

Moray Council

Annual Audit Plan 2020/21



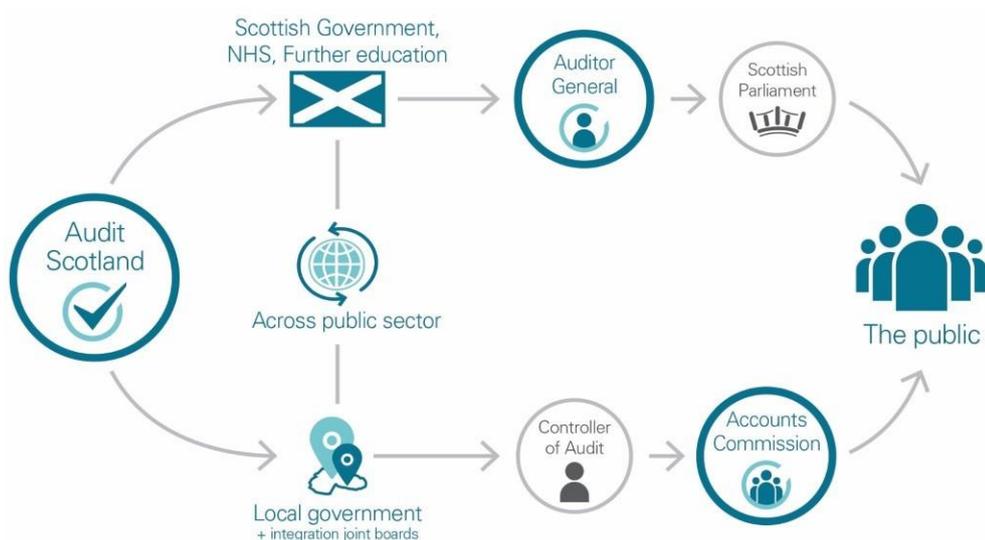
 AUDIT SCOTLAND

Prepared for Moray Council
April 2021

Who we are

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

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



About us

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

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

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

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Risks and planned work

Introduction

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

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

Impact of COVID-19

3. The public health crisis caused by the coronavirus disease 2019 (COVID-19) pandemic has had a significant and profound effect on every aspect of Scottish society. Public services have been drastically affected, requiring immediate changes to the way they are provided. The impact on public finances has been unprecedented, which has necessitated both the Scottish and UK governments providing substantial additional funding for public services as well as support for individuals, businesses, and the economy. It is likely that further financial measures will be needed and that the effects will be felt well into the future.

4. Public audit has an important contribution to make to the recovery and renewal of public services. The Auditor General, the Accounts Commission and Audit Scotland are responding to the risks to public services and finances from COVID-19 across the full range of audit work including annual audits and the programme of performance audits. The well-being of audit teams and the delivery of high-quality audits remain paramount. Maintaining a pragmatic and flexible approach will enable change at short notice as new issues emerge, or current risks change in significance. Where this impacts on annual audits, an addendum to this annual audit plan may be necessary.

Adding value

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

Audit risks

6. Based on our discussions with staff, attendance at committee meetings and a review of supporting information we have identified the following significant risks for the council Moray Council. We have categorised these risks into financial statements risks and wider dimension risks, although the COVID-19 risk has elements of both. The key audit risks, which require specific audit testing, are detailed in [Exhibit 1](#).

Exhibit 1

2020/21 significant audit risks

 Audit Risk	Source of assurance	Planned audit work
Financial statements risks		
<p>1 Risk of material misstatement due to fraud caused by management override of controls</p> <p>International Auditing Standards require that audits are planned to consider the risk of material misstatement in the financial statements caused by fraud, which is presumed to be a significant risk in any audit. This includes the risk of fraud due to the management override of controls.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance.</p>	<p>Detailed testing of journal entries.</p> <p>Review of accounting estimates.</p> <p>Focused testing of accruals and prepayments.</p> <p>Identification and evaluation of significant transactions that are outside the normal course of business.</p>
<p>2 Risk of error in areas of estimation and judgement</p> <p>There is a significant degree of subjectivity in the measurement and valuation of non-current assets and pensions. The extent of judgement involved increases the risk of material misstatement and requires a specific audit focus.</p> <p>A material uncertainty was disclosed in the 2019/20 accounts over non-current asset valuations as a result of the COVID-19 pandemic. The council has a rolling programme of valuations with specific categories revalued each year. For 2020/21 council houses, garages and the council's industrial portfolio are being revalued.</p> <p>Given categories of assets have not been subject to valuation since the impact of COVID-19, there is a risk of material uncertainty over non-current asset valuations in the 2020/21 accounts.</p>	<p>Use of professional actuaries appointed by the Pension Fund to value pension adjustments required by IAS19.</p> <p>Professionally qualified internal valuers prepare non-current asset valuations.</p>	<p>Assess the scope, independence and competence of the professionals engaged in providing estimates for non-current assets and pensions.</p> <p>Review appropriateness of actuarial assumptions and results including comparison with other councils.</p> <p>Walkthrough the process of valuation to understand the basis for significant judgements.</p> <p>Establish officers' arrangements for ensuring the completeness and accuracy of professional estimations for non-current assets and pensions.</p> <p>Establish officers' arrangements for obtaining assurances over the impact of COVID-19 on the accuracy of non-current assets not subject to valuation in year.</p> <p>Review actual experience of significant estimates made in the prior year.</p>

 Audit Risk	Source of assurance	Planned audit work
Wider dimension risks		
<p>3 Risks relating to COVID-19</p> <p>COVID-19 has had a significant impact on the council in the 2020/21 financial year:</p> <ul style="list-style-type: none"> • Financial management - additional funding and expenditure. CoSLA analysis indicates that councils' income has increased by 9 per cent and that councils are managing an increase of 7 per cent of grant payments made to businesses. • Financial management - the Scottish Government has allowed for flexibility to be applied to certain areas of council funding and accounting practices. • Financial reporting - the council requires to make judgement on the correct accounting treatment in relation to additional funding arrangements – whether the council is acting as agent or principal. • Fraud and controls - there is an increased risk of fraud for some COVID-19 related grants. Due to the nature of the schemes, there may not have been adequate consideration of internal control frameworks and the impact of remote working. • Performance – COVID-19 grants have been disbursed at different rates across councils and there are different experiences of rejection rates. 	<p>Internal Audit have reviewed payments from the Flexible Food Fund and have had involvement in validating applications for a variety of other grant schemes administered on behalf of Scottish Government.</p> <p>Awaiting NFI report of potential matches which will be investigated in usual way.</p> <p>All grants accompanied by guidance from Scottish Government or statement that they are free of conditions.</p> <p>COSLA supporting with a funding tracker.</p> <p>LASAAC guidance and guidance from CIPFA on accounting will be followed when preparing the accounts.</p>	<p>Establish the additional funding streams the council has received in year, what it has been spent on and the impact on outturn and reserves and how this is reported in the financial statements.</p> <p>Review any Scottish Government and CIPFA/LASAAC guidance on accounting.</p> <p>Discussions with management during the year to consider the accounting treatment of significant business grants and use of financial flexibilities.</p> <p>Review disclosures and balances in annual accounts and ensure that this is consistent with any guidance issued.</p> <p>For the most significant grants (by value), establish the conditions attached and the associated controls implemented over these.</p> <p>Confirm existence and operation of these controls by completing a walkthrough.</p> <p>Review potential NFI data matches.</p> <p>Establish the impact on collection rates (council tax, non-domestic rates, sundry debtors) and assess the impact on the bad debt provision.</p> <p>Review any Internal Audit work on COVID-19 grants.</p> <p>Assess any national reporting of business grant performance and discuss any issues with officers.</p>
<p>4 Risk to financial sustainability</p> <p>The council does not plan to use any reserves to support its 2021/22 budget but will need to deliver savings of £1.3 million and use one-off financial flexibilities (£1.2 million) permitted by the Scottish Government to cover costs</p>	<p>A medium to long term financial strategy has been developed to support the delivery of the priorities set out in the revised Corporate Plan.</p> <p>An Improvement and Modernisation Programme is being</p>	<p>Review the 2021/22 revenue budget setting process and required savings.</p> <p>Review the council's medium to long term financial strategy.</p> <p>Review financial monitoring reports during the year, including the use of reserves</p>

	Audit Risk	Source of assurance	Planned audit work
	<p>associated with the COVID-19 pandemic to balance its budget.</p> <p>Further substantial savings will be required for 2022/23 (£4.2 million) and 2023/24 (£4.2 million). In addition, it is likely that there will be further cost pressures to the council on top of the immediate response to the COVID-19 crisis.</p> <p>There is a risk that the council is unable to agree and implement a sustainable financial model for service delivery.</p>	<p>developed to transform the delivery of council services.</p>	<p>and delivery of planned savings.</p>

Source: Audit Scotland

7. We have considered the risk of fraud in ISA 240 including over income recognition and over expenditure in accordance with Practice Note 10. We have rebutted the presumption that a material risk exists, with the exception of management override as included above. This is on the basis of the extent of income and expenditure which is received and issued to other parts of the public sector (including Scottish Government funding and expenditure on the IJB, other NHS boards and councils).

8. For the areas that are subject to some risk, we have considered the incidence of fraud using National Fraud Initiative and Counter Fraud Service outcomes. We have assessed that the volume of transactions, that would need to be fraudulent to prove a material risk, is implausible. Our audit testing is directed towards testing significant and unusual transactions and towards assessing accounting estimates to address any residual risk, as part of our standard fraud procedures. We review controls over key areas of risk and will review any additional controls required due to COVID-19 additional funding and expenditure.

Reporting arrangements

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

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

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

12. The management of the unique and continuing challenges presented by COVID-19 means that we need to continue to take into consideration that audits are taking longer, and we are starting the current year's audit later. This has an impact on the proposed reporting timescales, based on resources available and prioritisation decisions. This is reflected in the timetables below, which we will endeavour to meet, whilst recognising that greater uncertainty exists during the COVID-19 pandemic.

Exhibit 2

2020/21 Audit outputs

Audit Output	Target date	Committee Date
Annual Audit Plan	31 March 2021	19 May 2021 (Audit & Scrutiny Committee)
Management Report	2 June 2021	16 June 2021 (Audit & Scrutiny Committee)
Annual Audit Report and proposed Independent Auditor's Report	22 November 2021	30 November 2021
Independent Auditor's Report signed	30 November 2021	N/A

Source: Audit Scotland

The audit of trusts registered as Scottish charities

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

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

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

16. Based on our discussions with staff and initial planning work we have identified the following risk for the audit of the connected charitable trusts: management override of controls. This risk has been included in [Exhibit 1](#).

Audit fee

17. The agreed audit fee for the 2020/21 audit of Moray Council is £246,240 (2019/20: £239,950). In determining the audit fee, we have taken account of the risk exposure of the council, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit. Our audit approach assumes receipt of the unaudited annual accounts with a complete working papers package on 30 June 2021.

18. We have also agreed an audit fee of £5,330 (2019/20: £5,200) for the charitable trusts.

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

Responsibilities

Elected members and Chief Financial Officer

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

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

Appointed auditor

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

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

Audit scope and timing

Annual accounts

24. The annual accounts, which include the financial statements, will be the foundation and source for most of the audit work necessary to support our judgements and conclusions. We also consider the wider environment and challenges facing the public sector. Our audit approach includes:

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

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

- give a true and fair view of the state of affairs of the council and its group as at 31 March 2021 and of the income and expenditure of the council and its group for the year then ended
- have been properly prepared in accordance with the financial reporting framework.

Other information in the annual accounts

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

27. In addition, we review the content of the annual report for consistency with the financial statements and with our knowledge. We report any uncorrected material misstatements in statutory other information.

Materiality

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

29. We calculate materiality at different levels as described below. The calculated materiality values for the council are set out in [Exhibit 3](#).



Exhibit 3

Materiality values

Materiality	Amount
Planning materiality – this is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. It has been set at 1% of gross expenditure based on the latest audited accounts for the year ended 31 March 2020.	£3.7 million
Performance materiality – this acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement, we have calculated performance materiality at 60% of planning materiality.	£2.2 million
Reporting threshold (i.e., clearly trivial) – we are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. This has been calculated at 4% of planning materiality.	£150,000

Source: Audit Scotland

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

Exhibit 4

Materiality values

Materiality	Amount
Planning materiality – set at 2% of gross assets based on the latest audited accounts for the year ended 31 March 2020.	£17,000
Performance materiality – using our professional judgement, we have calculated performance materiality at 60% of planning materiality.	£10,000
Reporting threshold (i.e., clearly trivial) – calculated at 5% of planning materiality.	£1,000

Source: Audit Scotland

Timetable

31. To support the efficient use of resources it is critical that a timetable is agreed with us for the preparation and audit of the annual report and accounts. [Exhibit 5](#) sets out the agreed timetable. We will endeavour to meet the timescales set out below but recognise that this may not be possible due to uncertainty resulting from the COVID-19 pandemic.

Exhibit 5

Annual accounts timetable

 Key stage	 Date
Consideration of unaudited annual report and accounts by those charged with governance	30 June 2021
Latest submission date of unaudited annual report and accounts with complete working papers package	30 June 2021
Latest date for final clearance meeting with Chief Financial Officer	15 November 2021
Agreement of audited unsigned annual accounts Issue of Annual Audit Report to those charged with governance	22 November 2021
Council meeting to consider the Annual Audit Report and approve the audited annual accounts for signature	30 November 2021
Independent auditor's report signed	30 November 2021

Internal audit

32. Internal audit is provided by Moray Council's internal audit section. As part of our planning process we carried out an annual assessment of the internal audit function and concluded that it operates in accordance with the main requirements of the Public Sector Internal Audit Standards (PSIAS).

Using the work of internal audit

33. International Auditing Standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to rely on the work of internal audit wherever possible to avoid duplication. From our initial review of internal audit plans we plan to place formal reliance on internal audit work on housing benefit payments (substantive testing).

Audit dimensions

34. Our audit is based on four audit dimensions that frame the wider scope of public sector audit requirements as shown in [Exhibit 6](#).

Exhibit 6

Audit dimensions



Source: Code of Audit Practice

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

Financial sustainability

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

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

Financial management

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

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

Governance and transparency

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

- whether the council can demonstrate that the governance arrangements in place are appropriate and operating effectively (including services delivered by, or in partnership with, others such as ALEOs)
- whether there is effective scrutiny, challenge, and transparency
- the quality and timeliness of financial and performance reporting.

Value for money

39. Value for money refers to using resources effectively and continually improving services. We will review, conclude, and report on whether the council can demonstrate:

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

Best Value

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

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

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

42. The four councils on which a BVAR will be published during the fifth year of the new approach are listed in [Exhibit 7](#). Reports will be considered by the Accounts Commission in the period between March and November 2021.

Exhibit 7

2020/21 Best Value Assurance Reports

	Aberdeen City Council	Falkirk Council
	South Ayrshire Council	
	East Dunbartonshire Council	

Source: Audit Scotland

Strategic plan for the six-year appointment

43. As part of our responsibility to report on the audit dimensions over the current audit appointment, the areas of audit work we have completed and identified for future years are outlined in [Exhibit 8](#). The work planned in Moray Council this year will focus on the follow up of the Best Value Assurance Report published in August 2020. Our follow up work will cover:

- how has the council reviewed and prioritised the key strategic decisions (e.g. asset management, children's services, leisure services) that need to be implemented? What progress has been made addressing the key strategic decisions since the BVAR report was published?
- how has the council revised and focused efforts on key priorities and the performance measures to evidence this? Are public performance reports timely, accessible, and understandable?
- does Moray Council have a robust short to medium term financial plan? Has Moray Council demonstrated financial sustainability in the context of other councils and COVID-19?
- has the elected member development strategy been implemented through programmed activity and personal development plans?
- has the council revised and streamlined its governance processes?
- what plans are in place to improve educational attainment including the nature and extent of these?
- has the council investigated, and does it better understand the reasons for poorer satisfaction levels in housing?
- has the council and its partners finalised a performance framework for the Community Planning Partnership?
- has the council the required capacity and the change culture to deliver ?

44. The results of this year's work will be reported in the Annual Audit Report (for the third bullet above) and a follow up report by the Controller of Audit to the Accounts Commission in February 2022. Work scheduled for future years will be subject to annual review.

Exhibit 8 Strategic plan

Dimension	2016/17, 2017/18 & 2018/19	2019/20	2020/21	2021/22
Financial sustainability	Financial planning	Financial planning	Best Value Audit Report follow-up	
Financial management	Financial governance and resource management Financial reporting	Financial governance and resource management	Best Value Audit Report follow-up	
Governance and transparency	Governance	Vision and leadership Digitalisation of services Community engagement / empowerment	Best Value Audit Report follow-up	Equalities
Value for money	Transformation	Performance outcomes Transformational change Partnership working	Best Value Audit Report follow-up	

Independence and objectivity

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

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

Quality control

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

48. The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice (and supporting guidance) issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards Audit Scotland conducts peer reviews and internal quality reviews. Additionally, the Institute of Chartered Accountants of Scotland (ICAS) have been commissioned to carry out external quality reviews.

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

Moray Council

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