

Moray Council

DRAFT 2020/21 Annual Audit Report



 AUDIT SCOTLAND

Prepared for the members of Moray Council and the Controller of Audit
January 2022

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Key messages

2020/21 annual accounts

- 1 Our audit opinions are unmodified.
- 2 Adjustments were made in the audited accounts to reflect LASAAC grant funding guidance and PPE and testing kits supplied to the council.

Financial management and sustainability

- 3 The council increased its General Fund by £21 million during 2020/21, mainly due to additional Covid-19 funding (£16 million).
- 4 The council paid out £32 million in covid grants to businesses and individuals on behalf of the Scottish Government.
- 5 The medium-term financial plan has been updated to reflect the impact of the pandemic. Covid-19 earmarked reserves will be used to balance the budget in 2021/22 and 2022/23. The council plans to use this time to develop new transformation projects to deliver the savings required to ensure services are financially sustainable in the medium to longer-term.
- 6 Over £100 million will be invested by the Scottish and UK Government, Moray Council, and its regional partners in strategic projects over the next 10 years as part of the Moray Growth Deal.

Governance, transparency, and Best Value

- 7 Political control of the council continues to be finely balanced.
- 8 The council's Cyber Essentials Plus accreditation has lapsed.
- 9 The Best Value Assurance Report (BVAR) noted a lack of sustained improvement in Moray Council over many years. A follow-up report on the BVAR will be considered by the Accounts Commission in February 2022.

Introduction

1. This report summarises the findings arising from the 2020/21 audit of Moray Council (the council) and its group. The scope of the audit was set out in our 2020/21 Annual Audit Plan presented to the council in May 2021. This report comprises the findings from an audit of the annual accounts and consideration of the four audit dimensions that frame the wider scope of public audit set out in the [Code of Audit Practice 2016](#).

2. The main elements of our audit work in 2020/21 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
- a review of the council's progress in implementing the recommendations contained in our Best Value Assurance Report published in August 2020
- consideration of the four audit dimensions.

Adding value through the audit

3. We add value to the council through the audit by:

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

Responsibilities and reporting

4. 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.

5. The council 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.

6. 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.

7. 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, and financial position
- the arrangements for securing financial sustainability and,
- Best Value arrangements.

8. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#) and supplementary guidance.

9. This report raises matters from our audit. Weaknesses or 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.

10. Our annual audit report contains an agreed action plan at [Appendix 1](#) setting out specific recommendations, responsible officers, and dates for implementation. It also includes outstanding actions from last year and the steps being taken to implement them.

Auditor independence

11. Auditors appointed by the Accounts Commission or Auditor General must comply with the Code of Audit Practice and relevant supporting guidance. When auditing the financial statements auditors must comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. 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 2020/21 audit fee of £246,240, as set out in our Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

12. 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.

1. Audit of 2020/21 annual accounts

The principal means of accounting for the stewardship of resources and performance

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.

Adjustments were made in the audited accounts to reflect LASAAC grant funding guidance and PPE and testing kits supplied to the council during Covid-19 following the late publication of guidance.

Our audit opinions on the annual accounts are unmodified

13. The accounts for the council and its group for the year ended 31 March 2021 were approved by the Council on 19 January 2022 (TBC). As reported in the independent auditor's report:

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

14. Our audit opinion on the accounts of the section 106 charities (The Moray Council – Connected Charity Trust Funds) is also unmodified.

The pandemic had a limited impact on audit evidence

15. The working papers provided with the unaudited accounts were of a good standard and finance staff provided good support to the audit team during the audit. This helped ensure that the audit of the annual accounts process ran smoothly.

The annual accounts were signed off later due to continuing impacts of Covid-19 on the audit

16. Moray Council published and provided the unaudited accounts to audit on 30 June 2021 in accordance with the original timescale. These were formally considered by the council at its meeting on 30 June 2021.

17. The audited accounts were approved by the Council meeting on 19 January 2022. We continued to audit remotely, and Covid-19 has impacted on the volume of audit work and the time taken to complete our audit, due in part to the legacy of 2019/20 impacts of Covid-19.

There were no objections raised to the annual accounts

18. The Local Authority Accounts (Scotland) Regulations 2014 require local government bodies 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. There were no objections to the 2020/21 accounts.

Overall materiality is £3.6 million

19. We apply the concept of materiality in both planning and performing the audit and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements and in forming the opinion in the auditor's report. We identify a benchmark on which to base overall materiality, such as gross expenditure, and apply what we judge to be the most appropriate percentage level for calculating materiality values.

20. The determination of materiality is based on professional judgement and is informed by our understanding of the entity and what users are likely to be most concerned about in the annual accounts. In assessing performance materiality, we have considered factors such as our findings from previous audits, any changes in business processes and the entity's control environment including fraud risks.

21. Our initial assessment of materiality for the annual accounts was carried out during the planning phase of the audit. This was revised on receipt of the unaudited annual accounts and is summarised in [Exhibit 1](#).

Exhibit 1 Council materiality values

Materiality level	Amount
Overall materiality	£3.6 million
Performance materiality	£2.2 million
Reporting threshold	£150,000

22. We also set separate materiality levels for the Connected Charity Trust Funds as outlined in [Exhibit 2](#).

Exhibit 2

Connected Charity Trust Funds' materiality values

Materiality level	Amount
Overall materiality	£20,000
Performance materiality	£12,000
Reporting threshold	£980

Our audit work addressed the risks of material misstatement

23. [Appendix 2](#) provides our assessment of the risks of material misstatement in the annual accounts and any wider audit dimension risks. These risks influence our overall audit strategy, the allocation of staff resources to the audit and indicate how the efforts of the team were directed. The appendix also identifies the work we undertook to address these risks and our conclusions from this work.

The annual accounts were revised to reflect our significant findings

24. 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. We have reported a number of issues from the work done on the identified risks of material misstatement. The significant findings are summarised in [Exhibit 3](#).

Exhibit 3

Significant findings from the audit of the financial statements

Issue	Resolution
1. Accounting for Covid funding Winter and Spring hardship payments from the Scottish Government were treated as principal in the unaudited accounts, with income recognised as part of the General Revenue Grant and expenditure against the associated service line. This was not in line with LASAAC guidance, which identified that these should be treated as agency	The council amended the audited accounts to correct this misstatement.

Issue	Resolution
arrangements. As a result, income and expenditure were overstated by £0.3 million.	
2. Accounting for agency transactions The unaudited accounts included both a debtor and a creditor for the £500 bonus payment to social care staff, announced by the Scottish Government on 30 November 2020. The council was acting as an agent of the Scottish Government in making these payments to its own staff and to those in third sector social care. Payments were not made until 2021/22 and so should not have been included in the 2020/21 accounts. As a result, debtors and creditors were overstated by £1.3 million.	The council amended the audited accounts to correct this misstatement.
3. Accounting for personal protective equipment (PPE) Due to the late publication of guidance and availability of information, the unaudited accounts did not include the notional funding or costs of Covid-19 PPE and testing kits. These were supplied, free of charge, to local authorities in 2020/21 by National Services Scotland (NSS). NHS NSS data on PPE issued to community hubs were not agreed until the end of June. LASAAC guidance to practitioners in July 2021 advised on the accounting treatment of PPE and testing kits.	The council amended the audited accounts to recognise receipt and use of this equipment in 2020/21. In accordance with the guidance, an additional £0.4 million of income and expenditure has been included in the audited accounts. There was no impact on the council's reserves or net assets.
4. Revaluation of non-current assets The council operates a five-year rolling programme of revaluations with whole asset classes being valued once every five years. No indexation or other adjustment is applied in the intervening years leading to significant movements in value every five years. A full valuation exercise of Land and Buildings was completed during 2020/21, with houses valued in 2019/20, so the amounts in the unaudited accounts were not materially misstated. However, going forward the council needs to review its policy on revaluations to ensure that (per the Accounting Code of Practice),	In future years management need to review whether carrying amounts have varied materially at the year end. This might include indexation of property valuations annually based on BCIS movements assessed by the valuer or a rolling programme sampling assets from each major asset class Recommendation 1

Issue	Resolution
“the carrying amount does not differ materially from that which would be determined using the current value at the end of the reporting period”.	
5. Classification errors identified by finance staff At the start of the audit, finance staff advised us of four classification errors that they had identified but not corrected in the unaudited accounts. As a result, debtors and creditors were understated by £1.4 million.	The council amended the audited accounts to correct these misstatements.
6. Accounting for Moray Leisure Limited The council has included Moray Leisure Limited (MLL) as an associate within its group accounts. Our review prompted by the additional support required by councils to their leisure trusts due to Covid-19, concluded that it should be treated as a subsidiary.	Finance staff have agreed to revisit how they account for Moray Leisure Limited as part of their preparation of the 2021/22 annual accounts. Management have decided not to amend the accounts to include MLL as a subsidiary. The amounts involved are not material to our opinion on the financial statements. Recommendation 2
7. Remuneration Report The Remuneration Report disclosures in the unaudited accounts did not include the Chief Social Work Officer or the Chief Education Officer. The Local Government and Housing Act 1989 requires that both these posts are included in the council's Remuneration Report.	The audited accounts have been amended to include disclosures for the Chief Social Work Officer and Chief Education Officer.
8. Management Commentary In previous years, we have recommended that the council 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 amendments were required to improve the clarity of the reporting of financial performance.	The council amended the management commentary to improve the clarity of reporting on how the council performed against its budget and how this is reconciled to the financial statements. Recommendation b/f 3

Total identified misstatements (£4 million) exceeded our performance materiality threshold resulting in additional testing

25. Our audit identified misstatements of £4 million which exceeds our performance materiality threshold. We considered the impact of these misstatements on our audit approach and the need for further testing as follows:

- the adjustments for Covid-19 funding and agency transactions result from the misinterpretation of, and lateness of, guidance on these funding streams. We reviewed all other Covid-19 funding streams and confirmed that they had been accounted for in line with the latest guidance
- the adjustment for PPE and testing kits is as a result of specific late guidance and has been subject to review by the auditors of National Services Scotland and as part of the audit of the council, with the council fully complying with the guidance. We have concluded that the identified misstatement does not indicate further systemic error
- the classification errors resulted from the inclusion of debit balances within creditors and credit balances within debtors. We reviewed the debtors and creditors schedules and did not identify any other balances that had been netted-off and misclassified
- we reviewed all of the other group bodies the council includes as associates in its group accounts and concluded that they had been correctly classified.

26. The accounts were amended to reflect the majority of the identified misstatements. The net effect of the adjustments made (including those below our clearly trivial threshold) was to increase other comprehensive income, net assets, and unusable reserves by £0.1 million.

27. 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.

28. There are two uncorrected misstatements in the audited accounts. Had these adjustments been made, the surplus on the provision of services would have decreased by £0.2 million and net assets and reserves would have increased by £0.034 million. Management have not made these adjustments as they consider they are not material to the users of the accounts.

The council has made good progress with the reorganisation of its section 106 trusts

29. The council transferred 23 of its 31 section 106 trusts into a single trust, 'The Moray Council Charitable Trust', during the year. One of the remaining trusts is in deficit and another has assets of less than £100. We understand that the council plans to contact the Scottish Charity Regulator (OSCR) about winding up these trusts during 2021/22.

Reasonable progress was made on prior year recommendations

30. The council has completed four of the nine prior year recommendations. For actions not yet implemented, revised responses and timescales have been agreed with management, and are set out in [Appendix 1](#).

2. Financial management

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

Main judgements

The council increased its General Fund by £21 million during 2020/21, mainly due to additional Covid-19 funding (£16 million) which has been carried forward

The council paid out £32 million in covid grants to businesses and individuals on behalf of the Scottish Government

The council has a good track record of delivering savings, but the pandemic affected this in 2020/21

The council spent £51 million on capital projects during 2020/21, less than planned due to Covid-19

Financial management continued to be effective during 2020/21.

The council planned to use £4 million of reserves during 2020/21 but due to additional Covid funding and underspends it increased its General Fund balance by £21 million

31. In March 2021, the council approved its net revenue general services budget (£212 million) for 2020/21. In order to balance the budget, the council required to make £3.1 million in savings and use £2.3 million of its general fund reserves. Following confirmation of the 2019/20 outturn position and other in-year adjustments, the budgeted use of reserves was increased to £4 million.

32. The council underspent its revised general fund budget by £25 million in 2020/21 and added £21 million to its general fund reserve, instead of reducing it by £4 million as planned. The majority of this underspend resulted from late and unspent Covid-19 funding from the Scottish Government (£16 million). Underspends against service budgets totalled £4 million. The more significant service under- and over-spends are summarised in [Exhibit 4](#). The council also achieved an under-spend of £4 million corporately through reduced loans charges (due to reduced capital expenditure resulting from Covid-19) and higher than expected vacancy levels.

Exhibit 4**Summary of significant under/overspends against budget**

Area	£m	Reason for variance
Underspends		
Education	2.1	Devolved School budgets were underspent due to school closures in response to the pandemic and Pupil Equity Funds underspends based on funding covering the academic year.
Children's Social Work services	3.0	Reduced costs of care due to change in number and types of placements.
Overspends		
Environmental and Commercial Services	2.3	Reduction in income from car parking, recycling and school meals offset by overspend on winter maintenance due to severe weather and shortfall in fees charged to capital works due to pandemic restrictions.

Source: Moray Council 2020/21 Annual Accounts

The Covid-19 pandemic had a significant impact on the 2020/21 budget

33. The council spent £6 million of the additional £22 million of Covid grant funding received during 2020/21 resulting in a surplus of £16 million to be carried forward for use in 2021/22.

34. Funding received included £9 million of general Covid-19 funding as well as £2.8 million received as part of the Scottish Government's Loss of Income scheme.

35. The £16 million surplus attributed to Covid-19 is being carried forward in the council's earmarked reserves and will be used to support £10.8 million of expenditure in 2021/22. The main areas to be funded from this reserve include education recovery (£4 million), loss of income (£1.6 million), early learning and childcare expansion (£1 million) and discretionary business grants (£1.2 million).

The council paid out £32 million in covid grants to businesses and individuals on behalf of the Scottish Government

36. In response to the pandemic, the council administered a number of grant schemes on behalf of the Scottish Government. The council made grant payments of £32 million in 2020/21.

37. The Small Business Support Grant Fund and Retail, Hospitality and Leisure Support Grant Fund were administered by the council's revenues team, with a total of £19.2 million paid to qualifying businesses. A further £10.6 million was paid by the council through the Strategic Framework Business Fund and subsequent top-up to the Retail, Hospitality and Leisure Support Grant Fund.

38. £2 million was also paid to businesses and individuals through several smaller funding schemes including the Taxi and Private Hire Vehicle fund and several hardship grants.

39. For the more significant funding streams, we reviewed the arrangements and controls implemented by the council for processing grant applications to ensure only eligible applicants received payments and concluded that these were appropriate.

The council has a good track record of delivering savings, but the pandemic affected this in 2020/21

40. As reported in our [Best Value Assurance Report](#), the council has a good track record of delivering or exceeding its savings targets. Due to the pandemic, the council achieved only £2.1 million (68%) of the £3.1 million planned savings included in the 202/21 budget. Recurring savings of £0.7 million on provision of care for young children have been included in the 2021/22 budget.

The housing revenue account balance increased by £0.2 million during 2020/21

41. 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.

42. Budgeted gross expenditure for the HRA in 2020/21 was £20.6 million, to be funded by council house rents (£20.2 million), other income (£0.3 million) and reserves (£0.1 million).

43. The HRA balance increased by £0.2 million to £2.4 million which will be carried forward to future years.

The council spent £51 million on capital projects during 2020/21, less than planned due to Covid-19

44. In February and March 2020, the council approved Capital Plans totalling £70 million (£42 million for general services and £28 million for HRA) for 2020/21. Due to the pandemic, the council spent only £51

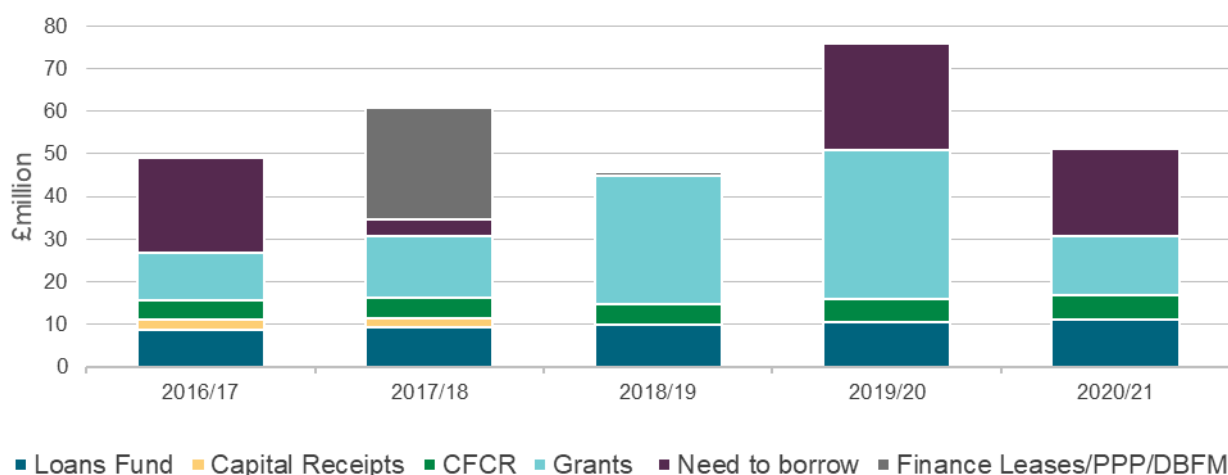
million (73%) on capital projects during 2020/21. The majority of the underspend was due to reduced spend on housing new builds (£10.4 million) and housing improvements (£6.3 million).

45. Over £8 million was invested in new council houses and £4 million in improving the current housing stock. Within general services, the majority of expenditure (£20 million) related to schools (new build and improvements to existing buildings) and facilities for early learning and childcare.

46. [Exhibit 5](#) sets out how capital expenditure was funded during the year. In 2018/19 and 2019/20 the council received additional capital grant to fund the new Lossiemouth High School which became operational in 2020/21. The council's underlying need to borrow increased by £20.7 million during 2020/21.

Exhibit 5

Sources of finance for capital expenditure



Source: Moray Council annual accounts

Capital receipts have been used to fund transformation projects during 2020/21

47. 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 £0.2 million of its capital receipts to fund transformation projects during 2020/21.

48. The guidance only permits councils to use capital receipts to fund transformation for one more year: 2021/22. The council has £2.7 million of capital receipts at 31 March 2021 available to fund transformation projects but has still to decide how it will use them during 2021/22.

Financial management continued to be effective during 2020/21

49. As reported in our [Best Value Assurance Report](#), the council receives good quality information about its finances. During 2020/21 quarterly budget monitoring reports continued to be reported to members at the Economic Growth, Housing and Environmental Sustainability Committee. Regular financial planning updates were also provided to members containing information on the financial impact of Covid-19 on the council's finances, financial forecasts and savings proposals for inclusion in the 2021/22 budget.

Financial systems of internal control were operating effectively, but there were some weaknesses

50. As part of our audit, we identify and inspect 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 council has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements.

51. Our findings were included in our management report which was considered by the Audit and Scrutiny Committee in September 2021. We concluded that key controls were operating effectively, with the exception of payroll validation checks, completion of the housing rents reconciliation and the authorisation of journal entries. We revised our audit approach in response to the weaknesses identified to enable us to obtain sufficient assurance to conclude on the 2020/21 annual accounts.

The council has made good progress in investigating NFI matches

52. The National Fraud Initiative (NFI) is a counter-fraud exercise across the UK public sector which aims to prevent and detect fraud. The council has taken a risk-based approach to the investigation of matches. Good progress has been made in investigations for this NFI cycle.

3. Financial sustainability

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

Main judgements

The council forecasts a small overspend against its revised 2021/22 general services budget and expects to achieve most of its planned savings.

The medium-term financial plan has been updated to reflect the impact of the pandemic. Covid-19 earmarked reserves will be used to balance the budget in 2021/22 and 2022/23 with new transformational projects developed to deliver savings from 2023/24.

Over £100 million will be invested in strategic projects over the next 10 years as part of the Moray Growth Deal.

2021/22 savings targets are less than previous years

53. In March 2021, the council approved its 2021/22 general services revenue budget. Budgeted net expenditure of £214 million was approved after deduction of savings targets totalling £2.6 million (2019/20: £3.1 million). Half of this savings target (£1.3 million) relied on the use of financial flexibilities permitted by the Scottish Government in response to funding pressures resulting from the pandemic. The remaining savings include £0.7 million from Children's Services (refer to paragraph 40 above), £0.1 million from the council's transformation programme and £0.1 million of non-recurring savings.

The council forecasts a small overspend on its revised budget and that most of its planned savings will be achieved

54. The council has continued to update its budget during the year to reflect additional budget pressures, receipt of additional government grant and the 2020/21 outturn. The current budget is £239 million. As part of these revisions, the council agreed to use some of the additional Covid-19 funding, received in late 2020/21 and held as earmarked reserves, to balance the current year budget in place of financial flexibilities.

55. The latest budget monitoring report (30 September 2021) forecasts an overspend of £0.3 million against the revised budget for 2021/22, and the council is on track to deliver the majority of its planned savings.

There has been a significant increase in the level of General Fund reserves, as a result of Covid-19 funding

56. The level of usable reserves held by the council increased from £31 million in 2019/20 to £53 million in 2020/21. The General Fund is the largest usable reserve and is used to support the delivery of services. The net General Fund surplus for 2020/21 was £21 million. This surplus is significantly higher than previous years due to additional 2020/21 Covid-19 funding from the Scottish Government which remains unspent at 31 March 2021.

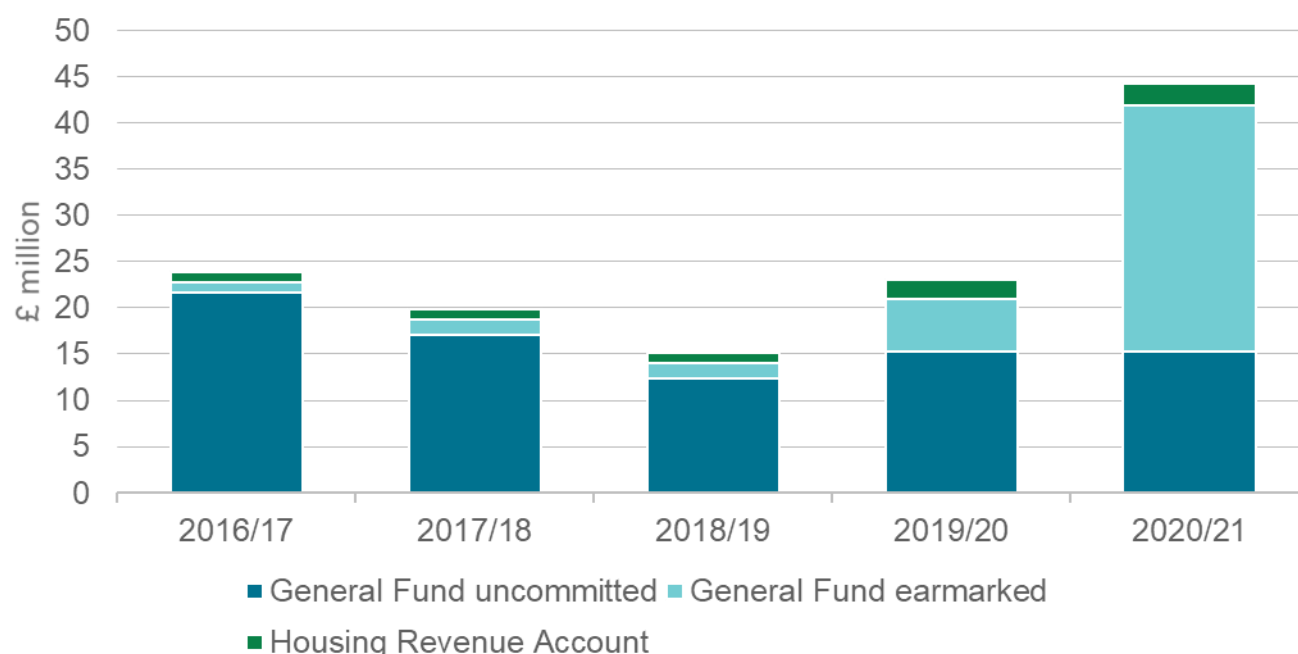
57. General Fund reserves of £42 million include £16 million of Covid-19 earmarked funding and £26 million earmarked for specific future commitments such as early years and childcare expansion (£0.6 million) and pupil equity fund (£0.8 million). Earmarked reserves also include £7 million which has been set aside to fund transformation projects and council priorities.

58. The unearmarked General Fund balance of £15 million is held as a contingency to provide cover for unexpected expenditure and as a working balance to help cushion the impact of uneven cash flows.

59. [Exhibit 6](#) provides an analysis of the General Fund and HRA over the last five years.

Exhibit 6

Analysis of general fund and HRA balances



Source: Moray Council's 2016/17 to 2020/21 Annual Accounts

60. In September 2021, the council agreed to earmark a further £8.8 million of the uncommitted General Fund balance for council priorities including borrowing costs associated with the Moray Growth Deal (see paragraphs 65 & 66 below).

The council is no longer in danger of running out of reserves in the next two years

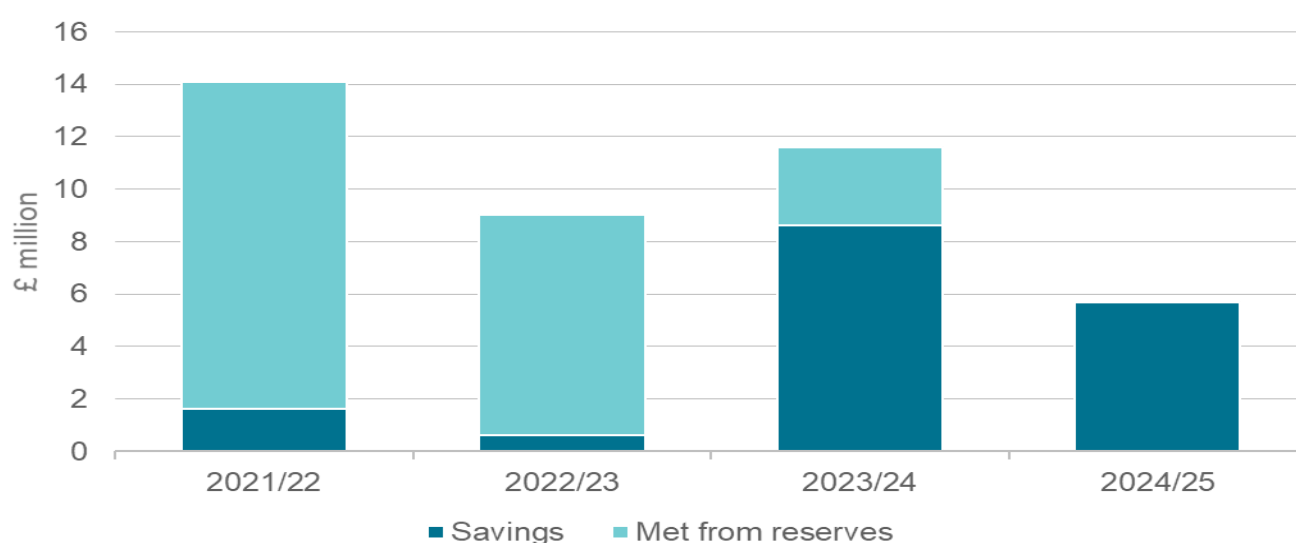
61. In previous years we reported that the council was in danger of running out of reserves in the medium term. The Local Government in Scotland: Financial Overview 2019/20 notes this is no longer the case, with the council achieving surpluses and increasing reserves. Although the council plans to use significant Covid-19 reserves to balance its budget going forward (refer to paragraph 64 for details), the level of reserves and recent surpluses means that Moray Council is no longer in danger of running out of reserves in the next two years.

Medium term financial plans are in place and have been updated to reflect the impact of the pandemic

62. An updated medium to long term financial strategy was approved as part of the council's budget setting process in March 2021. This was further updated in November 2021 to reflect the impact of the pandemic and other additional budget pressures on the council's short to medium term financial plans.

63. [Exhibit 7](#) shows the projected funding gaps to 2024/25. Longer term projections (based on mid-point scenario) indicate annual budget gaps of between £3 and £4 million over the following seven years.

Exhibit 7 **Identified funding gaps 2021/22 – 2024/25**



Source: Moray Council's Short to Medium Term Financial Planning report – 30 November 2021

Covid-19 earmarked reserves will be used to balance the budget in 2021/22 and 2022/23 with new transformational projects developed to deliver savings from 2023/24

64. The council has been making efficiency savings since 2010/11 and acknowledges these are increasingly difficult to achieve. Covid-19 earmarked reserves will be used to fund additional costs and loss of income in 2021/22 and help balance the budget in 2022/23. The council plans to use this time to develop new transformation projects which will deliver the savings required to ensure services are financially sustainable in the medium to longer-term.

Over £100 million will be invested in strategic projects over the next 10 years as part of the Moray Growth Deal

65. The Moray Growth Deal will invest over £100 million in strategic projects that maximise regional economic competitiveness over the next 10 years. The Full Deal Document was signed by the key partners (the Scottish Government, the UK Government, and the Moray Council) on 20 December 2021. The Deal, consisting of eight projects, is expected to directly support up to 450 jobs and contribute to a more highly skilled workforce.

66. The Scottish Government and UK Government will each contribute up to £32.5 million with the balance of funding coming from regional partners. The council's contribution to this funding is currently estimated at £11.2 million. In addition, depending on the timing of the drawdown of funding the council may have to fund up to £5 million in borrowing costs which it will recoup in the later years of the Deal. The council has set aside £4 million in its council priorities earmarked reserve to help fund this.

4. Governance and transparency

The effectiveness of scrutiny and oversight and transparent reporting of information

Main Judgements

Governance arrangements operating throughout the Covid-19 pandemic have been appropriate and operated effectively.

Political control of the council continues to be finely balanced.

The council's Cyber Essentials Plus accreditation has lapsed.

Governance arrangements operating throughout the Covid-19 pandemic have been appropriate and operated effectively

67. As part of our audit process, we are continually assessing the governance arrangements within Moray Council. Our previous year's conclusion is still relevant: that appropriate governance arrangements are in place.

68. In our 2019/20 Annual Audit Report we reported on the impact of Covid-19 restrictions on the council's governance arrangements. The normal committee structure was suspended from March to June 2020 and an Emergency Cabinet of 7 councillors was set up in its place. The Chief Executive was also granted temporary delegated authority for lower risk decisions that would normally require committee approval.

69. The committee structure resumed in June 2020, and meetings have been held remotely since then. These meetings are webcast live and are available to view on the council's website for 12 months. Agenda papers continue to be published on the council's website which also contains a wide range of information including how to contact the council or make a complaint.

Governance arrangements have been reviewed and updated to align with the roles of the Depute Chief Executives

70. A review of the council's committee structure was completed in June 2021 and put in place from October 2021. The revised model is similar to the original committee structure, with slight changes to committee remits to align with the roles of the Depute Chief Executives.

Political control of the council continues to be finely balanced

71. In our 2019/20 Annual Audit report we highlighted that in September 2020, a councillor left the SNP minority administration reducing their number to eight, one less than the Conservative Group. Another member of the administration resigned in November 2021, further reducing the strength of the minority administration. One issue December 2021, a coalition of opposition members proposed they take over the administration of the council in the run up to the Local Government elections in May 2022. The council agreed to maintain the status quo at a special meeting of the council in December 2021.

The council's Cyber Essentials Plus accreditation has lapsed

72. The council's Public Service Network (PSN) and Cyber Essentials Plus accreditations both lapsed in the last year. We have been advised that ICT staff are planning to use learning from other public sector cyber incidents to assess the council's readiness to respond to future cyber-attacks.

Recommendation 3

The council should reapply for PSN and Cyber Essentials Plus accreditations.

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

73. 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. Last year we recommended that the Money Laundering Policy be updated. In response, the council planned to review and update by 30 June 2021, but this has been delayed due to Covid-19. We concluded that other policies and procedures for the prevention and detection of fraud and error were appropriate, readily available to staff and regularly reviewed.

Section 106 charities' governance arrangements could be improved

74. As part of our audit of The Moray Council – Connected Charity Trust Funds' accounts we noted that the council's procedures had not been followed for the award of two grants. Although this did not impact on our audit of the connected charities, we would recommend that the council ensure that approval is sought from the appropriate committee before payments are made in future years.

5. Best Value

Using resources effectively and continually improving services.

Main judgements

The Best Value Assurance Report (BVAR) noted a lack of sustained improvement in Moray Council over many years.

The council regularly reports on progress against the recommendations included in the BVAR

A follow-up report on the BVAR will be considered by the Accounts Commission in February 2022

The Best Value Assurance Report noted a lack of sustained improvement in Moray Council over many years

75. 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.

76. The [BVAR report](#) for the council was published in August 2020 and noted “serious concerns about the lack of sustained improvement in Moray Council over many years”. The report made eight recommendations for improvement:

- the council needs to make some difficult strategic decisions on areas such as asset management, leisure services, flexible working, income generation and service transformation in education and social work
- the council needs to complete its performance management suite of documents. This should include key indicators to support priorities and address the level of reporting at an overall council level versus service level. Improvements to reporting should include a review of targets and better summary of key areas of good and poor performance and any specific actions to be taken
- the medium- and longer-term financial position needs to be addressed and the continued reduction in the council’s reserves position halted before the position becomes acute
- the elected member development strategy should be implemented through programmed activity and personal development plans

- to help streamline processes, the council needs to continue to progress its governance review, including reviews of committee structures, schemes of delegation and reporting to committees
- considerable development work and additional measures are required to improve educational attainment, alongside making significant changes to the school estate
- the council should investigate and better understand the reasons for poorer satisfaction levels in housing
- the council needs to continue to work with Community Planning Partnership (CPP) partners to determine clear outcome milestones and performance reporting.

The council regularly reports on progress against the recommendations included in the BVAR

77. At its meeting on 7 October 2020 the council noted the recommendations within the BVAR and 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 is regularly reported to members at council meetings.

A follow-up report on the BVAR will be considered by the Accounts Commission in February 2022

78. The Commission requested a report on the progress made by the council no later than February 2022 and this year's best value audit work has been focussed on following up the progress made by the council. The results of this work will be reported in a follow-up report by the Controller of Audit in February 2022.

The council complies with the Accounts Commission's statutory performance indicators (SPIs) Direction

79. The Accounts Commission has a statutory responsibility to define the performance information that councils must publish. In turn, councils have their own responsibility, under their Best Value duty, to report performance to the public. The commission does not prescribe how councils should report this information but expects them to provide the public with fair, balanced, and engaging performance information.

80. 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.

81. Performance reporting in quarters 1 and 2 of 2020/21 continued to be adversely impacted due to the performance team being diverted to support the council's response to Covid-19. The timeliness of performance reporting has improved for quarters 3 and 4.

82. Last year we noted that the 2019/20 annual public performance report against the Corporate Plan (due for publication in July 2020) had been delayed until January 2021. The council published the 2019/20 public performance report in February 2021. The public performance report for 2020/21 is due to be published in February 2022.

83. We have reviewed the council's arrangements for fulfilling the above requirements and concluded that the council complies with the Direction.

National performance audit reports

84. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2020/21, Audit Scotland published a number of reports which may be of interest to the council. These are outlined in [Appendix 3](#).

85. 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 2020/21

2020/21 recommendations

Issue/risk	Recommendation	Agreed management action/timing
1. Non-current asset valuations The council operates a five-year rolling programme of revaluations where land and buildings and most other assets are valued in a single exercise at five-yearly intervals. No indexation is applied in the intervening years leading to significant movements in value every five years. Risk: significant asset classes are not reflected accurately in the accounts each year.	The council should complete a management review of its fixed asset register at each year end and reconsider its approach to five-year programme of revaluation. Exhibit 2, no. 4	All assets are reviewed annually to ensure there has been no material change in circumstances which would impact on the value of the asset. It is proposed to develop this process to allow accountancy adjustments to be processed to reflect likely movements in asset value between valuations. Responsible officer: Estates Manager Agreed date: 31 March 2022
2. Moray Leisure Limited The council has consolidated Moray Leisure Limited in the group statement within the 2020/21 annual accounts as an associate. In our opinion, MLL should be accounted for as a subsidiary. Risk: the group accounts do not accurately reflect the extent of the group's activities.	The council should review its treatment of Moray Leisure limited in 2021/22. Exhibit 2, no. 6	The relationship between the Council and Moray Leisure Ltd has evolved over the years and a new Service Level Agreement has been drafted. Agreed the accounting treatment should be reviewed in the light of the new SLA. Responsible officer: Principal Accountant Agreed date: 30 April 2022
3. Cyber security Organisations are increasingly threatened by cyber-attacks as evidenced	The council should reapply for PSN and Cyber Essentials Plus accreditations as soon as practical. Paragraph 72	A planned programme of work is underway to redress the lapse of the Council's PSN and Cyber Essentials accreditations.

Issue/risk	Recommendation	Agreed management action/timing
by recent incidents affecting public bodies. The council's Public Service Network (PSN) and Cyber Essentials Plus accreditations both lapsed in the last year. Risk: key systems are not resilient enough to deal with cyber-attacks.		Responsible officer: ICT Infrastructure Manager Agreed date: 30 April 2022

Follow-up of prior year recommendations

Issue/risk	Recommendation	Agreed management action/timing
b/f 1. Accounting for non-current assets	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.	Complete A reconciliation between the valuer's report and the FAR was provided as part of the working papers package provided to audit. We identified one difference between the valuer's report and the fixed asset register. The amount was below our reporting threshold and has been amended in the audited accounts.
b/f 2. Accounting for non-charitable trusts	The Council should review how it accounts for non-charitable trusts to ensure full compliance with the Code.	Complete The council reviewed how it accounts for non-charitable trusts during 2020/21 and reclassified £3.4 million of non-usable reserves from the revaluation reserve to the capital adjustment account. We reviewed this adjustment as part of our audit and confirmed that we were content with this accounting treatment.

Issue/risk	Recommendation	Agreed management action/timing
b/f 3. Management commentary	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).	Outstanding Improvements have been made this year, but amendments were required to improve the clarity of the reporting of financial performance against budget and how it reconciles to the financial statements. Revised action The Council's Management Commentary has been prepared following the Audit Scotland Good Practice Note: Management Commentaries (February 2020). Amendments required this year will be taken into account when drafting next year's management commentary. Responsible officer: Chief Financial Officer Agreed date: May 2022
b/f 4. Internal controls	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.	Outstanding Plans to introduce a robust payroll validation process across all services have been delayed by Covid-19. There was a difference of £6,000 on the housing reconciliation which was written-off as part of the year-end procedures. As noted in our management report, we substantively tested a sample of paid employees and housing rent transactions in response to these control weaknesses. No issues were identified from this testing.

Issue/risk	Recommendation	Agreed management action/timing
		Revised action A small working group is progressing the systems and background work required in order to reintroduce a comprehensive payroll validation process across all services. This work will continue to be progressed in accordance with the agreed plan of work. Responsible officer: HR Manager Agreed date: 31 March 2022 The Housing reconciliation will continue to be carried out annually as based on previous experience more frequent reconciliations identified differences were due to timing differences.
b/f 5. Financial sustainability	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.	Outstanding The council has made some progress against its transformation plan, but this has been slower than expected due to Covid-19 and lack of staff capacity. Revised action The Head of Transformation and the core members of the transformation team are now in post and, covid restrictions and demands permitting, increasing progress can therefore be made with the IMP. Whilst a focus on transformation to deliver sustainable services will continue, attention must also turn in 22/23 to other options, including stopping and restricting lower priority services in order to achieve

Issue/risk	Recommendation	Agreed management action/timing
		necessary savings in the short to medium term. Responsible officer: Head of Transformation Agreed date: Autumn 2022
b/f 6. Business continuity planning	The Council should review its business continuity planning arrangements to ensure that they are up to date and fit for purpose. Lessons learned from the pandemic should also be incorporated.	Outstanding This work has yet to be concluded due to resourcing issues resulting from Covid-19. We have been advised that a new member of staff was appointed in Autumn 2021 to progress some of this work. Revised action An Internal Audit review has been undertaken that detailed several recommendations concerning the council's current business continuity arrangements. A delay has occurred in the appointment of an officer to take up responsibility for providing business continuity support to Services. However, it is anticipated this should be resolved by the start of 2021/22. Responsible officer: Audit and Risk Manager Agreed date: 31 March 2022
b/f 7. Money Laundering Policy	The Council should ensure that the money laundering guidance is updated.	Outstanding The council's plan to review and update the Money Laundering Policy was delayed due to Covid-19. Revised action The review has commenced and will be completed following preparation of the council's budget and will be

Issue/risk	Recommendation	Agreed management action/timing
		reported to members thereafter. Responsible officer: Chief Financial Officer Agreed date: 30 June 2022
b/f 8. Public performance reporting	The Council should publish its 2019/20 Public Performance Report by the end of January 2021.	Complete The 2019/20 Public Performance Report was published in February 2021.
b/f 9. Compliance with the charity test	The Council should complete the transfer of the 23 trusts during 2020/21.	Complete The council transferred 23 of its 31 section 106 trusts into the single trust during 2020/21. One of the remaining trusts is in deficit and another has assets of less than £100. We understand that the council plans to contact the Scottish Charity Regulator (OSCR) about winding up these trusts during 2021/22.
b/f 10. Capitalisation of borrowing costs	The council should review its procedures for the capitalisation of borrowing costs to ensure that they meet the requirements of the Code.	Partially completed The council reviewed its procedures during 2019/20. The unaudited accounts include £2.2 million of borrowing costs which have been included within non-current assets. The Code permits borrowing costs to be capitalised but requires the council to borrow funds and use them for the purpose of obtaining a qualifying asset. This year's calculation includes interest on borrowing in 2018/19, 2019/20 and 2020/21. We noted last year that the amount of borrowing used in the 2019/20 calculation (£33.7 million) exceeded the

Issue/risk	Recommendation	Agreed management action/timing
		amount used to fund general fund capital expenditure (£28.9 million). As a result, capitalised interest is overstated by £0.2 million this year. Revised action The calculation will be reviewed a part of the accounts' preparation. Responsible officer: Principal Accountant Agreed date: beginning May 2022.

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 to our wider responsibility under the [Code of Audit Practice 2016](#).

Audit risk	Assurance procedure	Results and conclusions
1. Risk of material misstatement due to fraud caused by management override of controls International Auditing Standards require that audits are planned to consider the risk of material misstatement in the financial statements caused by fraud, which is presumed to be a significant risk in any audit. This includes the risk of fraud due to the management override of controls.	Detailed testing of journal entries. Review of accounting estimates. Focused testing of accruals and prepayments. Identification and evaluation of significant transactions that are outside the normal course of business.	Results: we did not identify any significant issues within our work on journals. Our testing of accruals and prepayments identified one misstatement (Exhibit 3, no. 2) resulting from a misinterpretation of guidance on accounting for Covid-19 funding and this has been amended in the audited accounts. There were no significant transactions outside the normal course of business. Conclusion: no issues were identified that indicate management override of controls.
2. Risk of error in areas of estimation and judgement There is a significant degree of subjectivity in the measurement and valuation of non-current assets and pensions. The extent of judgement involved increases the risk of material misstatement and requires a specific audit focus.	Assess the scope, independence and competence of the professionals engaged in providing estimates for non-current assets and pensions. Review appropriateness of actuarial assumptions and results including comparison with other councils. Walkthrough the process of valuation to understand the	Results: estimates and judgements for the pension figures within the annual accounts were consistent with the actuarial report. We engaged PwC to review actuarial assumptions and found no significant issues. We assessed the scope, independence and

Audit risk	Assurance procedure	Results and conclusions
A material uncertainty was disclosed in the 2019/20 accounts over non-current asset valuations as a result of the Covid-19 pandemic. The council has a rolling programme of valuations with specific categories revalued each year. For 2020/21 council houses, garages and the council's industrial portfolio are being revalued. Given categories of assets have not been subject to valuation since the impact of Covid-19, there is a risk of material uncertainty over non-current asset valuations in the 2020/21 accounts	basis for significant judgements. Establish officers' arrangements for ensuring the completeness and accuracy of professional estimations for non-current assets and pensions. Establish officers' arrangements for obtaining assurances over the impact of Covid-19 on the accuracy of non-current assets not subject to valuation in year. Review actual experience of significant estimates made in the prior year.	competence of the actuary and found no issues. We assessed the scope, independence and competence of the valuer and found no issues. Walkthrough testing of valuation procedures was satisfactory. We agreed values and lives to valuation reports. The Valuer advised there was no material uncertainty over non-current asset valuations in 2020/21. We considered the actual experience of recent valuation gains compared to intervening years. Conclusion: there were no issues with the recent valuations and accounts, but we have recommended that the council reconsider its approach to five yearly valuations.

Risks identified from the auditor's wider responsibility under the Code of Audit Practice

Audit risk	Assurance procedure	Results and conclusions
3. Risks relating to Covid-19 Covid-19 has had a significant impact on the council in the 2020/21 financial year: • Financial management - additional funding and expenditure. CoSLA analysis indicates that councils' income has increased by 9 per cent	Establish the additional funding streams the council has received in year, what it has been spent on and the impact on outturn and reserves and how this is reported in the financial statements. Review any Scottish Government and CIPFA/LASAAC guidance on accounting.	Results: the council made two adjustments in the accounts to comply with late LASAAC guidance on accounting for Covid-19 related income and PPE and testing kits. The council included additional disclosures for Covid-19 related business grants in the accounts in line with the relevant guidance.

Audit risk	Assurance procedure	Results and conclusions
and that councils are managing an increase of 7 per cent of grant payments made to businesses. • Financial management - the Scottish Government has allowed for flexibility to be applied to certain areas of council funding and accounting practices. • Financial reporting - the council requires to make judgement on the correct accounting treatment in relation to additional funding arrangements – whether the council is acting as agent or principal. • Fraud and controls - there is an increased risk of fraud for some Covid-19 related grants. Due to the nature of the schemes, there may not have been adequate consideration of internal control frameworks and the impact of remote working. • Performance – Covid-19 grants have been disbursed at different rates across councils and there are different experiences of rejection rates.	Discussions with management during the year to consider the accounting treatment of significant business grants and use of financial flexibilities. Review disclosures and balances in annual accounts and ensure that this is consistent with any guidance issued. For the most significant grants (by value), establish the conditions attached and the associated controls implemented over these. Confirm existence and operation of these controls by completing a walkthrough. Review potential NFI data matches. Establish the impact on collection rates (council tax, non-domestic rates, sundry debtors) and assess the impact on the bad debt provision. Review any Internal Audit work on Covid-19 grants. Assess any national reporting of business grant performance and discuss any issues with officers.	The council implemented satisfactory controls around the application and awarding of business grants. The council is making good progress in investigating NFI matches. Internal Audit staff were involved in processing claims and dealing with appeals and so we did not rely on any of their audit work on Covid-19 payments. Capital spend was affected by Covid-19. Conclusion: the council made adjustments to the financial statements to comply with appropriate guidance.
4. Risk to financial sustainability The council does not plan to use any reserves to support its 2021/22 budget but will need to deliver savings of £1.3 million and use one-off financial flexibilities (£1.2 million) permitted by the Scottish Government to cover costs associated with the	Review the 2021/22 revenue budget setting process and required savings. Review the council's medium to long term financial strategy. Review financial monitoring reports during the year, including the use of reserves	Results: the council's usable reserves increased by £21 million during 2020/21 which improved the financial outlook. The majority of this relates to Covid-19 funding which will be used to support funding gaps in 2021/22 and 2022/23. Significant savings will be required in 2023/24

Audit risk	Assurance procedure	Results and conclusions
Covid-19 pandemic to balance its budget. Further substantial savings will be required for 2022/23 (£4.2 million) and 2023/24 (£4.2 million). In addition, it is likely that there will be further cost pressures to the council on top of the immediate response to the Covid-19 crisis. There is a risk that the council is unable to agree and implement a sustainable financial model for service delivery	and delivery of planned savings	and 2024/25 to balance the budget. Transformation and service redesign remains key to the delivery of these savings. Progress against the council's transformation plan has been slower than expected due to Covid-19 and lack of staff capacity. The council updated its medium to longer term financial strategy in March and November 2021. It plans to develop new transformation projects which will deliver the savings required to ensure services are financially sustainable in the medium to longer-term Conclusion: the council has yet to agree and implement a sustainable financial model for service delivery.

Appendix 3

Summary of national performance reports 2020/21

April

[Affordable housing](#)

June

[Highlands and Islands Enterprise: Management of Cairngorm mountain and funicular railway](#)

[Local government in Scotland Overview 2020](#)

July

[The National Fraud Initiative in Scotland 2018/19](#)

January

[Digital progress in local government](#)

[Local government in Scotland: Financial overview 2019/20](#)

February

[NHS in Scotland 2020](#)

March

[Improving outcomes for young people through school education](#)

Moray Council

Draft 2020/21 Annual Audit Report

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