed third party would take the same view. The firm and each covered person have complied with the Financial Reporting Council's Ethical Standard and confirm that we are independent and are able to express an objective opinion on the financial statements

Following this consideration we can confirm that we are independent and are able to express an objective opinion on the financial statements. In making the above judgement, we have also been mindful of the quantum of non-audit fees compared to audit fees disclosed in the financial statements and estimated for the current year.

## Fees and non-audit services

The tables below set out the total fees for audit and other services charged from the beginning of the financial year to the current date, as well as the threats to our independence and safeguards have been applied to mitigate these threats.

For the purposes of our audit we have made enquiries of all Grant Thornton teams within the Grant Thornton International Limited network member firms providing services to Moray Council. The table summarises all non-audit services which were identified.



# 5. Audit fees, ethics and independence (3)

## External Audit Fee

Service	Planned Fees £	Planned Final Fees £
External Auditor Remuneration	£220,720	*£240,520
Pooled Costs	£0	£0
Contribution to Audit Scotland costs	£8,370	£8,370
Contribution to Performance Audit and Best Value	£56,110	£56,110
Sectoral cap adjustment	£-2,340	£-2,340
<b>2022/23 Audit Fee</b>	<b>£282,860</b>	<b>£302,660</b>

\* The fee noted is based upon the expectation that the work to be completed for the grant claims are in line with expectations, as the grants work is on-going.

The reason for the £19,800 fee variation is due to the new risk areas / and additional work required in the following areas during 2022/23:

- Journals – additional work due to the higher risk environment because of the lack of authorisation controls
- New significant risk area - work required on the new fixed asset register and the data conversion
- Prior period adjustment – work required on the prior period adjustment and associated disclosures
- IFRIC 14 pension assessment – work required on the IFRIC14 assessment and subsequent restatement of the pension asset
- Technical review – a detailed technical review of the accounts was undertaken and the numerous issues arising has added time into the audit process
- Property, Plant and Equipment adjustments – there were some amendments to PPE and within Note 15 where additional work was required.

# 5. Audit fees, ethics and independence (4)

## Fees for other services

Service	Fees £
Bus transport certification claims	5,000
Connected charity s106 audit	6,500
<b>Total</b>	<b>11,500</b>

The non-audit services above are consistent with our Plan presented to the Audit and Scrutiny Committee on 10 May 2023. None of the above services were provided on a contingent fee basis.

For both the transport certification and the charity audit, there is a threat of self-interest, self-review and management.

The safeguard for self-interest is that the fees are fixed with no contingent element, and the fee taken on its own is not considered a significant threat to independence as the fee for the certification work is £5,000, and the charity £6,500 in comparison to the total fee for the audit of £302,660 and in relation to Grant Thornton UK LLP's turnover overall. These factors all mitigate the perceived self-interest threat to an acceptable level.

The safeguard for self-review is that our work on the certification and the charity are conducted independently from the audit work. This factor mitigates the perceived self-review threat to an acceptable level.

The safeguard for management is that we do not provide and management services or act in a management capacity. This factor mitigates the perceived management threat to an acceptable level.

This Annual Audit Report including the audit fees was presented to the Audit and Scrutiny Committee on 15 October 2023.

## Financial statements

The fees do not reconcile directly to the financial statements. Any additional audit fee noted on page 81 is not included within the financial statements and will be reported at full Council. We have provided a reconciliation below to reconcile to the £0.314 million on page 80 for audit and page 81 and non-audit fees. The figures are in round thousands below as per the disclosure in Note 34, external audit costs.

Fees per financial statements: Audit and other services	<b>£282</b>	<b>(£270 for audit fee for financial statements and £12 for other services)</b>
• Rebate within the financial statements	£13	
• Additional audit fee	£19	
- Total fees per above	<b>£314</b>	

# 5. Audit fees, ethics and independence (5)

## Client service

We take our client service seriously and continuously seek your feedback on our external audit service. Should you feel our service falls short of expected standards please contact Joanne Brown, Head of Public Sector Assurance Scotland in the first instance who oversees our portfolio of Audit Scotland work ([joanne.e.brown@uk.gt.com](mailto:joanne.e.brown@uk.gt.com)). Alternatively, should you wish to raise your concerns further please contact Jon Roberts, Partner and Head of Assurance, 30 Finsbury Square, London, EC2A 1AG. If your feedback relates to audit quality and we have not successfully resolved your concerns, your concerns should be reported to John Gilchrist, Audit Scotland Quality and Appointments, Audit Scotland Quality and Appointments in accordance with the Audit Scotland audit quality complaints process.

## Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see [Transparency report 2021 \(grantthornton.co.uk\)](https://www.grantthornton.co.uk/transparency-report-2021)

## 6. Communication of audit matters

International Standard on Auditing ISA (UK) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance. These are set out in the table below.

Our communication plan	Audit Plan	Annual Report (our ISA 260 Report)
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, including planning assessment of audit risks and wider scope risks	•	
Confirmation of independence and objectivity	•	•
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•
Significant matters in relation to going concern	•	•
Matters in relation to the group audit	•	•
Views about the qualitative aspects of the Council's accounting and financial reporting practices, including accounting policies, accounting estimates and financial statement disclosures		•
Significant findings from the audit		•
Significant matters and issues arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter.		•

