



Audit and Scrutiny Committee

Wednesday, 10 May 2023

NOTICE IS HEREBY GIVEN that a Meeting of the **Audit and Scrutiny Committee** is to be held at **Council Chambers, Council Office, High Street, Elgin, IV30 1BX** on **Wednesday, 10 May 2023** at **09:30**.

BUSINESS

1. **Sederunt**
2. **Declaration of Group Decisions and Members Interests ***
3. **Minute of the Meeting of the Audit and Scrutiny Committee of 15 February 2023** 5 - 6
4. **Written Questions ****
5. **Internal Audit Section Completed Projects** 7 - 48
Report by Audit and Risk Manager
6. **Internal Audit Section Update** 49 - 74
Report by Audit and Risk Manager
7. **Annual External Audit Plan Year Ending 2022-23** 75 - 154
Report by Depute Chief Executive (Economy, Environment and Finance)
8. **Question Time *****

Consider any oral question on matters delegated to the Committee in terms of the Council's Scheme of Administration.

Summary of Audit and Scrutiny Committee functions:

Audit Functions - Consider reports from the Council's internal auditor & Audit Scotland concerning Council Functions.

Scrutiny Functions - Scrutinising the policies of the Council and their effectiveness in meeting the action plans of the Council as set out in the Corporate Development Plan and evaluating the actions of Committees in implementing the action plans set out in the Corporate Development Plan.

Performance Monitoring - To receive reports on the performance of and trends within all of the Council's services in terms of service standards and performance information.

Standards - To ensure that the highest standards of probity and public accountability are demonstrated.

* **Declaration of Group Decisions and Members Interests** - The Chair of the meeting shall seek declarations from any individual or political group at the beginning of a meeting whether any prior decision has been reached on how the individual or members of the group will vote on any item(s) of business on the Agenda, and if so on which item(s). A prior decision shall be one that the individual or the group deems to be mandatory on the individual or the group members such that the individual or the group members will be subject to sanctions should they not vote in accordance with the prior decision. Any such prior decisions will be recorded in the Minute of the meeting.

** **Written Questions** - Any Member can put one written question about any relevant and competent business within the specified remits not already on the agenda, to the Chair provided it is received by the Proper Officer or Committee Services by 12 noon two working days prior to the day of the meeting. A copy of any written answer provided by the Chair will be tabled at the start of the relevant section of the meeting. The Member who has put the question may, after the answer has been given, ask one supplementary question directly related to the subject matter, but no discussion will be allowed.

No supplementary question can be put or answered more than 10 minutes after the Council has started on the relevant item of business, except with the consent of the Chair. If a Member does not have the opportunity to put a supplementary question because no time remains, then he or she can submit it in writing to the Proper Officer who will arrange for a written answer to be provided within 7 working days.

*** **Question Time** - At each ordinary meeting of the Committee ten minutes will be allowed for Members questions when any Member of the Committee can put a question to the Chair on any business within the remit of that Section of the Committee. The Member who has put the question may, after the answer has been given, ask one supplementary question directly related to the subject matter, but no discussion will be allowed.

No supplementary question can be put or answered more than ten minutes after the Committee has started on the relevant item of business, except with the consent of the Chair. If a Member does not have the opportunity to put a supplementary question because no time remains, then he/she can submit it in writing to the proper officer who will arrange for a written answer to be provided within seven working days.

THE MORAY COUNCIL

Audit and Scrutiny Committee

SEDERUNT

Councillor Graham Leadbitter (Chair)
Councillor Shona Morrison (Depute Chair)

Councillor Peter Bloomfield (Member)
Councillor Theresa Coull (Member)
Councillor John Cowe (Member)
Councillor John Divers (Member)
Councillor Amber Dunbar (Member)
Councillor Jérémie Fernandes (Member)
Councillor Donald Gatt (Member)
Councillor David Gordon (Member)
Councillor Sandy Keith (Member)
Councillor Marc Macrae (Member)
Councillor Neil McLennan (Member)
Councillor John Stuart (Member)

Mr Ivan Augustus (Non-Voting Member)
Ms Margaret Wilson (Non-Voting Member)

Clerk Name:	Lindsey Robinson
Clerk Telephone:	07966 120593
Clerk Email:	committee.services@moray.gov.uk

Minute of Meeting of the Audit and Scrutiny Committee

Wednesday, 15 February 2023

Council Chambers, Council Office, High Street, Elgin, IV30 1BX

PRESENT

Councillor Peter Bloomfield, Councillor Tracy Colyer, Councillor Theresa Coull, Councillor John Divers, Councillor Amber Dunbar, Councillor Jérémie Fernandes, Councillor Donald Gatt, Councillor David Gordon, Councillor Sandy Keith, Councillor Graham Leadbitter, Councillor Neil McLennan, Councillor Shona Morrison, Councillor John Stuart

APOLOGIES

Councillor John Cowe

IN ATTENDANCE

Also in attendance at the above meeting were the Chief Executive, Head of Governance, Strategy and Performance, Audit and Risk Manager, and Lindsey Robinson, Committee Services Officer as clerk to the meeting.

1. Chair

Councillor Graham Leadbitter, as Chair of the Audit and Scrutiny Committee, chaired the meeting.

2. Declaration of Group Decisions and Members Interests *

In terms of Standing Order 21 and the Councillors' Code of Conduct, there were no declarations from Group Leaders or Spokespersons in regard to any prior decisions taken on how Members will vote on any item on the agenda or any declarations of Member's interests in respect of any item on the agenda.

3. Minute of the Meeting of the Audit and Scrutiny Committee of 23 November 2022

The minute of the meeting of the Audit and Scrutiny Committee dated 23 November 2022 was submitted and approved.

4. Written Questions **

The Committee noted that no written questions had been submitted.

5. Internal Audit Plan - Year Ending 31 March 2024

A report by the Audit and Risk Manager provided the Committee with the details of the planned internal audit coverage for the year ending 31 March 2024.

Following consideration, the Committee agreed to note the proposed Internal Audit coverage for the 2023/24 financial year.

6. Internal Audit Section Update

A report by the Audit and Risk Manager provided the Committee with an update on the work of the Internal Audit Section.

During consideration the Audit and Risk Manager advised the Committee that the audit of ICT Hardware Asset Management would be carried forward due to the inclusion of the Aberlour Nursery Project.

Thereafter, the Committee agreed to note the contents of the report.

7. Internal Audit Section - Completed Projects

A report by the Audit and Risk Manager advised the Committee on the work of the Internal Audit Section for the period from 24 November 2022 to 15 February 2023.

Following consideration, the Committee agreed to note the contents of the report.

8. Local Government Benchmarking Framework 2020-21 Results

A report by the Depute Chief Executive (Education, Communities and Organisational Development) presented the Committee with a corporate overview of benchmarking performance data for the period 2020-21.

Councillor McLennan entered the meeting during the discussion of this item.

Following consideration, the Committee agreed to note the Council's performance in terms of a corporate overview of benchmarking results.

9. Question Time ***

The Committee noted that no questions were asked.



REPORT TO: AUDIT AND SCRUTINY COMMITTEE ON 10 MAY 2023

**SUBJECT: INTERNAL AUDIT SECTION – COMPLETED PROJECTS
REPORT**

BY: AUDIT AND RISK MANAGER

1. REASON FOR REPORT

- 1.1 The report advises Committee on the work of the Internal Audit Section for the period from 16 February 2023 to 10 May 2023.
- 1.2 This report is submitted to Committee in terms of Section III (2) and (7) of the Council's Scheme of Administration relating to consideration of reports from the Council's Internal Auditor and monitoring delivery of the audit service carried out by Internal Audit.

2. RECOMMENDATION

- 2.1 **That Committee consider the contents of this report, seeks clarification on any points noted and otherwise notes the report.**

3. BACKGROUND

- 3.1 This report provides details of the following internal audit work concluded during the period 16 February 2023 to 10 May 2023:

Domestic Refuse Disposal

- 3.2 An audit review of the arrangements for collecting refuse materials from domestic properties was undertaken. Moray Council collects refuse at approximately 46,000 domestic properties at the cost of £3.1 million annually. Systems were reviewed to ensure the most effective and efficient use is made of resources in collecting domestic waste. The audit also checked the procedures for disposing of recyclable waste. The executive summary detailing the findings and recommendations for this project are given in **Appendix 1**.

Building Services - Planned Maintenance Projects

- 3.3 An audit of systems and procedures in managing Planned Maintenance Projects within Building Services was undertaken. The total budget for 2022/23 amounted to approximately £5 million and included the works undertaken for the replacement of bathrooms, kitchens, central heating systems and disability adaptations.
- 3.4 The audit scope involved an overview of how the annual planned maintenance programme is determined and the contract management arrangements of projects undertaken by Building Services. The audit selected a random selection of projects to verify costs to supporting documentation and compliance with contract conditions and regulations. In addition, due to a special investigation previously reported concerning overtime claimed by officers, further testing was also undertaken into the management of overtime payments. The executive summary detailing the findings and recommendations for this project are given in **Appendix 2**.

European Social Fund

- 3.5 An audit was undertaken of the monies received from European Social Funding. The European Social Fund is administered by the Scottish Government with the objective of improving employment, education and supporting the most vulnerable people at risk of poverty. The Council secured approximately £1.1 million over 4 years in Phase 2 European Social Funding to deliver a Poverty & Social Inclusion programme that provides free confidential help and advice to people with money, debt or benefit problems. The audit reviewed the governance and administrative arrangements established to support the delivery of the Poverty & Social Inclusion programme and complies with the conditions of the funding agreement. Overall effective management arrangements were found. The executive summary for this project is given in **Appendix 3**.

Aberlour Early Years Learning & Childcare Scheme

- 3.6 An audit has been undertaken into the contract management arrangements for refurbishing Aberlour's early years and childcare nurseries. In Aberlour, the early years and childcare service is delivered by private and council nurseries operating from the same premises. The review was requested after concerns were raised by elected members regarding the management of this scheme. The agreed scope for the audit was to review the reporting arrangements and compliance with Financial Regulations, Procurement Guidelines and the Conditions of the Contract for the refurbishment of the Aberlour early years learning and childcare premises. As this review was undertaken due to specific concerns raised, it is considered that the full report detailing all the findings from the audit undertaken should be provided. The audit report is given in **Appendix 4**.

4 **SUMMARY OF IMPLICATIONS**

(a) Corporate Plan and 10 Year Plan (Local Outcome Improvement Plan (LOIP))

Internal audit work supports good governance and the delivery of efficient services.

(b) Policy and Legal

No implications.

(c) Financial Implications

No implications directly arising from this report.

(d) Risk Implications

The independent review of selected systems and procedures mitigates the risks associated with inadequate or ineffective control procedures.

(e) Staffing Implications

No implications.

(f) Property

No implications.

(g) Equalities/ Socio Economic Impacts

No implications.

(h) Climate Change and Biodiversity Impacts

No implications.

(i) Consultations

There have been no direct consultations during the preparation of this report.

At its meeting on 27 April 2023, the Corporate Management Team (CMT) considered the Internal Audit report on the Aberlour Early Years' Learning and Childcare along with the wider End of Project Report which reported on the overall £55m Early Years Expansion Programme in Moray, of which the Aberlour project was the final part.

CMT noted the comprehensive end of project report (see background documents as listed) and the overall success of the programme to expand funded early learning and childcare hours from 600 to 1140 for vulnerable 2s and 3-4 year olds by August 2021. CMT acknowledged that the expansion project was completed during the period of the pandemic which created a more challenging operating environment for the delivery of the new statutory requirement. As part of this, the Aberlour expansion to 1140 hours was due to be delivered in August 2021, which was the focus for the project team at that time. There are a number of learning points within the report and CMT were pleased to note that these are being taken forward to inform future work.

CMT also considered the Internal Audit report and sought clarification from the Internal Auditor on various points regarding the contract management arrangements for the Aberlour project. CMT noted that there are a number of recommendations within the report and were supportive of the action identified to address these. In addition, CMT noted that since the original proposal for temporary units, a range of options had been assessed and considered in developing alternative approaches for the delivery of the decant for the project but that the project had not yet moved to the delivery phase as costings remain outstanding, which may require further consideration of options in a context of rising costs.

CMT would wish to ensure that the contractual arrangements are robust ahead of project construction commencing to reflect the points set out in the Audit report and will ensure this is taken forward by relevant officers.

CMT also agreed with the Audit recommendation for an urgent resolution to the future use of the temporary units and noted that this is currently part of wider considerations related to the ELC service due to be brought to the council before the summer recess and which will enable a decision on alternative use or sale at that point.

5 CONCLUSION

5.1 This report provides Committee with a summary of findings arising from an audit project completed during the review period.

Author of Report: Dafydd Lewis, Audit and Risk Manager

Background Papers: Internal audit files

15-0019 Early Learning Childcare - End of Project Report

Appendix 1 - Delivery_Plan_Sep_2017

Appendix 2 – Grant Award Thank You from Torridon Education Group

Appendix 3 - Care Inspectorate Grading Data Compared August 2017 and June 2022

Appendix 4 - Worked Example Hourly Rate

Appendix 5 - RADIC Log

Appendix 6 - Moray Council ELC Internal Audit Report

Ref: SPMAN-1042990102 -145

AUDIT REPORT 23'016**DOMESTIC REFUSE COLLECTION****Executive Summary**

The annual audit plan for 2022/23 provides for an audit review to be undertaken of the arrangements for the collection of refuse materials from domestic properties. Local Authorities have a statutory duty to provide this service in accordance with the Environmental Protection Act 1990. Moray Council collects refuse at approximately 46,000 domestic properties at the cost of £3.1 million per annum.

The scope of this audit was to review systems and procedures to ensure the most effective and efficient use of resources is made for collecting domestic waste. The audit also reviewed the arrangements for disposing of recyclable waste with analysis of the Financial Management System noting this was provided at a cost in excess of £880,000 per annum. This included disposal of plastic, glass and biodegradable waste, in addition to paper / card, aluminium and steel cans for which the Council receives regular payments from recycling contractors.

The audit was carried out in accordance with Public Sector Internal Audit Standards (PSIAS).

The areas identified for management attention include the following :-

- Incorrect accounting was noted in the treatment of Value Added Tax (VAT). The audit found that no VAT had been declared to HM Revenue and Customs (HMRC) for income received from the recycling of paper since September 2020. This amounted to £85,284 of VAT, which requires a disclosure notice and an expected interest penalty charge payable to HMRC. The service has been advised of the documentation that should be provided to the Payments Section to ensure the future proper accounting for VAT.
- The Council has an agreement with a contractor for the recycling of plastic. The audit noted there was an expectation this would generate income for the Council from regular payments made by the contractor for the plastic provided for recycling. Unfortunately, the Council has received no payment due to quality issues in plastics submitted. A review should be undertaken of current systems for the recycling of plastic to determine whether improvements can be made to existing operations.
- The Council receives payments from the aluminium and steel cans provided to a recycling contractor. However, it was found there is no contractual agreement between the Council and this recycling contractor for cans disposal. The service should formalise these arrangements.

Recommendations

Risk Ratings for Recommendations						
High	Key controls absent, not being operated as designed or could be improved. Urgent attention required.	Medium	Less critically important controls absent, not being operated as designed or could be improved.		Low	Lower level controls absent, not being operated as designed or could be improved.
No.	Audit Recommendation	Priority	Accepted (Yes/ No)	Comments	Responsible Officer	Timescale for Implementation
Key Control: Service operations are planned to achieve best value principles.						
5.01	Consideration should be given to exploring software applications that could assist the process and provide value for money opportunities in the determination of operational routes and the resources required.	Low	Yes	As a service we have made initial enquiries with suppliers of route optimisation software and have received one demonstration with another booked for January. Following this we will review to confirm the best value for money option. We will liaise with Head of Service to determine feasibility against budget constraints.	Waste Manager	31/05/2023
Key Control: Staffing requirements are carefully assessed based on operational needs and payments made to staff are appropriately controlled.						
5.02	Documented business continuity plans should be agreed to ensure continuous delivery of services in the	Medium	Yes	The service has been liaising with the Business Continuity & Risk Management	Waste Manager	31/01/2023

Risk Ratings for Recommendations						
High	Key controls absent, not being operated as designed or could be improved. Urgent attention required.	Medium	Less critically important controls absent, not being operated as designed or could be improved.		Low	Lower level controls absent, not being operated as designed or could be improved.
No.	Audit Recommendation	Priority	Accepted (Yes/ No)	Comments	Responsible Officer	Timescale for Implementation
	event of any disruption in meeting operational requirements.			Officer and has drafted an initial business continuity plan. This was returned after review on 23/11/22 for further considerations.		
5.03	Officers should be reminded to ensure timesheets are carefully checked prior to authorisation, and supporting documentation is completed accurately before being passed to the payroll service for payment.	Medium	Yes	Team Leaders have advised all staff of the need to fully complete timesheets with all relevant information. Process has been reviewed and timesheets are being checked by Waste Operations Officer before forward to Admin where there is a double check of the timesheet summary for Payroll. Accountancy now have sight of Payroll data submissions to check assigned cost centres.	Waste Manager	Implemented

Risk Ratings for Recommendations						
High	Key controls absent, not being operated as designed or could be improved. Urgent attention required.	Medium	Less critically important controls absent, not being operated as designed or could be improved.		Low	Lower level controls absent, not being operated as designed or could be improved.
No.	Audit Recommendation	Priority	Accepted (Yes/ No)	Comments	Responsible Officer	Timescale for Implementation
Key Control: Vehicle costs borne by the service are accurately calculated and allocated based on service requirements and resource planning.						
5.04	Consideration should be given to the apportionment of vehicle and transport costs to the green waste collection cost centre to enable further budgetary control of all elements of the domestic refuse collection service.	Low	Yes	Historically the same vehicles were used for residual waste and biowaste on a weekly rotation. Since implementation of alternative collection frequencies vehicles are assigned to collection of biowaste therefore specific vehicle costings will be allocated to green waste budget lines.	Waste Manager	31/01/2023
Key Control: Disposal of recyclable materials collected from kerbside is controlled by formalised contractual arrangements with approved external contractors and all payments made in line with contractual terms.						
5.05	Management should review current arrangements for plastic recycling to determine whether improvements can be made to decrease haulage costs and achieve higher quality submissions that could	Medium	Yes	Quality considerations / standards have changed within the industry since tender and complexities also exist in the operation of the Materials Recovery Facility by a third sector organisation.	Waste Manager	31/01/2024

Risk Ratings for Recommendations						
High	Key controls absent, not being operated as designed or could be improved. Urgent attention required.	Medium	Less critically important controls absent, not being operated as designed or could be improved.		Low	Lower level controls absent, not being operated as designed or could be improved.
No.	Audit Recommendation	Priority	Accepted (Yes/ No)	Comments	Responsible Officer	Timescale for Implementation
	generate additional income for the Council.			The national Deposit & Return Scheme (DRS) will be live from 16/8/23 and is expected to capture up to 90% of the materials currently processed. The early impact of DRS will be evaluated and a review of plastic recycling arrangements then undertaken.		
5.06	A contract should be agreed between the Council and a third sector organisation for providing a rediverting and recycling of waste service. The agreement should include the rates payable and service specification.	Low	Yes	Agree there is a general lack of formal documentation between the Council and third sector organisation to determine appropriate diversion rates. This will need to be taken forward with support from Procurement colleagues, with either a contract or service level agreement to be implemented.	Waste Manager	30/04/2023

Risk Ratings for Recommendations						
High	Key controls absent, not being operated as designed or could be improved. Urgent attention required.	Medium	Less critically important controls absent, not being operated as designed or could be improved.		Low	Lower level controls absent, not being operated as designed or could be improved.
No.	Audit Recommendation	Priority	Accepted (Yes/ No)	Comments	Responsible Officer	Timescale for Implementation
5.07	Supporting documentation should be provided of VAT applicable income received by the Service to the Payments Section to ensure proper accounting arrangements can be followed in compliance with HMRC regulations.	High	Yes	This has now been resolved with self-billing invoices being sent to Payments on receipt to ensure VAT is accounted for. Payments have now received all outstanding self-billing invoices and have processed the required VAT adjustments.	Waste Manager	Implemented
5.08	Documented agreement should be undertaken to formalise arrangements for recycling aluminium and steel cans.	Medium	Yes	Discussion has taken place between Council and the current reprocessor with a view to formalise arrangements through an extension of the terms of the Dry Mixed Recyclates contract. Options will be reviewed with Procurement colleagues whilst being mindful of the imminent implications of the introduction of the	Waste Manager	30/04/2023

Risk Ratings for Recommendations						
High	Key controls absent, not being operated as designed or could be improved. Urgent attention required.	Medium	Less critically important controls absent, not being operated as designed or could be improved.		Low	Lower level controls absent, not being operated as designed or could be improved.
No.	Audit Recommendation	Priority	Accepted (Yes/ No)	Comments	Responsible Officer	Timescale for Implementation
				Deposit & Return Scheme.		

AUDIT REPORT 23'017**BUILDING SERVICES - PLANNED MAINTENANCE PROJECTS****Executive Summary**

The annual audit plan for 2022/23 provided for a review of Planned Maintenance Projects undertaken by Building Services. The total budget for 2022/23 amounted to approximately £5 million and included the works undertaken for the replacement of bathrooms, kitchens, central heating systems and disabled adaptations. A planned maintenance programme of projects to be undertaken is agreed annually between Property and Building Services. It was noted that service delivery, including performance management is administered through a Partnership Agreement.

The audit scope involved an overview of how the annual planned maintenance programme is determined and the contract management arrangements of projects undertaken by Building Services. The audit involved a random selection of projects to verify costs to supporting documentation and compliance with contract conditions and regulations. Additional testing was also undertaken of the systems regarding the management and control of overtime paid to officers. This was due to a special investigation undertaken of the overtime claims made by two officers within Building Services. The audit concerned the overtime paid to these officers and whether the individuals had actually undertaken the work claimed. The findings of this investigation have been reported separately to the Building Services Manager.

The audit was carried out in accordance with Public Sector Internal Audit Standards (PSIAS).

The audit review has highlighted the following areas for improvement:-

- It is pleasing to note that Building Services monitor planned maintenance performance through internally agreed targets and participation in Association for Public Service Excellence (APSE) benchmarking exercises with other Local Authorities. However, consideration should also be given to developing performance targets for the completion of works from comparisons or benchmarking with the private sector.
- It was found that budgetary and actual costs of planned works are calculated from established costing arrangements. The audit noted the basis for determining the annual percentage increases in estimated costs for the planned maintenance programme is based on a costing exercise undertaken in 2019. In addition, the actual costs for works completed use percentage uplift rates for the recovery of overtime, overheads and use of sub-contractors. Costing rates should be reviewed to ensure increases provide greater transparency and supports more accurate performance data of the actual costs of the works undertaken.

- A review of the system for authorising and recording overtime paid to officers highlighted further improvements to current administrative arrangements. Audit testing found overtime claims had not been correctly approved or a clear audit trail maintained detailing the specific job number or reason for authoring the additional hours.

Recommendations

Risk Ratings for Recommendations						
High	Key controls absent, not being operated as designed or could be improved. Urgent attention required.	Medium	Less critically important controls absent, not being operated as designed or could be improved.		Low	Lower level controls absent, not being operated as designed or could be improved.
No.	Audit Recommendation	Priority	Accepted (Yes/ No)	Comments	Responsible Officer	Timescale for Implementation
Key Control: Planned maintenance works are managed in accordance with contract, procurement and financial regulations.						
5.01	A review should be undertaken of the revised working time arrangements for craft and manual officers agreed at a meeting of the Communities Committee on 22 October 2013 (para. 21 of the minute refers). If the benefits of these changes to core hours and shift patterns remain, an agreement should be sought to continue with current arrangements.	Medium	Yes	Survey of staff to be carried out and report of findings to be consulted with staff and Trade Unions, to determine if current shifts should remain.	Building Services Manager	30/09/2023
5.02	Consideration should also be given in developing performance targets for the time taken to complete works from comparisons or benchmarking with the private sector.	Medium	Yes	Benchmarking to be carried out by Property QS team to compare DLO performance in relation to external contractors.	Principal Quantity Surveyor	31/03/2024

Risk Ratings for Recommendations						
High	Key controls absent, not being operated as designed or could be improved. Urgent attention required.	Medium	Less critically important controls absent, not being operated as designed or could be improved.		Low	Lower level controls absent, not being operated as designed or could be improved.
No.	Audit Recommendation	Priority	Accepted (Yes/ No)	Comments	Responsible Officer	Timescale for Implementation
5.03	A review should be undertaken of the rates used and accounting arrangements for determining budgets and recovery of costs of planned maintenance works.	Medium	Yes	Planned Maintenance recharge rates to be reviewed, as well as overhead allocation.	Building Services Manager	31/03/2024
5.04	Procedures should be developed to allow the recording and monitoring of the metal collected for recycling.	Low	Yes	Written procedure to be developed for all waste handling, including disposal of scrap.	Building Services Manager	31/05/2023
5.05	Officers should be reminded of the Council's Retention Schedule to ensure all have a clear understanding of the time periods regarding the retention of records.	Low	Yes	Retention schedules to be reviewed for all paper stores issue tickets.as part of developing paperless	Building Services Manager	30/06/2023

Risk Ratings for Recommendations						
High	Key controls absent, not being operated as designed or could be improved. Urgent attention required.	Medium	Less critically important controls absent, not being operated as designed or could be improved.		Low	Lower level controls absent, not being operated as designed or could be improved.
No.	Audit Recommendation	Priority	Accepted (Yes/ No)	Comments	Responsible Officer	Timescale for Implementation
				stock issues on new Datastox system.		
5.06	Officer timesheets should be amended to allow any overtime undertaken to be recorded against a specific job number. In accordance with agreed operating arrangements, officers' timesheets must be authorised by a supervisor and a co-ordinator.	Medium Medium	Yes Yes	Timesheets now reviewed and agreed with Internal Audit and Payroll to capture this information. (ICT working on developing automatic timesheet recording via hand held devices).	Building Services Manager	31/03/2023
5.07	The use Ctrack system should be investigated as an aid to allow the monitoring of officers timesheets of the working time charged to jobs.	Medium	Yes	C-Track reports now being generated and issued to relevant officers weekly. A monthly	Building Services Manager	31/03/2023

Risk Ratings for Recommendations						
High	Key controls absent, not being operated as designed or could be improved. Urgent attention required.	Medium	Less critically important controls absent, not being operated as designed or could be improved.		Low	Lower level controls absent, not being operated as designed or could be improved.
No.	Audit Recommendation	Priority	Accepted (Yes/ No)	Comments	Responsible Officer	Timescale for Implementation
				timesheet audit also now carried out of high overtime claims against C-Track records. (A Council wide Safe Driving and Vehicle Location Policy is being developed).		
5.08	All Clerk of Works Instructions should be recorded detailing the requirement for any additional work needed within planned works.	Medium	Yes	DLO Procedures in place to record variations should be used by all relevant staff. Refresher Training on this to take place with relevant officers.	Building Services Manager	30/06/2023
5.09	Contracts should be agreed with companies used regularly for the supply of goods and materials	Medium	Yes	Annual spend will be	Building Services Manager	31/03/2024

Risk Ratings for Recommendations						
High	Key controls absent, not being operated as designed or could be improved. Urgent attention required.	Medium	Less critically important controls absent, not being operated as designed or could be improved.		Low	Lower level controls absent, not being operated as designed or could be improved.
No.	Audit Recommendation	Priority	Accepted (Yes/ No)	Comments	Responsible Officer	Timescale for Implementation
	where annual expenditure exceeds the Quick Quote threshold of £5000.			reviewed after financial year end 31 March 2023 and all off contract spend highlighted as part of Departmental Procurement Plan (DPAP) 2023/24.		

AUDIT REPORT 23'022

EUROPEAN SOCIAL FUND

Executive Summary

The Annual Audit Plan for 2022/23 provides for a review of monies received from European Social Funding. The European Social Fund is administered by the Scottish Government with the objective of improving employment, education and supporting the most vulnerable people at risk of poverty. The Council successfully secured approximately £1.1 million over 4 years in Phase 2 European Social Funding to deliver a Poverty & Social Inclusion programme that provides free confidential help and advice to people with money, debt or benefit problems.

The scope of this audit was to provide assurance that effective governance and administrative arrangements had been established to support the delivery of the Poverty & Social Inclusion programme and complies with the conditions of the funding agreement. The programme provided funding for Council Money Advice and Income Maximisation Projects and a Challenge Fund accessed by two External Partners to deliver the programme to a broader community. It was noted that 20% match funding was required to be provided by the Council and External Partners to deliver the overall programme.

The audit was carried out in accordance with Public Sector Internal Audit Standards (PSIAS).

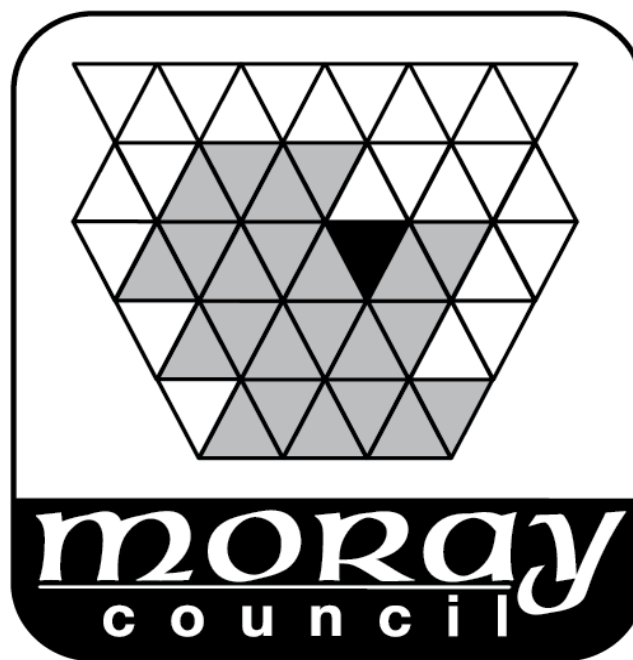
The audit noted the following points in the administration of the Scheme:-

- Supporting records were verified to prove the costs claimed within previous grant claims submitted to the Scottish Government. This expenditure was related to the staffing costs of officers dedicated to programme delivery. At the time of the audit £349,000 of funding has been received and £438,000 is awaiting verification by the Scottish Government. There is no indication of any issues with the outstanding claim; however the final outturn and claim figures will not be known until project cessation on 31st March 2023. Current estimates indicate a small underspend on the overall grant allocation of approximately £45,000 due to staffing vacancies and ineligible employee sickness costs over the 4 years of the programme.
- Conditions of the funding agreement required the Council and External Partners to deliver support in excess of 1,800 poverty affected households with the objective of improving financial skills, removing debt barriers to social inclusion and encouraging employment, training and education. It was found these target levels of participation have not been achieved, with the Council led programme at the time of audit reporting participant registration at 65% of the target level, and Challenge Fund partners, who received their funding awards at a later date, reporting a combined average of 61% participation compared to the target. The

terms of the funding agreement detail financial penalties based on a percentage charge of the funding award depending on achieved participation levels. However, no penalty is applied if 65% of targets set are achieved. The Council has recently submitted a change request to the Scottish Government seeking a reduction of 15% in the target level for the Challenge Fund and at the time of the audit review, a response was awaited. Clients continue to be worked with to maximise participation levels by project end in March 2023.

Moray Council
Internal Audit Section

Aberlour Early Years Learning &
Childcare Scheme
Final Report



Moray Council

Internal Audit Section

DEPARTMENT: Education, Communities & Organisational Development

SUBJECT: Aberlour Early Years Learning & Childcare Scheme

REPORT REF: 23'014

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1. Executive Summary

An audit has been undertaken into the operational management arrangements for the refurbishment of Aberlour early years learning and childcare premises. The review was requested by the Depute Chief Executive (Education, Communities & Organisational Development) after concerns were raised by elected members regarding the scheme. In Aberlour, the early years and childcare service is delivered by private and council nurseries; both operate from the same premises.

The Children and Young People (Scotland) Act 2014 introduced a statutory duty for Local Authorities to provide funded places for all eligible children. In order to achieve this requirement, a contract was awarded in 2018 for the construction and refurbishment of various premises to meet this expansion programme. The refurbishment of Aberlour early years learning and childcare premises is part of this larger contract and was managed by a Senior Projects Officer and thereafter by the Early Years' Service Manager in consultation with Property Services. In addition, progress was regularly reviewed by the Early Years Learning Expansion Programme Board, which included representation of senior officers across various services. However, since May 2022, the responsibilities of the Early Learning Expansion Programme Board have been transferred to the Transforming Education Project Board, with additional reporting to the Transform Learning Board. This is consistent with established project management arrangements detailed within the Council's Project Management Governance Policy.

The scope of the audit was to undertake an overview of the reporting arrangements and compliance with Financial Regulations, Procurement Guidelines and the Conditions of the Contract for the refurbishment of the Aberlour early years learning and childcare premises. However, it should be noted the refurbishment works are yet to start. The audit findings should be viewed with consideration of the extraordinary challenges faced by officers during the pandemic. In addition, it was also found that key officers involved in the management of the scheme have moved to other posts or are no longer employed by the Council.

The audit was carried out in accordance with Public Sector Internal Audit Standards (PSIAS).

The review has highlighted the following areas for consideration:

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- The refurbishment of Aberlour early years learning childcare premises was initially intended to be undertaken in August 2020. However, due to issues concerning the pandemic the date for the planned refurbishment works was deferred from 2020 to 2021. In early 2021 a decision was made to purchase temporary cabins as the preferred option for providing temporary accommodation to the children and staff of both nurseries. A temporary cabin was to be located at Speyside High School and another at Aberlour Primary School. These proposals were reported to the Education, Communities and Organisational Development Committee on 11 August 2021. The cost of purchasing the temporary cabins was £234,860. However, after discussions with officers and a review of supporting documentation, the audit found that later in 2021 and early 2022, concerns were raised regarding increases in construction costs and the location of a temporary cabin. This provided an opportunity to review alternative temporary accommodation provision to ensure moving forward that consideration was given to the most cost effective option. A report to the Education, Children's and Leisure Services Committee on 24 August 2022 noted a revised proposal to locate one temporary cabin at the Aberlour Primary School and outdoor units near the park at Aberlour. Concerns were raised regarding this option, as detailed in a report to the Education, Children's and Leisure Services Committee on 2 November 2022. A further review was then undertaken with a report to the Education, Children's and Leisure Services Committee on 14 December 2022 that agreed for the Depute Chief Executive (Education, Communities & Organisational Development) to investigate other temporary accommodation options. The audit considers that appropriate reporting has been undertaken to update elected members on progress regarding the refurbishment of the Aberlour early years learning and childcare premises. Required changes to the delivery of temporary accommodation to allow works to progress have not only been due to concerns raised by stakeholders but significantly because of increases in construction costs and the requirement for the Council to achieve best value.
- Council Procurement and Financial Regulations are intended to ensure best practices are followed and assist officers to operate within delegated authority. The temporary cabins were procured by issuing an Architect Instruction to the Contractor for the purchase from a single supplier. The Architect Instruction was issued in accordance with a direction received from the Senior Project

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Manager (Early Learning & Childcare). It is appreciated the programmed timescale requirements for progressing this scheme; however, an advance payment of £117,430 was made for these temporary cabins without the prior approval of the Chief Financial Officer. The temporary cabins are currently stored at the haulage company's premises and at the time of the audit, have incurred additional storage costs of approximately £6,000. A decision should be undertaken as a matter of urgency regarding the future use of these temporary cabins.

- As detailed previously, the Education, Children's and Leisure Services Committee on 14 December 2022 agreed for the Depute Chief Executive (Education, Communities & Organisational Development) to investigate other options in providing temporary accommodation. At the time of this audit the intention was noted to purchase outdoor units (yurts) to be located at the Aberlour Primary School grounds as temporary accommodation to deliver the early years learning and childcare service for both nurseries during the period required for refurbishing the premises. As construction and material costs have increased over recent years, Property Services have requested an updated contract price from the Contractor to complete the works. A review should then be undertaken to ensure the adequacy of the current budget.

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2. Introduction

This audit has been undertaken from a request received from the Depute Chief Executive (Education, Communities & Organisational Development) after concerns were raised by elected members regarding the management of the contract for the refurbishment of Aberlour early years learning and childcare premises.

The refurbishment of Aberlour early years learning and childcare premises is part of a larger contract awarded in 2018 to expand the early years learning and childcare service. The Senior Responsible Officer for the contract is the Head of Education, but with the refurbishment scheme being operationally managed by the Senior Projects Officer and currently by the Early Years' Service Manager in consultation with Property Services. Progress was regularly reviewed by the Early Years Learning Expansion Programme Board and later by the Transforming Education Project Board, with additional reporting to the Transform Learning Board. In Aberlour, the early years and childcare service is delivered by private and council nurseries; both operate from the same premises. The contract required the consideration of options in providing temporary accommodation to allow both nurseries to maintain service delivery during the refurbishment of the premises.

3. Audit Scope

The scope of the audit was to undertake a review of the Aberlour Early Years Learning and Childcare Scheme regarding the reporting arrangements and compliance with Financial Regulations, Procurement Guidelines and the Conditions of the Contract. However, it was noted that the actual works for the refurbishment of the premises have not yet started.

4. Summary Assessment

The Internal Audit Section will provide Management with an opinion on the internal control environment based on four categories of classification:

Assurance Level	System and Testing Conclusion
Full	The controls tested are being consistently applied

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Substantial	There is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.
Limited	The level of non-compliance puts the system objectives at risk.
None	Significant non-compliance with basic controls leaves the system open to error or abuse.

Our assessment in terms of the design of, and the compliance with the system of internal controls for Aberlour Early Years and Childcare Scheme as limited by the scope of audit is set out below:

System Assessment	Testing Assessment
Substantial	Limited

5. Findings

The main issues raised for management consideration are:

- 5.01 This audit review was requested by the Depute Chief Executive (Education, Communities & Organisational Development) after concerns were raised by elected members regarding the operational management for the refurbishment of the Aberlour early years learning childcare premises. Last year the Education, Children's and Leisure Services Committee of the 26th of January 2022 requested Internal Audit to report on concerns regarding the financial management in the expansion of the Early Years Learning and Childcare Service. Both audit reviews have resulted in findings and recommendations.

It is considered that the implementation to manage the expansion of the early years learning and childcare service was appropriately staffed by qualified officers. In addition, an Early Years Learning and Childcare Expansion Programme Board (Programme Board) included senior officers from across the Council was formed at the start of the expansion programme to support and provide an overview of both capital and revenue expenditure. The Council has a Project Management Governance Policy to aid officers in project management governance arrangements. The Project Management Governance Policy was agreed

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at Policy & Resources Committee on 7 June 2016, with additional project management assurances concerning governance and leadership noted at the Corporate Committee on 30 August 2022. It is appreciated that as detailed within report to the Corporate Committee, the Policy “still largely reflect sound project management governance and remain fit for purpose”. It was also noted the Policy is based on the Prince2 Project management methodology, aligned with the Scottish Government Construction Procurement Manual and the Office of Government Commerce (OGC) Gateway framework. However, a review of the Policy noted that minor updates are required regarding reference to previous post titles, financial regulations and the Audit and Performance Committee.

- 5.02 The refurbishment of Aberlour early years learning childcare premises was initially intended to be undertaken in August 2020. The contract detailed a requirement for a “major refurbishment” of the premises. However, due to the pandemic the refurbishment was delayed for a year with the intention for the works to be started by the end of 2021. In order to allow works to progress, the premises had to be vacated and the delivery of the early years learning and childcare service provided within alternative accommodation. In March 2021, Property Services in accordance with an instruction received from the Senior Project Manager (Early Learning & Childcare) issued an Architect Instruction for the design, manufacture and delivery of temporary cabins. The audit noted discussions by the Programme Board regarding this course of action. In addition this was also reported to the Education, Communities and Organisational Development Committee on 11 August 2021, which included the proposed location of a cabin at Speyside High School and another at Aberlour Primary School.

The Architect Instruction issued to the Contractor detailed the requirement to purchase two temporary cabins from a named supplier at the cost of £234, 860. The procurement of the temporary cabins by the Contractor from a single supplier was due to programmed timescale requirements and budgetary needs to complete the works per Scottish Government deadlines.

The urgency of timescales is appreciated; however, it is unclear why consideration was not given for the purchase of the temporary cabins directly by the Council. Compliance with Council Financial Regulations

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and Procurement Guidelines not only ensures officers operate within their delegated authority but also that best practices are followed in the purchasing of goods, services or works. If a single supplier was the preferred option due to required timescales, this could have been undertaken with the approval of the Chief Financial Officer.

- 5.03 The procurement of temporary cabins was undertaken by the issue of an Architect Instruction to the Contractor on 31 March 2021. However, it was found that discussions held by the Programme Board in May 2021 detailed concerns raised by the Head teacher of Speyside High School and an Elected Member regarding the proposed placement of a temporary cabin at the High School. The audit noted that site visits had been made to the High School by officers of the Programme Board to discuss these concerns with the Head teacher.

An indicative start date for the refurbishment works was detailed as November 2021. However, it is understood this did not proceed due to budgetary pressures, increases in the costs for the refurbishment works and the concerns raised regarding the intended placement of the temporary cabin. The Programme Board noted this requirement to delay the start date and the need for further investigation during the third quarter of 2021. The audit has experienced difficulties in sometimes evidencing an audit trail that clearly documents progress. This may be due to the exceptional circumstances surrounding the pandemic and that officers have moved to other posts or are no longer employed by the Council. It was noted that in March and April 2022, further discussions were held that included a report to the Programme Board where a revised plan was discussed for the placement of one temporary cabin at the Primary School and an outdoor facility near the park in Aberlour with the intention of both nurseries returning to existing premises after the refurbishment works. It was also noted that in May 2022 discussions were held by the Asset Management Working Group, regarding a need to increase the capital budget and the revised option for placement of one temporary cabin at the Primary School and an outdoor facility near the park in Aberlour.

These revised proposals were then reported to the Education, Children's and Leisure Services Committee on 24 August 2022. A report to the Education, Children's and Leisure Services Committee on 2 November

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2022 regarding these revised proposals noted concerns raised by elected members. A further report to the Education, Children's and Leisure Services Committee on 14 December 2022 agreed for the Depute Chief Executive (Education, Communities & Organisational Development) to investigate other options in providing temporary accommodation to allow the refurbishment works to be completed. It is understood at the time of this audit, the purchase of outdoor units (yurts) for placement within the Aberlour Primary School grounds is the preferred option for temporary accommodation.

The complexity of this Scheme is appreciated, especially due to the requirement for providing temporary accommodation to allow the refurbishment works to be completed. The audit noted that consultation had been undertaken with officers and parents concerning the needs of the Scheme. In addition, construction cost increases and the Council's requirement to achieve best value have also impacted the decision making process. However, temporary accommodation options were progressed incurring significant costs that were later deemed unsuitable. In addition, concerns were also raised by affected stakeholders. Consideration should be given to any improvements that may be required in the current arrangements for consultation and communication with stakeholders for future projects.

- 5.04 Further to a directive from the Senior Project Manager, an Architect Instruction was issued to the Contractor for purchasing two temporary cabins at £234,860, it was noted that £117,430 was paid in advance to the supplier for the design, manufacture and delivery. In addition, another Architect Instruction was also issued in December 2021 for the purchase of replacement doors to meet Scottish Building Regulations at the cost of approximately £14,000. This has also incurred additional costs of approximately £2000 to the Council for storing and delivering these doors to the Building Services Depot at Keith. Currently, the temporary cabins are stored with a haulage company that has incurred at the time of this audit a cost of approximately £6000. This review has already raised concerns regarding the procurement arrangements for purchasing the temporary cabins; however Financial Regulations detail the requirement for advance payments to be authorised by the Chief Financial Officer. No

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evidence could be found that the Chief Financial Officer had been consulted to authorise the advance payment for the purchase of the temporary cabins. A decision is also required as a matter of urgency regarding the future intention of the temporary cabins stored with a haulage company.

- 5.05 As the works for refurbishing the Aberlour early years learning and childcare premises have yet to start, undertaking a full contract audit has not been possible to ensure compliance with the Conditions of Contract. It is acknowledged that officers dealing with Scheme within Property Services have retired or are no longer employed by the Council. The assistance provided by the Principal Quantity Surveyor in the completion of this review is much appreciated. However, during the audit, supporting contract documentation requested could not be found or possibly needed to be completed. Moving forward, it would be beneficial if the refurbishment of the Aberlour early years learning and childcare premises contract is reviewed to ensure documents are easily retrievable that will evidence compliance with the Conditions of Contract and Council Policies and Regulations.
- 5.06 At the time of the audit, the current expenditure for this Scheme amounted to approximately £340,000. The Moray Council Committee on 29 June 2022 agreed on a budget of £900, 000 to complete the works. As detailed within this report, it has now been decided to investigate the purchasing of outdoor units (yurts) to be located at the Aberlour Primary School grounds as temporary accommodation for the nurseries during the period for the refurbishment of the premises. As construction and material costs have increased over recent years, an updated contract price should be obtained from the Contractor for the completion of the works. Thereafter, the adequacy of the current budget should be reviewed.

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6. Recommendations

Risk Ratings for Recommendations						
High	Key controls absent, not being operated as designed or could be improved. Urgent attention required.	Medium	Less critically important controls absent, not being operated as designed or could be improved.		Low	Lower level controls absent, not being operated as designed or could be improved.
No.	Audit Recommendation	Priority	Accepted (Yes/ No)	Comments	Responsible Officer	Timescale for Implementation
Key Control: Effective management controls operate to ensure the delivery for the refurbishment Aberlour Early Learning and Childcare Premises in accordance with Council Regulations and Conditions of Contract						
5.01	Consideration should be given to updating job titles and other points of reference recorded within the Project Management Governance Policy.	Low	Yes	Council programme governance was reviewed by cmt/smt in 2022 with a number of actions identified and reported to committee in Aug 22. Further review is not currently merited given short passage of time and that council arrangements	Depute Chief Executive (Education, Communities & Organisational Development)	30/09/2023

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Risk Ratings for Recommendations						
High	Key controls absent, not being operated as designed or could be improved. Urgent attention required.	Medium	Less critically important controls absent, not being operated as designed or could be improved.		Low	Lower level controls absent, not being operated as designed or could be improved.
No.	Audit Recommendation	Priority	Accepted (Yes/ No)	Comments	Responsible Officer	Timescale for Implementation
				<p>reflect recognised standards. However, the Policy will be updated to reflect current Council post titles/ regulations/ comm.</p> <p>Project Management training has already been delivered to cmt/smt and is available for other officers via OD. Project checklist has also been established to support project management</p>		

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Risk Ratings for Recommendations						
High	Key controls absent, not being operated as designed or could be improved. Urgent attention required.	Medium	Less critically important controls absent, not being operated as designed or could be improved.		Low	Lower level controls absent, not being operated as designed or could be improved.
No.	Audit Recommendation	Priority	Accepted (Yes/ No)	Comments	Responsible Officer	Timescale for Implementation
5.02	All officers responsible for purchasing goods, services or works should be reminded of the Council's Financial Regulations and Procurement Guidelines.	High	Yes	Annual reminders will be given to officers re Financial Regs and where this has not happened, training will be undertaken	Head of Housing & Property/ Head of Education (Chief Education Officer)	30/06/2023
5.03	Consideration should be given to any improvements that may be required in the current arrangements for consultation and communication with	Medium	Yes	Improvement is to assure arrangements as each project develops. To support this, the project checklist contains	Depute Chief Executive (Education, Communities & Organisational Development)	Implemented- Checklist is already in place Ongoing action is as projects reach key stages

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Risk Ratings for Recommendations						
High	Key controls absent, not being operated as designed or could be improved. Urgent attention required.	Medium	Less critically important controls absent, not being operated as designed or could be improved.		Low	Lower level controls absent, not being operated as designed or could be improved.
No.	Audit Recommendation	Priority	Accepted (Yes/ No)	Comments	Responsible Officer	Timescale for Implementation
	stakeholders for future projects.			specific points on planning communication and engagement and roll out is being supported by the PM Network		

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Risk Ratings for Recommendations						
High	Key controls absent, not being operated as designed or could be improved. Urgent attention required.	Medium	Less critically important controls absent, not being operated as designed or could be improved.		Low	Lower level controls absent, not being operated as designed or could be improved.
No.	Audit Recommendation	Priority	Accepted (Yes/ No)	Comments	Responsible Officer	Timescale for Implementation
5.04	All officers involved in procuring goods, services and works should be reminded that in accordance with Financial Regulations, advance payments must be authorised by the Chief Financial Officer.	High	Yes	This should be written into documentation for key projects where processes aligned to Financial Regs are clear from offset	Head of Housing & Property/ Head of Education (Chief Education Officer)	30/06/2023
	As a matter of urgency, a decision is required regarding the future intention of the temporary cabins stored with the haulage company. Consideration should be given for the temporary cabins	High	Yes	Use of temporary units are being considered as a wider discussion and should be included at		30/06/2023

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Risk Ratings for Recommendations						
High	Key controls absent, not being operated as designed or could be improved. Urgent attention required.	Medium	Less critically important controls absent, not being operated as designed or could be improved.		Low	Lower level controls absent, not being operated as designed or could be improved.
No.	Audit Recommendation	Priority	Accepted (Yes/ No)	Comments	Responsible Officer	Timescale for Implementation
	to be used by another establishment or be sold.			DCEs recommendation in Learning Estate portfolio. Temporary units will be sold if no use identified.		
5.05	The refurbishment contract for the Aberlour early years learning and childcare premises should be reviewed to ensure documents are easily retrievable to evidence compliance with the Conditions of Contract and	Medium	Yes	Further to recruitment to vacant posts the service now has adequate capacity to resource ongoing projects to	Head of Housing & Property	30/06/2023

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Risk Ratings for Recommendations						
High	Key controls absent, not being operated as designed or could be improved. Urgent attention required.	Medium	Less critically important controls absent, not being operated as designed or could be improved.		Low	Lower level controls absent, not being operated as designed or could be improved.
No.	Audit Recommendation	Priority	Accepted (Yes/ No)	Comments	Responsible Officer	Timescale for Implementation
	Council Policies and Regulations.			requisite standards and immediate reconciliation of existing documentation will be undertaken.		
5.06	The contractor should be contacted for an updated cost estimate for the completion of the works and if required the budget should be reviewed and updated.	Medium	Yes	The process is for a tender from the contractor to be assessed by the QS. No tender was received by the deadline date and this has been reported	Head of Housing & Property	30/06/2023

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Risk Ratings for Recommendations						
High	Key controls absent, not being operated as designed or could be improved. Urgent attention required.	Medium	Less critically important controls absent, not being operated as designed or could be improved.		Low	Lower level controls absent, not being operated as designed or could be improved.
No.	Audit Recommendation	Priority	Accepted (Yes/ No)	Comments	Responsible Officer	Timescale for Implementation
				through the normal governance process and other procurement approaches to achieve best value are being put to the client.		



REPORT TO: AUDIT AND SCRUTINY COMMITTEE ON 10 MAY 2023

SUBJECT: INTERNAL AUDIT SECTION UPDATE REPORT

BY: AUDIT AND RISK MANAGER

1. REASON FOR REPORT

- 1.1 The report provides Committee with an update on the work of the Internal Audit Section.
- 1.2 This report is submitted to Committee in terms of Section III I (2) and (7) of the Council's Scheme of Administration relating to consideration of reports from the council's Internal Auditor and monitoring delivery of the audit service carried out by Internal Audit.

2. RECOMMENDATION

- 2.1 **Committee is asked to consider the contents of this report, seek clarification on any points noted and otherwise note the report.**

3. BACKGROUND

- 3.1 Public Sector Internal Audit Standards requires the Audit and Risk Manager to prepare and present reports to committee on internal audit's activity, performance relative to its Audit Plan, and any other relevant matters.
- 3.2 This report provides an update on audit activity and projects progressed since the last meeting.

4. UPDATE OF PROGRESS AGAINST THE AUDIT PLAN

National Fraud Initiative 2022 – Council Tax Single Person Discount

- 4.1 The National Fraud Initiative (NFI) is a data matching project conducted by the Cabinet Office on behalf of Audit Scotland. Public bodies, including Local Authorities are mandatory participants in this process. A matching exercise was undertaken between information provided by the Taxation Service of householders claiming council tax single person discount and the electoral register, where there is more than one person in the household aged 18 or over at the property. The report provided by the NFI detailed 3129 matches.

4.2 While this volume of matches is significant, previous exercises have shown that the incidence of fraud is not. Accordingly, a proportionate approach has been taken to testing, which involved a high level 'scanning' of all matched data and more in-depth testing of a sample of matches: the following points were noted:

- Majority of the matches related to timing issues where changes of circumstances have occurred but are not reflected within the information provided to the NFI.
- However, testing found a need to cancel single person discounts for 13 households from the information provided in the NFI match. Most of these matches are related to changes in circumstances during the current year. An investigation is currently being undertaken by the Service in seeking a more automated approach to completing annual reviews of eligibility of claimants to council tax single person discount.

Follow Up Reviews

4.3 Internal Audit reports are regularly presented to elected members detailing not only findings but also the responses by management to the recommendations with agreed dates of implementation. Internal Audit will also undertake follow up reviews to evidence the effective implementation of these recommendations. Please see detailed the following completed follow up reviews:

Health & Social Care Moray - Self-Directed Support (SDS)

4.4 This audit reviewed the arrangements for monitoring service users who receive an SDS direct payment to purchase their own support. The audit involved the random selection of a sample of care packages and a check made to ensure compliance with operating procedures, expenditure incurred by the service user is in accordance with the agreed budget/ support plans and surplus funds are recovered from service users where appropriate. It was noted that a total of 150 adult service users receive an SDS direct payment to purchase their own support at a cost of approximately £3 million annually. The Follow Up Report to review the implementation of the agreed recommendations is given in **Appendix 1**. Unfortunately, it was found that the majority of the recommendations had not been implemented. The Service detailed particular issues regarding staff shortages and revised dates of implementation have been agreed.

Health & Social Care Moray - Client Monies

4.5 This audit concerned a review of the processes undertaken by the Community Care Finance Team in how they administer the corporate bank account. It involved selecting a sample of individuals, and a check made on how the Health and Social Care Officer appointed as the named "Corporate Appointee" manages and supports the individuals to access their funds appropriately. The Adults with Incapacity (Scotland) Act 2000 enables a Health and Social Care Officer to be appointed by the DWP to have "Corporate Appointeeship" responsibility for managing the benefits received by an individual. At the time of the audit, it was found that 59 individuals are being managed within the "Corporate Appointeeship" Scheme with a combined value of £483,000 held within the Council's corporate bank account. The Follow Up Report to review the implementation of the agreed recommendations is given in **Appendix 2**. The Service detailed that it has not been possible to implement a number of the recommendations within the previously agreed timescales. There will therefore

be a need to undertake a further follow up review of this audit and thereafter report progress to a future Audit and Scrutiny Committee.

Procurement and Creditor Payments

- 4.6 An audit was undertaken to review payments made by the Authority to suppliers of goods and services. The purpose of the audit was to confirm that effective controls are operating to ensure all payments are appropriately authorised, accurate and paid in accordance with financial regulations and agreed terms and conditions. This audit review related to testing a sample of transactions generated under the direction of the Moray Integration Joint Board. Through the use of computer audit software, a sample of payments was randomly selected from this period with a value of £1.05 million. The testing undertaken was developed from the Chartered Institute of Public Finance and Accountancy's Audit Programme. The Follow Up Report to review the implementation of the agreed recommendations is given in **Appendix 3**. It is pleasing to report that all recommendations have now been implemented.

Social Media Accounts

- 4.7 A follow up review was undertaken of the audit undertaken regarding the Council's use of Social Media. Social media refers to websites and applications, e.g., Facebook and Twitter that are designed to allow people to share content quickly, efficiently, and in real time. Officers use social media as a form of communication across various services. It was found that the Corporate Communications Team is primarily responsible for posting Council information. However, individual services such as Health and Social Care, Schools, Sports and Community Centres, fostering and kinship manage their own social media accounts. The Follow Up Report confirming the implementation of the agreed recommendations is given in **Appendix 4**.

5. SUMMARY OF IMPLICATIONS

(a) Corporate Plan and 10 Year Plan (Local Outcomes Improvement Plan (LOIP))

Internal audit work supports good governance and the delivery of efficient services.

(b) Policy and Legal

No implications directly arising from this report.

(c) Financial Implications

No implications directly arising from this report.

(d) Risk Implications

The independent review of selected systems and procedures mitigates the risk associated with inadequate or ineffective control procedures.

(e) Staffing Implications

No implications directly arising from this report.

- (f) Property**
No implications directly arising from this report.
- (g) Equalities/Socio Economic Impact**
No implications directly arising from this report
- (h) Climate Change and Biodiversity Impacts**
No implications.
- (i) Consultations**
There have been no direct consultations during the preparation of this report.

6. CONCLUSION

- 6.1 This report provides committee with an update on internal audit work progressed in the latest review period.**

Author of Report:	Dafydd Lewis	Audit and Risk Manager
Background Papers:	Internal Audit files	
Ref:	SPMAN-1042990102-149	

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DEPARTMENT: Health and Social Care Moray

SUBJECT: Self-Directed Support

REPORT REF: 22'013

Follow Up Audit Review

Risk Ratings for Recommendations						
High	Key controls absent, not being operated as designed or could be improved. Urgent attention required.	Medium	Less critically important controls absent, not being operated as designed or could be improved.		Low	Lower level controls absent, not being operated as designed or could be improved.
No.	Audit Recommendation	Priority	Accepted (Yes/ No)	Date of Completion	Status / Explanation	
Key Control: Clear and current policy documents and operational guidelines have been developed for the financial administration of SDS packages.						
5.01	The SDS Direct Payment guidance and financial monitoring procedures should be reviewed and updated on a regular basis.	Low	Yes	30/04/2022	Implemented. Financial Monitoring Procedures were updated in October 2021 and SDS Direct Payments Guidance was revised in April 2022.	

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Risk Ratings for Recommendations					
High	Key controls absent, not being operated as designed or could be improved. Urgent attention required.	Medium	Less critically important controls absent, not being operated as designed or could be improved.	Low	Lower level controls absent, not being operated as designed or could be improved.
No.	Audit Recommendation	Priority	Accepted (Yes/ No)	Date of Completion	Status / Explanation
Key Control: Financial reviews are being carried out to monitor the usage of SDS funding in accordance with operational guidelines.					
5.02	Annual financial reviews should be undertaken in line with the direct payment financial monitoring procedures.	High	Yes	31/01/2022	Not implemented. The review found a backlog in the Service undertaking annual financial reviews. Discussions with the Service noted there had been multiple staffing changes and vacancies for a prolonged period. It is hoped that with a stable staffing position, the resources are now available for implementing this recommendation by 31/08/2023.
5.03	Consideration should be given to the routine production of reports from the Care First System which can be used to detail financial reviews falling due and allow management to prioritise workloads accordingly. The	Medium	Yes	31/12/2021	Implemented. Reports are being produced by the CareFirst system to detail financial reviews due and their priority. The reports have also indicated a data cleansing need within CareFirst which is being undertaken to ensure data remains accurate.

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Risk Ratings for Recommendations					
High	Key controls absent, not being operated as designed or could be improved. Urgent attention required.	Medium	Less critically important controls absent, not being operated as designed or could be improved.	Low	Lower level controls absent, not being operated as designed or could be improved.
No.	Audit Recommendation	Priority	Accepted (Yes/ No)	Date of Completion	Status / Explanation
	requirement of manual spreadsheets should be minimised wherever possible to ensure information reference points come direct from the Care First system.				
5.04	A risk based approach should be initiated by management to prioritise outstanding financial reviews and work through the backlog in an order which makes best use of limited resources.	High	Yes	31/12/2021	Not implemented. The review noted a backlog remains in the Service undertaking financial reviews. It was found the service had developed a prioritisation plan, but due to resourcing issues, it has not been possible to implement this recommendation. A revised implementation date of 31/08/2023 has been agreed.

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Risk Ratings for Recommendations					
High	Key controls absent, not being operated as designed or could be improved. Urgent attention required.	Medium	Less critically important controls absent, not being operated as designed or could be improved.	Low	Lower level controls absent, not being operated as designed or could be improved.
No.	Audit Recommendation	Priority	Accepted (Yes/ No)	Date of Completion	Status / Explanation
5.05	A reminder should be issued to service users, and approved payroll providers where applicable, to inform the Authority when funds in excess of the contingency amount are held. This may assist in the prioritisation of early financial reviews and highlight issues for further investigation.	High	Yes	30/04/2022	Implemented. Assurance has been obtained from the Service that this has been undertaken. Further reminders are to be issued in January 2023 and will be scheduled annually each January going forward, incorporated into an annual data check.
5.06	A review should be undertaken of all Service Users in regard to the current balances held within their SDS bank account. Action should then be taken to recover excess funds.	High	Yes	30/04/2022	Not implemented. Significant surpluses were reclaimed on managed accounts as a result of obtaining details of all bank balances following the audit undertaken. The Service commenced work on a review of unmanaged accounts, but this has not been completed due to staffing issues. A revised implementation date of

Moray Council

Internal Audit Section

Risk Ratings for Recommendations					
High	Key controls absent, not being operated as designed or could be improved. Urgent attention required.	Medium	Less critically important controls absent, not being operated as designed or could be improved.	Low	Lower level controls absent, not being operated as designed or could be improved.
No.	Audit Recommendation	Priority	Accepted (Yes/ No)	Date of Completion	Status / Explanation
					31/08/2023 has been agreed.
5.07	In compliance with established procedures, one-off direct payments should be subject to a financial monitoring review 3 months (or in limited circumstances at another interval) after the funding has been distributed to confirm its appropriate usage.	Medium	Yes	30/04/2022	Not implemented. The Service has detailed staffing issues as the reason for not implementing this recommendation. A revised implementation date of 31/08/2023 has been agreed.
5.08	The Service should comply with the monitoring requirements detailed within an agreement between the Council and Service User for the purchase and	Medium	Yes	31/12/2021	Not implemented. The Service has detailed staffing issues within the SDS Team and Social Work as the reason for not implementing this recommendation. While some details of the purchase have been obtained, many other conditions in the legal

Moray Council

Internal Audit Section

Risk Ratings for Recommendations						
High	Key controls absent, not being operated as designed or could be improved. Urgent attention required.	Medium	Less critically important controls absent, not being operated as designed or could be improved.		Low	Lower level controls absent, not being operated as designed or could be improved.
No.	Audit Recommendation	Priority	Accepted (Yes/ No)	Date of Completion	Status / Explanation	
	adaptation of a mini van.				agreement between the Council and the Service User have not been evidenced. SDS Team to liaise with Social Work, and a revised implementation date of 31/03/2023 has been agreed.	
5.09	Closing financial reviews of SDS care packages should be undertaken in accordance with agreed procedures. Evidence should be retained of any expenditure outwith the agreed support plan and of the full discussions held and decisions made by Social Workers regarding retrospective authorisation.	Medium	Yes	31/12/2021	Not implemented. At the end of a direct payment package monies are returned, but closing reviews have not been carried out to confirm monies have been applied appropriately. The Service has detailed staffing issues as the reason for not implementing this recommendation. A revised implementation date of 31/08/2023 has been agreed.	

Moray Council

Internal Audit Section

Risk Ratings for Recommendations						
High	Key controls absent, not being operated as designed or could be improved. Urgent attention required.	Medium	Less critically important controls absent, not being operated as designed or could be improved.		Low	Lower level controls absent, not being operated as designed or could be improved.
No.	Audit Recommendation	Priority	Accepted (Yes/ No)	Date of Completion	Status / Explanation	
Key Control: SDS Funding is only used to support the service user's support plan outcomes and compliance is monitored to ensure public funds are spend appropriately.						
5.10	Care and Support Plans should be reviewed annually to ensure the agreed care is being provided and continues to meet the service user's needs.	High	Yes	01/05/2022	Not implemented. The follow-up audit exercise noted that since the pandemic annual support plan reviews have not recommenced across all parts of the Service. Limitations were stated in resources with staffing vacancies and workload pressures due to an increased demand for care, including the requirement to deal with particularly complex cases and increasing difficulties in sourcing care. Priority has been given to support plans for new and changing care arrangements rather than routine annual reviews. The newly appointed Head of Service will review current procedures. The current status of this recommendation will be reviewed in the follow-up audit after 31/08/2023.	

Moray Council

Internal Audit Section

Risk Ratings for Recommendations					
High	Key controls absent, not being operated as designed or could be improved. Urgent attention required.	Medium	Less critically important controls absent, not being operated as designed or could be improved.	Low	Lower level controls absent, not being operated as designed or could be improved.
No.	Audit Recommendation	Priority	Accepted (Yes/ No)	Date of Completion	Status / Explanation
5.11	All Social Workers should be reminded of the requirement to inform the SDS Team of any amendment to a Support Plan that will have a financial change to a service user's care package.	High	Yes	01/12/2022	Implemented. The SDS Team sends reminders to Social Work regarding the requirement to refer support package changes where there is a financial implication. A recent reminder to officers was noted on 01/12/2022.
Key Control: SDS service has effective arrangements in place to monitor support packages and report on performance.					
5.12	Consideration should be given to the development of appropriate performance monitoring measures to be reported to service management on a regular basis. Given the current backlog of reviews and consequences of direct payment accounts not being	Low	Yes	30/09/2022	Not implemented. Performance measures for Health & Social Care as a whole are being developed using Pentana. Initial work on developing these measures is being led by the Performance Team and started in July 2022. A delay has been experienced due to workload pressures and the 30/09/2022 target has not been met. The Performance Team is to commence engagement with the SDS Team

Moray Council

Internal Audit Section

Risk Ratings for Recommendations						
High	Key controls absent, not being operated as designed or could be improved. Urgent attention required.	Medium	Less critically important controls absent, not being operated as designed or could be improved.		Low	Lower level controls absent, not being operated as designed or could be improved.
No.	Audit Recommendation	Priority	Accepted (Yes/ No)	Date of Completion	Status / Explanation	
	scrutinised on a timely schedule, it may be beneficial for performance information to be made available for management to identify any resourcing issues arising and assess risks involved.				on their specific performance measures in November 2022. The Commissioning Manager has agreed to a revised implementation date of 31/03/2023.	

Moray Council

Internal Audit Section

DEPARTMENT: Health & Social Care Moray

SUBJECT: Client Monies

REPORT REF: 22'011

Follow Up Audit Review

Risk Ratings for Recommendations						
High	Key controls absent, not being operated as designed or could be improved. Urgent attention required.	Medium	Less critically important controls absent, not being operated as designed or could be improved.		Low	Lower level controls absent, not being operated as designed or could be improved.
No.	Audit Recommendation	Priority	Accepted (Yes/ No)	Date of Completion	Status / Explanation	
Key Control: Clear and current policy documents and operational guidelines have been developed for the financial management of client monies.						
5.01	The Procedures for Managing Service User's Money and Corporate Appointeeship should be reviewed and updated and a subsequent regular cycle of review maintained.	Medium	Yes	31/10/2022	Not implemented. Procedures have not been reviewed and updated as intended due to staffing absence. This will now be prioritised and a revised implementation date of 30/06/2023 has been agreed.	

Moray Council

Internal Audit Section

Risk Ratings for Recommendations					
High	Key controls absent, not being operated as designed or could be improved. Urgent attention required.	Medium	Less critically important controls absent, not being operated as designed or could be improved.	Low	Lower level controls absent, not being operated as designed or could be improved.
No.	Audit Recommendation	Priority	Accepted (Yes/ No)	Date of Completion	Status / Explanation
5.02	Procedures for the management of client monies should be promoted to ensure there is an awareness of their requirements by all officers involved in client finance administration.	Medium	Yes	31/10/2022	Not implemented. As procedures have not been reviewed per 5.01, the intended promotion activity after update has not been undertaken. A revised completion date of 30/06/2023 has been agreed.
Key Control: Correct formal powers to administer client monies have been obtained.					
5.03	Clarification should be obtained from Legal Services regarding the length of time funds must be retained on behalf of deceased clients and potential action which can be taken should the funds not be claimed within the timeframe.	Medium	Yes	31/10/2022	Implemented. A process is now in place for active pursual of estate settlement and referral to National Ultimus Haeres Unit to aid fund dispersement where applicable. The balance held in relation to these funds has significantly decreased since the audit was undertaken.

Moray Council

Internal Audit Section

Risk Ratings for Recommendations					
High	Key controls absent, not being operated as designed or could be improved. Urgent attention required.	Medium	Less critically important controls absent, not being operated as designed or could be improved.	Low	Lower level controls absent, not being operated as designed or could be improved.
No.	Audit Recommendation	Priority	Accepted (Yes/ No)	Date of Completion	Status / Explanation
	Consideration should also be given to holding these funds separate to the corporate bank account for increased visibility.				A separate balance record is being maintained for increased visibility of deceased client funds and to record actions taken.
Key Control: All transactions should be for benefit of the client with justifiable supplier selection, verified to source documentation and in line with the client's Financial Management Plan. Any cash held is done so securely and with full accounting arrangements.					
5.04	Due to changes in operating practices a full review of current cash handling procedures should be undertaken. The review should include a risk assessment to ensure best practices are followed regarding the safety and security of both officers and client funds. Documented procedures should thereafter be updated to reflect	High	Yes	31/07/2022	Not implemented. The topic was initially referred to Practice Governance Group, however, the service has decided a full review of the corporate account is required and a meeting has been instigated with all relevant staff. As this will take time and resources to complete a revised implementation date of 31/07/2023 has been agreed.

Moray Council

Internal Audit Section

Risk Ratings for Recommendations					
High	Key controls absent, not being operated as designed or could be improved. Urgent attention required.	Medium	Less critically important controls absent, not being operated as designed or could be improved.	Low	Lower level controls absent, not being operated as designed or could be improved.
No.	Audit Recommendation	Priority	Accepted (Yes/ No)	Date of Completion	Status / Explanation
	any agreed changes.				
Key Control: Robust records of fund administration per client are maintained.					
5.05	Confirmation of the monthly reconciliation of the Corporate bank account to manual records should be undertaken by Community Care Finance management. This should also include the verification of a sample of transactions to source cumentation.	High	Yes	31/05/2022	Implemented. There is now a monthly management check of the corporate bank account reconciliation and a sample of transactions are independently checked for validity. The follow-up exercise has resulted in further enhancements to the management check being advised such as types of transactions for increased focus, which will increase the strength of the scrutiny process.

Moray Council

Internal Audit Section

DEPARTMENT: Health & Social Care Moray

SUBJECT: Procurement and Creditor Payments

REPORT REF: 23'008

Follow Up Audit Review

Risk Ratings for Recommendations						
High	Key controls absent, not being operated as designed or could be improved. Urgent attention required.	Medium	Less critically important controls absent, not being operated as designed or could be improved.		Low	Lower level controls absent, not being operated as designed or could be improved.
No.	Audit Recommendation	Priority	Accepted (Yes/ No)	Date of Completion	Status / Explanation	
Key Control: Effective controls in the processing of creditor payments to ensure compliance with Financial Regulations and Procurement Guidelines						
5.01	A review should be undertaken across all social care external providers to ensure that payments are not made in advance of the service delivery	High	Yes	15/08/22	Implemented- A review of providers has been undertaken, and testing noted only one example where payment had been made before the service was delivered. However, further investigation found that approval had	

Moray Council

Internal Audit Section

Risk Ratings for Recommendations					
High	Key controls absent, not being operated as designed or could be improved. Urgent attention required.	Medium	Less critically important controls absent, not being operated as designed or could be improved.	Low	Lower level controls absent, not being operated as designed or could be improved.
No.	Audit Recommendation	Priority	Accepted (Yes/ No)	Date of Completion	Status / Explanation
					been obtained from the Chief Financial Officer in accordance with Financial Regulations.
5.02	Monitoring arrangements within the Community Care Finance Team should be amended to include a requirement to record all invoices processed for payment	Medium	Yes	31/08/22	Implemented - The monitoring database recording invoices passed for payment has been amended to include additional information on when care has been provided to service users. It was also noted that a revised Standard Operating Procedures (SOP) had been prepared but has not been finalised. The SOP details requirement for recording information on the monitoring database.
5.03	The Community Care Finance Team should check invoices received from Care Providers to ensure the care delivered to each	Medium	Yes	31/08/22	Implemented – Invoices are matched to CareFirst to ensure that the care being billed for agrees to the support package as detailed

Moray Council

Internal Audit Section

Risk Ratings for Recommendations						
High	Key controls absent, not being operated as designed or could be improved. Urgent attention required.	Medium	Less critically important controls absent, not being operated as designed or could be improved.		Low	Lower level controls absent, not being operated as designed or could be improved.
No.	Audit Recommendation	Priority	Accepted (Yes/ No)	Date of Completion	Status / Explanation	
	service user corresponds to their individual authorised support package detailed within CareFirst				in the system. Where discrepancies arise, confirmation is sought from Social Work.	
5.04	Payments should be made to the agreed Care Provider and not a sub contracted company	High	Yes	31/08/22	Implemented. - The follow up review has confirmed that payments are no longer being made to a third party but to the Care Provider.	

Moray Council

Internal Audit Section

DEPARTMENT: Chief Executive

SUBJECT: Social Media

REPORT REF: 22'012

Follow Up Audit Review

Risk Ratings for Recommendations						
High	Key controls absent, not being operated as designed or could be improved. Urgent attention required.	Medium	Less critically important controls absent, not being operated as designed or could be improved.		Low	Lower level controls absent, not being operated as designed or could be improved.
No.	Audit Recommendation	Priority	Accepted (Yes/ No)	Date of Completion	Status / Explanation	
Key Control: The use of social media to facilitate council activities i.e communications, has adequate controls and monitoring						
5.01	A single guidance document should be developed for officers in the use of social media accounts.	Medium	Yes	31/04/2022	Implemented. A Social Media Guidance Document has been prepared and is currently going through an employee consultation process.	

Moray Council

Internal Audit Section

Risk Ratings for Recommendations						
High	Key controls absent, not being operated as designed or could be improved. Urgent attention required.	Medium	Less critically important controls absent, not being operated as designed or could be improved.		Low	Lower level controls absent, not being operated as designed or could be improved.
No.	Audit Recommendation	Priority	Accepted (Yes/ No)	Date of Completion	Status / Explanation	
5.02	The Media and Communications Section should be informed prior to a Service setting up a Social Media Account.	Medium	Yes	31/11/2022	Implemented. Evidence noted of the Media and Communications Section being informed of the setting up of new Social Media Accounts.	
5.03	The Media and Communications Section should maintain a record of social media accounts and officers authorised to post information across all Council services.	Medium	Yes	31/11/2022	Implemented. Noted that a record is now maintained of Council social media accounts and officers authorised to post information.	
5.04	Consideration should be given that prior to allowing officers access to a Council social media account, training should be undertaken.	Medium	Yes	16/12/2022	Implemented. An E-Learning module is now available to officers, and in-person sessions can also be provided when requested. Officers must complete the E-Learning module before access is allowed.	

Moray Council

Internal Audit Section

Risk Ratings for Recommendations						
High	Key controls absent, not being operated as designed or could be improved. Urgent attention required.	Medium	Less critically important controls absent, not being operated as designed or could be improved.		Low	Lower level controls absent, not being operated as designed or could be improved.
No.	Audit Recommendation	Priority	Accepted (Yes/ No)	Date of Completion	Status / Explanation	
5.05	Further exploration should be undertaken to the benefits of introducing additional security controls available from social media website providers.	Medium	Yes	Ongoing	Implemented. Two step authorisation is required for all Facebook Council accounts. In addition, a review of other social media platforms has been completed with the intention of also requiring a two step authorisation procedure before access is allowed.	



REPORT TO: AUDIT AND SCRUTINY COMMITTEE ON 10 MAY 2023

SUBJECT: ANNUAL AUDIT PLAN FOR THE YEAR ENDING 31 MARCH 2023

BY: DEPUTE CHIEF EXECUTIVE (ECONOMY, ENVIRONMENT & FINANCE)

1. REASON FOR REPORT

1.1 To inform the Committee of the Auditor's Annual Audit Plan for 2022/23.

2. RECOMMENDATION

2.1 It is recommended that the Committee consider and note the contents of the External Auditor's Annual Plan for 2022/23.

3. BACKGROUND

3.1 In September 2022, the Accounts Commission confirmed the appointment of Grant Thornton as the external auditor for the Council for financial years 2022/23 to 2026/27 inclusive.

3.2 In delivering the public audit for Moray, Grant Thornton will provide independent assurance that public money has spent appropriately and provides value. Audit work is carried out in accordance with International Standards on Auditing, the Code of Audit Practice and any other relevant guidance.

3.3 The audit includes consideration of Best Value.

4. ANNUAL AUDIT PLAN 2022/23

4.1 Grant Thornton's Annual Audit Plan for 2022/23 is attached as **APPENDIX 1** to this report. The Plan sets out the scope of the audit work and the auditor's approach to the audit. The Plan details the initial risks identified by Grant Thornton and planned work to be undertaken for the audit of the financial statements for the year ending 2022/23.

- 4.2 The main risks for the Council will be the focus of audit testing and are outlined on page 11 of the Plan. In order to assist with the assessment of risk, an Informing the Audit Risk Assessment was completed by senior managers and this is attached as **APPENDIX 2**.
- 4.3 Page 6 of the Annual Audit Plan shows the External Audit fee for 2022/23 as £282,860, which is an increase of 12.5% on the previous year, reflecting additional requirements placed on auditors which come into effect this year.
- 4.4 The annual accounts timetable, including key deadlines are shown on page 7 of the Annual Audit Plan and includes the statutory requirement for the Council to submit the Unaudited Annual Accounts along with supporting working papers to Grant Thornton by 30 June 2023, following consideration by those charged with governance at the meeting of Moray Council on 28 June 2023. The Council will be asked to consider the Annual Audit Report and approve the Audited Annual Accounts at its meeting on 27 September 2023.

5. SUMMARY OF IMPLICATIONS

(a) Corporate Plan and 10 Year Plan (Local Outcomes Improvement Plan (LOIP))

(b) Policy and Legal

The external audit is conducted in terms of statutory powers afforded to the appointed External Auditor and in accordance with Grant Thornton's Code of Practice.

(c) Financial implications

The annual audit fee for 2022/23 is £282,860.

(d) Risk Implications

The risks associated with the Audit Plan have been identified and categorised within the Audit Plan on page 11.

(e) Staffing Implications

Preparation of the Council's financial statements will be co-ordinated by the Chief Financial Officer and will require input from Financial Services along with other departments across the Council.

(f) Property

None arising directly from this report.

(g) Equalities/Socio Economic Impact

None arising directly from this report.

(h) Climate Change and Biodiversity Impacts

None arising directly from this report.

(i) Consultations

The content of the Annual Audit Plan has been discussed with CMT, the Chief Financial Officer and the Audit and Risk Manager prior to production and their comments have been incorporated where appropriate.

6. CONCLUSION

6.1 The Annual Audit Plan informs the Council, its Committees and officers of the work to be undertaken by External Audit (Grant Thornton) in the year ahead.

Author of Report:	Laurie Milne, Senior Accountant
Background Papers:	
Ref:	LM/LJC/SPMAN-1293228629-859

Moray Council External Audit Plan

Financial year ending 31 March 2023

30 March 2023



**Your key Grant Thornton
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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 audit planning 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 the organisation 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.

Introduction

Purpose

This document provides an overview of the planned scope and timing of the external audit of Moray Council and its group for those charged with governance.

We are appointed by the Accounts Commission as the external auditors of Moray Council for the five-year period 2022/23 to 2026/27.

Respective responsibilities

Audit Scotland has issued an updated Code of Audit Practice ('the Code') covering this audit appointment period. There are no significant changes in the scope of our work compared to the previous 2016 Code. However, the 2021 Code applies the requirement to communicate key audit matters to all bodies, but requires them to be reported in the Annual Audit Report.

The Code summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities, and that of the Moray Council are summarised in the Appendix of this Audit Plan. We draw your attention to this and the Code.

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on Moray Council's financial statements, which have been prepared by management with the oversight of those charged with governance (the Audit and Scrutiny Committee). Our audit of the financial statements does not relieve management or the Audit and Scrutiny Committee of your responsibilities.

It is your responsibility to ensure that proper arrangements are in place for the conduct of your business, and that public money is safeguarded and properly accounted for. As part of our wider scope and Best Value work, we will consider how you are fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of Moray Council and is risk based.



Plan overview

The audit plan sets out our risk-based audit approach for Moray Council. This plan outlines our initial risk assessment and is reported to those charged with governance (Audit and Scrutiny Committee) and will be shared with Audit Scotland.

01 Materiality

We have calculated our planning materiality using prior year gross expenditure as per the audited 2021/22 financial statements as our benchmark, resulting in the following:

- Planning materiality of £5.825 million (Group: £5.836 million) which is set at 1.5% of gross expenditure.
- Performance materiality of £3.495 million (Group: £3.501 million) is based on 60% of planning materiality.
- Trivial is capped at £250,000 in line with Audit Scotland guidance.
- A lower materiality will be used on:
 - £25,000 for Senior Officers Remuneration

We will revisit our materiality throughout our audit including updating to reflect the draft unaudited financial statements for 2022/23.

02 Financial statement audit

At planning, in accordance with the ISA's (UK) and Practice Note 10 (Revised 2020) 'The Audit of Public Sector Financial Statements' issued by the Public Audit Forum we have identified the following significant financial statement audit risks:

- Management override of controls (ISA (UK) 240);
- Valuation of land, buildings and Council dwellings (valuation);
- Valuation of defined benefit pension scheme liability (valuation);
- Migration of data to the new fixed asset module is not complete and accurate (completeness and accuracy).

We will communicate significant findings on these areas as well as any other significant matters arising from the audits to you in our Annual Audit (ISA 260) Report.

Two revised Auditing Standards (ISA (UK) 315 (Revised July 2020) ISA (UK) 240 (Revised May 2021)) will be applicable to your audit for the first time in 2022/23. Further detail on the impact of these revised standards is set out in the appendices.

03 Group audit scope and risk assessment

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 in order to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Through our audit planning procedures, we consider Moray Council as the only component to be "individually financially significant" to the Moray Council Group, with the Moray Integration Joint Board, Other Trust Funds and Common Good Funds considered to be "not significant but material". We therefore plan a full scope audit of the Council using a component specific materiality, and will apply group materiality when performing specific audit procedures over material balances recognised and held by the Moray Integration Joint Board, Other Trust Funds and Common Good Funds. Analytical procedures will be performed using group materiality on all other consolidated balances including those in relation to Grampian Valuation Joint Board, Moray Leisure Limited and Connected Charitable Trust Funds.

Plan overview (continued)

04 Wider Scope and Best Value Audit

In accordance with the Code, our planning considers the wider scope and Best Value areas of audit.

We have identified the following wider scope risks and will conclude on these during the audit:

- Financial management – no significant risks identified. We will continue to review your arrangements in this area and report findings and conclusions as part of the Annual Audit Report.
- Financial sustainability – we have identified one significant risk relating to identification and delivery of significant savings and transformation in order to reduce funding gaps, deliver a balanced budget and continue to deliver key services and council priorities. More information relating to the response to this risk can be found on page 25 of this report. Findings and conclusions drawn from procedures undertaken on this significant risk area will be reported within the Annual Audit Report.
- Vision, Leadership and Governance - we have identified one significant risk relating to cross party working arrangements to progress council priorities. Previous Best Value reports published by Audit Scotland noted challenges in progressing key decisions and creating pace for change. More information relating to the response to this risk can be found on page 26 of this report. Findings and conclusions drawn from procedures undertaken on this significant risk area will be reported within the Annual Audit Report.
- Use of Resources to Improve Outcomes – no significant risks identified. We will continue to review your arrangements in this area and report findings and conclusions as part of the Annual Audit Report.

As part of our integrated wider-scope work we also use a risk-based approach to assess and report on whether Moray Council has made proper arrangements for securing Best Value and is complying with its community planning duties. For 2022/23 we are required to carry out work and report on the Best Value thematic ‘Leadership of the development of new local strategic priorities’.

05 Other audit matters

We summarise other audit matters for Audit and Scrutiny Committee awareness. This includes:

- Consideration of going concern in accordance with Practice Note 10.
- Certification of grant claims and returns The two approved claims/returns for 2022/23 relate to housing benefit (HB) subsidy and non-domestic rates (NDR).
- Completing Assurance Statements on Whole of Government Accounts.
- In accordance with the Code and planning guidance we also required to complete and submit a number of information returns and other deliverables to Audit Scotland during the year.

Plan overview (continued)

06 Adding Value Through the Audit

Our overall approach to adding value through the audit is clear and upfront communication, founded on our public sector credentials. We use our LEAP audit methodology and data analytics to ensure delivery of a quality audit.

As we undertake our first year as your new auditor we will bring a fresh perspective by implementing an element of unpredictability in our testing to highlight areas of risk and improvements that can be made through both the financial statement and wider scope and best value audit. We will also engage with our financial reporting specialist team to perform a detailed review of the annual report and accounts to identify areas for improvement in respect of financial reporting.

An Engagement Quality Reviewer (EQR) has been assigned to provide oversight and challenge to enhance the audit quality process.

07 Our Audit Fee

Audit fees were shared by Audit Scotland with Moray Council in December 2022. The Audit Fee set by Audit Scotland is £282,860. This fee includes:

- Auditor remuneration £220,720
- Contribution to Performance Audit and Best Value costs £56,110;
- Sectoral cap adjustment of -£2,340 and
- Contribution of £8,370 to Audit Scotland costs.

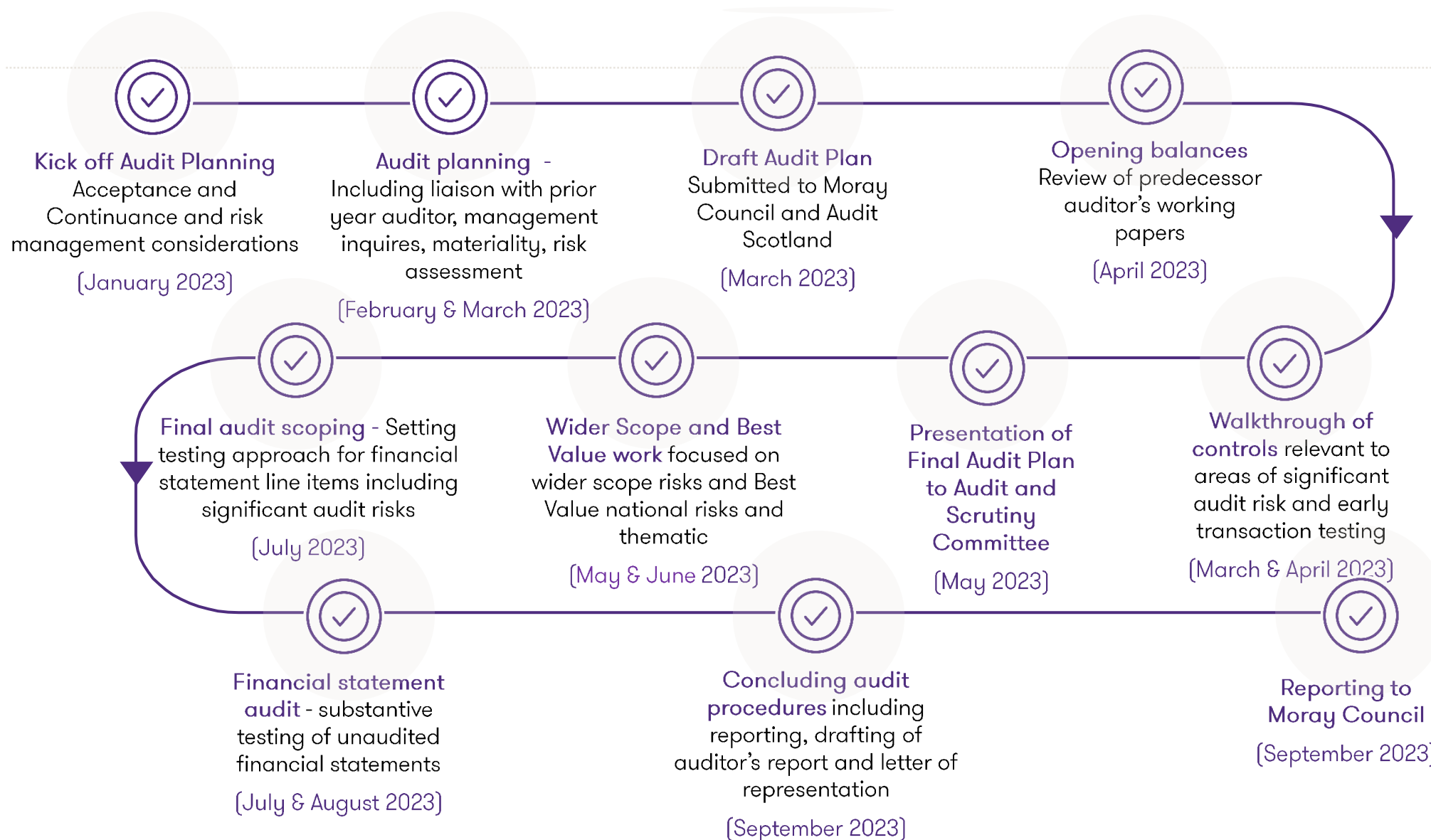
Audit fees are paid to Audit Scotland who in turn pay Grant Thornton UK LLP.

Our audit appointment includes the audit of any trust funds falling within section 106 of the Local Government (Scotland) Act 1973 that are registered as charities with the Office of the Scottish Charities Regulator (OSCR). Auditors, appointed under the Accounts Commission are eligible under the charities regulations to audit a charity's statement of accounts. As part of our audit work in the current year, we will provide an opinion over the Council's registered charity. The audit fee for this work is not covered in the fee set by Audit Scotland. At this stage, we anticipate that the fee will be £6,500 based upon a similar level of work and number of charities as in previous years. If additional work is required which would result in an additional audit fee, this will be advised and subject to agreement with Moray Council. Therefore, the total fee at this stage is £289,360.

We anticipate there will also be additional costs to our audit not already inbuilt into the fee set by Audit Scotland. This is likely to include additional costs in relation to work on the implementation of the new Fixed Asset Register system. A fee has not yet been set for this work until the system is implemented and we can assess the level of audit response required.

Additionally, an auditor expert may need to be employed to assist with the audit work relation to the significant risk around valuation of land and buildings. We will discuss any additional costs with management and confirm the final audit fee within our Annual Audit Report.

Audit approach



Audit timeline

The target dates specified by Audit Scotland for submission of audit Plans, audited accounts and the Annual Audit Report have been brought forward in the 2021 Code. We are required to submit audit plans to Audit Scotland by 31 March 2023, and it is anticipated that we will submit audited accounts and the Annual Audit Report by 30 September 2023. We have set out below our planned timescales for the Moray Council audit.



Audited body responsibilities

Where audited bodies do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging our other audit engagements. Where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, you need to ensure that you:

- produce draft accounts, comprising financial statements and related reports, of good quality, by the 30 June in accordance with statutory requirements
- prepare good quality working papers which support the figures included in the financial statements, in line with the working paper requirements schedule that we have shared with you, and make these available to us at the start of the year end audit visit
- provide all agreed data reports to us at the start of the audit, which are fully cleansed and reconciled to the figures in the financial statements
- ensure that all appropriate staff are available to us for queries over the planned period of the audit, or as otherwise agreed
- respond promptly and appropriately to all audit queries, within agreed timescales.

Materiality

The concept of materiality

Materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality for planning purposes

Financial statement materiality is determined based on a proportion of gross expenditure. We have determined planning materiality to be £5.825 million (Group: £5.836 million), which equates to approximately 1.5% of gross expenditure as per the 2021/22 audited financial statements.

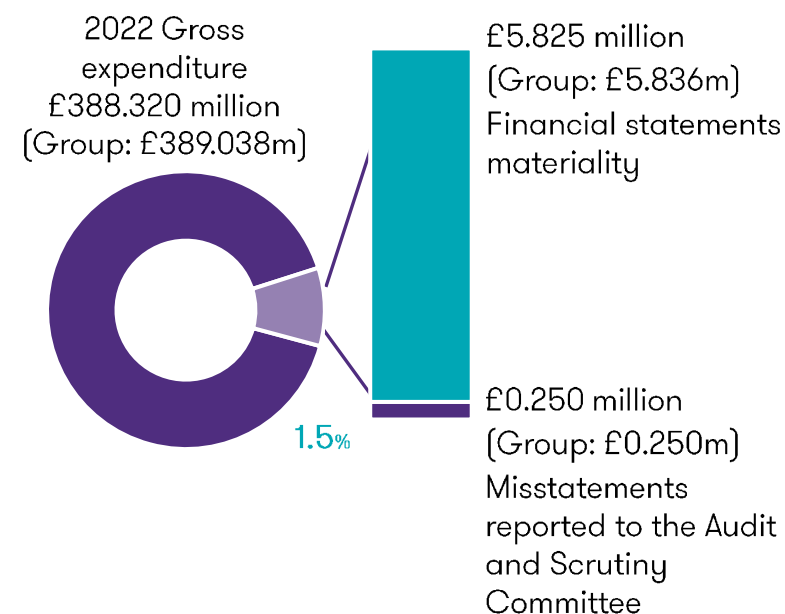
Performance materiality represents the amount set for the financial statements as a whole to reduce the probability that the aggregate of uncorrected and undetected misstatements exceed materiality. We use this to determine our testing approach to the financial statements. We have set this at 60% of planning materiality (Council: £3.495 million, Group: £3.501million). This is based on our understanding of Moray Council and our overall risk assessment procedures.

Materiality reflects our professional judgement of the magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements.

We apply a separate **lower materiality level of £25,000** to the auditable elements of the Remuneration Report.

Under ISA 260 (UK) 'Communication with those charged with governance', we are required by auditing standards to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. We have determined this threshold to be £250,000, being the maximum threshold prescribed by Audit Scotland.

We will reconsider our materiality based on the unaudited 2022/23 financial statements when received in June 2023. During the course of our audit engagement, we will continue to assess the appropriateness of our materiality.



Group audit scope and risk assessment

In accordance with ISA (UK) 600 (Revised November 2019) ‘Audits of Group Financial Statements (including the Work of Component Auditors)’, as Group auditor we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process in order to express an opinion on whether the group financial statements present a true and fair view and have been prepared, in all material respects, in accordance with the applicable financial reporting framework.

The Moray Council group consists of the following bodies:

Subsidiaries

- Connected Charitable Trust Funds
- Other Trust Funds
- Common Good Funds

Associates

- Grampian Valuation Joint Board
- Moray Leisure Limited
- Moray Integration Joint Board

There are no key changes in the group in 2022/23.

We consider Moray Council to be the only “individually financially significant” component of the group with Moray Integration Joint Board, Other Trust Funds and Common Good Funds to be “not significant but material”. We will therefore carry out a full scope audit of Moray Council, using Moray Council’s materiality and apply group materiality when performing specific audit procedures over material balances recognised and held by Moray Integration Joint Board, Other Trust Funds and the Common Good Funds. Analytical procedures will be performed using group materiality on all other consolidated balances including those in relation to the Grampian Valuation Joint Board, Moray Leisure Limited and Connected Charitable Trust Funds.

We are the external auditor for Grampian Valuation Joint Board and Moray Integration Joint Board however, we are not the external auditor of Moray Leisure Limited.

During the course of our audit engagement, we will continue to assess the appropriateness of our planned approach in relation to the group audit scope.

Significant audit 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. The significant risks set out within pages 11 – 16 are only significant risk within the Council's single entity financial statements.

Management Override of Controls (as required by Auditing Standards – ISA (UK) 240)

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.

We will:

- Document our understanding of and evaluate the design effectiveness of management's key controls over journals;
- Analyse your full journal listing for the year and use this to determine our criteria for selecting high risk journals;
- Test the high risk journals we have identified;
- Gain an understanding of the critical judgements applied by management in the preparation of the financial statements and consider their reasonableness;
- Gain an understanding of the key accounting estimates made by management and carry out substantive testing on in scope estimates.
- Evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty." (ISA (UK) 315)

Significant audit risks (continued)

Risk of Fraud in Revenue (as required within Auditing Standards– ISA (UK) 240) (rebutted)

As set out in ISA (UK) 240 (Revised May 2021), there is a presumed risk that revenue may be misstated due to improper recognition of revenue 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.

Risk of Fraud in Expenditure (as recommended in Practice Note 10) (rebutted)

As set out in practice note 10 (Revised 2020) '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.

Moray Council's expenditure includes both payroll and non-payroll costs. We consider payroll costs to be well forecast and are able to agree these costs to underlying payroll systems and there is less opportunity for a material misstatement as a result of fraud to occur in this area.

Having considered the risk factors and the nature of the non-payroll expenditure streams at Moray Council, we have determined that the risk of fraud arising from expenditure recognition can be rebutted as the Council has sufficient unrestricted reserves to utilise against any overspend and opportunities to manipulate expenditure recognition are deemed to be limited.

Significant audit risks (continued)

Valuation of land, buildings and council dwellings

This significant risk is one of the most significant assessed risks of material misstatement for the audit and is expected to be a key audit matter.

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 will depend 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 fair value. Non-specialised land and buildings, such as offices, are held at fair value with the exception of Headquarters Campus buildings which are too large to be marketed as office accommodation and are measured at depreciated replacement cost as an estimate of current value. Council dwellings are determined using the basis of existing use value for social housing.

Moray Council employ 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 an indexation exercise. As at 31 March 2022, Moray Council held PPE of £1.158 billion including land and buildings of £0.488 billion and council dwellings of £0.396 billion.

Given the significant value of the land, non-specialised buildings and 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 and therefore less likely to be materially misstated.

We will therefore focus our audit attention on assets that have 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. The risk will be pinpointed as part of our final accounts work, once we have understood the population of assets revalued. We will report an updated risk assessment for valuation of land and buildings in our Annual Audit Report in September.

Significant audit risks (continued)

Valuation of land, buildings and council dwellings

This significant risk is one of the most significant assessed risks of material misstatement for the audit and is expected to be a key audit matter

(continued)

Our testing will include:

- Evaluating management's processes and controls for the calculation of the valuation estimates, the instructions issued to their management experts and the scope of their work;
- Evaluating the competence, capabilities and objectivity of the valuation expert;
- Writing to the valuer to confirm the basis on which the valuations were carried out;
- Challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding;
- Evaluating the valuer's report to identify assets that have large and unusual changes and/or approaches to the valuation – these assets will be substantially tested to ensure the valuations are reasonable;
- Testing, a sample of other asset revaluations made during the year to ensure they have been input accurately into the body's asset register and associated entries in the financial statements;
- Evaluating the assumptions made by management for any assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value;
- For any assets not formally revalued, evaluation the judgement made by management or others in the determination of the current value of these assets

Significant audit risks (continued)

Defined benefit pension scheme

This significant risk is one of the most significant assessed risks of material misstatement for the audit and a key audit matter.

The Council participates in the North East Scotland Pension Fund, a local government pension scheme. There is an established Pension Fund protocol in place with Pension Fund auditors to provide external auditors with relevant assurance.

The local government pension scheme is a defined benefit pension scheme and in accordance with IAS 19: Employee Benefits, Moray Council is required to recognise its share of the scheme assets and liabilities in its Statement of Financial Position. As at 31 March 2022, the Council had pension fund liabilities of £54.558 million.

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 liability 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 will:

- Evaluate 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
- Evaluate 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 and additional follow up procedures (where required)
- Evaluate the data used by management's experts in the calculation of the estimates
- Perform substantive analytical procedures over the gross assets, gross liabilities and in year pension fund movements, investigating any deviations from audit expectations;
- Assess the accuracy and completeness of the IAS 19 estimates and related disclosures made within the Council's financial statements.

Significant audit risks (continued)

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
<p>Migration of data to new fixed asset module is not complete and accurate.</p>	<p>During COVID and as a consequence 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.</p> <p>Moray Council are launching a new fixed asset register module and resultantly, this is expected to be utilised in the annual accounts process and as such, this will be utilised in the annual accounts process for 2022/23.</p> <p>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.</p> <p>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.</p>	<p>We will:</p> <ul style="list-style-type: none"> perform 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; complete an information technology (IT) environment review to document, evaluate and test the IT controls designed and implemented within the new fixed asset register system; perform substantive validity checks to obtain assurance that balances, both at the individual and aggregate level have been transferred completely and accurately; and test 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.

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Annual Audit Report.

Other matters

Auditor Responsibilities

We have a number of audit responsibilities as set out in the Code and Planning Guidance 2022/23 issued by Audit Scotland:

- We audit parts of your Remuneration Report, as required under the Code, and check whether these sections have been properly prepared (opinion).
- We read the sections of your Annual Report which are not subject to audit and check that they are consistent with the financial statements on which we give an opinion (opinion).
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set out in Delivering Good Governance in Local Government: Framework (2016) (opinion).
- We consider our other duties under the Code and planning guidance (2022/23), as and when required, including:
 - Supporting Audit Scotland's reporting to the Accounts Commission
 - Contributing to Audit Scotland Performance Reports and providing regular updates to Audit Scotland to share awareness of current issues
 - Contributing to the National Fraud Initiative (NFI) report
 - Notifying the Controller of the Audit when circumstances indicate a statutory report may be required
 - Completing mandated information requests and returns and notifying Audit Scotland of any cases of money laundering or fraud
 - Review of Technical guidance prior to issue by Audit Scotland.

Further detail is set out on pages 30 to 32 of this report.

Whole of government accounts (WGA)

The Code of Audit Practice requires appointed external auditors to review and report on WGA returns prepared by audited bodies. External auditors of local authorities are required to provide an assurance statement on 2022/23 WGA returns for bodies over a prescribed threshold determined by NAO.

While we do not expect to be informed of the threshold before July 2023, we anticipate that we will be required to provide an assurance statement for Moray Council for 2022/23.

Going concern assessment

As auditors, we are required to obtain sufficient appropriate audit evidence regarding, and conclude on:

- whether a material uncertainty related to going concern exists; and
- the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements.

The Public Audit Forum has been designated by the Financial Reporting Council as a "SORP-making body" for the purposes of maintaining and updating Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (PN 10). It is intended that auditors of public sector bodies read PN 10 in conjunction with (ISAs) (UK).

PN 10 was updated in 2020 to take account of revisions to ISAs (UK), including ISA (UK) 570 (Revised September 2019) on going concern. PN 10 allows auditors to apply a 'continued provision of service approach' when auditing going concern in the public sector, where appropriate. Audit Scotland's also issued further guidance in a Going Concern publication in December 2020).

Within our wider scope work we will conclude on Moray Council's arrangements to ensure financial sustainability.

Other matters (continued)

Technical review of the financial statements

As this is our first year as auditors of Moray Council, we will be carrying out a review of the PFI model. In addition, your financial statements will be subject to a technical review. We will discuss our findings with management so they can consider any changes to the financial statements that may be required.

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be considered as part of our audit. However, the procedures will not be as extensive as the procedures adopted for the significant risks we have identified and highlighted in this Audit Plan.

Internal control environment

During our initial audit planning, we will develop our understanding of your control environment (design and implementation) as it relates to the preparation of your financial statements. In particular we will:

- Consider key business processes and related controls
- Assess the design of key controls over all significant risks we have identified. This will include key controls over: journal entries, valuation of land, buildings and council dwellings, valuation of defined benefit pension liabilities, new fixed asset register and other material areas of management estimate and judgement.

Our focus is on design and implementation of controls only. We do not intend to assess, or place any reliance on the operating effectiveness of your controls during our audit.

Audit handover

To facilitate effective audit planning and deliver an efficient audit we gain a detailed understanding of Moray Council from discussions with key personnel at the entity, internal audit and the prior year auditor, attendance at Audit and Scrutiny Committee meetings and review of key documents.

In line with Audit Scotland's Handover guidance, we seek to place as much assurance as possible on your previous auditor's work on your opening balances. We are in the process of scheduling dates with your previous auditor in order to review their prior year audit working paper files.

Grant claims

Local government auditors are required to review and report on approved grant claims prepared by local authorities. We will work with officers to ensure the timely completion and audit inspection of your Housing Benefit return and Non-Domestic Rates claim.

Financial reporting developments

We invited members of your finance team to our LG audit workshops earlier this year. In February 2023, two representatives attended our workshop.

During our audit we will actively discuss emerging financial reporting developments with you.

Other matters (continued)

Progress against prior year audit recommendations

The predecessor auditor identified the following issues in their 2021/22 audit of Moray Council's financial statements, which resulted in seven recommendations being reported in their 2021/22 Annual Audit Report.

As part of our final accounts, we will follow up on the implementation of these prior year recommendations and report on progress against the recommendations in full within our Annual Audit Report. The responses at this stage for our plan is management's response.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue (Management Response)
Ongoing	<p>1. Non-current assets</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>
Ongoing	<p>2. Loans Fund advances</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>Risk – the council does not comply with the requirements set out in Finance Circular 7/2016.</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>

Other matters (continued)

Progress against prior year audit recommendations (continued)

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue (Management Response)
Ongoing	<p>3. Charities</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>

Other matters (continued)

Progress against prior year audit recommendations (continued)

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue (Management Response)
Ongoing	<p>4. Financial management</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>
Ongoing	<p>5. Payroll user access</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>

Other matters (continued)

Progress against prior year audit recommendations (continued)

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue (Management Response)
Ongoing	<p>6. Council tax discounts and non-domestic rates reliefs</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>Council Tax:</p> <ul style="list-style-type: none"> 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 have received. Based on the responses received, CTAX will be updated. A summary of this work will follow. <p>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> <ul style="list-style-type: none"> 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>Non-Domestic Rates:</p> <ul style="list-style-type: none"> 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.

Other matters (continued)

Progress against prior year audit recommendations (continued)

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue (Management Response)
Ongoing	<p>7. Statutory Performance Indicators (SPIs)</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.</p> <p>Next update on the Best Value Assurance Report will be reported to Corporate Committee on 25 April 2023.</p>

Wider scope risks identified in planning

Our responsibilities under the Code extend beyond the audit of the financial statements. The Code sets out four audit dimensions that frame wider scope into identifiable areas. These four dimensions have been slightly amended in the 2021 Code as shown in the table below.

2016 Code	2021 Code
Financial Sustainability	Financial Sustainability
Financial Management	Financial Management
Governance and transparency	Vison, Leadership and Governance
Value for Money	Use of Resources to Improve Outcomes

We consider each of these areas through our audit planning process and have set out overleaf the identified areas of risk for our wider scope work.

The Code also requires that auditors assess and report on audited bodies' performance in meeting their Best Value and community planning duties, as part of their annual audit. We consider risks and any improvement areas identified in the seven Best Value themes specified in the Audit Scotland supplementary guidance as part of our wider scope work and carry out annual work on service performance and reporting arrangements as specified in the guidance.

From our initial planning work, we have identified one significant risk in relation to Financial Sustainability and one significant risk in relation to Vision, Leadership and Governance. We have not identified risks in relation to Financial Management and Use of Resources from our initial planning work. We will continue to review your arrangements before we issue our Annual Report.

Our findings and recommendations of wider scope work performed will be communicated through the Annual Audit Report, which we anticipate issuing in line with the target deadline of 30th September 2023.

Wider scope risks identified in planning (continued)

Financial sustainability Local authorities have experienced significant challenges and uncertainties over the past year as a result of issues including responding to the aftermath of the covid-19 pandemic and economic uncertainties including rising inflation and interest rates which has resulted in increases in costs coupled with pay award uncertainties. These issues result in financial planning challenges which is compounded by single year settlements which creates significant difficulties to medium to longer term financial planning.

While the Council reported strong financial performance in 2021/22, there are significant funding gaps identified from 2023/24 and beyond. As at February 2023 the council estimates that it will use £4.8m of general reserves in 2022/23, increasing to £17m in 2023/24 to balance the revenue budget. The council estimates there will be £25.3m of savings to be delivered by 2025/26 after the use of reserves in order to reduce forecast funding gaps. Reserves should be used as a short term measure, Moray will need to continue to monitor the level of adequate general reserves to ensure reserves do not dip to an unsustainable level and is able to invest in growth and transformation in future years to provide financial sustainability. The Council faces significant challenges in dealing with future funding gaps where anticipated funding is not matched. In order 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 in order to deliver a balanced budget and continue to deliver key services and council priorities.

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.

Response to significant risk:

In undertaking our audit work in response to this significant risk we will:

- Review how the council identifies significant financial pressures that are relevant to its short and medium-term plans and builds them into its plans
- Review how the council plans to bridge its funding gaps and identify achievable savings and future transformation
- Review how the council plans its finances to support the sustainable delivery of services in accordance with strategic and statutory priorities
- Review how the council identifies and manages risk to financial resilience, such as unplanned changes in demand and assumptions underlying its plans

Findings and conclusion drawn from procedures undertaken on this significant risk area will be reported within the Annual Audit Report.

Wider scope risks identified in planning (continued)

Vision, Leadership and Governance

Due to the political make up of the council, the political balance is finely balanced. Previous Best Value reports published by Audit Scotland noted challenges in progressing key decisions and creating pace for change which creates a risk to the council in achieving key priorities from the corporate plan. There have been a number of changes to the administration of the council since the local elections in May 2022. Two members left the administration group and the Convener resigned from their post resulting in a decision to approve a new structure consisting of a Leader, Deputy Leader and Civic Leader. In addition, a by-election was held in early November 2022 following the resignation of a newly elected councillor. Considerable restructure of membership in a short space of time, as well as a large proportion of newly elected members being new to the council can create challenges in effective cross party working as well as progression of council priorities. This is further exacerbated by financial challenges where challenging and difficult decisions will need to be made in the immediate future in order to bring about transformation and efficiencies to continue to deliver key council services and priorities while maintaining financial sustainability.

Significant risk identified:

There is a risk that progression of council priorities is hindered due to a lack of effective cross party working arrangements.

Response to significant risk:

In undertaking our audit work in response to this significant risk we will:

- Review cross party working arrangements and governance arrangements in place to inform effective decision making; and
- Review arrangements in place to track and monitor performance and outcomes of council priorities as well as reviewing arrangements in place over the information provided by members to inform effective decision making.
- Review progress against previous best value assurance follow up reports in relation to cross party working arrangements

Findings and conclusions drawn from procedures undertaken on this significant risk area will be reported within the Annual Audit Report.

Wider scope risks identified in planning (continued)

Financial Management

The Council has processes in place which detail the responsibilities of Corporate Committee members and senior management for planning and managing the Council's finances. These are set out in the Council's Scheme of Administration. The Council identifies future cost pressures as part of its initial budget setting process, which involves meetings between budget holders and members of the finance team, on an ongoing basis throughout the year, usually through budget monitoring meetings. The Corporate Committee is a formal committee where the purpose is to provide scrutiny, challenge and gain assurance with regard to all aspects on significant financial and budgetary matters in order to provide assurance to Moray Council in line with the principles and values of Best Value. We have not identified a significant risk in relation to Moray Council's arrangements for financial management from our initial planning work. We will continue to review your arrangements before we issue our Annual Audit Report.

We will seek to understand the effectiveness of Moray Council's budgetary control system in communicating accurate and timely financial performance, including the arrangements for identifying, monitoring and reporting of savings. We will consider the overall financial position reached by the Council during 2022/23 and we will seek to understand the future financial implications of this.

Use of Resources to Improve Outcomes

Local authorities 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 through the use of financial and other resources, and reporting performance against outcomes. We have not identified a significant risk in relation to Moray Council's arrangements for use of resources to improve outcomes from our initial planning work. We will continue to review your arrangements before we issue our Annual Audit Report. In undertaking our work we will consider the clarity of the arrangements in place to ensure that resources are deployed to improve strategic outcomes, meet the needs of service users, and deliver continuous improvements in priority services. We will do this by reviewing the arrangements that Moray Council has developed to address workforce challenges and improve performance, including performance against standards/targets. We will also consider the arrangements Moray Council has in place to meet outcomes and improvement objectives, for working with strategic partners and communities and reporting performance against outcomes, financial and other resources.

Wider scope risks identified in planning (continued)

Other wider scope areas

In addition to the wider scope risks set out above, Audit Scotland's Planning Guidance 2022/23 requires us to consider the following national risks as part of our wider scope work:

- Climate change – Auditors are required to provide answers to six specified questions in a mandated return to Audit Scotland and to include appropriate reference in their Annual Audit Report.
- Cyber security – Auditors are required to consider risks related to cyber security at audited bodies as part of their work on the financial statements audit in line with guidance issued by Audit Scotland's Digital Audit Team.

Best Value

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 identified a significant risk in relation to vision, leadership and governance as a result of our risk assessment and planning work over the wider scope themes. As part of our wider scope work relating to vision, leadership and governance we will assess the arrangements in place by the Authority in order to achieve Vision and Leadership as a best value characteristic and report on arrangements in place as part of our Annual Audit Report (AAR). The work undertaken in response to this risk is included in slide 26 as covered by our wider scope work.

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.

We will report on the arrangements in place over the effectiveness of leadership in the development of new local strategic priorities within our Annual Audit Report. A separate management report will be provided which outlines the results of the best value thematic review.

Wider scope risks identified in planning (continued)

Best Value (continued)

The Controller of Audit reports to the Accounts Commission on each council's performance in meeting its Best Value duties at least once over the five-year audit appointment. The Controller of Audit reports will be a covering report accompanied by the council's latest annual audit report. The Controller reports will summarise key Best Value judgements and may include supplementary information where it is considered relevant. These reports will be coordinated and prepared by the Performance Audit and Best Value group staff within Audit Scotland however, local auditors must contribute to their preparation. The programme of Controller reports will commence in October 2023. Moray Council has been included within the first year programme by Audit Scotland for reporting between October 2023 and August 2024. The findings and conclusions from our work performed in the Annual Audit Report for 2022/23 will form the basis of the Controller of Audit Report to the Accounts Commission for Moray Council.

Service improvement and reporting

As part of our Best Value audit work we will assess how effectively the Council demonstrates a trend of improvement over time in delivering their strategic priorities. We will review the following areas:

- Determining the effectiveness of the Council's processes for reporting and scrutiny of performance against its priorities;
- SPI 1: The Statutory Performance Information Direction published in December 2021 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. The Commission expects this reporting to allow comparison both over time and with other similar bodies (drawing on Local Government Benchmarking Framework and/or other benchmarking activities); and
- SPI2: The Statutory Performance Information Direction also requires a council to report 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.

Our findings and conclusions in respect of these areas will be reported within the Annual Audit Report.

Audit Scotland deliverables

As set out in the Code of Audit Practice, as appointed auditors we have a number of wider reporting responsibilities beyond the audit of the financial statements. Below we summarise the key areas of work for our 2022/23 audit, including expected reporting under Audit Scotland's Code of Audit Practice and audit planning guidance:

Requirement	How we will report our findings
Annual Accounts Perform an audit of the annual accounts and express an audit opinion.	<ul style="list-style-type: none"> Independent Auditor's Report on the financial statements Annual Audit Report detailing findings from our audit work on the financial statements.
Wider scope audit dimensions Conclude and report on our assessment of the wider scope audit dimensions.	<ul style="list-style-type: none"> Annual Audit Report
Audit Scotland area of focus – Climate change Providing specified information on Moray Council's arrangements for responding to climate change.	<ul style="list-style-type: none"> Completion of Audit Scotland annual return Annual Audit Report
Audit Scotland area of focus – Cyber security We will consider risks related to cyber security during our financial statement audit.	<ul style="list-style-type: none"> We will report any significant incidents, issues or areas of good practice to Audit Scotland's Digital Audit team. Annual Audit Report (where necessary)
Best Value– Follow Up Follow up of the Moray Council's progress in implementing the recommendations raised in previous Best Value Assurance Reports and Annual Audit Reports.	<ul style="list-style-type: none"> Annual Audit Report
Best Value thematic work for 2022/23 – We are required to report locally on any Best Value thematic work prescribed by the Accounts Commission. For 2022/23 the prescribed thematic is 'Leadership of the development of new local strategic priorities'.	<ul style="list-style-type: none"> Annual Audit Report Reporting in a separate management report is also required.

Audit Scotland deliverables (continued)

Requirement	How we will report our findings
Statutory Performance Information Consider and report on Statutory Performance Information arrangements.	<ul style="list-style-type: none"> Annual Audit Report
National Fraud Initiative (NFI) Contribute to NFI report.	<ul style="list-style-type: none"> Annual Audit Report Reporting participation to Audit Scotland including completion of NFI questionnaire
Statutory Objections Consider statutory objections to the annual accounts	<ul style="list-style-type: none"> Response to any objections received.
Whole of Government Accounts (WGA) Provide assurance over Moray Council's WGA return.	<ul style="list-style-type: none"> Assurance Statement on WGA return
Housing Benefits Subsidy Claim Independent certification on housing benefit subsidy claim to the Department for Works and Pensions (DWP).	<ul style="list-style-type: none"> Auditor certificate on Housing Benefit Subsidy Claim (Deadline to be confirmed when TGN released in April 2023)
Non-domestic rates (NDR) Certification of NDR claim.	<ul style="list-style-type: none"> Auditor certificate on Non-Domestic Rate Return (Deadline to be confirmed when TGN released in May 2023)
Current Issues Returns Prepare and submit Current Issues Returns.	<ul style="list-style-type: none"> Current Issues Returns

Audit Scotland deliverables (continued)

Requirement	How we will report our findings
Correspondence queries Carry out preliminary enquiries into any correspondence relevant to Moray Council that is referred to Audit Scotland.	<ul style="list-style-type: none"> • Providing responses to any correspondence received based on our audit knowledge and understanding and the results of any review as agreed with Audit Scotland
Emerging issues Communication of emerging issues to Audit Scotland and highlight any issues for potential statutory reports.	<ul style="list-style-type: none"> • Communicating throughout our audit emerging issues identified throughout the year
Performance, impact and overview reports Contribute to housing benefit performance audits, the Shared Risk Assessment, sector annual reports, shared intelligence on health and social care, and sector meetings.	<ul style="list-style-type: none"> • Providing information returns to Audit Scotland
Money laundering and fraud Provide information on cases of money laundering or fraud.	<ul style="list-style-type: none"> • Completion of fraud returns for all frauds over £5,000 or involving misappropriation or theft of assets or cash which are facilitated by weaknesses in internal control • Reporting cases to the National Crime Agency of any instances of money laundering or fraud
Technical Guidance Contribute to Technical Guidance Notes	<ul style="list-style-type: none"> • Providing responses to Audit Scotland consultations on draft Technical Guidance Notes for Auditors

Audit Fees

Across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing.

As a firm, we are absolutely committed to meeting the expectations of the FRC on audit quality and public sector financial reporting. This includes, for Audit Scotland contracts, meeting the expectations of the Audit Scotland Quality Team and the Scottish quality framework.

Audit fees were shared by Audit Scotland with the Chief Executive and Chief Financial Officer in December 2022. Audit fees are paid to Audit Scotland who in turn pay us. We reserve the right to review our fee during the audit should significant delays be encountered and/or new technical matters arise.

Relevant professional standards

Audit Scotland set the baseline audit fee. We can increase the fee, from the baseline, for the inclusion of additional risks, new technical matters or specific client matters identified.

We are required to consider all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's Ethical Standard [revised 2019] which state that the Engagement Lead must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

The baseline fee of £282,860 has been set by Audit Scotland. In accordance with Audit Scotland guidance, we are able to discuss a variation to the audit fee where additional work is required.

Our audit appointment includes the audit of any trust funds falling within section 106 of the Local Government (Scotland) Act 1973 that are registered as charities with the Office of the Scottish Charities Regulator (OSCR). Auditors, appointed under the Accounts Commission are eligible under the charities regulations to audit a charity's statement of accounts. As part of our audit work in the current year we will provide an opinion over the Council's registered charity. The audit fee for this work is not covered in the fee set by Audit Scotland. At this stage we anticipate that the fee will be £6,500 based upon a similar level of work and number of charities as in previous years. If additional work is required which would result in an additional audit fee, this will be advised and subject to agreement with Moray Council. Therefore, the total fee at this stage is £289,360.

We anticipate there may be additional costs to our audit not already inbuilt into the fee set by Audit Scotland. This is likely to include additional costs in relation to work on the implementation of the new Fixed Asset Register system. Additionally, an auditor expert may need to be employed to assist with the audit work relation to the significant risk around valuation of land and buildings. This will not be known until the outcome of the valuations is fully understood. We will discuss any additional costs with management and confirm the final audit fee within our Annual Audit Report.

Audit Fees (continued)

Audit fees for 2022/23

Service	Fees £
External Auditor Remuneration	£220,720
Pooled Costs	NIL
Contribution to Audit Scotland support costs	£8,370
Contribution to Performance Audit and Best Value	£56,110
Sectoral cap adjustment	-£2,340
2022/23 initial fee informed by Audit Scotland	£282,860
Trust Fund Charity (not covered in the initial fee)	£6,500
Indicative fee for 2022/23	*£289,360

* As noted on page 33, when the new Fixed Asset Register is introduced a fee for the audit response will be discussed with the Council, as it is expected that this will result in a variation to the audit fee.

Additional Fees (Non-Audit Services)

Service	Fees £
At planning stage, we confirm there are no planned non-audit services	Nil

Fee assumptions

In setting the fee for 2022/23 we have assumed that you will:

- prepare a good quality set of accounts, supported by comprehensive and well-presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence for all critical and significant judgements and estimates made in preparing the financial statements including a robust management assessment of the potential impact of any assets not revalued
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements
- provide ongoing access to officers and management experts throughout the audit and timely responses to audit queries.

Adding value through the audit

Our overall approach to adding value through the audit is clear and upfront communication, founded on our public sector credentials and our LEAP audit methodology and use of data analytics to ensure delivery of a quality audit.

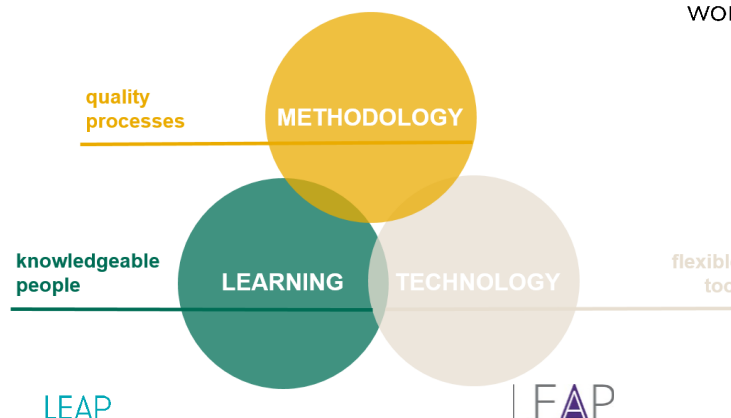
Our audit methodology is risk based and includes developing a good understanding of Moray Council. The diagram opposite summarises how our methodology and use of data adds value to our audit.

We comply with UK Auditing Standards and as a Firm we are regulated by the FRC. We take findings on audit quality seriously and continue to invest through our Audit Investment Plan, which is supported by a specific national Public Sector Investment Plan.

We comply with Audit Scotland's quality arrangements, including submitting an Annual Quality Report on our Audit Scotland portfolio. Audit Scotland's quality report for 2021/22 can be found on the [Audit Scotland website](#).

Our wider quality arrangements are set out in our annual transparency reports which are available on our website here: [Annual report 2021](#).

Use of audit, data interrogation and analytics software



LEAP

- A globally developed ISA-aligned methodology that re-engineers our audit approach to focus on quality and effectiveness
- LEAP empowers our engagement teams to deliver even higher quality audits, enables our teams to perform effective audits which are scalable to any client, enhances the work experience for our people and develops further insights into our clients' businesses
- The LEAP approach allows us to tailor the audit programme to help engagement teams respond quickly to any changes as they occur, keeping quality high through responsiveness and flexibility.

Info



Cloud based software which uses data analytics to identify trends and high-risk transactions, generating insights to focus audit work and share with clients.



REQUEST AND SHARE

- Communicate and transfer documents securely; Extract data directly from client systems; Work flow assignment and progress monitoring



ASSESS AND SCOPE

- Compare balances and visualise trends; Understand trends and perform more granular risk assessment



VERIFY AND REVIEW

- Automate sampling; Download automated work papers



INTERROGATE AND EVALUATE

- Analyse 100% of transactions quickly and easily; Identify high risk transactions for investigation and testing; Provide client reports and relevant benchmarking KPIs



FOCUS AND ASSURE

- Visualise relationships impacting core business cycles; Analyse 100% of transactions to focus audit on unusual items; Combine business process analytics with related testing to provide greater audit and process assurance



INSIGHTS

- Detailed visualisations to add value to meetings and reports

Appendices

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Independence

Auditor independence

Ethical Standards and ISA (UK) 260 'Communication with Those Charged With Governance' require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the Firm, or covered persons, relating to our independence.

We encourage you to contact us to discuss any independence issues, with us and will discuss the matter with you if we make any significant judgements surrounding independence matters.

We confirm that there are no significant facts or matters that impact on our independence as auditors of the Moray Council Group that we are required to report or wish to draw to your attention.

We have complied with the Financial Reporting Council's Ethical Standard (Revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of the 2019 Ethical Standard.

Our team complete annual fit and proper declarations, including independence confirmations, as well as confirming independence from individual audited bodies when completing timesheets. The work of our Ethics team is overseen by our Ethics partner and all staff undergo regular ethics training each year.

We confirm we are independent of the Moray Council Group.

Non-audit services provided prior to appointment

Ethical Standards require us to draw your attention to relevant information on recent non-audit / additional services before we were appointed as auditor. We did not provide any non-audit or additional services to Moray Council prior to our appointment as auditors.



Responsibilities

The Code sets out auditor responsibilities and responsibilities of the audited body. Key responsibilities are summarised below. Please refer to the Code for further detail.

Moray Council

Your responsibilities include:

- Maintaining adequate accounting records and working papers
- Preparing accounts for audit, comprising financial statements, which give a true and fair view, and related reports
- Establishing and maintaining a sound system of internal control
- Establishing sound arrangements for proper conduct of affairs, including the regularity of transactions
- Maintaining standards of conduct for the prevention and detection of fraud and other irregularities
- Maintaining strong corporate governance arrangements and a financial position that is soundly based
- Establishing and maintaining an effective internal audit function.

External Audit

Our responsibilities include:

- Compliance with the FRC Ethical Standard
- Compliance with the Code and UK Auditing Standards (ISA's UK) in the conduct and reporting of our financial statements audit
- Compliance with the Code and guidance issued by Audit Scotland in the conduct and reporting of our wider scope and Best Value work
- Providing assurance on specified returns and other outputs (where required), as specified in guidance issued by Audit Scotland
- Liaison with and notifying Audit Scotland when circumstances indicate a statutory report may be required
- Notifying Audit Scotland of any known or suspected frauds greater than £5,000
- Contributing to relevant performance studies (as set out in Audit Scotland's Planning Guidance for 2022/23).



Communication

ISA (UK) 260 'Communication with Those Charged With Governance', as well as other ISAs set out prescribed matters which we are required to report to those charged with governance (the Audit and Scrutiny Committee). Our reporting responsibilities are set out below. We communicate all matters affecting the audit on a timely basis, to management and/or the Audit and Scrutiny Committee.

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, including: Scope of work on components, involvement of group auditors in component audits, concerns over quality of component auditors' work, limitations of scope on the group audit, fraud or suspected fraud	•	•
Views about the qualitative aspects of Moray 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		•

Fraud responsibilities

ISA (UK) 240 (Revised May 2021) 'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements' came into force for accounting periods commencing on or after 15 December 2021. The first year this impacted on Moray Council was the year ended 31 March 2023. Requirements in ISA (UK) 240 (Revised May 2021) have been enhanced for the identification and assessment of risks of material misstatement due to fraud and the response to those risks.

The term fraud refers to intentional acts of one or more individuals amongst management, those charged with governance, employees or third parties involving the use of deception that result in a material misstatement of the financial statements. In assessing risks, the audit team is alert to the possibility of fraud at Moray Council.

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance including establishing and maintaining internal controls over the reliability of financial reporting effectiveness and efficiency of operations and compliance with applicable laws and regulations.

It is Moray Council's responsibility to establish arrangements to prevent and detect fraud and other irregularity. This includes:

- developing, promoting and monitoring compliance with standing orders and financial instructions
- developing and implementing strategies to prevent and detect fraud and other irregularity
- receiving and investigating alleged breaches of proper standards of financial conduct or fraud and irregularity.

As auditors, we are required to obtain reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. Due to the inherent limitations of an audit, there is an unavoidable risk that some material misstatements of the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

As part of our risk assessment procedures we are required to:

- identify and assess the risks of material misstatement in the financial statements due to fraud, including financial misreporting and misappropriation of assets.
- hold separate discussions with management, those charged with governance and others (as appropriate) to gain insights on their views of fraud.

Fraud responsibilities (continued)

During our audit work we will:

- design and implement appropriate audit procedures to respond to the risks of misstatement we have identified and reported in this Audit Plan
- remain alert to new risks and amend our risk assessments accordingly
- respond appropriately to any risks identified.

Throughout the audit we work with you to consider the significant risks we identify, including the operation of key financial controls. We also examine the policies in place, strategies, standing orders and financial instructions to ensure that they provide a strong framework of internal control. We will report to you any significant deficiencies we identify.

In addition, as set out in the Audit Scotland Planning Guidance 2022/23 ,we are required to:

- provide information on fraud cases to Audit Scotland on a quarterly basis
- communicate emerging issues to Audit Scotland, and
- contribute to the National Fraud Initiative report.

Anti-Money Laundering Arrangements

As required under the Money Laundering, Terrorist Financing and Transfer of Funds Regulations 2017 there is an obligation (as set out in the Audit Scotland Planning Guidance for 2022/23) to inform the National Crime Agency for any suspicion that any person has engaged in money laundering or terrorist financing. Should we be informed of any instances of money laundering at Moray Council, we will report this as required by Audit Scotland.

IT audit strategy

ISA (UK) 315 (Revised July 2020): Identifying and Assessing the Risks of Material Misstatement Through Understanding of the Entity and its Environment' came into force for accounting periods commencing on or after 15 December 2021. The first year this impacted on Moray Council was the year ended 31 March 2023.

We are required to obtain an understanding of the information systems relevant to financial reporting to identify and assess the risks of material misstatement. As part of this we obtain an understanding of the controls operating over relevant Information Technology (IT) systems i.e., IT general controls (ITGCs). The revised requirements in ISA (UK) 315 (Revised July 2020) include:

Key changes

- An emphasis has been added on the need for auditors to not bias their work toward obtaining corroborative evidence or excluding evidence that is contradictory.
- The concept of 'inherent risk factors' has been introduced to assist the auditor in identifying events or conditions that may affect the susceptibility of assertions about classes of transactions, account balances or disclosures to misstatement.
- A new concept of significant classes of transactions, account balances or disclosures refers to those classes for which there are assertions with an identified risk of material misstatement (referred to as relevant assertions).
- A new concept of spectrum of inherent risk applies to the extent to which inherent risk varies.
- Significant risk relates to an identified risk of material misstatement for which the assessment of inherent risk is close to the upper end of the spectrum due to the affect of inherent risk factors on the combination of the likelihood of a misstatement and the magnitude.
- A requirement for auditors to understand the entity's use of IT in its business, the related risks and the system of internal control addressing such risks. (Guidance is being provided from Audit Scotland's Digital Auditing team to assist auditors in this regard).

During our audit we will complete an assessment of the design and implementation of ITGCs related to security management; technology acquisition, development and maintenance; and technology infrastructure.

IT audit strategy (continued)

The following IT systems have been judged to be in scope for our audit and based on the planned financial statement audit approach we will perform the indicated level of assessment:

IT system	Audit area	Planned level IT audit assessment
Advance Business Solutions e5 System	Financial Reporting	A detailed review of the IT General Controls related to security management, development and maintenance and technology infrastructure will be carried out for the 2022/23 financial year on these in scope systems. We will look to gain assurance on the work performed in year in relation to the design effectiveness and implementation of IT General Controls for the current financial year and update our understanding of any changes in the system since the prior financial year. We will review any changes identified in key controls from the prior year and assess the impact of any changes on the planned audit approach.
iTrent	Payroll	

In addition, due to the significant changes during the period, specifically the new fixed asset register module, additional audit procedures will be completed to address the additional risks of material misstatement identified.

IT system	Event	Relevant risks	Planned IT audit procedures
CIPFA's Asset Manager	New Fixed Asset Register module	Post migration data completeness and accuracy; system functionality operating to design.	A detailed review of the IT General Controls related to security management, development and maintenance and technology infrastructure will be carried out for the 2022/23 financial year on the new fixed asset register system. We will look to gain assurance on the work performed in year in relation to the design effectiveness and implementation of IT General Controls for the current financial year.

Future auditing developments

There are changes to the following ISAs (UK) which will impact on our LG audits for the first time in future years.

Revised standards applicable for audits of financial statement for periods commencing on or after 15 December 2022.:

- ISQM (UK) 2 (Issued July 2021) 'Engagement Quality Reviews'
- ISA (UK) 220 (Revised July 2021) 'Quality Management for an Audit of Financial Statements'

Revised standards applicable for audits of financial statement for periods commencing on or after 15 December 2023.

- ISA (UK) 600 (Revised September 2022) 'Special Considerations- Audits of Group Financial Statements (including the work of component auditors)' - Applicable for audits of financial statement for periods commencing on or after 15 December 2023.

A summary of the impact of the key changes on various aspects of the audit is included below:

Area of change	Impact of changes
Quality control	<ul style="list-style-type: none"> • ISQM 2 deals with the appointment and eligibility of the engagement quality reviewer (EQR) and the EQRs responsibilities relating to the performance and documentation of an engagement quality review. • The objective of the firm, through appointing an EQR, is to perform an objective evaluation of the significant judgments made by the engagement team and the conclusions reached thereon. • The objective of the auditor is to implement quality control procedures at the engagement level that provide the auditor with reasonable assurance that the audit complies with professional standards and applicable legal and regulatory requirements; and the auditor's report issued is appropriate in the circumstances.
Direction, supervision and review of the engagement	<ul style="list-style-type: none"> • Greater responsibilities, audit procedures and actions are assigned directly to the engagement lead, resulting in increased involvement in the performance and review of audit procedures.
Definition of engagement team	<ul style="list-style-type: none"> • The definition of engagement team when applied in a group audit, will include both the group auditors and the component auditors. The group auditor is required to determine the nature, timing and extent of involvement of component auditors in any group audit. • Component auditors may increasingly be involved in all phases of the group audit. The group auditor should be sufficiently and appropriately involved in the work of component auditors throughout the group audit, including communicating clearly about the scope and timing of their work, and evaluating the results of that work.
Documentation	<ul style="list-style-type: none"> • The amendment to these auditing standards will result in additional documentation requirements to demonstrate how these requirements of these revised standards have been addressed.

Future auditing developments (continued)

IFRS 16 Leases

Following further deferral of IFRS 16 Leases in Local Government, this accounting standard is now mandated for implementation by local government bodies from 1 April 2024 (although earlier adoption is permitted).

The new standard brings significant changes for lessee accounting. Key points that Moray Council will need to consider on transition include:

- The need to recognise the cumulative effects of initially applying IFRS 16 on the date of implementation as an adjustment to the opening balances of taxpayers' equity. (This means prior year comparators will not need to be restated).
- The need to recognise the right-of-use asset for leases previously classified as operating leases at an amount equal to the outstanding lease liability.
- No adjustments are needed for leases for which the underlying asset is of low value (less than £5,000 new) or where the lease term ends within 12 months.
- Assets where there is no or a below market rate peppercorn lease premium should be recognised as a right-of-use asset measured at current value in existing use or fair value as appropriate. Any difference between this and the lease liability will be recognised as part of the adjustment to the opening balances of taxpayers' equity.

- Irrecoverable VAT should not be included in the lease liability nor the value of the right of use asset.
- Existing finance lease and PFI liabilities that have an element based on an index or other rate will need to be reviewed and possibly amended as such variable payments are incorporated into the measurement of the lease liability under IFRS 16.
- In the year prior to implementation, the financial statements will need to disclose the anticipated impact of adopting IFRS 16 from 1 April of the following year.
- Systems will need to be in place to capture the relevant information for new leases entered into on or after implementation.

Moray Council will need to ensure that controls are in place to identify all of its contracts and any other arrangements which might contain the use of an asset, in order to ensure that the disclosures made in 2023/24 and accounting balances included within the Group's 2024/25 financial statements are complete and accurate.

Informing the audit risk assessment for Moray Council 2022/23

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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 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 your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. 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.

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Purpose

The purpose of this report is to contribute towards the effective two-way communication between Moray Council's external auditors and Moray Council's Audit and Scrutiny Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Audit and Scrutiny Committee under auditing standards.

Background

Under International Standards on Auditing (UK), (ISA(UK)) auditors have specific responsibilities to communicate with the Audit, Risk and Assurance Committee. ISA(UK) emphasise the importance of two-way communication between the auditor and the Audit and Scrutiny Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Audit and Scrutiny Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Audit and Scrutiny Committee and supports Audit and Scrutiny Committee in fulfilling its responsibilities in relation to the financial reporting process.

Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the Authority's oversight of the following areas:

- General Enquiries of Management
- Fraud,
- Laws and Regulations,
- Related Parties,
- Going Concern, and
- Accounting Estimates.

Purpose

This report includes a series of questions on each of these areas and the response we have received from Moray Council's management. The Audit and Scrutiny Committee should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

General Enquiries of Management

Question	Management response
1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2022/23?	Impact of inflation on construction costs and by extension on DRC valuations.
2. Have you considered the appropriateness of the accounting policies adopted by Moray Council? Have there been any events or transactions that may cause you to change or adopt new accounting policies? If so, what are they?	Accounting Policies are reviewed each year as the Accounts are prepared and changes incorporated where deemed necessary. No changes to Accounting Policies are anticipated for the 2022/23 Accounts.
3. Is there any use of financial instruments, including derivatives? If so, please explain	No derivatives. Financial Liabilities – measured at amortised cost and include: Long Term Loans from PWLB and commercial lenders, Short Term Loans from other Local Authorities, Lease Payables, PPP Contracts, Trade Payables. Financial Assets – measured at amortised cost and include: Cash in Hand, Bank Current and Deposit Accounts, Trade Receivables for Goods and Services Provided.
4. Are you aware of any significant transactions outside the normal course of business? If so, what are they?	Not aware of any significant transactions.

General Enquiries of Management

Question	Management response
5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets? If so, what are they?	Not aware of any specific circumstances.
6. Are you aware of any guarantee contracts? If so, please provide further details	N/A
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements? If so, please provide further details	N/A
8. Other than in house solicitors, can you provide details of those solicitors utilised by Moray Council during the year. Please indicate where they are working on open litigation or contingencies from prior years?	Separate working provided on this in response to another request.

General Enquiries of Management

Question	Management response
9. Have any of the Moray Council's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements? If so, please provide further details	Not aware of any instances of Fraud.
10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	Mercer for Actuarial Services in relation to IAS 19 Employee Benefits. Arlingclose – Treasury Management Advisers and also engaged specifically on the changes to Service Concession Arrangements in Scotland.
11. Have you considered and identified assets for which expected credit loss provisions may be required under IFRS 9, such as debtors (including loans) and investments? If so, please provide further details	Bad Debt Provision for Trade Debtors, Council Tax and Housing Rents will be processed as normal. No further allowance anticipated in 2022/23.

Fraud

Matters in relation to fraud

ISA (UK) 240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both the Audit and Scrutiny Committee and management. Management, with the oversight of the Audit and Scrutiny Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Audit and Scrutiny Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As Moray Council's external auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud,
- process for identifying and responding to risks of fraud, including any identified specific risks,
- communication with the Audit and Scrutiny Committee regarding its processes for identifying and responding to risks of fraud, and
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Audit and Scrutiny Committee oversees the above processes. We are also required to make inquiries of both management and the Audit and Scrutiny Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from Moray Council's management.

Fraud risk assessment

Question	Management response
<p>1. Has Moray Council assessed the risk of material misstatement in the financial statements due to fraud?</p> <p>How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process?</p> <p>How do Moray Council's risk management processes link to financial reporting?</p>	<p>The Council has established risk management, governance and operating procedures to mitigate the risk of material misstatement in the financial statements.</p> <p>The Corporate Risk Register detailing the Council's principal risks is reviewed by CMT/SMT on a 6 monthly basis with an annual report provided to elected members. Services are also required to maintain risk registers detailing identifiable risks and mitigating controls. In addition, the Audit and Risk Manager prepares a risk-based audit plan which considers the Council's strategic objectives, associated risks and the views of senior management.</p>
<p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>A risk register is maintained by Accountancy recording risks, controls, etc. In addition, Internal Audit will also review and test transactions to ensure compliance with Council Regulations and Procedures. The use of IDEA, a computer assisted software system is used to analyse and select a sample for testing.</p>
<p>3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within Moray Council as a whole, or within specific departments since 1 April 2022? If so, please provide details</p>	<p>No irregularity noted below the £5000 reporting threshold.</p>

Fraud risk assessment

Question	Management response
<p>4. As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p>	<p>The Council's Financial Regulations require all irregularities to be reported to the Audit and Risk Manager. Principal risks facing the Council are reviewed on a 6 monthly basis by CMT/SMT and the Corporate Risk Register is then updated accordingly.</p>
<p>5. Have you identified any specific fraud risks? If so, please provide details</p> <p>Do you have any concerns there are areas that are at risk of fraud?</p> <p>Are there particular locations within Moray Council where fraud is more likely to occur?</p>	<p>Specific concerns have been raised regarding the threat of a successful cyber attack. The risk has been discussed by CMT/ SMT and a section for Information Technology is included in the Corporate Risk Register. In addition, as part of the risk-based approach to preparing the Annual Audit Plan, an internal audit review has been undertaken regarding the Council's cyber security controls.</p> <p>An overtime irregularity was also noted within Building Services involving two officers where a special investigation was undertaken by the Internal Audit Section. As a result, the Internal Audit Section also undertook a review of overtime payroll processing procedures that resulted in the introduction of additional processing controls.</p>
<p>6. What processes do Moray Council have in place to identify and respond to risks of fraud?</p>	<p>Financial Regulations detail that all staff irregularities should be reported to the Audit and Risk Manager. This is supported by the Policy to Combat Fraud, Theft, Bribery and Corruption and the Whistleblowing Policy. In addition, the Council participates in the National Fraud Initiative data matching exercise, and also publicises a point of contact to report fraud or irregularities involving the misuse of council resources.</p> <p style="text-align: center;">Page 135</p>

Fraud risk assessment

Question	Management response
<p>7. How do you assess the overall control environment for Moray Council, including:</p> <ul style="list-style-type: none"> the existence of internal controls, including segregation of duties; and the process for reviewing the effectiveness the system of internal control? <p>If internal controls are not in place or not effective where are the risk areas and what mitigating actions have been taken?</p> <p>What other controls are in place to help prevent, deter or detect fraud?</p> <p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)? If so, please provide details</p>	<p>The responsibility for developing and maintaining sound control environment rests with management. However, the Audit and Risk Manager prepares a risk-based audit plan which considers the Council's strategic objectives and associated risks. While the prevention of fraud and error rests with management through the design and operation of suitable systems of control, reviews undertaken by Internal Audit will make recommendations to improve the control environment. Internal Audit also coordinates the Council's participation in the National Fraud Initiative, a data matching exercise involving a range of public sector bodies. This activity is viewed as complementary to other audit activities, and participation assists Internal Audit in assessing the potential for the occurrence of fraud and related fraud risk. Testing will primarily be undertaken by the Services, with Internal Audit undertaking an overview of the process.</p> <p>In accordance with an Audit and Scrutiny Committee Report, the Internal Audit Section reviewed the key fraud risks identified within an Audit Scotland Report – Fraud & Irregularity. Findings detailing risks, mitigating controls and responsible officer(s) were reported to the Information Assurance Group.</p>
<p>8. Are there any areas where there is potential for misreporting? If so, please provide details</p>	<p>None noted.</p>

Fraud risk assessment

Question	Management response
<p>9. How does Moray Council communicate and encourage ethical behaviours and business processes of it's staff and contractors?</p> <p>How do you encourage staff to report their concerns about fraud?</p> <p>What concerns are staff expected to report about fraud? Have any significant issues been reported? If so, please provide details</p>	<p>The Council has a Policy to Combat Fraud, Theft, Bribery and Corruption. This policy is built around a counter fraud culture supported by practices to deter and detect fraudulent and corrupt activities. It takes account of the Council's statutory obligations, including, and in particular, the provisions of the Bribery Act 2010.</p> <p>The Council has a statutory responsibility to make arrangements for the administration of its financial affairs under the direction of a proper officer - the Chief Financial Officer. The Council has incorporated within its standing orders and procurement procedures, arrangements in respect of contracts for the supply of services, goods or materials and the execution of works. These ensure that established and consistent contracting procedures are available for use by the Council, and all procuring officers are either fully trained or are given support by Procurement Officers as part of the Supported Tender Process.</p> <p>The Audit and Scrutiny Committee has a remit which includes ensuring that the highest standards of probity and public accountability are demonstrated. This involves oversight of internal control processes as a contribution to good governance and generally supporting an anti-fraud, theft, corruption, and bribery culture. This Committee considers reports produced by Internal and External Audit on the Council's systems; reports which include recommendations to strengthen internal controls and in turn reduce the risk of fraud and related behaviours going undetected.</p> <p>.As detailed previously, Managers have an ongoing responsibility for implementing effective systems of control which secure the legitimacy of expenditure, the safeguarding of assets and income, the reliability of management information, the accuracy of record keeping and compliance with statutory guidance. They also have a responsibility to communicate this policy to their staff and ensure established systems are followed.</p> <p>Financial Regulations detail that all irregularities should be reported to the Audit and Risk Manager. In addition, a Confidential 'whistle blowing' policy and procedure is in place, enabling employees to raise any concerns about any aspect of the Council's work without fear of victimisation, subsequent discrimination or disadvantage, and in the knowledge that such concerns will be properly investigated.</p>

Fraud risk assessment

Question	Management response
<p>12. What arrangements are in place to report fraud issues and risks to the Audit and Scrutiny Committee?</p> <p>How does the Audit and Scrutiny Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control?</p> <p>What has been the outcome of these arrangements so far this year?</p>	<p>The Public Sector Internal Audit Standards (PSIAS) applicable to Local Government in Scotland requires the Audit and Risk Manager to report functionally to the Audit and Scrutiny Committee on various issues relative to the work of the Internal Audit Service, including special investigations.</p> <p>The Audit and Scrutiny Committee has a remit which includes ensuring that the highest standards of probity and public accountability are demonstrated. This involves oversight of internal control processes as a contribution to good governance and generally supporting an anti-fraud, theft, corruption, and bribery culture. This Committee considers reports produced by Internal and External Audit on the Council's systems; reports which include recommendations to strengthen internal controls and in turn reduce the risk of fraud and related behaviours going undetected. Functions and makeup of the Audit and Scrutiny Committee have also been recently reviewed and updated to reflect the requirements of the Chartered Institute of Public Finance and Accountancy (CIPFA) Position Statement: Audit Committees in Local Authorities and Police 2022</p>
<p>13. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?</p>	<p>None noted</p>
<p>14. Have any reports been made under the Bribery Act? If so, please provide details</p>	<p>None noted</p>

Law and regulations

Matters in relation to laws and regulations

ISA (UK) 250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Audit and Scrutiny Committee, is responsible for ensuring that Moray Council's operations are conducted in accordance with laws and regulations, including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Audit and Scrutiny Committee as to whether the body is in compliance with laws and regulations. Where we become aware of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with responses from management.

Impact of laws and regulations

Question	Management response
<p>1. How does management gain assurance that all relevant laws and regulations have been complied with?</p> <p>What arrangements does Moray Council have in place to prevent and detect non-compliance with laws and regulations?</p> <p>Are you aware of any changes to the Authority's regulatory environment that may have a significant impact on the Authority's financial statements?</p>	<p>Generally speaking each service area (for example planning, procurement, social work) are familiar with the statutory regime in which they operate and will keep up to speed with developments through their professional associations such as CIPFA or SOLAR.</p> <p>Changes to legislation, consultations and guidance are notified to the Council by the Scottish Government and are distributed to the relevant departmental area.</p> <p>The legal section has teams which specialise in different areas of Council activity and will be involved (at the request of client departments) in the implementation of more complex changes (such as formation of the IJB) and in any areas where legislation is unclear.</p> <p>Legal compliance will often be subject to external regulation (for example data protection).</p> <p>The Councils Scheme of Delegation (detailing the powers given to officers to implement services under specified legislation) is reviewed annually in line with revised legislative powers, in consultation with client departments.</p>
<p>2. How is the Audit and Scrutiny Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>The Councils Scheme of Delegation (detailing the powers given to officers to implement services under specified legislation) is reviewed annually in line with revised legislative powers, in consultation with client departments.</p>
<p>3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2022 with an on-going impact on the 2022/23 financial statements? If so, please provide details</p>	<p>The Council is currently being challenged on its Records Management Plan by the Keeper of the Records of Scotland.</p> <p>Not aware of other instances.</p>

Impact of laws and regulations

Question	Management response
<p>5. What arrangements does Moray Council have in place to identify, evaluate and account for litigation or claims?</p>	<p>The legal section has teams which specialise in different areas of Council activity and will be involved (at the request of client departments) in the implementation of more complex changes (such as formation of the IJB) and in any areas where legislation is unclear.</p> <p>Where necessary external advise will be sought.</p>
<p>6. Have there been any reports from other regulatory bodies, such as HM Revenues and Customs, which indicate non-compliance? If so, please provide details</p>	<p>The Council is currently being challenged on its Records Management Plan by the Keeper of the Records of Scotland.</p>

Related Parties

Matters in relation to Related Parties

Moray Council are required to disclose transactions with bodies/individuals that would be classed as related parties. These may include:

- bodies that directly, or indirectly through one or more intermediaries, control, or are controlled by Moray Council;
- associates;
- joint ventures;
- a body that has an interest in the authority that gives it significant influence over the Authority;
- key management personnel, and close members of the family of key management personnel, and
- post-employment benefit plans (pension fund) for the benefit of employees of the Authority, or of any body that is a related party of the Authority.

A disclosure is required if a transaction (or series of transactions) is material on either side, i.e. if a transaction is immaterial from the Authority's perspective but material from a related party viewpoint then the Authority must disclose it.

ISA (UK) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

Related Parties

Question	Management response
<p>1. Have there been any changes in the related parties including those disclosed in Moray Council's 2021/22 financial statements?</p> <p>If so please summarise:</p> <ul style="list-style-type: none"> • the nature of the relationship between these related parties and Moray Council • whether Moray Council has entered into or plans to enter into any transactions with these related parties • the type and purpose of these transactions 	<p>No changes since 2021/22.</p>
<p>2. What controls does Moray Council have in place to identify, account for and disclose related party transactions and relationships?</p>	<p>Senior Officers and Elected Members make annual returns and any significant factors that arise as part of this process would be factored into the Related Parties Note in the Annual Accounts.</p>
<p>3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?</p>	<p>Normal procedures following the Authorisation policy would apply – transactions over £25,000 are checked by the Chief Financial Officer.</p>
<p>4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?</p>	<p>For significant transactions that are new and outside the normal course of business Committee approval is required.</p>

Going Concern

Matters in relation to Going Concern

The audit approach for going concern is based on the requirements of ISA (UK) 570, as interpreted by Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020). It also takes into account the National Audit Office's Supplementary Guidance Note (SGN) 01: Going Concern – Auditors' responsibilities for local public bodies.

Practice Note 10 confirms that in many (but not all) public sector bodies, the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the body's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist.

For this reason, a straightforward and standardised approach to compliance with ISA (UK) 570 will often be appropriate for public sector bodies. This will be a proportionate approach to going concern based on the body's circumstances and the applicable financial reporting framework. In line with Practice Note 10, the auditor's assessment of going concern should take account of the statutory nature of the body and the fact that the financial reporting framework for central government bodies presume going concern in the event of anticipated continuation of provision of the services provided by the body. Therefore, the public sector auditor applies a 'continued provision of service approach', unless there is clear evidence to the contrary. This would also apply even where those services are planned to transfer to another body, as in such circumstances, the underlying services will continue.

For many public sector bodies, the financial sustainability of the body and the services it provides are more likely to be of significant public interest than the application of the going concern basis of accounting. Financial sustainability is a key component of wider scope and best value work and it is through such work that it will be considered.

Going Concern

Question	Management response
1. What processes and controls does management have in place to identify events and / or conditions which may indicate that the statutory services being provided by Moray Council will no longer continue?	Regular reporting on the Council's finances would highlight any conditions which may mean the Council is no longer able to deliver statutory duties. Regular performance reports to Service Committees would highlight this as well.
2. Are management aware of any factors which may mean for Moray Council that either statutory services will no longer be provided or that funding for statutory services will be discontinued? If so, what are they?	Not aware of any factors.
3. With regard to the statutory services currently provided by Moray Council, does Moray Council expect to continue to deliver them for the foreseeable future, or will they be delivered by related public authorities if there are any plans for Moray Council to cease to exist?	It is expected that the Council will continue to deliver statutory services.
4. Are management satisfied that the financial reporting framework permits Moray Council to prepare its financial statements on a going concern basis? Are management satisfied that preparing financial statements on a going concern basis will provide a faithful representation of the items in the financial statements?	The annual accounts will be prepared on a going concern basis and this will provide a faithful representation of the items included in the financial statements.

Accounting estimates

Matters in relation to accounting estimates

ISA (UK) 540 (Revised December 2018) requires auditors to understand and assess a body's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the body's risk management process identifies and addresses risks relating to accounting estimates;
- The body's information system as it relates to accounting estimates;
- The body's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit and Scrutiny Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?

We would ask the Audit and Scrutiny Committee to satisfy itself that the arrangements for accounting estimates are adequate.

Accounting Estimates - General Enquiries of Management

Question	Management response
1. What are the classes of transactions, events and conditions, that are significant to the financial statements that give rise to the need for, or changes in, accounting estimate and related disclosures?	Valuation of Property, Plant & Equipment Valuation of Pension Liability
2. How does the Authority's risk management process identify and address risks relating to accounting estimates?	By engaging with experts in each of the areas identified the risk of material misstatement is reduced.
3. How does management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?	The results of prior year audits are looked at and whether there was any material concerns raised or amendments made – in those instances accounting estimates would be reviewed.
4. How do management review the outcomes of previous accounting estimates?	The results of prior year audits are looked at and whether there was any material concerns raised or amendments made – in those instances accounting estimates would be reviewed.
5. Were any changes made to the estimation processes in 2022/23 and, if so, what was the reason for these?	No changes were made in 2022/23.

Accounting Estimates - General Enquiries of Management

Question	Management response
6. How does management identify the need for and apply specialised skills or knowledge related to accounting estimates?	Each area is looked at in isolation and the skills/knowledge/capacity of relevant Services considered.
7. How does the Authority determine what control activities are needed for significant accounting estimates, including the controls at any service providers or management experts?	Ensuring that relevant information is provided on time and accurately to ensure that the information received can be relied upon.
8. How does management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts?	Regular updates provided by preparers of the Accounts on any issues that arise.
9. What is the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates, including: <ul style="list-style-type: none"> - Management's process for making significant accounting estimates - The methods and models used - The resultant accounting estimates included in the financial statements. 	The unaudited accounts are reported to Committee and then again upon completion of the audit. External Audit reporting also helps to inform on estimates.

Accounting Estimates - General Enquiries of Management

Question	Management response
10. Are management aware of any transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)? If so, what are they?	Not aware of any additional areas where new estimates would be required to be disclosed.
11. Why are management satisfied that their arrangements for the accounting estimates, as detailed in Appendix A, are reasonable?	No major changes required to annual accounts in previous years.
12. How is the Audit and Scrutiny Committee provided with assurance that the arrangements for accounting estimates are adequate?	Annual accounts are reported to Full Council.

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Land and buildings valuations	Infrastructure/Community Assets/AUC – DHC Schools – DRC Surplus Assets – Fair Value Council Dwellings - EUV	Information used is industry standard information from entities such as BCIS.	Internal Valuers		No.
Valuation of defined benefit net pension fund liabilities	Based on information from Actuaries.	Information provided to actuaries based on year end position reducing the need for use of estimates.	Yes.	Disclosure in accounts regarding the changes that could happen and the impact it would have on the figures included in the accounts	No.
Heritage assets valuations	Insurance Valuations/Historic Cost		Yes.		No.
Depreciation	Straight Line method over the useful life of the asset.	Estates provide useful life estimates.	Internal Valuers		No

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Investment property revaluations	Fair Value	Per the Code – Investment Property reviewed annually.	Internal Valuers	No alternative considered – prescriptive by the Code.	No.
Provisions	Only 1 provision – amount based on actual amounts.	Liaison with HR.	No.	Based on information from HR – confirmed each year that it is still at an appropriate level	No
Accruals	Based on actual entries in the ledger, or on information received from departments.		No but in some cases estimates are made by Quantity Surveyors.	In most cases based on actual ledger entries so no estimation. Where estimates are provided we know it will be based on professional judgement and we would query if it was materially different from estimates provided.	No.
Credit loss and impairment allowances	Bad Debt Provision – debtors, council tax, housing rents.	Debtors/Housing Rents: >12 months – provided in full 6-12 months – 50% <6 months – 0% Council Tax: <12 months – 0%	No.	Looked at and reviewed each year to see if the percentages are still appropriate.	No.

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Accrued Income	Based on actual entries in the ledger, or on information received from departments		No.	In most cases based on actual ledger entries so no estimation. Where estimates are provided we know it will be based on professional judgement and we would query if it was materially different from estimates provided.	No.
PFI Liabilities	Financial models are used each year.	Financial models are well established and were set up in conjunction with experts and have been audited in detail since then.	Models used were set up in conjunction with experts – annual use is by Council staff.	No changes considered – processes well established.	No.
Fair Value of Assets and Liabilities (Financial Instruments)	In most cases the fair value is calculated using models provided by the Council's Treasury Management Advisers	Use of external expert information	Yes.		No.



