

Moray Council

Annual Audit Plan 2016/17



 **AUDIT SCOTLAND**

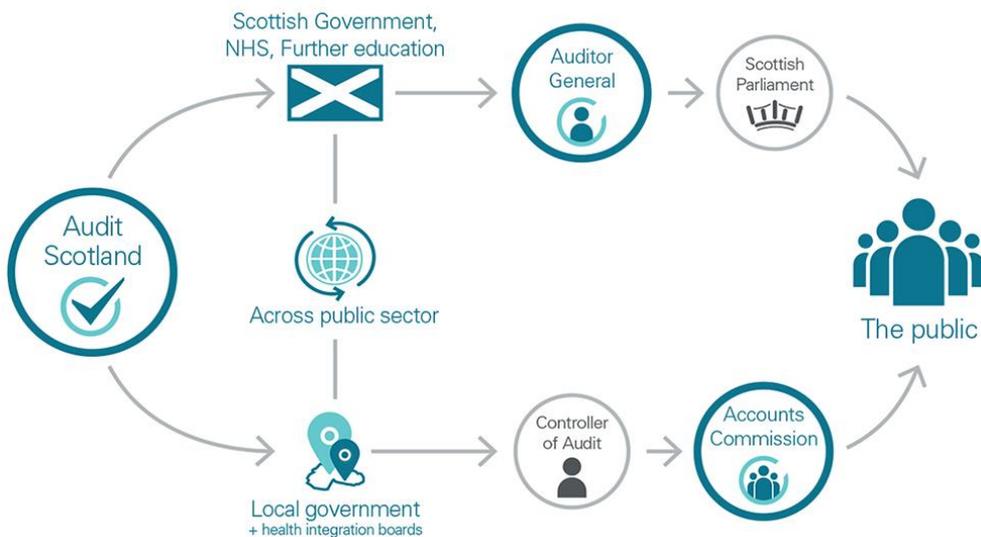
Prepared for Moray Council

March 2017

Who we are

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

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



About us

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

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

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

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Risks and planned work

1. This annual audit plan contains an overview of the planned scope and timing of our audit and is carried out in accordance with International Standards on Auditing (ISAs), the Code of Audit Practice, and any other relevant guidance. This plan identifies our audit work to provide an opinion on the financial statements and related matters and meet the wider scope requirements of public sector audit (including the new approach to Best Value). The wider scope of public audit contributes to conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

Audit risks

2. Based on our discussions with staff, attendance at committee meetings and a review of supporting information we have identified the following main risk areas for Moray Council. We have categorised these risks into financial risks and wider dimension risks. The key audit risks, which require specific audit testing, are detailed in [Exhibit 1](#).

Exhibit 1

Audit Risk	Management assurance	Planned audit work
Financial statement issues and risks		
<p>1 Risk of management override of controls</p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable.</p>	<p>Detailed testing of journal entries.</p> <p>Review of accounting estimates.</p> <p>Focused testing of accruals and prepayments.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p>
<p>2 Risk of fraud over income</p> <p>Moray Council receives a significant amount of income from sources other than Scottish Government funding. The extent and complexity of income means that, in accordance with ISA 240, there is an inherent risk of fraud that requires an audit response.</p>	<p>Annual internal audit plans include an assessment of the controls over selected income categories.</p>	<p>Analytical procedures on income streams.</p> <p>Detailed testing of revenue transactions focusing on the areas of greatest risk.</p> <p>Walk through of controls over income transactions and significant grant income.</p> <p>Review of National Fraud Initiative arrangements and results.</p>

Audit Risk	Management assurance	Planned audit work
<p>3 Risk of fraud over expenditure</p> <p>The Code of Audit Practice expands the ISA assumption on fraud over income to aspects of expenditure. The council incurs significant expenditure in areas such as welfare benefits, social care payments and grants.</p>	<p>Annual internal audit plans include an assessment of the controls over selected expenditure categories.</p>	<p>Audit work on the National Fraud Initiative matches.</p> <p>Walk through of controls over social care payments.</p> <p>Detailed testing of expenditure including grants and housing benefit transactions.</p>
<p>4 Estimation and judgements</p> <p>There is a degree of subjectivity in the measurement and valuation of the material account areas of pensions, non current assets, accruals and provisions. This subjectivity represents an increased risk of misstatement in the financial statements.</p>	<p>Use of professional actuaries appointed by the Pension Fund to value pension adjustments required by IAS19.</p> <p>Professionally qualified internal valuers prepare non-current asset valuations</p> <p>Accruals and provisions are reviewed by service accountants before inclusion in the unaudited financial statements.</p>	<p>Completion of 'review of the work of an expert' in accordance with ISA 500 for the professional valuer and actuary.</p> <p>Focused substantive testing of accruals and provisions.</p>
<p>5 Highways network assets (HNA)</p> <p>HNA will be recognised for the first time in the 2017/18 financial statements of councils. While this is not a risk to the 2016/17 financial statements, this is a new and complex area and there is a risk that the council does not have sound arrangements in place to support adoption in 2017/18.</p>	<p>Roads staff are engaged with the national Network and SCOTS, including attending training sessions. Work is ongoing to improve both the quantity and quality of data held and we are 'on track' to implement HNA reporting from 2017/18. Finance staff have attended briefings and will attend CIPFA technical course(s) during 2017/18 on accounting for HNA.</p>	<p>Assess the arrangements in place to obtain the required knowledge and expertise to implement the new requirements.</p> <p>Review and assess the measurement, existence and completeness of HNA records to ensure compliance with the Code of practice on highway network assets.</p>
<p>6 Group accounting</p> <p>For 2016/17, the council will be required to consolidate the Moray Integration Joint Board into its group for the first time. The complexity of this consolidation leads to a risk over the accuracy and completeness of the group accounts.</p>	<p>Current guidance suggests that this consolidation will not be a problem. The lead officer for the Moray IJB accounts is situated within the accountancy team and so close working will assist this process.</p>	<p>Consider whether the process for consolidation is in line with the integration scheme.</p> <p>Agree the consolidation adjustment is accurate and correctly disclosed.</p> <p>Confirm balances have been agreed by the partner bodies.</p> <p>Review the group boundary</p>
<p>7 Revised financial statements formats</p> <p>From 2016/17 the Code requires authorities to present their service segments on the face of the Comprehensive Income and Expenditure Statement (CIES) based on the way in which they operate and manage services. There is a risk that comparative 2015/16 data may not be presented correctly.</p>	<p>Finance staff plan to restate the 2015/16 comparatives in March/April 2017 taking into account the revised reporting format and referring to reporting guidance issued by CIPFA to assist with the process.</p>	<p>Review work done on mapping the audited 2015/16 CIES to the new service structure to ensure completeness/accuracy/categorisation of comparative information.</p>

Audit Risk	Management assurance	Planned audit work
<p>8 Loans Fund Accounting</p> <p>The Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016 came into force on 1 April 2016. The Regulations set out the powers of local authorities to borrow and maintain a loans fund and result in a change in accounting treatment from 2016/17. There is a risk that the council does not have arrangements in place to comply with the new accounting practices.</p>	<p>Finance staff are aware of and have studied the revised regulations, have read the revised accounting guidance issued by CIPFA and have attended an accounts closedown course which highlighted the revised requirements.</p>	<p>Review the arrangements in place to comply with the new loans fund accounting requirements.</p> <p>Detailed audit testing on loans fund transactions within the financial statements.</p>
<p>9 Changes in key finance staff</p> <p>The Head of Financial Services plans to retire at the end of June 2017, and other key finance staff have indicated they may also retire during 2018/19. There is a risk that the council does not have appropriate succession planning arrangements in place to ensure a smooth transition during the accounts preparation and audit processes.</p>	<p>The current Head of Financial Services will remain in post until the unaudited accounts are submitted to the external auditor (30 June).</p> <p>The current Head of Financial Services gave 6 months notice of her date of retirement. It is expected that a successor will be appointed by the end of March 2017 in order to allow a managed handover of responsibilities.</p>	<p>Clarify the arrangements for signing the unaudited and audited accounts and other section 95 officer responsibilities.</p> <p>Ensure section 95 officer responsibilities are adequately documented.</p> <p>Confirm arrangements for regular and final clearance meetings during final accounts audit process.</p>

Wider dimension risks

<p>10 Financial sustainability</p> <p>The Moray Council's overall financial strategy is that it will use reserve funds to maintain services at current levels during 2016/17 and 2017/18. The council has acknowledged that the current level of service provision is not financially sustainable.</p> <p>The council has prepared a ten year capital plan but has recognised that it is unable to implement the plan due to insufficient finance. It has, therefore, adopted a 'Make Do and Mend' approach for 2016/17 and 2017/18 and has recognised that a financially sustainable future needs to include a reduction in the number of assets used to deliver services.</p> <p>Financial challenges are unlikely to reduce and there is a risk that budget gaps will not be addressed.</p>	<p>At the Full Council meeting on 30 March 2016, the council agreed that the current range of council service provision is financially unsustainable and that the council will work towards achieving a sustainable financial plan during the next two years. The council also noted that one of the consequences of this is that it no longer complies with the Prudential Code which is the Code the government requires councils to comply with in place of it issuing cash limits for capital expenditure. In light of the financial position, the council agreed to limit the capital expenditure for 2016/17 to less than required to meet the council's policies and priorities.</p>	<p>Undertake specific audit work on financial planning and governance. This will include assessing the robustness of long term financial planning.</p> <p>Review the council's progress in achieving its planned savings.</p>
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Audit Risk	Management assurance	Planned audit work
<p>11 Financial management</p> <p>Moray Council approved a budget for 2016/17 that included the requirement for £3.284 million of savings and the use of £6.815 million of reserves to achieve financial balance. There is a risk that the council fails to make the required level of savings and that any overspend on IJB related services impacts on the council's ability to achieve a balanced year end position.</p>	<p>The latest budgt monitoring report is forecasting that the council will require to use £2.1 million less of reserves than intially budgeted.</p> <p>The Head of Financial Services is also the Chief Financial Officer for the IJB and has stated at meetings that the IJB will not require any additional funding from the council for 2016/17.</p>	<p>Review financial monitoring reports and the financial position.</p> <p>Undertake specific audit work on financial governance and resource management.</p>
<p>12 Registers of interest</p> <p>From a review of Member's registers of interest it has been identified that several returns are out of date, including a number which have not been updated since 2012. There is a risk that members have roles or interests which are not disclosed resulting in conflicts of interest not being identified.</p>	<p>Members are written to twice yearly to remind them to update and sign their register of interests to reflect recent changes. These registers are available online.</p> <p>The monitoring officer checks each returned register for any obvious errors or omissions. However, in terms of the Code of Conduct the onus lies on each elected member to ensure that their register of interests is up to date. Members are offered training, at least annually on the Code of Conduct.</p> <p>This will be included in the induction scheme for new councillors elected in May 2017.</p>	<p>Detailed review of processes in place for completion of register including review of guidance and assessment of compliance.</p> <p>Consideration of any issues identified through NFI matches and the appropriateness of existing disclosures in registers.</p>

3. The Charities Accounts (Scotland) Regulations 2006 specify the accounting and auditing requirements for Scottish registered charities. The council administers 38 trusts with charitable status with total net assets totalling of £0.851 million. We will perform the audit of the trusts in parallel with the audit of The Moray Council's financial statements. There are no specific risks for the charitable trust funds audit which we require to bring to your attention.

Reporting arrangements

4. Audit reporting is the visible output for the annual audit. All annual audit plans and the outputs as detailed in [Exhibit 2](#), and any other outputs on matters of public interest will be published on our website: www.audit-scotland.gov.uk.

5. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the relevant officers to confirm factual accuracy.

6. We will provide an independent auditor's report to Moray Council, and Accounts Commission summarising the results of the audit of the annual accounts. We will provide Members of Moray Council and Accounts Commission with an annual report on the audit containing observations and recommendations on significant matters which have arisen in the course of the audit.

Exhibit 2

2016/17 Audit outputs

Audit Output	Target date	Committee Date
Interim Management Report	31 May 2017	28 June 2017 (Audit & Scrutiny Committee)
Annual Audit Report including ISA 260 requirements	20 September 2017	27 September 2017 (Council)
Signed Independent Auditor's Report	30 September 2017	N/A

Audit fee

7. The agreed audit fee for the 2016/17 audit of Moray Council is £230,120. In determining the audit fee we have taken account of the risk exposure of Moray Council, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit. Our audit approach assumes receipt of the unaudited financial statements, with a complete working papers package on, 30 June 2017.

8. We have also agreed an audit fee of £5,000 for the charitable trusts.

9. Where our audit cannot proceed as planned through, for example, late receipt of unaudited financial statements or being unable to take planned reliance from the work of internal audit, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises outwith our planned audit activity.

Responsibilities

Elected members and Chief Executive

10. Audited bodies have the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to successfully deliver their objectives.

11. The audit of the financial statements does not relieve management or elected members, as those charged with governance, of their responsibilities.

Appointed auditor

12. Our responsibilities as independent auditor are established by the Local Government (Scotland) Act 1973 and the Code of Audit Practice, and guided by the auditing profession's ethical guidance.

13. Auditors in the public sector give an independent opinion on the financial statements. We also review and report on the arrangements within the audited body to manage its performance, regularity and use of resources. In doing this, we aim to support improvement and accountability.

Audit scope and timing

Financial statements

14. The statutory financial statements audit will be the foundation and source for the majority of the audit work necessary to support our judgements and conclusions. We also consider the wider environment and challenges facing the public sector. Our audit approach includes:

- understanding the business of Moray Council and the associated risks which could impact on the financial statements
- obtaining assurances from the outgoing auditors for the opening balances in the financial statements
- completing initial key system evaluations to enhance our understanding and assessing the operation of key controls
- identifying major transaction streams, balances and areas of estimation and understanding how these will be included in the financial statements
- assessing the risks of material misstatement in the financial statements and the impact of consolidation of the Integration Joint Board into the group accounts
- determining the nature, timing and extent of audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements are free of material misstatement.

15. We will give an opinion on the financial statements as to whether they:

- give a true and fair view of the state of the affairs of the council and its group and of the income and expenditure of the year then ended
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the Code
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, the Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

Materiality

16. Materiality defines the maximum error that we are prepared to accept and still conclude that that our audit objective has been achieved. It helps assist our planning of the audit and allows us to assess the impact of any audit adjustments on the financial statements. We calculate materiality at different levels as described below. The calculated materiality values for Moray Council are set out in [Exhibit 3](#).



Exhibit 3

Council materiality values

Materiality level	Amount
Planning materiality - This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It has been set at 1% of gross expenditure for the year ended 31 March 17 based on the 2016/17 revenue budget.	£2 million
Performance materiality - This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement we have calculated performance materiality at 40% of planning materiality.	£0.800 million
Reporting threshold - We are required to report to those charged with governance on all unadjusted misstatements in excess of the 'reporting threshold' amount. This has been calculated at 2% of planning materiality.	£0.050 million

17. We also set separate materiality levels for the charitable trust as detail below:

Exhibit 4

Connected Trusts materiality values

Materiality level	Amount
Planning materiality - Set at 1% of gross assets as at 31 March 16 based on the latest (2015/16) audited accounts.	£9,000
Performance materiality - Using our professional judgement we have calculated performance materiality at 60% of planning materiality.	£5,400
Reporting threshold - This has been calculated at 5% of planning materiality.	£450

18. We review and report on other information published with the financial statements including the management commentary, annual governance statement and the remuneration report. Any issue identified will be reported to elected members at the Council meeting on 27 September 2017.

Timetable

19. To support the efficient use of resources it is critical that a financial statements timetable is agreed with us for the production of the unaudited accounts. An agreed timetable is included at [Exhibit 5](#) which takes account of submission requirements and planned Committee dates (although these may be changed following the local government elections in May):

Exhibit 5

Financial statements timetable

 Key stage	 Date
Consideration of unaudited financial statements by those charged with governance	29 June 2017
Latest submission date of unaudited financial statements with complete working papers package	30 June 2017
Latest date for final clearance meeting with Head of Financial Services	31 August 2017
Agreement of audited unsigned financial statements; Issue of Annual Audit Report including ISA 260 report to those charged with governance	20 September 2017
Independent auditor's report signed	30 September 2017

Internal audit

20. Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to rely on the work of internal audit wherever possible and as part of our planning process we carry out an assessment of the internal audit function. Internal audit is provided by the in-house internal audit section at The Moray Council.

Adequacy of Internal Audit

21. Our review of the council's internal audit section identified that an internal assessment against the Public Sector Internal Audit Standards (PSIAS) has not been undertaken and so internal audit cannot demonstrate compliance with these Standards (including reporting all areas of non-compliance to the Audit & Scrutiny Committee). Plans are, however, in place for the internal audit function to be externally assessed during 2017/18.

22. Despite the above, our assessment concluded that the internal audit section has the skills, experience and competence to enable us to place formal reliance on their work in the areas set out below. Once completed we will review the work undertaken to confirm that the work meets our requirements and that appropriate documentation standards and reporting procedures are in place.

Areas of reliance

23. To support our audit opinion on the financial statements we plan to place formal reliance on the following planned internal audit reviews:

- Creditors and procurement (substantive testing of significant transactions)
- Housing benefits payments (substantive testing)

24. In respect of our wider dimension audit responsibilities we also plan to consider other areas of internal audit work including:

- Health and Social Care Integration (governance arrangements)
- Business continuity
- ICT - network access.

Audit dimensions

25. Our audit is based on four audit dimensions that frame the wider scope of public sector audit requirements as shown in [Exhibit 6](#). The appointed auditor's annual conclusions on these four dimensions will contribute to an overall assessment and assurance on best value.

Exhibit 6

Audit dimensions



Financial sustainability

26. As auditors we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We will also comment on the body's financial sustainability in the longer term. We define this as medium term (two to five years) and longer term (longer than five years) sustainability. We will carry out work and conclude on:

- the effectiveness of financial planning in identifying and addressing risks to financial sustainability in the short, medium and long term
- the appropriateness and effectiveness of arrangements in place to address any identified funding gaps.

Financial management

27. Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively. We will review, conclude and report on:

- whether the council has arrangements in place to ensure systems of internal control are operating effectively
- whether the council can demonstrate the effectiveness of budgetary control system in communicating accurate and timely financial performance
- how the council has assured itself that its financial capacity and skills are appropriate
- whether the council has established appropriate and effective arrangements for the prevention and detection of fraud and corruption.

Governance and transparency

28. Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision-making and transparent reporting of financial and performance information. We will review, conclude and report on:

- whether the council can demonstrate that the governance arrangements in place are appropriate and operating effectively (including services delivered by, or in partnership with, others)
- whether there is effective scrutiny, challenge and transparency on the decision-making and finance and performance reports
- the quality and timeliness of financial and performance reporting.

Value for money

29. Value for money refers to using resources effectively and continually improving services. We will review, conclude and report on whether:

- the council can provide evidence that it is demonstrating value for money in the use of its resources
- the council can demonstrate that there is a clear link between money spent, output and outcomes delivered
- the council can demonstrate that outcomes are improving
- there is sufficient focus on improvement and the pace of it.

Strategic plan for the five year appointment

30. As part of our responsibility to report on the audit dimensions over the current audit appointment we have identified the following areas of proposed audit work (which will be subject to annual review):

Exhibit 7 Strategic plan

Dimension	2016/17	2017/18	2018/19 to 2020/21
Financial sustainability	Financial planning		Financial planning
Financial management	Financial governance and resource management		Financial governance and resource management
Governance and transparency	Governance - Follow up of Role of Boards	Progress of transformational change and leadership	Digitalisation of services Community engagement
Value for money		Performance/outcomes	

Best Value

31. The Accounts Commission agreed the overall framework for a new approach to auditing Best Value in June 2016. The introduction of the new approach coincides with the new five year audit appointments. As such, auditors will use the framework for their audit work from October 2016.

32. A key feature of the new approach is that it integrates Best Value into the wider scope annual audit, which will influence audit planning and reporting. Best Value will be assessed comprehensively over the five year audit appointment, both through the on-going annual audit work, and also through discrete packages of work to look at specific issues. Conclusions and judgements on Best Value will be reported through:

- the Annual Audit Report
- an Annual Assurance and Risks report that the Controller of Audit will provide to the Commission that will highlight issues from across all 32 council Annual Audit Reports
- a Best Value Assurance Report (BVAR) for each council that will be considered by the Accounts Commission at least once in a five year period.

33. The first six councils on which a BVAR will be published during the first year of the new approach are listed in [Exhibit 8](#) below. Reports will be considered by the Accounts Commission in the period between May 2017 and March 2018.

Exhibit 8

2016/17 Best Value Assurance Reports

Clackmannanshire Council	Orkney Islands Council
East Renfrewshire Council	Renfrewshire Council
Inverclyde Council	West Lothian Council

34. The work planned in Moray Council this year will focus on the council's arrangements for demonstrating Best Value in financial and service planning, financial governance and resource management. The work will be integrated with that described above in these areas. It will involve us gaining an understanding of how effective the council's self evaluation processes are in driving improvement across the council. The results of this work will be reported in the Annual Audit Report.

Independence and objectivity

35. Auditors appointed by Audit Scotland must comply with the Code of Audit Practice. When auditing the financial statements auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has in place robust arrangements to ensure compliance with these standards including an annual "fit and proper" declaration for all members of staff. The arrangements are overseen by the Assistant Auditor General, who serves as Audit Scotland's Ethics Partner.

36. The engagement lead for Moray Council is Brian Howarth, Assistant Director. The engagement lead for the charitable trust is Maggie Bruce, Senior Audit Manager. Auditing and ethical standards require the appointed auditor, Audit Scotland, to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of Moray Council or the charitable trusts.

Quality control

37. International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires that a system of quality control is established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and legal requirements are being complied with and that the independent auditor's report or opinion is appropriate in the circumstances.

38. The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards Audit Scotland conducts peer reviews, internal quality reviews and is currently reviewing the arrangements for external quality reviews.

39. As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We welcome feedback at any time and this may be directed to the engagement lead.

Moray Council

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