

Moray Council

2019/20 DRAFT Annual Audit Report



 AUDIT SCOTLAND

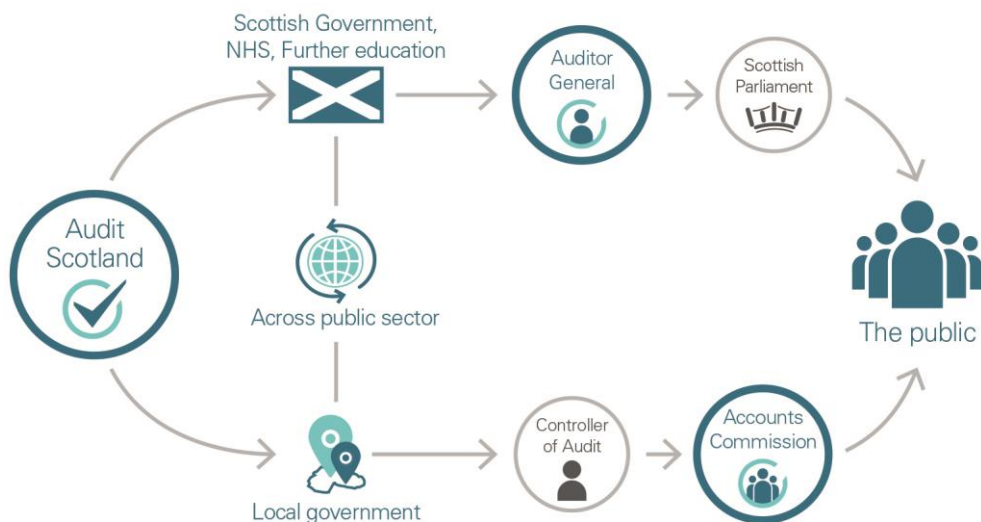
Prepared for the members of Moray Council and the Controller of Audit

November 2020

Who we are

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

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



About us

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

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

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

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Key messages

2019/20 annual accounts

- 1 Our audit opinions on the annual accounts are unmodified.
- 2 An 'emphasis of matter' paragraph is included in the independent auditor's report to draw attention to the material uncertainty in property valuations caused by the Covid-19 pandemic.
- 3 The Council has included an adjustment of £7.6 million in the audited accounts, which reflects a more up-to-date assessment by the actuary of the pension liabilities, in July 2020, to reflect the Government's proposed remedy in response to the McCloud judgement.
- 4 Covid-19 impacted on the audit and delayed publication of the audited annual accounts by 2 months.

Financial management and sustainability

- 5 Financial management is effective. The 2019/20 savings target of £10 million was exceeded and the Council reported a surplus for the year, adding £6.8 million to the general fund.
- 6 The Council invested more in capital projects during 2019/20 than in each of the previous four years, funded mainly from Scottish Government grants.
- 7 The unearmarked general fund reserve has increased to £15 million but may fall to £6 million by March 2021.
- 8 The net financial impact in 2020/21 of the Covid-19 pandemic is currently estimated at £7.4 million.
- 9 Medium-term financial plans have been revised due to Covid-19, but lack detailed savings plans and the progress against the Council's transformation plan was halted in a number of areas as a result of Covid-19.

Best Value, governance and transparency

- 10 The Best Value audit reported "serious concerns about the lack of sustained improvement in Moray Council over many years but noted recent progress is now being made towards some significant strategic decisions". The Council has prepared an action plan to address the recommendations in the Report and the Accounts Commission has requested a further follow-up report by the Controller of Audit by February 2022.
- 11 Overall governance arrangements are appropriate but have been impacted by the Covid-19 pandemic.
- 12 Political control of the Council continues to be finely balanced.
- 13 Covid-19 has impacted on performance reporting.

Introduction

1. This report summarises the findings arising from the 2019/20 audit of Moray Council (the Council) and its group. The scope of the audit was set out in our 2019/20 Annual Audit Plan which was presented to the Audit and Scrutiny Committee in October 2020. This report comprises the findings from:

- an audit of the annual accounts
- consideration of the four audit dimensions that frame the wider scope of public audit set out in the [Code of Audit Practice 2016](#) as illustrated in [Exhibit 1](#).

Exhibit 1 Audit dimensions



Source: *Code of Audit Practice 2016*

2. The main elements of our audit work in 2019/20 have been:

- an audit of the annual accounts of the Council and its group and the statement of accounts of the section 106 charities administered by the Council including independent auditor's reports setting out our opinions
- a review of the Council's key financial systems
- an audit of the Council's arrangements to secure Best Value as reported in the Best Value Assurance Report published in August 2020.

3. Subsequent to the preparation of the Annual Audit Plan, in common with all public bodies, the Council has had to respond to the global coronavirus pandemic. Our approach to audit during these circumstances will be pragmatic, flexible and consistent. We issued a paper, [Covid-19 How public audit in Scotland is responding](#), setting out Audit Scotland's strategy and approach to our financial and

performance audit programmes. It provided detail about the scope, timing and areas of focus for our audit work.

Adding value through the audit

4. We add value to the Council through the audit by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations
- providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability
- sharing intelligence and good practice through our national reports ([Appendix 3](#)) and good practice guides.

5. We aim to help the Council promote improved standards of governance, better management and decision making and more effective use of resources.

Responsibilities and reporting

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

7. Our responsibilities as independent auditor appointed by the Accounts Commission are established by the Local Government in Scotland Act 1973, the Code of Audit Practice 2016 and supplementary guidance, and International Standards on Auditing in the UK. As public sector auditors we give independent opinions on the annual accounts. Additionally, we conclude on the effectiveness of the Council's performance management arrangements, the suitability and effectiveness of corporate governance arrangements, the financial position and arrangements for securing financial sustainability and Best Value. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#) and supplementary guidance.

8. This report raises matters from our audit. The weaknesses and risks identified are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.

9. Our annual audit report contains an agreed action plan at [Appendix 1](#). It sets out specific recommendations, responsible officers and dates for implementation. It also updates on progress with outstanding actions from last year.

Auditor Independence

10. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and that the 2019/20 audit fee of £239,950 as set out in our Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

11. This report is addressed to both the Council and the Controller of Audit and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course. We would like to thank the management and staff who have been involved in our work for their cooperation and assistance during the audit.

Part 1

Audit of 2019/20 annual accounts



Main judgements

Our audit opinions on the annual accounts of the Council, its group and the section 106 charities administered by the Council are unmodified.

An ‘emphasis of matter’ paragraph is included in the independent auditor’s report to draw attention to the material uncertainty in property valuations caused by the Covid-19 pandemic. We considered the significance of disclosures in other areas of uncertainty (pensions valuations) and concluded these were appropriate and the issues were less significant than the property valuation.

On 16 July 2020, the UK Government released a consultation document on the remedy to the issues identified by the McCloud case. The Council has included an adjustment of £7.6 million in the audited accounts, which reflects a more up to date assessment of the pension liabilities, in line with the proposed remedy.

Covid-19 impacted on the audit and delayed publication of the audited annual accounts by 2 months.

Further improvements could be made to the management commentary.

The annual accounts are the principal means of accounting for the stewardship of resources and performance.

Our audit opinions on the annual accounts are unmodified

12. The accounts for the Council and its group for the year ended 31 March 2020 were approved by the Moray Council on 1 December 2020 (TBC). We reported in the independent auditor’s report that the:

- financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework
- management commentary, annual governance statement and the audited part of the remuneration report were all consistent with the financial statements and properly prepared in accordance with the relevant regulations and guidance.

The Council identifies uncertainty in property valuations due to Covid-19

13. The “Emphasis of Matter” section in our Independent Auditor’s Report refers to the disclosures in note 6 of the financial statements, which identify a material valuation uncertainty in respect of property valuations, caused by the Covid-19 pandemic. Emphasis of Matter paragraphs are added to auditors’ reports where the auditor considers it necessary to draw user’s attention to matters which are fundamental to the understanding of the financial statements. Further information is contained in [Exhibit 4](#) below. The audit opinion is not modified in respect of this matter.

Covid-19 impacted on the audit of the annual accounts

14. In March 2020, in response to the global Covid-19 pandemic, Scotland went into lockdown. Since then Audit Scotland and the Council's finance staff have been working from home and we have, therefore, had to adapt our 'normal' audit approach and work together to develop new ways to audit remotely.

15. The Scottish Government has advised that it considers the provisions made in Schedule 6 of the Coronavirus (Scotland) Act 2020 to be sufficient to allow each local authority to determine its own revised timetable for the annual accounts. The unaudited accounts were received on 30 July 2020, which was one month later than the agreed audit timetable set out in our Annual Audit Plan. This delay was mutually agreed to help both Audit Scotland and the Council manage their staff resources during Covid-19.

16. Throughout the audit process there has been on-going discussions with Council staff and their support enabled the audit to proceed. However, the limitations of remote working did impact on our audit timetable and the audit took longer than normal to complete.

17. The working papers provided to support the unaudited accounts were of a reasonable standard. However, as we were unable to access Council systems directly, we often had to rely more on Council staff to obtain and present audit evidence at a time when Council staff were also dealing with the significant additional pressures from Covid-19.

No objections were received on the annual accounts

18. The Local Authority Accounts (Scotland) Regulations 2014 require a local authority to publish a public notice on its website that includes details of the period for inspecting and objecting to the accounts. This must remain on the website throughout the inspection period. The Council complied with the regulations and there were no objections to the 2019/20 annual accounts.

Our audit opinions on Section 106 charities were unmodified

19. Due to the interaction of section 106 of the Local Government in Scotland Act 1973 with the charities legislation, a separate independent auditor's report is required for the statement of accounts of each registered charity where members of the Council are sole trustees, irrespective of the size of the charity.

20. We received the connected charities' accounts in line with the original agreed timetable and after completing our audit we issued an unmodified audit opinion on the 2019/20 statement of accounts of The Moray Council – Connected Charity Trust Funds.

Plans to transfer to a single charitable trust continue

21. In previous years we have reported that the majority of the Council's section 106 charities have not disbursed any funds for many years and so it is unclear how they meet the public benefit requirement. The Council plans to transfer these trusts into a single trust 'The Moray Council Charitable Trust', which was registered with the Scottish Charity Regulator (OSCR) in August 2016. During 2019/20, no trusts were transferred. At the time of writing, OSCR has approved the transfer of 23 of the section 106 trusts to the single trust in 2020/21.

Whole of Government Accounts

22. In accordance with the WGA guidance we intend to complete the required assurance statement and submit it to the National Audit Office by the extended deadline of 4 December 2020.

Overall materiality is £3.7 million

23. Our initial assessment of materiality for the annual accounts was carried out during the planning phase of the audit. On receipt of the unaudited annual accounts we reviewed our materiality levels and updated them as set out in [Exhibit 2](#).

Exhibit 2 Council materiality values

Materiality level	Amount
Overall materiality	£3.7 million
Performance materiality	£2.2 million
Reporting threshold	£150,000

24. We also set separate materiality levels for the Connected Charity Trust Funds as outlined in [Exhibit 3](#).

Exhibit 3 Connected Charity Trust Funds' materiality values

Materiality level	Amount
Overall materiality	£17,500
Performance materiality	£10,500
Reporting threshold	£1,000

Audit work addressed the main risks of material misstatement

25. Our Annual Audit Plan detailed the risks of material misstatement identified for the annual accounts of Moray Council, its group and the associated section 106 charities. We also highlighted any wider dimension audit risks identified. These risks influence our overall audit strategy, the allocation of staff resources to the audit and indicate how the efforts of the audit team were directed. These risks, the work we undertook to address them and our conclusions from this work are detailed in [Appendix 2](#).



We have a number of significant findings to report from the audit


26. International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of the body's accounting practices covering accounting policies, accounting estimates and financial statements disclosures. The significant findings from the audit of the annual accounts are summarised in [Exhibit 4](#).

Exhibit 4

Significant findings from the audit of the financial statements

Issue	Resolution
<p>1. Property valuations and Covid-19 uncertainty</p> <p>The Balance Sheet includes property, plant and equipment with a total value of £928 million. The Council has a five-year rolling valuation programme as detailed in Note 16. The asset valuer has included a material uncertainty disclosure within the valuation report regarding the impact of Covid-19 on the valuation of land and buildings, and pointed out that a higher degree of caution should be attached to the valuations contained in the annual accounts than would normally be the case.</p> <p>Note 6 (Assumptions made about the future and other major sources of material uncertainty) to the accounts notes there is significant uncertainty in the property markets and that there is potential for the Council's property asset values to change significantly.</p>	<p>We added an Emphasis of Matter paragraph to the independent auditor's report because we believe the disclosure is fundamental to users' understanding of the accounts.</p> <p>The audit opinion is not modified in respect of this matter.</p>
<p>2. Pension scheme property valuations (Covid-19)</p> <p>The IAS19 report received from the actuary, Mercers, provided the year-end pension information for Moray Council. No additional uncertainty was identified in the IAS19 report on the asset values. However, the audited accounts of North East Scotland Pension Fund include a material valuation uncertainty note that covers the valuation of the Fund's UK property portfolio, due to the unprecedented set of circumstances caused by the Covid-19 pandemic.</p> <p>Note 6 (Assumptions made about the future and other major sources of material uncertainty) to the accounts notes there is significant uncertainty in the property markets and that there is potential for the value of the Council's share of the Pension Fund's property assets to change significantly.</p>	<p>We considered the basis of IAS 19 reporting and the extent of level 3 investments held by North East Scotland Pension Fund (these are the hardest to value as they are not frequently traded and are valued subjectively rather than by reference to market prices). We also considered the normal valuation uncertainty and the relative share of this risk borne by Moray Council.</p> <p>We concluded that the matter did not require an 'emphasis of matter' paragraph in our independent auditor's report.</p>
<p>3. Pension valuations – McCloud liability revision</p> <p>In January 2017 an employment tribunal ruled that a group of claimant judges had been subject to age discrimination when they were transferred to a new career average scheme, known widely as the McCloud case.</p> <p>On 16 July 2020, the UK Government released a consultation document on the remedy to the issues. This identified a proposed treatment for pension members affected.</p> <p>Following this, Mercers (actuary) contacted the Council to advise them that the proposed remedy indicated that the estimated liability included in the IAS19 report for 2019/20 should be reduced as the basis for determining who the remedy applied to was more onerous than the actuary's previous estimate.</p>	<p>The Council requested a revised valuation report from the actuary taking into account this remedy.</p> <p>The amendments resulted in a decrease of £7.6 million for the pension liability in the accounts.</p> <p>The audited accounts include the revised estimate for "McCloud".</p>

Issue	Resolution
<p>4. VAT rebate claim understated</p> <p>During 2019/20 the Council successfully reclaimed £1.8 million from HMRC by adopting partial exemption rules that enable the Council to not account for output VAT on sports and leisure services. Only £1 million of this was included in the unaudited accounts.</p>	<p>Net cost of services was overstated, and short-term debtors were understated by £0.7 million in the unaudited accounts.</p> <p>This misstatement has been corrected in the audited financial statements.</p>
<p>5. Misclassification of investments</p> <p>Cash and cash equivalents are investments that mature within 3 months or less of the balance sheet date and that are readily convertible to known amounts of cash with insignificant risk of change in value. Audit testing of the £0.3 million of long-term investments identified that this balance had been incorrectly classified as it met the definition of cash and cash equivalents.</p>	<p>Long-term debtors were overstated, and cash and cash equivalents were understated by £0.3 million in the unaudited accounts.</p> <p>This misstatement has been corrected in the audited financial statements.</p>
<p>6. Accounting for non-current assets</p> <p>A reconciliation between the valuer's report and the fixed asset register (FAR) was not prepared until requested by audit. Once prepared, it identified that non-current assets and the revaluation reserve had been understated by £1 million in the unaudited accounts.</p> <p>Two assets were identified as belonging to the Common Good Fund during 2019/20 but not removed from the Council's fixed asset register. As a result, non-current assets and the revaluation reserve were overstated by £0.2 million.</p> <p>In addition, we noted that the valuer's report provided for audit purposes did not agree with the report used to prepare the unaudited accounts. The Council confirmed that the report provided to audit was the final version. As a result, non-current assets and the capital adjustment account were overstated by £0.4 million. Note this has not been corrected in the audited accounts.</p>	<p>The audited accounts have been updated for the first two points. However, due to an error in the processing of the correcting entries, non-current assets and the revaluation reserve are understated by £0.2 million in the audited accounts.</p> <p>The third point has not been amended in the audited accounts and is an unadjusted misstatement</p> <p> Recommendation 1 (refer appendix 1, action plan)</p>
<p>7. Accounting for non-charitable trust funds</p> <p>The accounting policies for the non-charitable trust funds state that they have been prepared in accordance with the Code. Audit testing noted that entries relating to depreciation, donated assets and revaluation movements had not been disclosed in accordance with the Code.</p>	<p>The Other Trust Funds' revenue balance and capital adjustment account are understated by £0.8 million and £0.6 million respectively, and the revaluation reserve and available for sale financial instruments reserve are overstated by £0.6 million and £0.8 million respectively. The audited accounts have not been amended to reflect these misstatements.</p> <p>Finance staff have agreed to revisit the operation and presentation of these reserves as part of the 2020/21 audit.</p> <p> Recommendation 2 (refer appendix 1, action plan)</p>

Issue	Resolution
<p>8. Management commentary</p> <p>Last year, we recommended that the Council should review its management commentary against the expectations set out in the Accounts Commission's Financial Overview report 2017/18. Improvements have been made this year but there is still scope to further improve the clarity of reporting for readers of the accounts.</p>	<p>We will discuss this further with the Council as part of our 2020/21 audit</p> <p> Recommendation 3 (refer appendix 1, action plan)</p>

Misstatements of £3.5 million were identified but we did not need to further revise our audit approach

27. Our audit identified misstatements of £3.5 million. The accounts were amended to reflect the majority of these; the unadjusted misstatements total £1.2 million ([Exhibit 4, points 6 and 7](#)). There was also an adjustment (£7.6 million) to an estimate which arose due to further information becoming available after the balance sheet date which allowed actuaries to make a more accurate estimate of pension cost based on the proposed remedy to McCloud ([Exhibit 4, point 3](#)).

28. The net effect of the adjustments made (including those below our clearly trivial threshold) was to increase the surplus on the provision of services, other comprehensive income and net assets by £0.5 million, £8.5 million and £9 million respectively. The general fund increased by £0.7 million, and unusable reserves by £8.3 million.

29. There are 3 uncorrected misstatements in the audited accounts ([Exhibit 4, points 6 and 7](#)). Had these adjustments been made, the surplus on the provision of services and net assets would have been reduced by £0.4 million and £0.2 million respectively and other comprehensive income would have increased by £0.2 million. There would be no impact on the general fund.

30. It is our responsibility to request that all misstatements, other than those below the reporting threshold, are corrected although the final decision on making the correction lies with those charged with governance considering advice from senior officers and materiality. Management have not adjusted these as they consider they are not material to the users of the accounts.

31. There was one adjustment ([Exhibit 4, point 3](#)) that exceeded our performance materiality threshold. We concluded that this had been identified in its entirety and did not indicate further systemic error and so we did not need to revise our audit approach.

Limited progress has been made with prior year recommendations

32. The Council has made limited progress in implementing our prior year audit recommendations. For actions not yet implemented, revised responses and timescales have been agreed with management, and are set out in [Appendix 1](#).

Part 2

Financial management



Main judgements

Financial management is effective. The 2019/20 savings target of £10 million was exceeded and the Council reported a surplus for the year, adding £7 million to the general fund.

The Council invested more in capital projects during 2019/20 than in each of the previous four years, funded mainly from Scottish Government grants.

Financial system controls generally operated effectively, but there were some weaknesses.

Financial management is about financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively

The 2019/20 general fund budget was £204 million and included planned savings of £10 million and use of £5 million of reserves

33. In February 2019, the Council approved its net revenue general services budget (£204 million) for 2019/20. After council tax increases of 4.79%, the resulting budget gap of £15.3 million was to be funded from reserves (£5.2 million) and savings (£10.1 million). Following confirmation of the 2018/19 outturn position and other in-year adjustments, the budgeted use of reserves was reduced to £4.3 million.

Financial management and reporting are effective

34. As reported in our [Best Value Assurance Report](#), the Council receives good quality information about its finances. Regular budget monitoring reports are presented to the full Council or Policy and Resources Committee on a quarterly basis. These reports provide an overall picture of the budget position at service level, a forecast outturn position and good narrative explanations for significant variances against budget. Regular financial planning updates are also provided to members, these contain up-to-date financial forecasts and savings proposals as the next year's budget develops.

The Council reported a surplus of £9 million for 2019/20, compared to a deficit of £19.5 million in the previous year

35. The Council made a surplus of £9 million on the provision of services in 2019/20, compared to a deficit of £19.5 million for the previous year. This turnaround was achieved through delivery of £2.5 million of additional savings (£12.6 million compared to £10.1 million budget) and better than expected funding and income including: council tax income (£0.8 million), Business Rates Incentivisation Scheme (BRIS) retention (£1.9 million), a one-off VAT refund (£1.8 million), additional revenue grant funding (£4.2 million) and capital grants and contributions (£4.9 million).

The general fund (excluding HRA) increased by £7 million compared to a budgeted decrease of £5 million

36. The Council budgeted to use £5.2 million of the general fund to balance its budget in 2019/20. The Council actually added £6.8 million to its general fund balance. This represents an improvement of £12 million on the budgeted use of these reserves. The Council also planned to release £0.7 million from its repair and renewal fund to help fund services but this was not required in 2019/20.

37. The outturn report notes that the majority of Council services reported a net underspend against the revised budget at 31 March 2020. Overspends were reported for health and social care (including additional year end funding provided to Moray Integration Joint Board £0.8 million) and loans charges (£0.4 million). The report also notes that there were significant variances in some services (Education, Children's Services, Housing & Property) between the projected outturn at 31 December 2019 and the actual outturn and that these services will be reviewed to identify any areas for potential additional savings. The 2020/21 budget has been updated to reflect additional net recurring savings of £0.2 million.

The housing revenue account balance increased by £1 million during 2019/20

38. The Council is required by legislation to maintain a separate housing revenue account (HRA) and to ensure that rents are set to a level which will at least cover the costs of its social housing provision.

39. The budgeted gross expenditure for the HRA in 2019/20 was £19.4 million. This was mostly funded from council house rents.

40. The Council recorded a surplus on HRA services of £3.6 million in 2019/20. After applying the statutory accounting adjustments and transfers from reserves (£2.6 million), the HRA balance increased by £1 million. This leaves a cumulative surplus of £2.2 million to be carried forward to future years.

The Council invested more in capital projects during 2019/20 than in each of the previous four years

41. In February 2019, the Council approved the 2019/20 Capital Plan totalling £96 million. Amendments were made to the Capital Plan throughout the financial year to give a final approved Capital Plan of £92 million (£69 million for general services and £23 million for HRA), as timings for major projects became clearer.

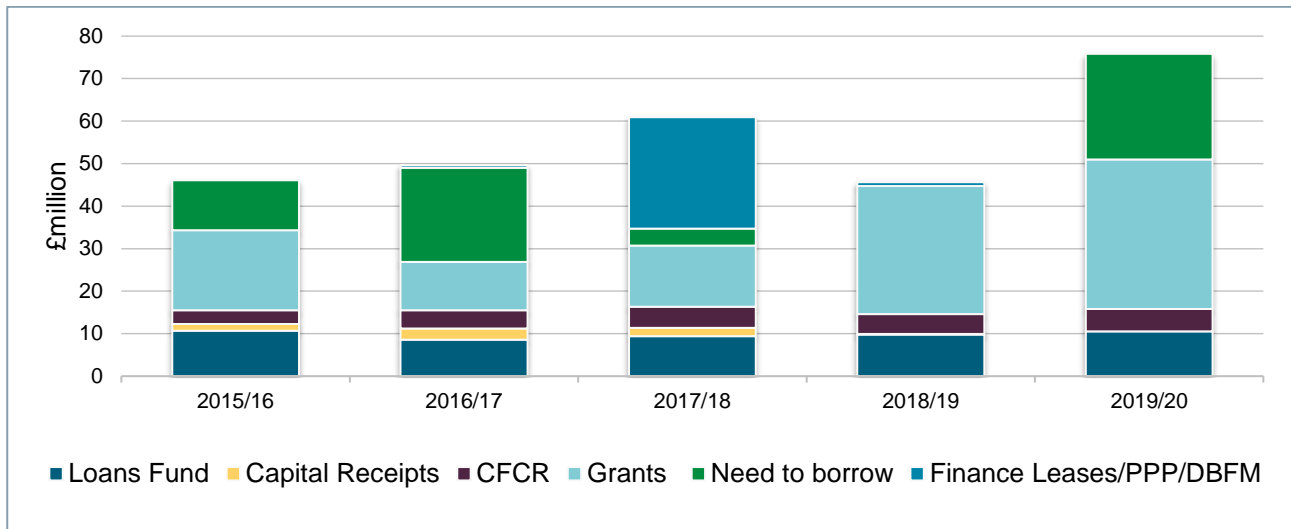
42. The Council spent £76 million on capital projects during 2019/20 ([Exhibit 5](#)), more than in any of the previous four years. Over £12 million was invested in new council houses and £6 million in improving the current housing stock. Within general services, the majority of expenditure was within Education Services including the new Lossiemouth High and Linkwood Primary schools.

The majority of the capital programme was funded through capital grants from the Scottish Government

43. [Exhibit 5](#) sets out how capital expenditure was funded during the year. For 2019/20, the majority of funding was from Scottish Government grants. This was mainly due to increased capital grant received to fund the new Lossiemouth High School. The Council's underlying need to borrow increased by £25 million during 2019/20.

Exhibit 5

Sources of finance for capital expenditure



Source: Moray Council annual accounts

Capital receipts have been used to fund exit packages resulting from the Council's transformation projects

44. Scottish Ministers permit councils to use capital receipts to fund projects designed to transform service delivery to reduce costs and/or reduce demand, or both. The Council used £0.5 million of its capital receipts to fund exit packages resulting from the Council's transformation projects in 2019/20.

Financial system controls generally operated effectively, but there were some weaknesses

45. As part of our audit we identify and assess the key internal controls in those accounting systems which we regard as significant to produce the financial statements. Our objective is to gain assurance that the body has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements.

46. We concluded that key controls were operating effectively with the exception of payroll validation checks, the completion of the housing rents reconciliation and authorisation of journals. We revised our audit approach in response to the weaknesses identified to enable us to obtain sufficient assurance to conclude on the 2019/20 annual accounts. No issues were identified from the additional testing undertaken.



Recommendation 4

The Council should ensure that a robust payroll validation process is introduced across all services, and any differences on the annual housing rents reconciliation are timeously investigated and cleared.

Part 3

Financial sustainability



Main judgements

2020/21 savings targets are less than last year, and are still made up of many small amounts.

The net financial impact in 2020/21 of the Covid-19 pandemic is currently estimated at £7.4 million.

The unarmarked general fund reserve has increased to £15 million but may fall to £6 million by March 2021.

Medium-term financial plans have been revised due to Covid-19 but lack detailed savings plans. Progress against the Council's transformation plan was halted in a number of areas as a result of Covid-19.

Financial sustainability looks forward to the medium and long term to consider whether the Council is planning effectively to continue to deliver its services or the way in which they should be delivered.

2020/21 savings targets are less than last year, but are still made up of many small amounts

47. In March 2020, the Council approved a 2020/21 revenue budget of £212 million. After council tax increases of 4.84% and the use of £2 million of capital receipts to fund investment in change, the resulting budget gap is to be funded by savings (£3.1 million) and reserves (£2.3 million). The Council has a history of delivering or exceeding its savings target and this has contributed to the savings target for 2020/21 being considerably less than in 2019/20, but as in previous years, the planned savings for 2020/21 are made up of many small amounts. The most significant saving is £0.4 million from the Council's Improvement and Modernisation Programme. Planned savings includes £0.6 million of temporary savings for 2020/21.

The net financial impact in 2020/21 of the Covid-19 pandemic is currently estimated at £7.4 million

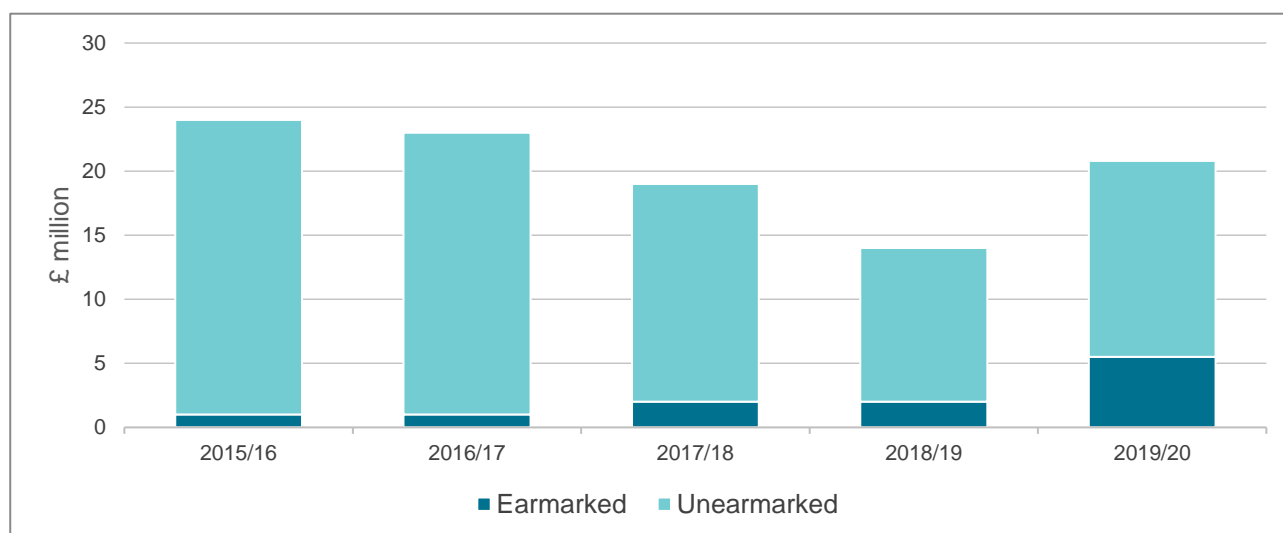
48. A short-term financial plan was presented to the Council meeting on 2 September 2020 which projected additional costs incurred responding to and recovering from the Covid-19 pandemic of £7.4 million. The Council has identified that unless savings can be generated, or further funding is received from the Scottish Government the cost will be funded from reserves. Moray Council has identified that the use of reserves to help cover Covid-19 costs is supported by COSLA and is part of the Scottish Government expectations.

The unearmarked general fund reserve has increased to £15 million but may fall again to £6 million by March 2021 due to the impact of Covid-19

49. The Council's approved reserve strategy is to hold £5 million as minimum unearmarked reserves. The general fund balance has increased from £14 million in 2018/19 to £21 million in 2019/20. The unearmarked portion of the total general fund reserve also increased from £12.3 million to £15.3 million.

50. [Exhibit 6](#) provides a summary of earmarked and unearmarked general reserve balances since 31 March 2016. This shows that 2019/20 was the first time in a number of years that the general fund balance had increased. This provided the Council with an improved financial sustainability position. However, as a result of the projected funding gap due to the Covid-19 pandemic the balance may fall to £6.3 million by March 2021. This would leave the Council with very little headroom over the minimum amount and could increase pressure on the Council to deliver transformational savings.

Exhibit 6 General fund balances



Source: Council's Financial Statements

The Council has set aside more in 2019/20 to fund transformation

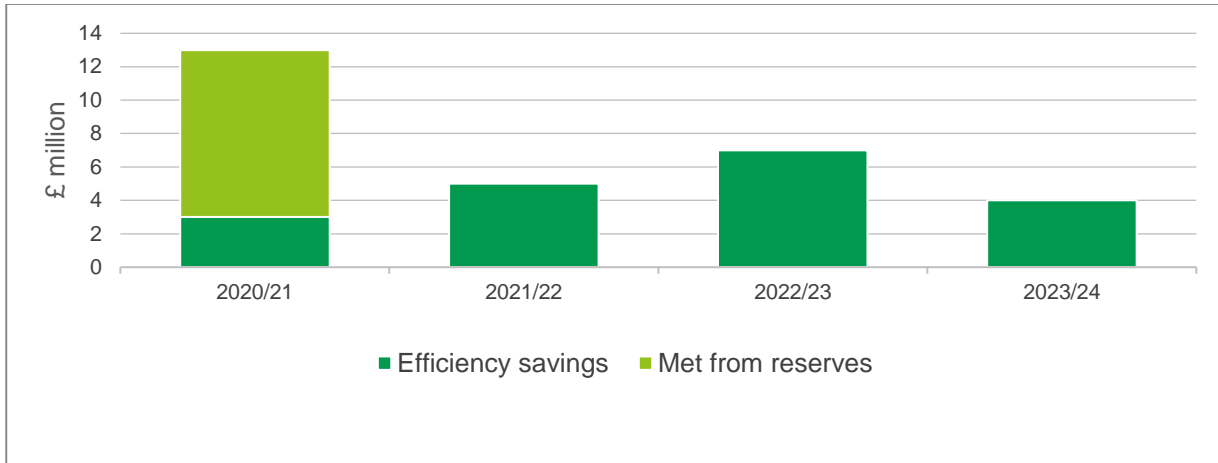
51. During 2019/20, members agreed to set aside £2.9 million in an earmarked reserve to be used to help the Council meet the priorities set out in the Corporate Plan. It is intended that any one-off expenditure which assists the achievement of financial sustainability (such as exit packages) will be funded from this earmarked reserve. This is in addition to the £0.7 million set aside in December 2018 to fund transformation projects.

Medium-term financial plans have been revised due to Covid-19, but lack detailed savings plans

52. Current projections indicate that the Council faces significant funding gaps for 2020/21 – 2022/23. After the planned use of reserves in 2020/21, these gaps will have to be funded from efficiency savings. [Exhibit 7](#) shows the projected funding gap to 2022/23 reflecting the additional financial challenges the Council faces due to the implications of the Covid-19 pandemic. The Council has yet to detail the actions that will achieve this level of savings. The Council has identified that

looking to 2021/22 and beyond, they will be unable to continue to rely on cumulative small-scale savings and they must focus on transformation of service delivery through progress of the Improvement and Modernisation Plan (IMP).

Exhibit 7 Identified funding gaps 2020/21 – 2023/24



Source: Council's Short-Term Financial Planning

Progress against the Council's transformation plan was impacted by Covid-19

53. In previous years we have reported that the Council was developing an Improvement and Modernisation Programme (IMP) to deliver the transformational change required to achieve medium- and long-term financial sustainability. In our [Best Value Assurance Report](#) we noted that progress in developing projects to transform Education and Integrated Children's Services had been slower than expected and that as these services account for nearly half of the Council's net expenditure, transforming how these are delivered is essential to achieving financial sustainability.

54. Work in progressing the IMP was halted in a number of areas as a result of Covid-19, with the Head of Transformation being redeployed to assist in managing the response to the pandemic. As a result of these delays and in recognition of the long-term nature of this work, the Head of Transformation post has been extended for another 12 months. The Council has acknowledged the need to identify the issues and opportunities arising from the pandemic as a first step to updating the IMP. A further update on the IMP will be reported to the Education, Communities and Organisational Development Committee in November 2020.



Recommendation 5

The Council needs to increase the pace of delivery of its Improvement and Modernisation Programme so that it can deliver the savings necessary to deliver sustainable services.

Part 4

Governance and transparency



Main Judgements

Overall governance arrangements are appropriate but have been impacted by the Covid-19 pandemic.

Political control of the Council continues to be finely balanced.

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.

Overall governance arrangements are appropriate, but have been impacted by the Covid-19 pandemic

55. As part of our audit process we are continually assessing the governance arrangements within the Council. Up until March 2020, our previous year's conclusion was still relevant: that appropriate governance arrangements are in place to support decision making.

56. On 25 March 2020 the Council agreed revised governance arrangements that would be implemented in response to the Covid-19 pandemic. The Council's committee structure was suspended with the Chief Executive being granted temporary delegated authority for critical decisions that would normally require committee approval. At this meeting the Council agreed to form a temporary Emergency Cabinet of 7 Councillors reflecting the political balance of the Council.

57. Council services have been significantly affected and all staff were asked to work from home where possible. Restricted services operated in areas such as household waste, housing repairs and registrations. Alternative arrangements were put in place to support those children in receipt of free school meals.

58. The Council established an emergency Incident Management Team (IMT), chaired by the Chief Executive, to determine the extent of the emergency; agree strategy, tactics and priorities both in the short and long term; initiate and deliver response actions; ensure a comprehensive log of events and record of costs is maintained; and to prepare to take over and lead the recovery and renewal phase. The IMT met 23 times between 10 March and 12 May.

59. On 15 May 2020, the IMT was reconstituted as a Response and Recovery Management Team (RRMT) with responsibility for continuing to respond to the pandemic and to plan and co-ordinate the recovery and renewal including redeployment of staff across functions and services, and provision of ICT for critical functions.

60. On 17 June 2020, a full Council meeting was held remotely for the first time and webcast live to the public. The Council approved an amendment to the standing orders to permit future Council and committee meetings to meet remotely and for the Emergency Cabinet to remain in place.

61. Covid-19 has exacerbated many pre-existing risks and challenges facing public bodies in areas such as financial sustainability and service demand pressures. We recognise that audit committees have a crucial role to play in providing effective scrutiny and challenge as they help public bodies focus on important aspects of the business and maintain effective oversight of spending, performance and governance arrangements. As public bodies manage their business during this global pandemic, the role of audit committees becomes even more important. We recently issued a [Guide for audit and risk committees](#) which draws on our recent experience of auditing public bodies during this pandemic.

Business continuity planning arrangements require to be updated to reflect the lessons learned from lockdown

62. In previous years, we have recommended that the Council review its business continuity arrangements to ensure that they are up-to-date and fit for purpose. This work has yet to be concluded due to resourcing issues. The Council has confirmed that it will review its approach to business continuity planning during 2020/21 and that this will include lessons learned from the Covid-19 pandemic. We will continue to monitor progress in this area as part of our 2020/21 audit.



Recommendation 6

The Council should review its business continuity planning arrangements to ensure that they are up to date and fit for purpose. Lessons learnt from the pandemic should also be incorporated.

Political control of the Council continues to be finely balanced

63. In our [Best Value Assurance Report](#) we noted that political control was finely balanced at a time when the Council needs to work constructively to make some difficult strategic decisions.

64. In September 2020, a councillor left the SNP minority administration reducing their number to eight, one less than the Conservative Group. A motion to change the Convener and Leader of the Council (and hence the administration) and adopt a weighted cabinet governance structure was defeated at the Council meeting on 28 October 2020. The balance of representation of the Council's committees is due to be reviewed at the next meeting of the Council on 17 November 2020.

The Council is open and transparent in the way it conducts its business

65. Prior to March 2020 members of the public were able to attend Council and other committee meetings as well as accessing agendas, papers and minutes on the Council's website. The move to remote committee meetings has restricted direct attendance however the relevant papers were still available on the website to support transparency.

66. The Council's website also allows the public to access a wide range of information including current service updates and restrictions due to Covid-19, advice for individuals and businesses and how to contact the Council or make a complaint. The Council also makes the register of members' interests and the annual accounts available on the website.

Standards of conduct and arrangements for the prevention and detection of fraud and error are appropriate

67. The Council has a range of established procedures for preventing and detecting fraud and irregularity including a whistleblowing policy, anti-fraud strategy and codes of conduct for members and officers. As part of our audit, we reviewed these documents and noted that the Money Laundering Policy had not been reviewed for a number of years. Otherwise these were appropriate, readily available to staff and regularly reviewed to ensure they remain relevant and current.



Recommendation 7

The Council should ensure that the money laundering guidance is updated.

The Council has taken appropriate steps to progress the January 2019 NFI matches

68. The Council demonstrated a good level of engagement with the most recent NFI exercise. 3,398 individual matches were identified, of which 711 investigations have been completed. In line with the NFI guidance, the Council adopted a risk-based approach to the NFI matching exercise, scanning all recommended matches and then testing those assessed as higher risk. To date, a total of five errors (4 housing benefits and 1 duplicate payment) have been found with a cumulative value of £34,298, all of which is being recovered. A final report on the outcomes from the 2019 exercise is due to be submitted to the Audit and Scrutiny Committee in January 2021.

Part 5

Best Value



Main judgements

The Best Value audit reported serious concerns about the lack of sustained improvement in Moray Council over many years but noted recent progress is now being made toward some significant strategic decisions. The Council has prepared an action plan to address the recommendations in the Report and the Accounts Commission has requested a further follow-up report by February 2022.

Covid-19 has impacted on performance reporting.

Best Value is concerned with using resources effectively and continually improving services.

The recent Best Value Assurance Report noted serious concerns about the lack of sustained improvement in Moray Council over many years

69. Best value is assessed over the audit appointment, as part of the annual audit work. In addition, a Best Value Assurance Report (BVAR) for each council will be considered by the Accounts Commission at least once in this period. The [BVAR report for the Council](#) was published in August 2020.

70. The BVAR said:

- the Council has received six Best value Reports since 2006 consistently highlighting Best Value issues and slow progress in addressing these. This has continued, since 2015, with political instability and lack of focus resulting in a slow pace of change. Recent progress is now being made toward some significant strategic decisions
- recent progress includes a corporate management team restructure, committee structure review, new performance management framework and a review of the learning estate strategy. Most of these are still at an early stage. Progress against the Council's transformation plan has so far been limited
- the Council's financial position is extremely challenging, and it continues to rely on lots of small savings and using reserves to balance its budget. This is unsustainable over the medium term and the Council is at risk of depleting its general fund reserves in four years
- performance reporting focuses on each service, but it is difficult to see how this contributes to the Council achieving its overall priorities. The Council is implementing its revised performance management framework and is developing wider corporate indicators
- performance relative to other councils has deteriorated over the past five years, particularly in educational attainment. Overall, Moray is one of the

lowest performing Scottish local authorities, a significant decline since 2014/15 when Moray was placed 12th. The Council has put in place additional measures to give young people more opportunities to improve attainment.

- Council properties are in poor condition predominately because the condition of Moray's learning estate is the worst in Scotland. The Council has previously found it difficult to make decisions regarding key assets, but it is now starting to work together to agree and implement strategies.
- workforce morale is good and staff commitment to change is positive, but staff survey responses have identified wider workload issues. The capacity of staff to deliver change has been identified as a limiting factor in several areas in this report. This represents a significant risk in delivering Best value going forward.
- the strategic focus of the Community Planning Partnership (CPP) on outcome and performance has also been slow to improve, though the CPP demonstrated good partnership working in addressing issues in children's services.
- the Council demonstrates some good progress in implementing community empowerment and has developed a corporate engagement strategy to involve communities in the future of Council services.

The Council has prepared an action plan to address the recommendations in the Best Value Assurance Report

71. At its meeting on 7 October 2020 the Council noted the recommendations within the BVAR and agreed to set up a member/officer working group to develop the action plan including performance measures. The resulting action plan was approved by the Council on 28 October 2020. Progress against the action plan will be reported to a meeting of the Council every eight weeks.

The Accounts Commission has requested a further follow-up report

72. The Accounts Commission has requested a further report by the Controller of Audit no later than February 2022. Six of the nine priorities included in the action plan are targeted for completion by the end of the 2021 calendar year with the remaining three being targeted for completion in each of the following three years.

Covid-19 has impacted on performance reporting

73. The Accounts Commission issued a revised 2018 Statutory Performance Information Direction in December 2018 which requires a council to report:

- its performance in improving local public services provided by the council (on its own and with its partners and communities), and progress against agreed desired outcomes
- its own assessment and independent audit assessments of how it is performing against its duty of Best Value, and how it plans to improve these assessments and how it (with its partners where appropriate) has engaged with and responded to its diverse communities.

74. We commented on issues with the existing performance reporting arrangements in our [Best Value Audit Report](#).

75. Both performance reporting and progress with implementing the new performance management framework were impacted by the Covid-19 outbreak, with the performance team diverted to support the provision of Covid-19-related data. We noted that:

- quarter 4 (2019/20) performance reporting was delayed, with reports only recently having been submitted to service committees in November 2020. The Q4 reports incorporate both Q3 and Q4 data
- the most recent [National Benchmarking Overview Report 2018/19](#) by the Improvement Service has not been submitted to members. Performance against the 2018/19 Local Government Benchmarking Framework (LGBF) indicators is considered by specific services and reported to their respective committees, but analysis of the Council's overall performance at a corporate level has not been undertaken
- the annual public performance report against the Corporate Plan (due for publication in July 2020) has been delayed until January 2021
- the Council's set of key performance indicators (KPIs) is currently being revisited to realign it with the Corporate priorities.

76. We will continue to monitor progress and will report our findings in the follow-up report to the BVAR which will be presented to the Accounts Commission no later than February 2022.

National performance audit reports

77. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2019/20, Audit Scotland published a number of reports were issued which may be of interest to the Council. These are outlined in [Appendix 3](#).

78. The Council has a process in place to ensure that findings from national reports are reviewed, and where relevant, presented to the Audit and Scrutiny Committee. This reporting includes an assessment of current arrangements and the identification of actions to be taken to apply good practice examples highlighted in the reports.

Appendix 1

Action plan 2019/20



No.	Issue/risk	Recommendation	Agreed management action/timing
1	<p>Accounting for non-current assets</p> <p>Audit testing identified a number of errors in how revaluations had been included in the unaudited accounts.</p> <p>Risk: assets are incorrectly classified and accounted for within the financial statements.</p>	<p>Procedures for accounting for revaluations of non-current assets should be reviewed. A reconciliation between the valuer's report/spreadsheet and the fixed asset register (FAR) should be prepared and included in the working papers package.</p> <p>Exhibit 4, point 6</p>	<p>Recommendation accepted: procedure will be reviewed. A reconciliation between the valuer's report and FAR will be prepared as part of the year end working papers,</p> <p>Responsible officer: Principal Accountant</p> <p>Agreed date: 31 March 2021</p>
2	<p>Accounting for non-charitable trusts</p> <p>Audit testing noted that entries relating to depreciation, donated assets and revaluation movements had not been disclosed in accordance with the Code. These entries were not material to our opinion this year.</p> <p>Risk: the accounts for the non-charitable trust funds are materially misstated.</p>	<p>The Council should review how it accounts for non-charitable trusts to ensure full compliance with the Code.</p> <p>Exhibit 4, point 7</p>	<p>Recommendation accepted. We will review how we account for non-charitable trusts.</p> <p>Responsible officer: Principal Accountant</p> <p>Agreed date: 31 March 2021</p>
3	<p>Management commentary</p> <p>The management commentary requires further improvement to fully meet the expectations outlined in the Accounts Commission's Financial Overview report 2017/18.</p> <p>Risk: there is a risk that the Council's management commentary does not effectively communicate its performance.</p>	<p>The Council should review its management commentary against the expectations set out in Audit Scotland's Financial Overview 2017/18 report and the recommended good practice example (Comhairle Nan Eilean Siar).</p> <p>Exhibit 4, point 8</p>	<p>The Council will review the management commentary against specific issues raised during the audit of the 2019/20 accounts and also to ensure concessions made for the pandemic are not carried forward into future years</p> <p>Responsible officer: Chief Financial Officer</p> <p>Agreed date: 31 May 2021</p>
4	<p>Internal controls</p> <p>There is a lack of a robust payroll validation exercise to provide assurance over the staff costs incurred by services. The</p>	<p>The Council should ensure that a robust payroll validation process is introduced across all services, and any</p>	<p>The actions needed to ensure that robust payroll validation takes place have been identified and a work plan will be agreed.</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
	<p>annual housing rents reconciliation contained a small unreconciled difference again this year.</p> <p>Risks: payroll information is inaccurate and not identified by service departments resulting in incorrect payments; housing rents are misstated in the accounts.</p>	<p>differences on the annual housing rents reconciliation are timeously investigated and cleared.</p> <p>Paragraphs 45 & 46</p>	<p>The housing rent reconciliation process will be reviewed.</p> <p>Responsible officers: Head of HR, ICT and OD Chief Financial Officer</p> <p>Agreed date: 31 March 2021</p>
5	<p>Financial sustainability</p> <p>Progress with the Council's Improvement and Modernisation Programme has been delayed due to Covid-19. Current projections indicate that the Council faces significant funding gaps for 2020/21 – 2022/23 the majority of which will need to be funded by savings.</p> <p>Risk: the Council is unable to agree and implement a sustainable model for service delivery.</p>	<p>The Council needs to increase the pace of delivery of its Improvement and Modernisation Programme so that it can deliver the savings necessary to deliver sustainable services</p> <p>Paragraphs 53 & 54</p>	<p>The council will review the Improvement and Modernisation Programme, incorporating lessons learnt from the response and recovery to Covid-19 to produce a prioritised programme of work that is adequately resourced to accelerate progress.</p> <p>Responsible officer: Head of Transformation</p> <p>Agreed date: 28 February 2021</p>
6	<p>Business continuity planning</p> <p>In previous years we have reported that business continuity plans were not in place for all services and that others were not up to date. Work is still ongoing in this area.</p> <p>Risk: the Council cannot continue 'business as usual' in the event of a key systems failure.</p>	<p>The Council should review its business continuity planning arrangements to ensure that they are up to date and fit for purpose. Lessons learnt from the pandemic should also be incorporated.</p> <p>Paragraph 62</p>	<p>The Council will be asked to consider and approve the extent to which business continuity plans should be developed ensuring that resources directed to this task are proportionate to the risk and the reasonable foreseeability of business disruption occurring.</p> <p>Responsible officer: Head of Environmental and Commercial Services</p> <p>Agreed date: 30 June 2021</p>
7	<p>The Money Laundering Policy had not been reviewed for a number of years.</p> <p>Risk: the policy is not up to date so does not reflect any changes in legislation or best practice.</p>	<p>The Council should ensure that the money laundering guidance is updated.</p> <p>Paragraph 67</p>	<p>The Council will review the Money Laundering policy</p> <p>Responsible officer: Chief Financial Officer</p> <p>Agreed date: 30 June 2021</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
8	<p>Public performance reporting</p> <p>Preparation of the 2019/20 Public Performance Report has been delayed due to Covid-19. Publication is now planned for January 2021.</p> <p>Risk: the Council cannot demonstrate that it is delivering Best Value from its resources.</p>	<p>The Council should publish its 2019/20 Public Performance Report by the end of January 2021.</p> <p>b/f3</p>	<p>The Council plans to publish its 2019/20 PPR by the end of January 2021.</p> <p>Responsible officer:</p> <p>Strategy and Performance Manager</p> <p>Agreed date: 31 January 2021</p>
9	<p>Compliance with the charity test</p> <p>No progress was made with transferring section 106 trusts to the single trust in 2019/20. Since April 2020, OSCR has approved the transfer of 23 of the remaining trusts.</p> <p>Risk: the charitable trusts do not meet the charity test as they are not providing public benefit</p>	<p>The Council should complete its transfer of the 23 trusts during 2020/21.</p> <p>b/f 4</p>	<p>The Council plans to complete its transfer of the 23 trusts during 2020/21.</p> <p>Responsible officer:</p> <p>Legal Services Manager</p> <p>Agreed date: 31 March 2021</p>

Follow up of prior year recommendations

b/f 1	<p>Capitalisation of borrowing costs</p>	<p>The Council should review its procedures for the capitalisation of borrowing costs to ensure that they meet the requirements of the Code.</p>	<p>Partially completed</p> <p>The Council reviewed its procedures during 2019/20 and capitalised £0.7 million of interest on borrowing in the accounts. The amount of borrowing used in the calculation (£33.7 million) exceeded the amount used to fund general fund capital expenditure (£28.9 million) but the in-year impact of this was less than our clearly trivial threshold.</p> <p>No recommendation for 2019/20 as not a significant issue. We will discuss any impact on 2020/21 as part of our planning process.</p>
b/f 2	<p>Management commentary</p>	<p>The Council should review its management commentary against the expectations set out in Audit Scotland's Financial Overview 2017/18 report and the recommended good</p>	<p>In progress</p> <p>We noted some improvements in the Management Commentary but there is more to be done if it is to meet the expectations set</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
		practice example (Comhairle Nan Eilean Siar). We also note that the Highland Council reports this information in a more graphical presentation.	out Audit Scotland's Overview report. Recommendation 3
b/f 3	Public performance reporting	The Council should prepare and publish an annual council-wide performance report and publish it on its website.	Partially completed The 2018/19 Public Performance Report (PPR) is available on the Council's website. Preparation of the 2019/20 PPR has been delayed due to Covid-19 and is due to be published in January 2021. Recommendation 8
b/f 4	Compliance with the charity test	The Council should progress the transfer of trusts into the new trust set up in August 2016 so that available funds can be used for the public benefit.	In progress No trusts were transferred in 2019/20 but OSCR has approved the transfer of 23 of the section 106 trusts to the single trust in 2020/21. Recommendation 9
b/f 5	Financial sustainability	The Council needs to agree a medium- and long-term financial plan for the delivery of sustainable services. In order to achieve this, it needs to build on the existing strands of work and the reform matrix to agree a significant and cross-Council transformation plan.	Completed Medium-term financial plans are in place but lack detailed savings plans.
b/f 6	Performance measures	The Council should review its outcome measures and develop clear milestones and targets against which to measure its performance in delivering its priorities. Supporting plans should also be developed which clearly link to the LOIP and Corporate Plan 2023 and which support the Council's need for transformation and redesign of services.	Partially completed The Council are continuing to make progress against this recommendation with a new Corporate Plan in place since March 2020. Service plans are still in development as of November 2020. Performance reporting has continued at service level during 2019/20 against the old plans and we understand that key performance indicators are being revisited to bring them



No.	Issue/risk	Recommendation	Agreed management action/timing
			<p>into line with the priorities in the new Corporate Plan.</p> <p>We will monitor progress on this as part of the follow up of the Best Value Assurance Report.</p>
b/f 7	Management capacity	<p>Management capacity should be reviewed to ensure that it is sufficient to deliver the transformational change programme required to deliver financial sustainability in addition to 'business as usual'.</p>	<p>Partially completed</p> <p>A management restructure was implemented during 2019/20. Additional fixed term posts, including a Head of Transformation, were established to help support transformational change. The Council acknowledges that more needs to be done and plans to review capacity (and the working of CMT & SMT) as part of the BVAR action plan.</p> <p>We will monitor progress on this as part of the follow up of the Best Value Assurance Report</p>
b/f 8	Business continuity planning	<p>The Council should review its business continuity planning arrangements to ensure that they are up to date and fit for purpose.</p>	<p>In progress</p> <p>This work has yet to be concluded due to resourcing issues. The Council has confirmed that it will review its approach to business continuity planning during 2020/21 and that this will include lessons learned from the Covid-19 pandemic.</p> <p>Recommendation 6</p>

Appendix 2

Significant audit risks identified during planning

The table below sets out the audit risks we identified during our planning of the audit and how we addressed each risk in arriving at our conclusion. The risks are categorised between those where there is a risk of material misstatement in the annual accounts and those relating our wider responsibility under the [Code of Audit Practice 2016](#).

Audit risk	Assurance procedure	Results and conclusions
Risks of material misstatement in the financial statements		
<p>1 Risk of management override of controls</p> <p>Auditing Standards require that audits are planned to consider the risk of material misstatement caused by fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls to change the position disclosed in the financial statements for Moray Council and the connected charitable trusts.</p>	<p>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>Results: we did not identify any significant issues within our work on journals. Our testing of accruals and prepayments did not identify any errors and there were no significant transactions outside the normal course of business.</p> <p>Conclusion: no issues were identified that indicate management override of controls</p>
<p>2 Risk of fraud in income recognition</p> <p>As set out in ISA 240, there is a presumed risk of fraud in the recognition of income. Moray Council receives a significant amount of income from several sources including income from fees and charges. The extent and complexity of income means that, in accordance with ISA240, there is an inherent risk of fraud.</p>	<p>Detailed testing of revenue transactions focusing on the areas of greatest risk.</p> <p>Walkthrough of key controls over council tax, NDR and housing rent income.</p>	<p>Results: we did not identify any significant issues from our testing of income controls and transactions.</p> <p>Conclusion: no fraud issues were identified.</p>
<p>3 Risk of fraud in expenditure</p> <p>As most public-sector bodies are net expenditure bodies, the risk of fraud is more likely to occur in expenditure. Moray Council incurs significant expenditure in areas such as welfare benefits and social care payments where there is an inherent risk of fraud. The majority of expenditure incurred by the connected charitable trusts relates to grant payments</p>	<p>Walkthrough of key controls over social care payments.</p> <p>Detailed testing of expenditure including social care payments, housing benefit transactions, and grant payments made by the charitable trusts.</p>	<p>Results: we did not identify any significant issues from our testing of expenditures controls and transactions.</p> <p>Conclusion: no fraud issues were identified.</p>

Audit risk	Assurance procedure	Results and conclusions
<p>where there is also an inherent risk of fraud.</p>		
<p>4 Risk of error in areas of estimation and judgement</p> <p>There is a significant degree of subjectivity in the measurement and valuation of the material account areas of non-current assets and pensions. The extent of judgement involved increases the risk of material misstatement and requires a specific audit focus.</p>	<p>Assessment of the scope, independence and competence of the professionals engaged in providing estimates for non-current assets and pensions.</p> <p>Review of the appropriateness of actuarial results including comparison with other councils.</p> <p>Review of officers' arrangements for ensuring the completeness and accuracy of professional estimations for non-current assets and pensions.</p> <p>Walkthrough of the processes for determining valuations.</p> <p>Review of actual experience of significant estimates made in the prior year.</p>	<p>Results: Estimations and judgements within the annual accounts were based on the most recent information.</p> <p>The additional uncertainty caused by the Covid-19 pandemic has been adequately disclosed within the accounts.</p> <p>The pensions valuation has been revised following proposals to remedy the issues raised by the McCloud case, that emerged after 31 March 2020</p> <p>Conclusion: An 'emphasis of matter' paragraph has been included in the independent auditor's report to draw attention to the additional uncertainty in property valuations.</p>

The Moray Council – Connected Charity Trust Funds

<p>5 Compliance with the charity test</p> <p>20 of the Council's 31 charitable trusts have not disbursed any funds in the last five years and so it is unclear how they meet the public benefit requirement set out in guidance issued by the Officer of Scottish Charity Regulator (OSCR).</p>	<p>Review of progress made with reorganising existing trust funds, identify those that do not meet the public benefit requirement and report through the Annual Audit Report and to OSCR as appropriate.</p>	<p>Results: no charitable trusts were transferred into the 'The Moray Council Charitable Trust' during 2019/20. OSCR has approved the transfer of 23 of the section 106 trusts to the single trust in 2020/21 as a result of work which began in 2019/20.</p> <p>Conclusion: limited progress has been made in this area during 2019/20.</p>
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Risks identified from the auditor's wider responsibility under the Code of Audit Practice











<p>6 Risk to financial sustainability</p> <p>The current level of service provision is not financially sustainable, and the Council has relied on reserves to bridge its annual funding gap for the last 4 years. This cannot continue as un earmarked general fund reserves are projected to be reduced to below the minimum level considered prudent by the Head of Financial Services by 31 March 2022.</p> <p>Reserves of £2.3 million will be required to balance the</p>	<p>Review the 2020/21 revenue budget, required savings and use of reserves.</p> <p>Review progress made in developing the Council's Improvement and Modernisation Programme for the redesign and transformation of Council services particularly in relation to transformation of Education and Children's Services.</p> <p>Once approved, review the Council's medium- and long-term financial strategy.</p>	<p>Results: the Council's usable reserves increased by £9.2 million during 2019/20, which improved the financial outlook, however, additional costs due to Covid-19, estimated at £7.4 million during 2020/21, will be funded from reserves. Current projections indicate that the financial outlook remains very challenging.</p> <p>The Improvement and Modernisation Programme (IMP) was halted due to Covid-19 and the Head of Transformation redeployed to other duties. Work</p>
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Audit risk	Assurance procedure	Results and conclusions
<p>2020/21 budget in addition to savings of £3.1 million. Further substantial savings will be required for 2021/22 (£4.2 million) and 2022/23 (£7.4 million).</p> <p>A significant number of the Council's properties (mainly schools) are in poor condition and the Council cannot afford the £142 million investment required to bring schools up to a satisfactory standard.</p> <p>There is a risk that the Council is unable to agree and implement a sustainable financial model for service delivery.</p>		<p>is underway to consider the impact of Covid-19 on the IMP.</p> <p>A medium-term financial plan is in place, but it lacks detailed savings plans.</p> <p>Conclusion: the Council has yet to agree and implement a sustainable financial model for service delivery.</p> <p>Progress in transforming key services such as Education and Integrated Children's Services has been delayed due to Covid-19.</p> <p>Additional costs associated with Covid-19 increase the pressure on the Council to make additional savings or further deplete reserves.</p>
<p>7 Weaknesses in control environment</p> <p>In previous years we have reported control weaknesses across a few systems. The lack of payroll validation is a concern given the extent of expenditure incurred on staff costs. There is a risk that payroll information is inaccurate and is not identified by service departments resulting in incorrect payments.</p>	<p>Review and testing of key controls within payroll and HR associated with the recruitment of employees and the maintenance of the Council's establishment.</p> <p>Detailed testing of changes in staff costs (new starts, leavers, promotions, etc) to ensure these are accurately processed.</p>	<p>Results: our work confirmed that payroll validation controls are not yet operating as expected, however increased substantive testing of staff costs did not identify any issues.</p> <p>Conclusion: assurance was obtained from substantive procedures to support the audit opinion.</p>

Appendix 3

Summary of national performance reports 2019/20



		Apr	
Social security: Implementing the devolved powers		May	
Scotland's colleges 2019		Jun	 Enabling digital government
		Jul	
NHS workforce planning - part 2		Aug	
Finances of Scottish universities		Sept	
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