



REPORT TO: SPECIAL MORAY COUNCIL ON 25 OCTOBER 2023

SUBJECT: EXTERNAL AUDIT – ANNUAL REPORT TO MEMBERS ON 2022/23 AUDIT

BY: DEPUTE CHIEF EXECUTIVE (ECONOMY, ENVIRONMENT AND FINANCE)

1. REASON FOR REPORT

- 1.1 To provide the Council with a copy of the External Auditor's Annual Audit Report to Council on the 2022/23 accounts.
- 1.2 This report is submitted to the Council for consideration as part of a suite of reports on the Annual Audit and Accounts for 2022/23.

2. RECOMMENDATION

- 2.1 It is recommended that the Council consider and note the contents of the Annual Audit Report 2022/23.**

3. BACKGROUND

- 3.1 The Council's External Auditor, Grant Thornton, provides an Annual Report to those in charge of governance who are the Council and the Controller of Audit. This report is a significant document and covers:

- The audit of the 2022/23 annual accounts
- Financial management
- Financial sustainability
- Vision, Leadership and Governance
- Use of Resources
- Other Wider Scope areas (Climate Change and Cyber Security)
- Best Value
- Action Plan recommendations from the External Auditor and management's response

- 3.2 A copy of the External Auditor's Annual Audit is attached as **APPENDIX 1**. A representative of the Council's External Auditor will present the report at the meeting.

- 3.3 The report coincides with the completion of the Annual Audit of the Council's Annual Accounts, also an item on this agenda. The Council has received an

unqualified Audit Opinion for 2022/23 on the Council's annual accounts and on the Connected Charities accounts, also an item on this agenda.

4. ANNUAL AUDIT REPORT

4.1 Audit of the Accounts

The report identifies 4 new areas of work which added to the complexity of the audit. The draft accounts included a Prior Period Adjustment (PPA) as the basis of valuation of assets approved in previous audits by Audit Scotland was not considered appropriate by Grant Thornton as it did not fully adjust all assets which had not been revalued in 2021/22 for indexation. This entailed significant additional work for the Accountancy section and for the Auditor. The Council implemented a new Fixed Asset Register (FAR) during 2022/23 and implementation of the FAR required additional verification by the auditor. Grant Thornton carry out a detailed technical review as part of their audit process. As a result of this review a number of presentational amendments were required to the layout agreed with Audit Scotland in 2021/22. The final area of work was in recognising a pension asset instead of a liability as had previously been the case. This required an additional assessment by the Pension Fund actuaries and is recognised in the Audit Report as having been a significant issue for all bodies with pension assets in 2022/23 and their auditors, with Grant Thornton's technical team developing audit guidance during the course of the audit. The main amendments to the final accounts from the draft accounts are explained in the covering report to the audited Annual Accounts, which is another item on the agenda for this meeting.

- 4.2 Audit planning identified that the Council has no formal authorisation of journals within the General Ledger. Additional audit work was carried out but no issues identified. The report includes three recommendations from the audit, including a review of authorisation of General Ledger journals. Other recommendations related to fixed assets: reconciliation of the disclosure notes to the FAR and review of fully depreciated assets. Only 2 recommendations from previous audit report recommendations remain open, with the completion date for the second (relating to business continuity) still to come.

Financial Management

- 4.3 The report concludes that the Auditor is satisfied that the Council has appropriate financial management arrangements in place. The Auditor notes significant variances against forecast for both capital and revenue at the year end. No Action Plan recommendation is made.

Financial Sustainability

- 4.4 The report notes the considerable challenge facing the Council to achieve a balanced budget in 2024/25. The following recommendations are made: that the Council monitors its level of general reserves; that the Council upscales the pace and delivery of transformation; that the Council reviews the affordability of its capital plan. The Council already monitors the level of general reserves as part of budget monitoring and financial planning, work continues on transformation as set out more fully in the Medium to Long Term Financial Strategy (as per 25 October Special Full Council agenda) and a review of the capital plan for affordability was planned for the late summer and autumn and has commenced.

Vision, Leadership and Governance

- 4.5 The report concludes that the Council will need to ensure that members work effectively together to act on key decisions in an effective and efficient manner, in a challenging financial environment. The following recommendations are made: that the Council provides further clarification and guidance as to the role of the Audit and Scrutiny Committee; that the Council implements an annual self-evaluation to identify areas of strength and weakness. Work is in progress to identify any knowledge gaps regarding Audit and Scrutiny and a training session has been arranged for December 2023. Work on Collaborative Leadership is planned and will be incorporated into the Best Value Action Plan and the regular self-evaluation reported pre-covid is under consideration to be reinstated.

Use of Resources

- 4.6 The report notes that the Council faces the challenge of an increasing older population with a decline in working age population and staff recruitment challenges. It notes good practice in relation to community stakeholder engagement regarding the Corporate Plan. The following recommendations are made: that the Council use Participatory Budgeting (PB) exercises to reallocate financial resource to priority areas. The Council has an agreed communication and engagement strategy for its financial planning process. This does not involve PB but PB activity is ongoing and nationally what is viewed as PB activity appears to be broadening

Climate Change and Cyber Security

- 4.8 The report notes that no specific risks were identified for these areas.

Best Value

- 4.9 The report considers follow up to the Best Value Assurance Report. Best Value is reported in the Thematic Review and the Best Value Thematic report is the subject of another report to this meeting of Council. Best value progress as informed by the annual audit will be reported to Corporate Committee on 7 November.
- 4.10 Four recommendations relating to the Council's accounts preparation and financial controls are made in the Action Plan. These relate to authorisation of general ledger journals, reconciliation of the accounts to the Council's Fixed Asset Register, assets with nil book value and disclosure of Group reserves. All areas will be reviewed in preparation for the 2023/24 accounts.

5. SUMMARY OF IMPLICATIONS

(a) **Corporate Plan and 10 Year Plan (Local Outcomes Improvement Plan (LOIP))**

This is referred to in **Appendix 1** to the report.

(b) **Policy and Legal**

The audit is conducted in terms of statutory powers afforded to Grant Thornton, the appointed External Auditor for the Council.

(c) **Financial Implications**

There are no issues arising directly from this report. The report notes that the current level of service provision is not financially sustainable.

(d) Risk Implications

The work undertaken by External Audit provides assurance to Members on the Council's performance management, financial statements and the actions taken by the Council to address significant matters arising out of the audit process.

(e) Staffing Implications

Preparation of the Council's annual financial statements requires significant resource input as part of the scheduled work of the accountancy team within Financial Services and from other services across the Council.

(f) Property

There are no property issues arising directly from this report.

(g) Equalities/Socio Economic Impact

There are no equalities issues arising directly from this report.

(h) Climate Change and Biodiversity Impacts

There are no climate change and biodiversity issues arising directly from this report.

(h) Consultations

The content of the **APPENDIX 1** to this report has been discussed with CMT and relevant officers of the Council.

6. CONCLUSION

6.1 The annual audit by External Audit gives members assurance that the Council's Financial Statements give a true and fair view of its financial position at 31 March 2023 and that appropriate internal control systems are in place. The Report to those in charge of governance details the External Auditor's findings and conclusions arising from the audit and the planned management actions to address matters which have been highlighted.

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Background Papers: Attached

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