

Moray Council External Audit Plan

Financial year ending 31 March 2023

30 March 2023



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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.

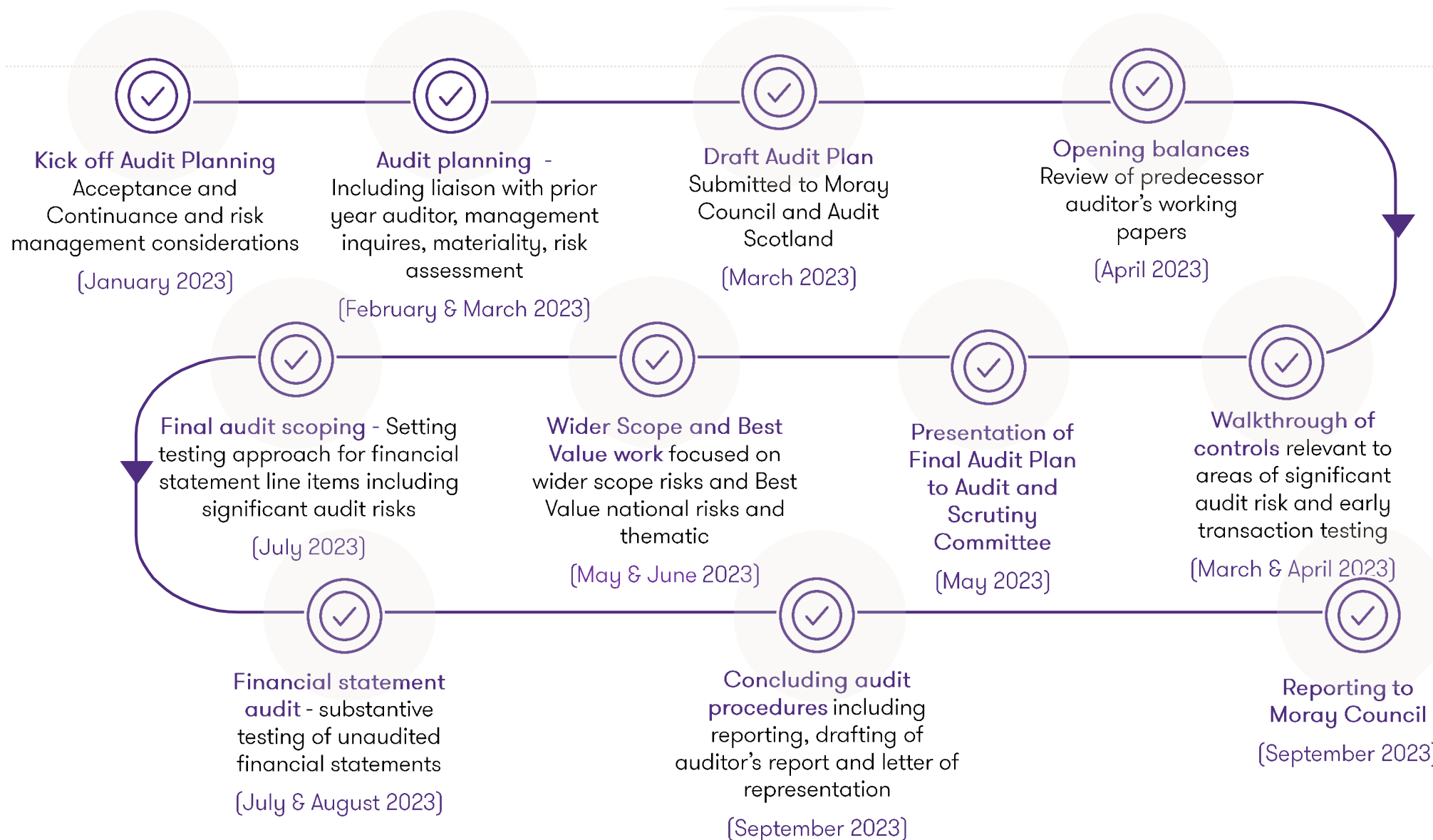
Our audit appointment includes the audit of any trust funds falling within section 106 of the Local Government (Scotland) Act 1973 that are registered as charities with the Office of the Scottish Charities Regulator (OSCR). Auditors, appointed under the Accounts Commission are eligible under the charities 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.

We reserve the right to review our fee during the audit should significant delays be encountered and/or new technical matters arise.

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.

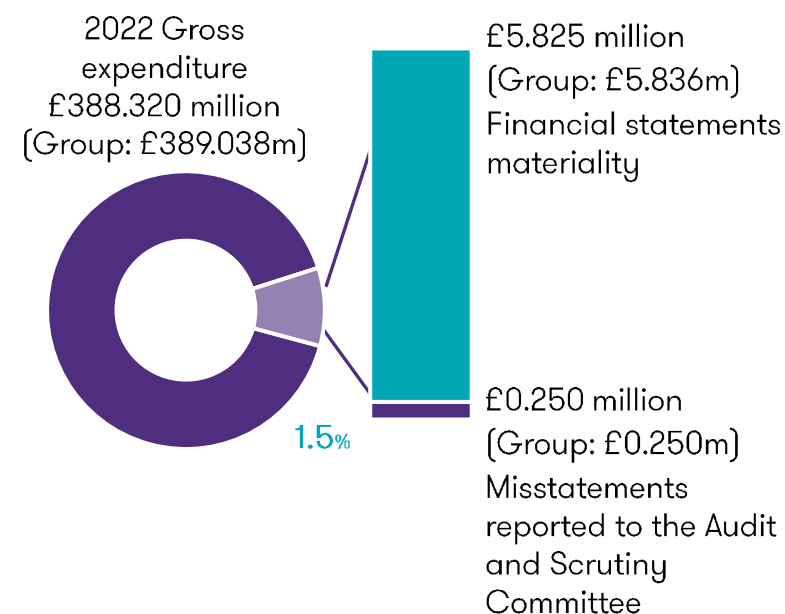
Performance materiality represents the amount set for the financial statements as a whole to reduce the probability that the aggregate of uncorrected and undetected misstatements exceed materiality. We use this to determine our testing approach to the financial statements. We have set this at 60% of 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.

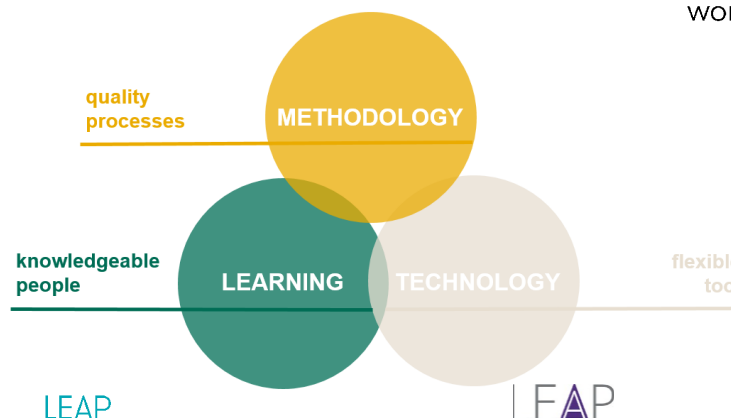
Our audit methodology is risk based and includes developing a good understanding of Moray Council. The diagram opposite summarises how our methodology and use of data adds value to our audit.

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.

