

Moray Council External Audit Plan

Financial year ending 31 March 2024

27 March 2024



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

Introduction

Purpose

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

- Subsidiaries: Connected Charitable Trust Funds, Other Trusts Funds and Common Good Fund
- Associates: Moray Integration Joint Board, Grampian Valuation Joint Board and Moray Leisure Limited

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

Respective responsibilities

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

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

Scope of our audit

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

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

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



Plan overview (1)

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

01 Materiality

We have calculated our planning materiality using prior year gross expenditure (minus the contribution made to the IJB) as per the audited 2022/23 financial statements as our benchmark, resulting in the following:

- Planning materiality of £7.143 million (Group: £7.542 million) which is set at 1.9% of gross expenditure (Group 2% of gross expenditure).
- Performance materiality of £5 million (Group: £5.258 million) is based on 70% of planning materiality.
- The clearly trivial threshold is £357,100 (Group: £377,100) in line with Audit Scotland guidance.
- A lower materiality will be used on:
 - £25,000 for the Senior Officers Remuneration table within the Remuneration Report.

We will revisit our materiality throughout our audit including updating to reflect the draft unaudited financial statements for 2023/24.

02 Financial statement audit

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

- Management override of controls (ISA (UK) 240);
- Valuation of land, buildings and Council dwellings (valuation);
- Valuation of defined benefit pension scheme liability (valuation);

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

03 Group audit scope and risk assessment

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

Through our audit planning procedures, we consider Moray Council as the only component to be "individually financially significant" to the Moray Council Group, with the Moray Integration Joint Board, Other Trust Funds and Common Good Funds considered to be "not significant but material".

We therefore plan a full scope audit of the Council using a component specific materiality, and will apply group materiality when performing specific audit procedures over material balances recognised and held by the Moray Integration Joint Board, Other Trust Funds and Common Good Funds. Analytical procedures will be performed using group materiality on all other consolidated balances including those in relation to Grampian Valuation Joint Board, Moray Leisure Limited and Connected Charitable Trust Funds.

Plan overview (2)

04 Wider Scope and Best Value Audit

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

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

- Financial management – we have identified one potential significant risk that budgetary control and financial management information for members is not consistent for effective decision making. More information relating to the response to this risk can be found on page 23 of this report. Findings and conclusions drawn from procedures undertaken on this significant risk area will be reported within the Annual Audit Report.
- Financial sustainability – we have identified one significant risk relating to identification and delivery of significant savings and transformation in order to reduce funding gaps, deliver a balanced budget and continue to deliver key services and council priorities. More information relating to the response to this risk can be found on page 21 of this report. Findings and conclusions drawn from procedures undertaken on this significant risk area will be reported within the Annual Audit Report.
- Vision, Leadership and Governance - we have identified one significant risk that the council may not meet their key priorities due to delayed progression of objectives and the pace of change being limited or slow. Previous Best Value reports published by Audit Scotland noted challenges in progressing key decisions and creating pace for change. More information relating to the response to this risk can be found on page 22 of this report. Findings and conclusions drawn from procedures undertaken on this significant risk area will be reported within the Annual Audit Report.
- Use of Resources to Improve Outcomes – no significant risks identified. We will continue to review your arrangements in this area and report findings and conclusions as part of the Annual Audit Report.

As part of our integrated wider-scope work we also use a risk-based approach to assess and report on whether Moray Council has made proper arrangements for securing Best Value and is complying with its community planning duties. For 2023/24 we are required to carry out work and report on the Best Value thematic ‘Workforce Innovation’.

05 Other audit matters

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

- Consideration of going concern in accordance with Practice Note 10.
- Certification of grant claims and returns The two approved claims/returns for 2023/24 relate to housing benefit (HB) subsidy and non-domestic rates (NDR).
- Completing Assurance Statements on Whole of Government Accounts.
- In accordance with the Code and planning guidance we also required to complete and submit a number of information returns and other deliverables to Audit Scotland during the year.

Plan overview (3)

06 Adding Value Through the Audit

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

We aim to add value to Moray Council through our external audit work by being constructive and forward looking, by attending meetings of the Audit and Scrutiny Committee and by recommending and encouraging good practice. In so doing, we will help Moray Council promote improved standards of governance, better management and decision making and more effective use of resources.

We will ensure an element of unpredictability in our testing to highlight areas of risk and improvements that can be made through both the financial statement and wider scope and best value audit.

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

We have also invited members of your financial reporting team to our annual Local Government Chief Accountants workshop, which is led by our internal financial reporting technical team.

07 Our Audit Fee

Audit fees were shared by Audit Scotland with Moray Council in January 2024. The Audit Fee set by Audit Scotland is £299,820. This fee includes:

- Auditor remuneration £233,960
- Pooled costs £8,530
- Contribution to Performance Audit and Best Value costs £61,280;
- Sectoral cap adjustment of -£3,950 and

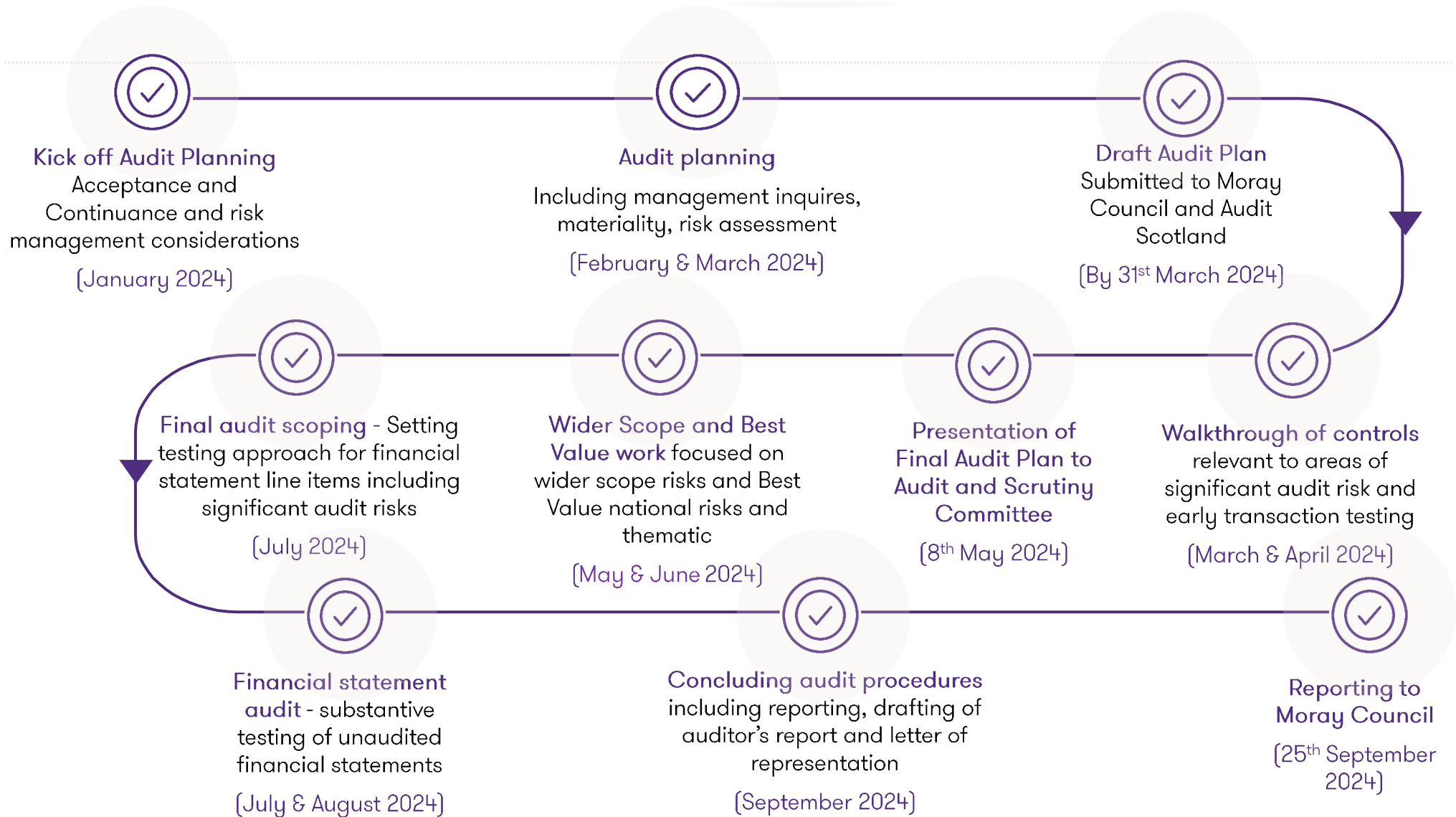
Audit fees are paid to Audit Scotland who in turn pay Grant Thornton UK LLP.

Our audit appointment includes the audit of any trust funds falling within section 106 of the Local Government (Scotland) Act 1973 that are registered as charities with the Office of the Scottish Charities Regulator (OSCR). Auditors, appointed under the Accounts Commission are eligible under the charities regulations to audit a charity's statement of accounts. As part of our audit work in the current year, we will provide an opinion over the Council's registered charity. The audit fee for this work is not covered in the fee set by Audit Scotland. At this stage, we anticipate that the fee will be £6,900 based upon a similar level of work and number of charities as in previous years.

We have identified additional costs to our audit not already inbuilt into the fee set by Audit Scotland. This will result in an increase to the base fee of £6,000 to complete work due to the high-risk control environment relating to journals as well as follow up of the large volume of prior year amendments and disclosure changes as well as the recommendations for wider scope and financial statement audit. This increase is currently being discussed with the Chief Financial Officer.

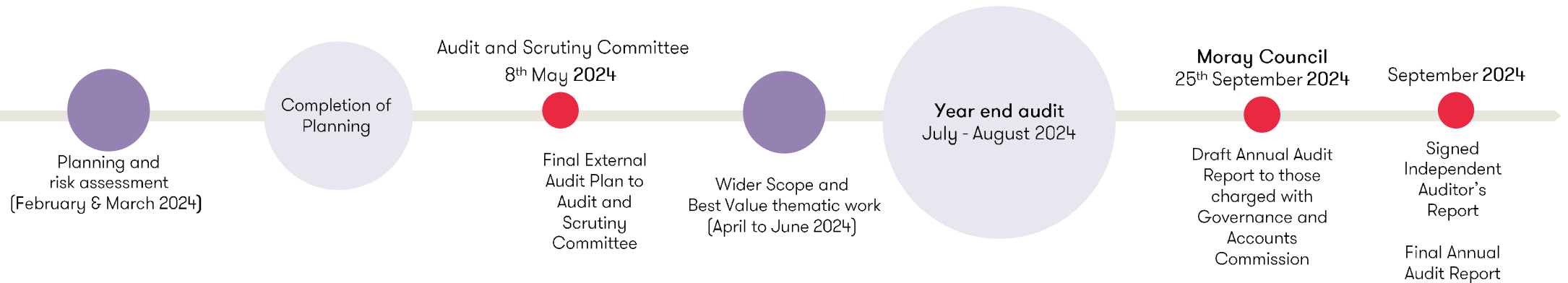
Therefore, the total fee at this stage is £312,720. We reserve the right to review our fee during the audit should significant delays be encountered and/or new technical matters arise.

Audit approach



Audit timeline

We are required to submit audit plans to Audit Scotland by 31 March 2024, and it is anticipated that we will submit audited accounts and the Annual Audit Report by 30 September 2024. We have set out below our planned timescales for the Moray Council audit.



Audited body responsibilities

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

Our requirements

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

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

Materiality

The concept of materiality

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

Materiality for planning purposes

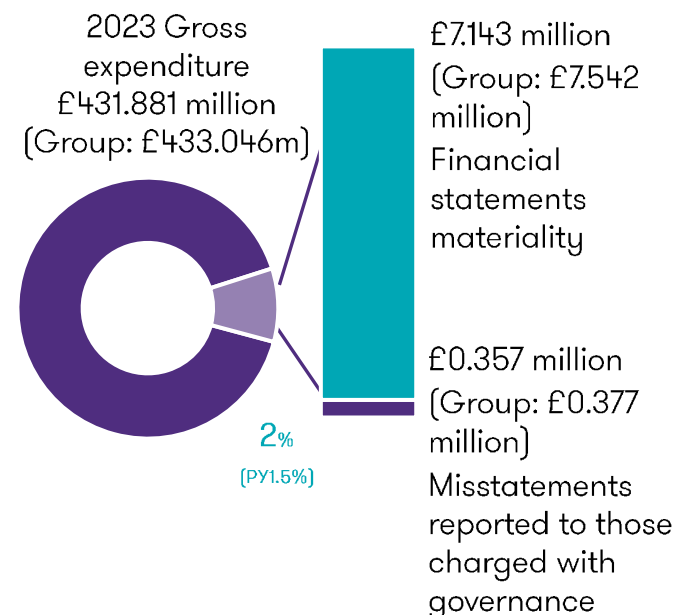
Financial statement materiality is determined based on a proportion of gross expenditure (minus the contribution made to the Moray IJB). We have determined planning materiality for the Council to be £7.143 million (Prior Year £5.825 million) which equates to approximately 1.9% (Prior Year 1.5%) of gross expenditure for the Council as per the 2022/23 audited financial statements. We have also determined a separate planning materiality for the Group to be £7.542 million (Prior Year £5.836 million) which equates to approximately 2% (Prior Year 1.5%) of the 2022/23 gross expenditure for the Group.

Performance materiality represents the amount set for the financial statements as a whole to reduce the probability that the aggregate of uncorrected and undetected misstatements exceed materiality. We use this to determine our testing approach to the financial statements. We have set this at 70% of planning materiality, resulting in performance materiality for the Council of £5 million (Prior Year £3.495 million) and the Group of £5.258 million (Prior Year £3.501m). This is based on our understanding of Moray Council and our overall risk assessment procedures.

Materiality reflects our professional judgement of the magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. We apply a separate **lower materiality level of £25,000** (Prior Year £25,000) to the Senior Officers remuneration table within the Remuneration Report.

Under ISA 260 (UK) 'Communication with those charged with governance', we are required by auditing standards to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. We have determined this threshold for the Council as £357,100 (Prior Year £250,000) and the Group as £377,100 (Prior Year £250,000). In previous years, we were limited to a de-minimis of £250,000 which has now been lifted.

We will reconsider our materiality based on the unaudited 2023/24 financial statements when received in June 2024. During the course of our audit engagement, we will continue to assess the appropriateness of our materiality.



Group audit scope and risk assessment

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

The Moray Council group consists of the following bodies:

Subsidiaries

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

Associates

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

There are no key changes in the group in 2023/24.

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

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

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

Significant audit risks (1)

Significant risks are defined by ISAs(UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement. The significant risks set out within pages 11 – 16 are only significant risk within the Council’s single entity financial statements.

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

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

We will:

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

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

Significant audit risks (2)

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

As set out in ISA (UK) 240 (Revised May 2021), there is a presumed risk that revenue may be misstated due to improper recognition of revenue in all entities. Having considered the risk factors set out in ISA 240 and the nature of the revenue streams at Moray Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted as there is deemed to be little incentive to manipulate revenue recognition and opportunities to manipulate revenue recognition are deemed to be limited.

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

As set out in practice note 10 (Revised 2020) 'The Audit of Public sector Financial Statements', issued by the Public Audit Forum, which applies to all public sector entities, we consider there to be an inherent risk of fraud in expenditure recognition.

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

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

Significant audit risks (3)

Valuation of land, buildings and council dwellings

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

In accordance with the CIPFA/LASAAC Code of Practice, subsequent to initial recognition, Moray Council is required to hold property and property, plant and equipment (PPE) on a valuation basis. The valuation basis used will depend on the nature and use of the assets. Specialised land, buildings, equipment, installations and fittings are held at depreciated replacement costs, as a proxy for fair value. Non-specialised land and buildings, such as offices, are held at fair value with the exception of Headquarters Campus buildings which are too large to be marketed as office accommodation and are measured at depreciated replacement cost as an estimate of current value. Council dwellings are determined using the basis of existing use value for social housing.

Moray Council employ an internal valuer to undertake a rolling programme of valuations across their asset base, valuing land, buildings and council dwellings at least once every five years. In the intervening periods, Moray Council carries out an indexation exercise. As at 31 March 2023, Moray Council held PPE of £1.233 billion including land and buildings of £0.520 billion and council dwellings of £0.412 billion.

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

We will therefore focus our audit attention on assets that have large and unusual changes in valuations compared to last year and/or unusual approaches to their valuations; as a significant risk requiring special audit consideration. The risk will be pinpointed as part of our final accounts work, once we have understood the population of assets revalued. We will report an updated risk assessment for valuation of land and buildings in our Annual Audit Report in September.

Significant audit risks (4)

Valuation of land, buildings and council dwellings

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

(continued)

Our testing will include:

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

Significant audit risks (5)

Defined benefit pension scheme

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

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

The local government pension scheme is a defined benefit pension scheme and in accordance with IAS 19: Employee Benefits, Moray Council is required to recognise its share of the scheme assets and liabilities in its Statement of Financial Position.

In 2022/23, the Council applied the asset ceiling test as prescribed by IFRIC 14 which limited the measurement of a defined benefit asset to the 'present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.' The pension asset can be recognised as the lower of the net pension asset or the present value of any economic benefits available. The Council's actuaries undertook this assessment and the asset value in the accounts was reduced as the present value of the benefits available were lower than the pension asset. The net liability arising from the unfunded defined benefit obligation remained as there is no right to offset this.

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

Significant audit risks (5)

Defined benefit pension scheme

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

We will:

- Evaluate management's processes and controls for the calculation of the gross asset and gross liability and estimates, the instructions issued to the actuarial expert and the scope of their work
- Evaluate the assumptions made by Mercer Limited in the calculation of the estimate, using work performed by an auditor's expert commissioned on behalf of Audit Scotland and additional follow up procedures (where required)
- Evaluate the data used by management's experts in the calculation of the estimates
- Perform substantive analytical procedures over the gross assets, gross liabilities and in year pension fund movements, investigating any deviations from audit expectations;
- Assess the accuracy and completeness of the IAS 19 estimates and related disclosures made within the Council's financial statements.
- Review management's assessment of the application of IFRIC 14 (if applicable)
- Evaluate the response received from the NESPF auditor in line with the Audit Scotland Protocol for Auditor Assurances for Local Government Pension Schemes

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

Other matters (1)

Auditor Responsibilities

We have a number of audit responsibilities as set out in the Code and Planning Guidance 2023/24 issued by Audit Scotland:

- We audit parts of your Remuneration Report, as required under the Code, and check whether these sections have been properly prepared (opinion).
- We read the sections of your Annual Report which are not subject to audit and check that they are consistent with the financial statements on which we give an opinion (opinion).
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set out in Delivering Good Governance in Local Government: Framework (2016) (opinion).
- We consider our other duties under the Code and planning guidance (2023/24), as and when required, including:
 - Supporting Audit Scotland’s reporting to the Accounts Commission
 - Contributing to Audit Scotland Performance Reports and providing regular updates to Audit Scotland to share awareness of current issues
 - Contributing to the National Fraud Initiative (NFI) report
 - Notifying the Controller of the Audit when circumstances indicate a statutory report may be required
 - Completing mandated information requests and returns and notifying Audit Scotland of any cases of money laundering or fraud
 - Review of Technical guidance prior to issue by Audit Scotland.

Further detail is set out on pages 33 to 35 of this report.

Whole of government accounts (WGA)

The Code of Audit Practice requires appointed external auditors to review and report on WGA returns prepared by audited bodies. External auditors of local authorities are required to provide an assurance statement on 2023/24 WGA returns for bodies over a prescribed threshold determined by NAO.

While we do not expect to be informed of the threshold before July 2024, we anticipate that we will be required to provide a partial assurance statement for Moray Council for 2023/24.

Going concern assessment

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

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

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

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

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

Other matters (2)

Other material balances and transactions

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

Internal control environment

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

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

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

Grant claims

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

Financial reporting developments

We invited members of your finance team to our LG audit workshops earlier this year. In February 2024, two representatives attended our workshop.

During our audit we will actively discuss emerging financial reporting developments with you. Following further deferral of IFRS 16 Leases in Local Government, this accounting standard is now mandated for implementation by local government bodies from 1 April 2024 (although earlier adoption is permitted). More detail on the implementation of IFRS 16 is available at page 41 of this plan.

National Fraud Initiative

The National Fraud Initiative (NFI) in Scotland is a biennial counter-fraud exercise led by Audit Scotland, and overseen by the Public Sector Fraud Authority for the UK as a whole.

In February 2024, we completed the information return for the National Fraud Initiative (NFI) process and returned the completed questionnaire to Audit Scotland. The information provided is a key source of evidence for Audit Scotland's next NFI report, due to be published in summer 2024.

Interim Testing

As part of our interim procedures, we will complete testing on a number of areas when efficient to do so, which will cover the first nine months of the financial year. This will include:

- Payroll - starters, leavers and changes in circumstances
- Payroll substantive analytical procedure
- Operating expenditure
- Grant income
- Transactional testing on the Connected Charity Trust Funds
- NDR & Council Tax reliefs testing

Other matters (3)

Section 106 Charities

Our audit appointment as the Council's auditor includes the audit of any trust funds falling within Section 106 of the Local Government (Scotland) Act 1973 that are registered charities. For Moray Council we have therefore been appointed as auditors of the connected charitable trust funds. The audit fee for this work is outside of the main fee and is £6,900.

Our audit procedures for the connected charities trust funds include:

- Total transactional audit testing over all income and expenditure transactions incurred during 2023/24.
- Agreeing investment balances held by the trust fund to external confirmation from investment fund managers.

Wider scope risks identified in planning

The Code sets out four audit areas that frame our wider scope work.

Wider Scope Audit Area	Our risk considerations and focus
Financial Sustainability	The projected financial position of the council in the medium to longer term and the relevance and appropriateness of assumptions applied to financial plans that will allow the council to effectively deliver services in the future
Financial Management	The arrangements in place at the council to ensure sound financial management, accountability and the arrangements to prevent and detect fraud, error and other irregularities
Vision, Leadership and Governance	The effectiveness of the council's governance arrangements and the arrangements in place to deliver the vision, strategy and priorities set by the council
Use of Resources to Improve Outcomes	How the council demonstrates economy, efficiency and effectiveness through its use of financial and other resources

Our initial planning work has identified significant risks in two areas - Financial Sustainability and Vision, Leadership and Governance. We have also identified a potential significant risk in another area – Financial Management.

We will continue to review the Council's arrangements during the course of the year., including follow up of the prior year action plan agreed with Officers. Should we identify any further significant risks in our wider scope work, these will be reported to those charged with governance, in our Annual Auditors Report.

Wider scope risks identified in planning

Financial sustainability Moray Council, like all Scottish local authorities, is facing increasing and unprecedented financial pressures. The Council, in the 2024/25 budget have estimated a cumulative funding gap of £31.89 million over the next three years (2024/25 – 2026/27), after the use of reserves, planned to be up to £10.2 million in 2024/25. This level of reserve drawdown will leave the Council with a smaller useable reserves balance, with careful consideration required of their own reserves policy of 2% of revenue expenditure. The use of reserves to fund gaps is finite and adds further pressure to future years. In addition to the use of reserves, the Council will also need to achieve a significant amount of savings. The 2024/25 budget papers set out that some savings have been identified over the three-year term of the MTFs, but currently £14.15 million have not yet been identified.

Significant risk identified:

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

Response to significant risk:

Our audit work will include:

- Reviewing how the council identifies significant financial pressures that are relevant to its short and medium-term plans and builds them into its plans;
- Reviewing how the council plans to bridge its funding gap and identify achievable savings and future transformation;
- Reviewing how the council plans its finances to support the sustainable delivery of services in accordance with strategic and statutory priorities;
- Reviewing how the council identifies and manages risk to financial resilience, such as unplanned changes in demand and assumptions underlying its plans; and
- Reviewing how the council sets longer term financial plans and capital investment to deliver on priorities and how they determine their affordability.

Wider scope risks identified in planning

Vision, Leadership and Governance

Previous Best Value reports and our 2022/23 Annual Audit Report identified challenges in progressing key decisions and creating pace for change which could compromise the council's ability to achieve key priorities. A Controller of Audit report on Moray Council is due to be published on 28 March 2024. Following the council election in May 2022, a corporate plan was not approved by the new administration in a timely manner, with the document presented to members in February 2024. The draft corporate plan was presented in August 2023.

Significant risk identified:

There is a risk that the council do not meet their key priorities due to delayed progression of objectives and the pace of change being limited or slow.

Response to significant risk:

Our audit work will include, but will not be limited to:

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

Wider scope risks identified in planning

Financial Management

Strong budgetary control is essential in any local authority. Where savings plans are required, they should be detailed and progress on their attainment regularly reported to Officers and Members. Financial forecasts must be accurate and regularly updated in order that effective decisions can be made. In 2022/23 Moray Council's budget was set projecting a large deficit with an expected release from reserves totalling nearly £19 million to achieve balance. Ultimately, the use of reserves was not required, and the Council recorded an underspend against budget of £17 million for 2022/23. The 2023/24 budget also projected a deficit, but balance is to be achieved by a savings plan and the use of reserves, up to a value of £10.2m. We expect details of the savings plan and projected use of reserves to be reported to Members through the financial year.

Potential significant risk identified:

There is potentially a risk that budgetary control and financial management information for members is not consistent for effective decision making.

Response to potential significant risk:

Our audit work will include, but will not be limited to:

- Reviewing financial forecasting and reporting arrangements for timeliness and accuracy;
- Reviewing and considering the accuracy of financial reporting (revenue and capital) as well as the narrative accompanying financial reports to Members; and
- Reviewing and monitoring progress against the savings plans identified for 2023/24 and the three years of the MTFS and considering the level of detail that is provided to Members.

Best Value

The Code also requires that auditors assess and report on audited bodies' performance in meeting their Best Value and community planning duties, as part of their annual audit. The Accounts Commission's approach to Best Value involves reporting on individual local government bodies and thematically across the local government sector through performance reports.

Best Value thematic

Local government appointed auditors are also required to report locally on any Best Value thematic work prescribed by the Accounts Commission. For 2023/24 we are required to report on the following thematic:

'Workforce innovation – how councils are responding to workforce challenges'

This work will include an assessment of and conclusion on:

- How effectively are the council's workforce plans integrated with its strategic plans and priorities?
- How effectively has digital technology been used to support workforce productivity and improve service quality and outcomes?
- How effectively is the council using hybrid and remote working and other innovative working practices such as a four-day week to achieve service and staff benefits?
- What innovative practice is the council using to develop its future workforce capacity and skills needs and manage staff reductions in line with its priorities
- What progress has the council made with sharing roles or functions across its services and/or with other councils and partners?
- How effectively is the council measuring the impact of its workforce planning approach?

This work will be completed and reported to those charged with governance in advance of the financial statements audit work.

Best Value

Performance reporting

Theme three in the Best Value statutory guidance is the effective use of resources, an element of which is performance reporting. We are required to undertake work on performance reporting annually. Below we set out the Audit Scotland requirements for 2023/24.

Area of work	What we will consider
Service performance reporting	<ul style="list-style-type: none">The council's assessment of progress against its service priority measures in 2023/24 and beyondThe council's reporting of relative performance, using the Local Government Benchmarking Framework
Continuous improvement	<ul style="list-style-type: none">The council's pace of improvement in delivering priority servicesThe council's depth of implementing improvement across council services
Statutory performance reporting	Whether the council has made proper arrangements for preparing and publishing statutory performance information: <ul style="list-style-type: none">Performance in improving local public services (including those provided with its partners and communities) and progress against agreed desired outcomes (SP1)Its own assessment and audit, scrutiny and inspection body assessments of how it is performing against its duty of Best Value and how it as responded to these assessments (SP2).

Controller of Audit reports

At least once every five years, the Controller of Audit reports to the Accounts Commission on each council's performance in meeting its Best Value duties. Moray Council has been selected as one of the 2023/24 reports. The Controller of Audit report for Moray Council is due to be published on 28 March 2024.

We have worked with the Controller of Audit and the Accounts Commission in their evidence gathering at the Council assessing Best Value arrangements. The report was considered by the Accounts Commission in March 2024 where the importance of the Council maintaining a combined Best Value action plan was emphasised. We will follow up the Council's progress with recommendations from the Controller of Audit and the Accounts Commission as part of our fieldwork and report on this to members in our Annual Audit Report.

Audit Scotland deliverables (1)

As set out in the Code of Audit Practice, as appointed auditors we have a number of wider reporting responsibilities beyond the audit of the financial statements. Below we summarise the key areas of work for our 2023/24 audit, including expected reporting under Audit Scotland's Code of Audit Practice and audit planning guidance:

Requirement	How we will report our findings
Annual Accounts Perform an audit of the annual accounts and express an audit opinion.	<ul style="list-style-type: none">• Independent Auditor's Report on the financial statements• Annual Audit Report detailing findings from our audit work on the financial statements.
Wider scope audit areas Conclude and report on our assessment of the wider scope audit areas.	<ul style="list-style-type: none">• Annual Audit Report
Best Value- Follow Up Follow up of the Moray Council's progress in implementing the recommendations raised in previous Best Value Assurance Reports, Annual Audit Reports and the Controller of Audit report that will be issued in March 2024	<ul style="list-style-type: none">• Annual Audit Report
Best Value thematic work for 2023/24 – We are required to report locally on any Best Value thematic work prescribed by the Accounts Commission. For 2023/24 the prescribed thematic is 'workforce innovation'.	<ul style="list-style-type: none">• Annual Audit Report• Reporting in a separate management report is also required.

Audit Scotland deliverables (2)

Requirement	How we will report our findings
Statutory Performance Information Consider and report on Statutory Performance Information arrangements.	<ul style="list-style-type: none">• Annual Audit Report
National Fraud Initiative (NFI) Contribute to NFI report.	<ul style="list-style-type: none">• Annual Audit Report• Reporting participation to Audit Scotland including completion of NFI questionnaire
Statutory Objections Consider statutory objections to the annual accounts	<ul style="list-style-type: none">• Response to any objections received.
Whole of Government Accounts (WGA) Provide assurance over Moray Council's WGA return.	<ul style="list-style-type: none">• Partial Assurance Statement on WGA return
Housing Benefits Subsidy Claim Independent certification on housing benefit subsidy claim to the Department for Works and Pensions (DWP).	<ul style="list-style-type: none">• Auditor certificate on Housing Benefit Subsidy Claim (Deadline to be confirmed when TGN released in April 2024)
Non-domestic rates (NDR) Certification of NDR claim.	<ul style="list-style-type: none">• Auditor certificate on Non-Domestic Rate Return (Deadline to be confirmed when TGN released in May 2024)
Current Issues Returns Prepare and submit Current Issues Returns.	<ul style="list-style-type: none">• Current Issues Returns

Audit Scotland deliverables (3)

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

Audit Fees

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

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

Audit fees were shared by Audit Scotland with the Chief Executive and Chief Financial Officer in January 2024. Audit fees are paid to Audit Scotland who in turn pay us. We reserve the right to review our fee during the audit should significant delays be encountered and/or new technical matters arise.

Audit fees were agreed with the Chief Financial Officer and will be presented to the Audit and Scrutiny Committee on 8 May 2024. Discussions are ongoing regarding the proposed additional audit fee of £6,000 for additional work relating to the journals environment and reviewing issues identified in the previous audit.

Relevant professional standards

Audit Scotland set the baseline audit fee. We can increase the fee, from the baseline, for the inclusion of additional risks, new technical matters or where specific client matters are identified, such as prior year misstatements and disclosure amendments re-occurring during the audit.

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

The baseline fee of £299,820 has been set by Audit Scotland. In accordance with Audit Scotland guidance, we are able to discuss a variation to the audit fee where additional work is required.

Our audit appointment includes the audit of any trust funds falling within section 106 of the Local Government (Scotland) Act 1973 that are registered as charities with the Office of the Scottish Charities Regulator (OSCR). Auditors, appointed under the Accounts Commission are eligible under the charities regulations to audit a charity's statement of accounts. As part of our audit work in the current year we will provide an opinion over the Council's registered charity. The audit fee for this work is not covered in the fee set by Audit Scotland. At this stage we anticipate that the fee will be £6,900 based upon a similar level of work and number of charities as in previous years. If additional work is required which would result in an additional audit fee, this will be advised and subject to agreement with Moray Council. Therefore, the total fee at this stage is £306,720.

Discussions are ongoing for an additional audit fee of £6,000. If this is agreed by the Council, the audit fee will rise to £312,720.

We anticipate there may be additional costs to our audit not already inbuilt into the fee set by Audit Scotland. An auditor expert may need to be employed to assist with the audit work relation to the significant risk around valuation of land and buildings. This will not be known until the outcome of the valuations is fully understood. We will discuss any additional costs with management and confirm the final audit fee within our Annual Audit Report.

Audit Fees (continued)

Audit fees for 2023/24

Service	Fees £
External Auditor Remuneration paid to Audit Scotland	£233,960
Pooled Costs	£8,530
Contribution to Audit Scotland support costs	Nil
Contribution to Performance Audit and Best Value	£61,280
Sectoral cap adjustment	-£3,950
2023/24 initial fee informed by Audit Scotland	£299,820
Trust Fund Charity (not covered in the initial fee)	£6,900
Baseline fee for 2023/24	£306,720
Additional audit fee for journals and prior year follow-up	£6,000
Indicative fee for 2023/24	£312,720

Fee assumptions

In setting the fee for 2023/24 we have assumed that you will:

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

Adding value through the audit

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

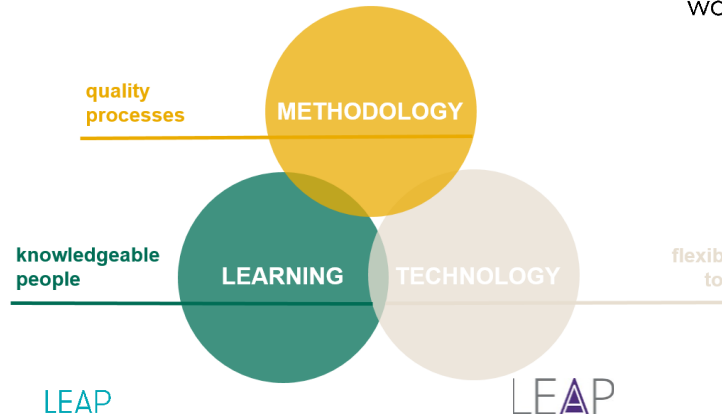
Our audit methodology is risk based and includes developing a good understanding of Moray Council. The diagram opposite summarises how our methodology and use of data adds value to our audit.

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

We comply with Audit Scotland's quality arrangements, including submitting an Annual Quality Report on our Audit Scotland portfolio. Audit Scotland's quality report for 2022/23 can be found on the [Audit Scotland website](#).

Our wider quality arrangements are set out in our annual transparency reports which are available on our website here: [Annual report 2022](#).

Use of audit, data interrogation and analytics software



LEAP

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

Info



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



REQUEST AND SHARE

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



ASSESS AND SCOPE

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



VERIFY AND REVIEW

- Automate sampling; Download automated work papers



INTERROGATE AND EVALUATE

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



FOCUS AND ASSURE

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



INSIGHTS

- Detailed visualisations to add value to meetings and reports

Appendices

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Independence

Auditor independence

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

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

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

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

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

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

We confirm we are independent of the Moray Council Group.

Non-audit services provided prior to appointment

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



Responsibilities

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

Moray Council

Your responsibilities include:

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

External Audit

Our responsibilities include:

- Compliance with the FRC Ethical Standard
- Compliance with the Code and UK Auditing Standards (ISA's UK) in the conduct and reporting of our financial statements audit
- Compliance with the Code and guidance issued by Audit Scotland in the conduct and reporting of our wider scope and Best Value work
- Providing assurance on specified returns and other outputs (where required), as specified in guidance issued by Audit Scotland
- Liaison with and notifying Audit Scotland when circumstances indicate a statutory report may be required
- Notifying Audit Scotland of any known or suspected frauds greater than £5,000
- Contributing to relevant performance studies (as set out in Audit Scotland's Planning Guidance for 2023/24).



Communication

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

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

Fraud responsibilities

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

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

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

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

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

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

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

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

Fraud responsibilities (continued)

During our audit work we will:

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

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

In addition, as set out in the Audit Scotland Planning Guidance 2023/24 ,we are required to:

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

Anti-Money Laundering Arrangements

As required under the Money Laundering, Terrorist Financing and Transfer of Funds Regulations 2017 there is an obligation (as set out in the Audit Scotland Planning Guidance for 2023/24) to inform the National Crime Agency for any suspicion that any person has engaged in money laundering or terrorist financing. Should we be informed of any instances of money laundering at Moray Council, we will report this as required by Audit Scotland.

IT audit strategy

ISA (UK) 315 (Revised July 2020): 'Identifying and Assessing the Risks of Material Misstatement Through Understanding of the Entity and its Environment' came into force for accounting periods commencing on or after 15 December 2021.

In accordance with ISA (UK) 315 Revised, we are required to obtain an understanding of the relevant IT and technical infrastructure and details of the processes that operate within the IT environment. We are also required to consider the information captured to identify any audit relevant risks and design appropriate audit procedures in response. As part of this we obtain an understanding of the controls operating over relevant Information Technology (IT) systems i.e., IT general controls (ITGCs). Our audit will include completing an assessment of the design and implementation of relevant ITGCs.

The following IT systems have been judged to be in scope for our audit and based on the planned financial statement audit approach we will perform the indicated level of assessment. During our audit we will complete an assessment of the design and implementation of relevant ITGCs.

IT system	Audit area	Planned level IT audit assessment
Advance Business Solutions e5 System	Financial Reporting	<p>A review of the IT General Controls related to security management, development and maintenance and technology infrastructure will be carried out for the 2023/24 financial year on these in scope systems.</p> <p>We will look to gain assurance on the work performed in year in relation to the design effectiveness and implementation of IT General Controls for the current financial year and update our understanding of any changes in the system since the prior financial year. We will review any changes identified in key controls from the prior year and assess the impact of any changes on the planned audit approach.</p>
iTrent	Payroll	See above
CIPFA Asset Management	PPE	See above

Future auditing developments

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

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

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

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

- ISA (UK) 600 (Revised September 2022) 'Special Considerations- Audits of Group Financial Statements (including the work of component auditors)' - Applicable for audits of financial statement for periods commencing on or after 15 December 2023.
- IFRS 16 Lease will need to be implemented by local authorities from 1 April 2024. This Standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and replaces IAS17. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions.

A summary of the impact of the key changes on various aspects of the audit is included on the next slides.

Future auditing developments (continued (1))

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

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

Future auditing developments (continued)

IFRS 16 Leases

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

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

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

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

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

