

# Moray Council

## Management Report 2020/21



 **AUDIT SCOTLAND**

Prepared by Audit Scotland  
August 2021

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# Audit findings

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## Introduction

1. This report contains a summary of the key issues identified during the interim audit work carried out at Moray Council. This work included testing of key controls within financial systems to gain assurance over the processes and systems used in preparing the annual accounts. We will consider the results of this testing when determining our approach to the audit of the 2020/21 annual accounts.

2. Our responsibilities under the [Code of Audit Practice](#) require us to assess the system of internal control put in place by management. We seek to gain assurance that the audited body:

- has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements
- has systems of internal control which provide an adequate means of preventing and detecting error, fraud or corruption
- complies with established policies, procedures, laws and regulations.

3. We also carried out work on the audit dimensions as required by the [Code of Audit Practice](#), which focussed on the council's risk management arrangements. The remainder of our wider dimension audit work is ongoing and will inform our Annual Audit Report which will be presented to Moray Council in November 2021.

4. Scotland's public services are under exceptional pressure due to the Covid-19 pandemic. Our approach to audit during these circumstances will be pragmatic, flexible and consistent. We have issued a paper, [COVID 19: What it means for public audit in Scotland](#), setting out the principles of Audit Scotland's approach to our financial and performance audit programmes. It also outlines our plans for assessing the impact of Covid-19 on public bodies and reviewing the Scottish public sector's response to the pandemic.

5. The contents of this report have been discussed with relevant officers to confirm factual accuracy. The co-operation and assistance we received during the course of our audit is gratefully acknowledged.

6. All our outputs and any matters of public interest will be published on our website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

## Conclusions

7. We identified four control weaknesses as detailed in [Exhibit 1](#). We will be carrying out additional work in response to these findings as part of our audit of the 2020/21 financial statements.

**8.** In terms of our wider dimension audit work, we concluded that the council needs to improve its risk management arrangements. Service risk registers need to be refreshed and the documentation of risk management processes needs to be reviewed and updated.

## Internal control systems

**9.** In accordance with *ISA 330: the auditor's response to assessed risk*, our risk-based audit approach allows us to take a three-year cyclical approach to controls testing. This approach enables us to place reliance on previous years' audit work once we have confirmed that the control environment and operation remain unchanged and no significant weaknesses had been identified.

**10.** Our 2020/21 work considered key controls in a number of areas including bank and feeder system reconciliations, payroll controls (including starters, leavers, validation, and exception reporting), authorisation of journals and IT access. We also considered controls for preventing and detecting fraud in areas such as welfare benefits and the award of discretionary discounts in relation to council tax and non-domestic rates.

**11.** In 2020/21 the council received and administered significant funding to support individuals and businesses impacted by the Covid-19 pandemic. We are also carrying out a review of the controls put in place by the council to administer the most significant Covid-19 grants and carrying out testing to confirm the existence and operation of these controls. We will report the outcome of this work in our Annual Audit Report.

## Audit findings

**12.** The key control weaknesses identified during the interim audit are detailed in [Exhibit 1](#). In previous years, management has accepted the risks associated with these system weaknesses and so we have not made recommendations to address these this year. These findings will inform our approach to the financial statements audit where relevant.

**13.** Any weaknesses identified represent those that have come to our attention during the course of normal audit work and therefore are not necessarily all the weaknesses that may exist. It is the responsibility of management to decide on the extent of the internal control system appropriate to Moray Council.

## Additional follow-up work

**14.** Interim testing has identified systems weaknesses which require us to reconsider our audit procedures. We concluded that these weaknesses do not represent additional risks of material misstatement, but we have identified a need to undertake additional audit work during our financial statements audit. This additional work is set out in [Exhibit 1](#).

## Exhibit 1

### Key controls - findings and additional audit work

Issue identified	Management response	Additional audit work
<p><b>Authorisation of Journals</b></p> <p>There is no authorisation of journals posted to the ledger.</p> <p><b>There is a risk that incorrect or fraudulent changes could be processed within the ledger system.</b></p>	<p>Risk accepted by management.</p>	<p>We will test an increased sample of journals and use data analytics to identify and test a sample of high-risk journals.</p>
<p><b>Payroll validation</b></p> <p>A validation exercise to verify the existence of employees on the payroll system has not been undertaken since the introduction of the new payroll system on 1 April 2017.</p> <p>Establishment lists were sent out to managers in November 2018, but this highlighted that these lists were out of date. No validation exercise has been carried out since.</p> <p><b>Without regular confirmation of payroll details, there is an increased risk of fraudulent payments being made.</b></p>	<p>Risk accepted by management.</p>	<p>We will substantively test a sample of paid employees through confirmation of existence to other records/management confirmation.</p>
<p><b>Housing rents reconciliation</b></p> <p>A reconciliation between the ledger and the housing rents system is only performed at the year-end.</p> <p>The last three annual reconciliations have had</p>	<p>Risk accepted by management.</p>	<p>We will review the annual reconciliation between the ledger and the housing rents system to ensure that any material difference has been investigated and explained. We will also substantively test a sample of housing rents transactions to ensure</p>

Issue identified	Management response	Additional audit work
<p>unexplained differences which have subsequently been written-off.</p> <p>Finance and housing staff have attempted to identify the reasons for these differences but have been unable to do so due to the volume of transactions involved.</p> <p><b>The lack of regular reconciliations between the financial ledger and the housing rents system increases the risk that fraudulent transactions or errors will not be identified and corrected.</b></p>		<p>that they have been accurately processed through the housing rents system.</p>
<p><b>Changes to Chart of Accounts</b></p> <p>The council does not have a formal process in place for recording new/amended ledger code requests. Changes are made by the accountancy section following correspondence with the relevant department requesting the change, but audit trails of changes were not evident.</p> <p><b>There is an increased risk of misclassification of transaction if there is no audit trail evidencing the basis for account code changes.</b></p>	<p>Risk accepted by management.</p>	<p>We will review the mapping of balance sheet codes from the ledger to the accounts using data analytics to identify any significant changes and to confirm that the mapping for the balance sheet is consistent, accurate and complete. This will confirm the overall net income/ expenditure.</p>

Source: Audit Scotland

## Wider dimension audit work

### Governance and transparency

**15.** During our planning work we noted that the members had not reviewed the council's corporate risk register since February 2019. Review did not take place in 2020 due to limited staff resource and re-prioritisation of available resources due to the Covid-19 pandemic.

**16.** A revised corporate risk register was considered by the Education, Communities and Organisational Development Committee in May 2021. The risk register notes the council faces nine corporate risks:

- Political –delicate minority administration
- Financial –substantial risk around budget gap for future years
- Human Resources (People) –challenges of new ways of working, impact of planned staffing reductions and continuing recruitment challenges in certain areas
- Regulatory –due to potential non-compliance with statutory duties of setting a balanced budget and continuing to provide best value services
- Environmental - due to the challenge of meeting tougher climate change targets
- Reputational –the external focus on Best Value and the council's challenge to deliver on a number of performance targets as well as the continuing need to reduce, stop or increase charges for services
- Operational Continuity and Performance –due to challenges in re-gaining ground in service planning and performance and re-designing services following the pandemic
- Technological –the unprecedented challenges of moving the workforce into remote working and the increasing threats posed by cyber-attacks
- Economic Recovery – this new risk, recognises the impact of a prolonged economic downturn following the pandemic and EU withdrawal on the local economy, capital projects and council revenues.

**17.** Risk management processes within services are being refreshed although limited progress has been made by some services during the pandemic due to other workload pressures. The council acknowledges it needs a dedicated staff resource to support the central co-ordination of its risk management process and that more work is required to update and document risk management procedures as the pandemic eases.

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## Recommendation

The council should ensure that adequate resources are put in place to support its risk management processes.

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## Best Value follow up

**18.** Best Value is assessed over the five-year audit appointment, as part of the annual audit work. Moray Council's Best Value Assurance Report was published in August 2020. As part of our 2020/21 audit we are carrying out a review of progress made in implementing the recommendations included in the Best Value Assurance Report. The results of this work will be reported in the Annual Audit Report (financial sustainability) and a follow up report by the Controller of Audit to the Accounts Commission in February 2022.

## Wider dimension action plan

**19.** The wider dimension action plan is set out in [Exhibit 2](#).

### Exhibit 2

#### Wider dimensions - findings and action plan

Issue identified	Recommendation	Management response/Responsible Officer/Target date
<p><b>Risk management</b></p> <p>Some services have made limited progress with refreshing their risk management processes during the pandemic. The council acknowledges that it needs a dedicated resource to support the central co-ordination of its risk management processes. More work is required to update and document risk management procedures as the pandemic eases.</p> <p><b>There is a risk that the council is not identifying and addressing all of its risks.</b></p>	<p>The council should ensure that adequate resources are put in place to support its risk management processes.</p>	<p>CMT are considering a request for additional resource to support central co-ordination of risk management processes. Risk management activity is a normal part of the service planning process but was not always possible across all services during the pandemic.</p> <p><b>Responsible officer:</b></p> <p>Head of Governance, Strategy and Performance</p> <p><b>Target date:</b></p> <p>28 February 2022</p>

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