
The Moray Council

Annual Report to Members and the
Controller of Audit for the year
ended 31 March 2013

25 September 2013

Contents

<i>Executive summary</i>	<i>1</i>
<i>1. Financial Statements and Audit Opinion</i>	<i>3</i>
<i>2. Use of Resources</i>	<i>7</i>
<i>3. Governance</i>	<i>13</i>
<i>4. Performance</i>	<i>17</i>
<i>Appendices</i>	<i>19</i>
<i>Appendix 1 – Action Plan</i>	<i>20</i>
<i>Appendix 2 - Audit reports issued in 2012/13</i>	<i>21</i>
<i>Appendix 3 – ISA 260 Communications to those charged with governance</i>	<i>22</i>

Code of Audit Practice and Statement of Responsibilities of Auditors and of Audited Bodies

In May 2011 Audit Scotland issued a revised Code of Audit Practice. The Code's purpose is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end and what is to be expected of the audited body in certain areas. Our reports and management letters are prepared in the context of the Code. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the audited body and no responsibility is taken by auditors to any Member or officer in their individual capacity or to any third party.

PwC
141 Bothwell Street
Glasgow
G2 7EQ

The Moray Council
Council Offices,
High Street,
Elgin,
Moray
IV30 1BX

25 September 2013

Dear Sirs

We are pleased to enclose our report to the Members and the Controller of Audit in respect of our audit for the year ended 31 March 2013. The primary purpose of this report is to communicate the significant findings arising from our audit that we believe are relevant to those charged with governance.

The scope and proposed focus of our audit work was summarised in our audit plan, which we presented to the Audit and Performance Review Committee on 13 March 2013. We have subsequently reviewed our audit plan and have made one change which we wish to bring to members attention: given the financial targets the Council has to meet each year, we have recognised the risk of fraud in expenditure recognition as a significant risk.

We have completed the majority of our audit work and expect to issue an unqualified audit opinion on the financial statements. We would like to take this opportunity to thank management and staff for their assistance and help during the audit process.

We look forward to discussing our report with you on 25 September 2013. Attending the meeting from PwC will be Lindsey Paterson.

Yours faithfully

A handwritten signature in blue ink that reads "PricewaterhouseCoopers LLP". The signature is written in a cursive, slightly slanted style.

PricewaterhouseCoopers LLP

Executive summary

Our overall responsibility as external auditor of The Moray Council (“the Council”) is to undertake our audit in accordance with the principles contained in the Audit Scotland Code of Audit Practice (“the Code”), revised and published in May 2011. We have a dual reporting responsibility for the audit: to the Members of the Council and to the Controller of Audit.

Under the Auditing Practices Board’s International Auditing Standard (UK and Ireland) 260 “ISA (UK&I) 260” - “Communication of audit matters with those charged with governance” we are required to report to those charged with governance on the significant findings from our audit before giving our audit opinion on the Council’s accounts.

This Annual Audit Report to Members together with previous reports in the year to the Audit and Performance Review Committee and Full Council, discharges the requirements of ISA 260. It contains the significant matters we wish to report to you arising from all aspects of our audit programme of work in accordance with ISA (UK&I) 260.

Purpose of this Report

Our Annual Audit Report is designed to set out the scope, nature and extent of our audit, and to summarise our opinion and conclusions on issues arising. Specifically this will direct the Council’s attention to matters of significance that have arisen out of the 2012/13 audit process and to confirm what action is planned by management to address the more significant matters identified for improvement.

Scope, nature and extent of our audit

Our overall responsibility as external auditor of the Council is to undertake our audit in accordance with the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011. In this regard, the Code sets out the need for public sector audits to be planned and undertaken from a wider perspective than in the private sector involving not only assurance on the financial statements but also consideration of areas such as regularity, propriety, performance and the use of resources. It also sets out the need to recognise that the overall audit process is a co-ordinated approach involving the “appointed auditor”, the Auditor General for Scotland and other auditors such as Audit Scotland’s Public Reporting Group. Our audit has been planned and conducted to take account of these wider perspectives.

Under the requirements of International Standard on Auditing (UK and Ireland) (‘ISA’) 260: “Communication of audit matters to those charged with governance”, we are required to communicate audit matters arising from the audit of financial statements to those charged with governance of an entity. This Annual Audit Report to Members together with previous reports to the Audit and Performance Review Committee and Full Council throughout the year discharges the requirements of ISA 260.

Our audit work during the year was performed in accordance with the plan that we presented to the Audit and Performance Review Committee on 13 March 2013. An audit of financial statements is not designed to identify all matters that may be relevant to those charged with governance. Accordingly, the audit does not ordinarily identify all such matters. We have issued a number of reports during the audit year, detailing the findings from our work and making recommendations for improvement, where appropriate. A list of these reports is included at Appendix 2 to this report.

Financial Statements - Section 1

We are pleased to report that our opinion on the financial statements for the year ended 31 March 2013 is **unqualified** subject to subsequent events procedures.

We proposed a number of disclosure adjustments during the audit, which have been processed by management in the final version of the financial statements. No financial adjustments were identified.

Use of Resources - Section 2

The Council achieved a surplus on the provision of services of £14.462 million in 2012/13. After required adjustments, the Council increased its General Fund balance by £1.868million million to £22.980 million. In total the Council had useable reserves of £29.061 million at 31 March 2013, compared with £27.252 million at 31 March 2012.

Useable reserves include the general fund, housing revenue account, capital funds, and other statutory funds. These reserves are designed to enable the Council to deal with unforeseen events and help manage the future periods of heightened economic uncertainty.

The Council's performance against budget saw underspends totalling £7.4million. The largest underspend related to refunds to Police and Fire Boards of £1.6m representing central government's share of reserves at 31 March 2013 as a result of the Police and Fire Reform Act. Underspends were offset by overspends of £5.5million driven by additional out of care placements. This gave a surplus of the year of £1.9million

Governance - Section 3

We have assessed the Council's overall governance arrangements. This included a review of key Committee structures and minutes, financial reporting to Committees, and the risk management framework. We consider that appropriately structured arrangements and reporting are in place.

The Code of Audit Practice requires us to review and report on the Council's Statement of Governance and Internal Control. The Council has outlined the processes it employed to identify and evaluate risks. In addition, key elements of the Council's control framework have been highlighted, along with a self evaluation of developments and areas for further improvement. Based on our normal audit procedures, **we do not disagree** with the disclosures contained in the Statement.

Performance - Section 4

The Council reports on a range of mandatory Statutory Performance Indicators (SPIs) which are used by Audit Scotland to compare the performance of all authorities in Scotland. In addition to this, councils are encouraged to identify supplementary key performance measures in addition to the statutory measures to provide more tailored performance information. Based on our work performed and review of the procedures undertaken by the internal audit function, the Council was able to demonstrate the basis for SPIs reported and we concluded that The Moray Council is compliant with all 25 SPIs.

We also provide high level comments on the Council's performance management arrangements.

Acknowledgement

We would like to formally extend our thanks to the Council's managers and staff for the assistance they have given us during the audit process.

1. *Financial Statements and Audit Opinion*

Audit Opinion

We have completed the audit of the Council's accounts in line with current International Auditing Standards and will give an **unqualified** opinion [subject to subsequent events procedures] that the financial statements of the Council for 2012/13 give a true and fair view of the financial position and expenditure and income of the Council and its group for the year. We also certify that the accounts have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements.

Our opinion on those parts of the Remuneration Report which are subject to audit is also **unqualified**. Our audit opinion does not extend to any other part of the Remuneration Report.

Audit Approach

- 1.01 Our audit approach was set out in our Annual Audit Plan as presented to Audit and Performance Review Committee members in March 2013. We have subsequently reviewed our audit plan and have made one change which we wish to bring to members' attention: given the financial targets the Council has to meet each year, we have recognised the risk of fraud in expenditure recognition as a significant risk.

Audit Process

- 1.02 The financial statements and supporting schedules were presented to us for audit within the agreed timetable. The working papers provided were of a high standard. Overall we believe an efficient audit process was achieved and an effective working relationship has been developed between us and your officers.

Basis of Preparation

- 1.03 The financial statements were prepared in accordance with the accounting requirements contained in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom and the Service Reporting Code of Practice 2012/13 supported by International Financial Reporting Standards (IFRS).

Misstatements and significant audit adjustments

- 1.04 We are required to report to you all unadjusted misstatements which we have identified during the course of our audit, other than those of a trivial nature. In the context of the Council we consider that amounts of a value less than £298,000 should be considered trivial. This represents 5% of materiality.
- 1.05 A number of disclosure adjustments to the financial statements have been discussed and amended during the course of our audit. No financial adjustments have been raised through our audit work meaning there are no unadjusted misstatements to report.

Areas of Audit Focus and Significant Accounting Issues Identified

- 1.06 Our response to areas of audit focus per our audit plan and other significant accounting issues identified is detailed below:

Area of Focus	Response
<p><i>Risk of Fraud in Revenue Recognition</i></p> <p>As required by auditing standards, there is a rebuttable presumption that there is a risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>As the majority of revenue within public sector bodies comes from government grants and assistance, this may not necessarily be a significant risk for The Moray Council; however our work has been planned to ensure the auditing standard requirements have been addressed.</p> <p>We performed audit testing on a sample of transactions across service level income and other income and confirmed, with reference to supporting documentation, that it was recorded at the correct value and in the correct period. We have also performed substantive testing over government funding.</p> <p>In addition, we identified and tested higher risk manual journals posted to revenue accounts and identified the rationale for these transactions to verify it was appropriate.</p> <p>Our work did not identify any errors that required adjustment to the financial statements.</p>
<p><i>Risk of Fraud in Expenditure Recognition</i></p> <p>As the Council has financial targets to meet, the risk of fraud in expenditure recognition has also been considered as part of the audit process.</p>	<p>The way in which public money is spent is a key consideration for public sector bodies and can attract scrutiny. Public sector bodies are also under pressure to achieve financial targets and meet budget - any over or underspends can attract negative publicity.</p> <p>We performed substantive testing on a sample of transactions from each material category of expenditure to confirm, with reference to supporting documentation, that it was recorded at the correct value and in the correct period. This also included audit testing over the year-end payables and accruals balances as well as unpredictability testing over Members expenses claimed in the year.</p> <p>We identified and tested higher risk journals posted to expenditure accounts and identified the rationale for these transactions to verify they were appropriate.</p> <p>Our work did not identify any errors that required adjustment to the financial statements.</p>

Area of Focus	Response
<p>Management override of controls</p> <p>In any organisation, management may be in a position to override the financial controls established by management.</p> <p>A control breach of this nature may result in a material misstatement of your financial position. For all of our audits, ISAs require us to consider this as a significant risk (as it could link to a possible fraud) and adapt our audit procedures accordingly.</p>	<p>Manual journals are a key way in which the financial statements of an organisation can be misstated. To test this we utilised computer assisted audit techniques (CAATs) to review the entire population of journals to identify those which would be regarded as unusual or higher risk. All higher risk journals were tested to ensure they were appropriate and supported by a clear business rationale.</p> <p>For unpredictability testing, we tested a sample of Members' expenses claimed in the year. We verified that claims had been authorised appropriately and agreed the claims to supporting documentation.</p> <p>There were no misstatements identified as a result of the work on journals or the review of Members' expenses. However, it was noted that journals raised are not authorised prior to posting. This is discussed further under section 3.11.</p>
Action 1	
<p>Equal Pay Provision and Contingent Liability</p> <p>The Council has recognised the need to fund the ongoing commitments arising from the agreed equal pay compensation framework.</p> <p>In addition to the provision made in the financial statements for equal pay claims, the Council has identified contingent liabilities in relation to other equal pay grievances and the potential costs.</p> <p>An incorrect estimate of the equal pay provision may result in a material misstatement in the accounts.</p>	<p>The Moray Council had 10 equal pay cases outstanding at 31 March 2013 resulting in a provision of £0.17 million. As the initial settlements were made in 2006, new claims under the initial process are now ineligible given the five year timeframe has passed.</p> <p>The Council has already settled a number of payment protection claims. However, there remains a possibility of further claims in the period to 2015 for which a contingent liability is disclosed in the accounts. Due to the uncertainty around the number of claims expected the Council has been unable to attribute a value to these claims.</p> <p>We have considered both the provision and contingent liability against the criteria set out IAS 37 – Provisions, Contingent Liabilities and Contingent Assets and the Code of Audit Practice on Local Authority Accounting and we are satisfied with management's accounting treatment. In particular, we agree with management's view that any liability in relation to the payment protection equal pay claims would be difficult to value with any accuracy and that disclosure as a contingent liability is appropriate at this stage.</p> <p>It was noted from discussions with HR that a number of the claims open at March 2013 were subsequently settled in April 2013 and at the date of this report only 5 open claims remain.</p> <p>These claims have not progressed in a number of years and management is considering trying to close them with the Employment Tribunal.</p> <p>In the mean time management should consider the appropriateness of the remaining provision since if it is believed the cases may close or no final settlement will be reached then recognition should not be made under the principles of IAS 37. This would mean the release of the £0.017million provision.</p>

Area of Focus	Response
Pension Assumptions	<p>The pension assumptions contained within the Mercer Actuarial Report as at 31 March 2013 were compared to the equivalent assumptions provided by PwC Pension's Experts.</p> <p>All assumptions were within the acceptable ranges.</p> <p>The Council, like most other public sector bodies, holds on its balance sheet a significant net liability in respect of employee retirement benefits. We examined the value of the Council's pension liability at the year-end by obtaining fund valuation information. We also verified the asset data against third party information, where possible. No financial adjustments were proposed as a result of our work.</p>

2. Use of Resources

2012/13 Financial Performance

The Council achieved a surplus of £14.462 million on the provision of services in 2012/13, compared to £6.951 million in the 2011/12. It is important to recognise that this surplus largely reflects the impact of accounting adjustments namely the timing differences in Government Grant funding and the Police and Fire Board earmarked refunds. A more informative indication of the Council's performance in the year is reflected in the movement in the General Fund.

The Moray Council increased its General Fund balance by £1.868 million during 2012/13. This reflects receipt of council tax (£38.3 million) and Governmental grants (£161.3 million) against net expenditure of £197.7 million. This outturn position compares favourably with the approved budgetary expenditure of £198.9million as approved by the Council on the 9th February 2012. The key difference between the budgeted and actual position relates to refunds due to Police and Fire Boards of which £1.6million will be deducted from revenue support in 2013/14.

- 2.01 The Council's General Fund and Housing Revenue Account financial performance for 2012/13 is summarised in the table below. The Council achieved a positive General Fund outturn of £1.868 million against a breakeven budget.

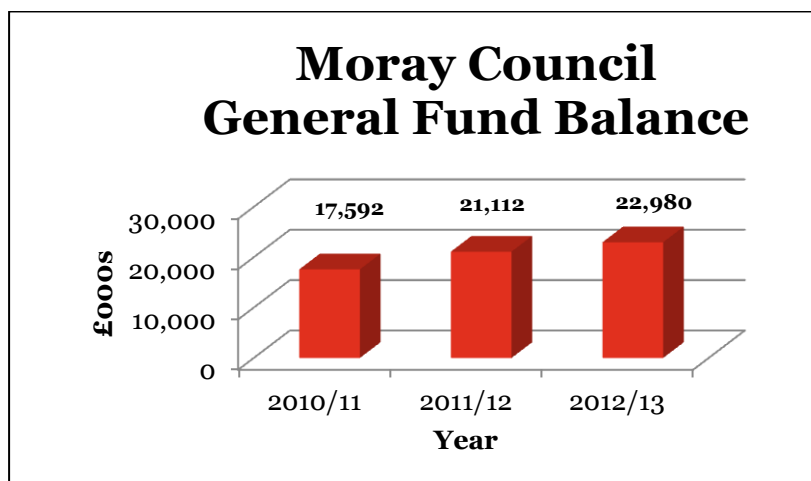
	2012/13 £000		2011/12 £000	
Net Cost of Services	204,674		198,793	
Taxation and Non-Specific Grant Income	(231,170)		(220,680)	
Other operating expenditure	813		6,525	
Other Income and Expenditure (Financing and Investment)	11,221		8,771	
(Surplus)/Deficit on Provision of Services	(14,462)		(6,591)	
	General Fund	HRA	General Fund	HRA
Surplus/(Deficit) on Provision of Services	23,528	(9,066)	7,665	(1,074)
Adjustments between accounting basis and funding basis under regulations.	(21,787)	9,061	(4,074)	1,202
Net Increase/(Decrease) before Transfers to Reserves	1,741	(5)	3,591	128
Transfers to/(from) Reserves	127	(7)	(8)	(256)
Increase/(Decrease) in Year	1,868	(12)	3,583	(128)
Opening Balance	<u>21,112</u>	<u>1,127</u>	<u>17,529</u>	<u>1,255</u>
Closing Balance	<u>22,980</u>	<u>1,115</u>	<u>21,112</u>	<u>1,127</u>

Savings

- 2.02 The Council is required to contribute annual savings towards the Scottish Government's Efficiency Targets. The Council's Corporate Management Team recognises that significant savings, beyond operational efficiencies, will need to be identified to balance the Council's budget over the coming years.
- 2.03 In 2012/13 The Moray Council achieved £6.085 million of efficiency savings. Key areas where savings were achieved centred on the Designing Better Services themes of community care, core programme, procurement, transport/vehicles/plant and property.
- Core Programme – Review of the direct services department saw new arrangements put in place for customer contact.
 - Procurement – The procurement programme is complete and 2012/13 saw the introduction of new policies such as formal corporate procurement procedures, and introductions of national and local contracts. Efficiencies were also seen by the full year effect of the 2011/12 efficiencies.
 - Transport/Vehicles/Plant – This programme is also complete and has resulted in a general reduction of the fleet and the introduction of pool cars for business use.
 - Property – Moray has a policy for the disposal of any unused buildings and these continued to generate capital receipts. A number of properties in Elgin have also been vacated due in part by the new Moray Council building opened in 2011/12.
- 2.04 Other areas of efficiency have centred on energy. There was a 9% reduction in energy consumption from 2011/12, consolidated water invoicing has been introduced and there was a reduction in waste sent to landfill as well as an increase in recycling. Operational changes have occurred through a review of the staff structure in the legal department, and the integration of education and children's services.

Reserves

- 2.05 The Council has a general fund balance of £22.98 million as at 31 March 2013, an increase of £1.868 million from the prior year. As can be seen from the graph below, general fund balances have been rising year on year, albeit the rate of growth has slowed.

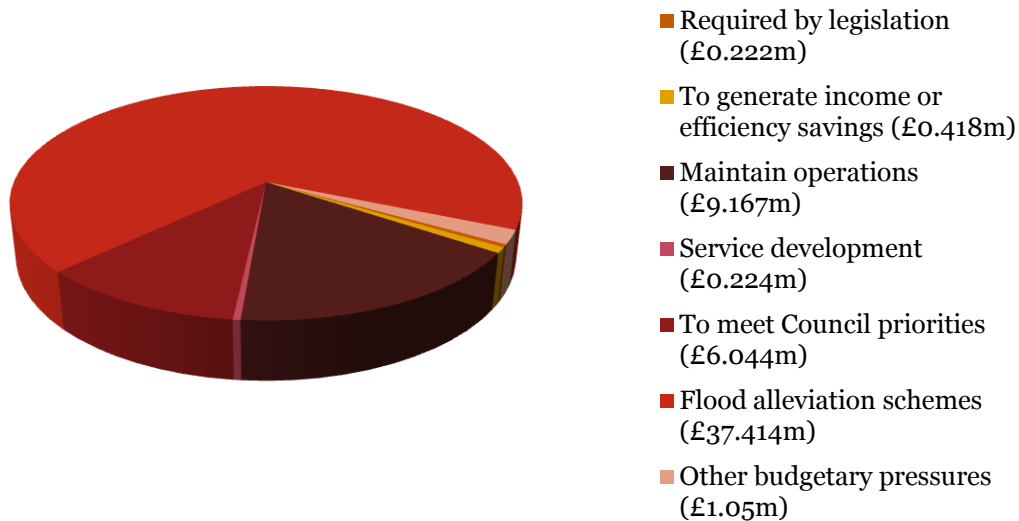


- 2.06 The increase in the general fund was largely driven by a £1.546 million transfer of the Police and Fire Board reserves at 31st March following Police and Fire Reform (Scotland Act 2012) accounting. Guidance issued by the Scottish Government required the inclusion of the balance in local Council reserves as at 31 March 2013 with the Scottish Government deducting it from future Revenue Support Grant payments in 2013/14. This therefore increased the Council's General Fund Reserves as at 31 March 2013.

Capital Expenditure Plans

2.07 Capital expenditure for the year ahead is budgeted at £54.539 million and is analysed as follows:

Core Programme



2.08 This capital expenditure plan will be funded from a variety of sources as follows:¹

	Funding £'000
Prudential borrowing	20,812
General Capital Grant	7,105
Specific Capital Grant	94
Other capital receipts	700
Capital Grant relating to flood alleviation scheme	25,828
TOTAL	54,539

2.09 On the 17th January 2012 the Council agreed a 10 year capital programme of £321.3million. This will require additional borrowing over the ten year period of £89million as the amount of investment required each year is more than current budget levels. Key aspects of the ten year plan include £52m to build a new High School in Elgin within the next four years; £8million for the full implementation of the Forres/Pilmuir Flood Alleviation

¹ From paper presented to Special Moray Council Meeting 13 February 2013

Scheme, more than £4million to be spent on harbours, funding for a replacement dredger; and a £72million programme of roads' improvements within Moray.

- 2.10 The agreed capital expenditure requires an estimated additional borrowing of £40 million in the first five years of the plan. The revenue cost of this additional borrowing will amount to £6.5 million over that period, and this could be met from Council reserves. After 7 years, the Council will require to find revenue savings of £3.8million to cover these costs, as the length of loan, although varying, is typically around 30 years for the predominant type of expenditure in the draft capital plan.

Revenue budget 2013/14

- 2.11 The Council approved its 2013/14 revenue budget of £188.2 million (2012/13 budget £198.9 million) on 13 February 2013, which provided for a break-even position. Key income assumptions include no Council Tax increase and £147.69 million of government grant funding. This government grant figure is based on the provisional allocation for Moray, which has been adjusted to reflect the deduction of grant support for police and fire, and has been increased by an estimate for additional allocations. In terms of expenditure, the Council has taken the base budget adjusted to remove Police and Fire Services and made assumptions including:

	2013/14 £m
Further approved expenditure on Designing Better Services	0.56
Match funding for the fisheries projects	0.17
Pay Awards and Increments	1.3
Impact of Council Tax Benefit Replacement Scheme	0.4

- 2.12 These assumptions have been added to the base budget, and the budget for Police and Fire services removed following the Police and Fire Reform (Scotland Act 2012). Further expenditure increases includes purchase of other care services, bus contracts, other contracts including the PPP contract, exam fees and 5% increase in fostering allowances.
- 2.13 The Council estimated it is required to generate £9 million of savings to balance the 2013/14 budget. Savings totalling £7 million were approved for 2013/14, with the remaining £2million is to be funded from reserves. This level of these savings was required due to the following cost pressures:

	2013/14 £m
Decrease in Government Grants	0.06
Increase in elderly population	0.4
Increase in fuel price	0.4
Increase in Building Maintenance	0.28
Increase in Environmental Taxes	0.4
Price Increase for other Goods and Services	1.36
Increase in Payroll Costs	1.67
Increase in Borrowing Costs	1.14
Increase in Children Out of Area Placements	1.5
TOTAL	7.21

- 2.14 Proposed savings approved for 2013/14 include the removal of subsidised bus services (a saving of £0.320million in the year and investing an additional £70,000 to mitigate the imp[act of this), the closure of seven libraries (pending the completion of an Equality Impact Assessment, the outcome of which was reported and considered at a special meeting of the Moray Council on 10th September 2013), the removal of support for arts development and a one-year reduction in roads maintenance. However, plans to cut classroom assistants in schools were changed in favour of a reduction in classroom hours to 12.5 per week.
- 2.15 To facilitate short to medium term financial planning an Area Based Review Working Party has been established to identify potential savings. This cross party group has started to look at the challenges of delivering a medium term plan for the Council that aligns Council priorities to the Community Planning Partnership Single Outcome Agreement and also addresses the financial shortfall from 2014/15 onwards.
- 2.16 To date, the Area Based Review Working Party has held five workshops which have undertaken a high level review of: Educational Services, Leisure Services, Waste Management, Ground maintenance and a holistic area review. Future workshops include a review of health care, libraries, energy management, social work, community care, environmental health and roads maintenance.
- 2.17 The Area Based Review Working Party aims to deliver a 10 year plan for the future of public services in Moray by November 2013 and a 4 year plan by February 2014.

Welfare Reform

- 2.18 In February 2011, the Westminster Government published the Welfare Reform Bill which set out plans to fundamentally overhaul the benefits system. The stated overarching objectives of the Bill were to simplify the benefits system, achieve savings and increase incentives for unemployed people to work. The Welfare Reform Act was given Royal Assent on 8 March 2012. The Council should ensure that it puts in place specific arrangements to address the implications of the Act.
- 2.19 On the 30th October 2012 the Policy and Resources Committee received a specific briefing on the anticipated impact of the changes. It was noted key areas of impact relate to:
- Under occupancy - From April 2013, working age tenants of registered social landlords (including Council and Housing Association tenants) occupying a home that is larger than they need will have their Housing Benefit restricted to a level that reflects a property of an appropriate size. The level of rent used in the Housing Benefit calculation will be reduced by 14% for those who under occupy their home by a single bedroom, or 25% for two bedrooms or more. The Council has identified 450 council tenant households that will be affected by this restriction on occupancy levels
 - Council Tax Benefit Replacement Scheme - From April 2013 Council Tax Benefit will be abolished and replaced by a local scheme. The funding being made available under the revised arrangements will be 10% less than that available to support the existing Council Tax Benefit Scheme and indications are that this will result in a funding shortfall of £40 million across Scotland. The Scottish Government will fund £23 million of that shortfall with the remaining £17 million to be met by Local Authorities. The Council Tax Reduction scheme will be redesigned for 2014/15 onwards in order to make the required savings. (Estimated impact for The Moray Council £270,000 which has been included in the 2013/14 budget)
 - Benefit Cap - From April 2013 the UK Government will put a limit on the total amount of benefit that working age people can receive so those claiming out of work benefits will no longer receive more in benefits than the average wage paid to those who are working. Any reductions necessary will be applied to the level of Housing Benefit awarded. So far the Council has been advised that 11 Housing Benefit customers will be affected. This came into effect for the Moray Council as of July 2013.
 - Universal Credit - Universal Credit will be introduced replacing many existing benefits such as Job Seekers Allowance and Tax credits. This will be introduced from April 2014 for the Council.

- 2.20 The Council has established a corporate Welfare Reforms group specifically to consider the effects on services and to set out the actions required to mitigate the impact on the Council and communities. This group is led by the Corporate Director (Corporate Services) and has members representing housing, planning and economic development, finance and benefits. The Welfare Reforms Group also included the establishment of a Sub Committee to make recommendations on further policy initiatives required. The Sub-Committee is to focus on the particular issues related to housing and Housing Benefits. Services will report action plans to their respective Committees to assess the potential impact of Welfare Reform on their respective customers and propose appropriate responses to meet their needs. The Corporate Director (Corporate Services) also chairs a Local Delivery Group with representatives from the Council, Department of Works and Pensions (Elgin Job Centre Plus), Citizens Advice Bureau and the Third Sector Interface which oversee the implementation of Welfare Reforms across Moray.

Equal Pay

- 2.21 As at 31 March 2013, the Council had 10 equal pay claims. By 1 August 2013 this had reduced to 5 claims from 4 separate claimants. The Council has quantified the potential liability of the 10 claims and included a provision as at March 2013 amounting to £0.170 million (2011/12: £0.624 million).
- 2.22 It is understood from discussions with HR that the outstanding 5 claims have not progressed in a number of years and communications have not been established for significant periods. The Council is considering taking steps to close these claims through the Employment Tribunal.
- 2.23 The Council has already settled a number of payment protection claims. However, there remains a possibility of further claims in the period to 2015 for which a contingent liability is disclosed in the accounts. Due to the uncertainty around the number of claims expected the Council has been unable to attribute a value to these claims.
- 2.24 We have considered the provision and contingent liability against the criteria set out in the International Accounting Standard (IAS) 37 – “Provisions, Contingent Liabilities and Contingent Assets” and the Code of Audit Practice on Local Authority Accounting and we are satisfied with management’s accounting treatment for these equal pay claims. However, should management consider that going forward the remaining claims are unlikely to be settled and could be closed then consideration should be made to releasing any provision.

Shared Services

- 2.25 Integrated management arrangements have been in place for a number of years with the NHS for health and social care services. Where it enhances delivery shared buildings is also undertaken.
- 2.26 The Moray Grounds Maintenance team provide services for the RAF and Grampian Police. Library services assist the passport office whilst Building Services also provide services to Grampian Police.
- 2.27 The Moray Council also participated in the Business Gateway programme with Highland Council, and also in the East of Scotland Business Loan fund with 9 other local authorities.

3. Governance

Overall Governance Arrangements

- 3.01 In accordance with the Code of Audit Practice's requirements for the auditor's consideration of corporate governance arrangements, we have considered the following matters:
1. Corporate governance and systems of internal control, including risk management and internal audit.
 2. Prevention and detection of fraud and irregularity.
 3. Standards of conduct and arrangements for the prevention and detection of corruption
- 3.02 The Moray Council has a well established committee structure that kept under review by the full Council in order to ensure that it reflects the activities of the Council. In addition there are Standing Orders, and a Scheme of Delegation in place which sets out the governance and accountability arrangements. These documents are available to staff within the organisation and are kept under review .
- 3.03 All Council reports are prepared using a standard template and are circulated in advance of meetings.
- 3.04 There have been no significant changes to the overall governance arrangements operating at the Council during 2012/13 and overall governance structures and activities are as expected. Following the local elections in May 2012 and the appointment of a new Chief Executive in October 2012, new committee members have been appointed to reflect the current political landscape within the Council.
- 3.05 The Council's internal audit function continues to be provided in house and governance is a key item on internal audit's agenda. Internal audit is involved in overseeing risk management arrangements and reviewing the system of internal control. It has also supported the corporate management team in the preparation of the annual governance statement within the annual accounts as well as in providing input to relevant policy matters, such as those concerning to anti-money laundering and the prevention of fraud, theft, bribery and corruption.
- 3.06 The Council does not have plans to change these governance structures in the run up to the Independence Referendum in 2014. The usual governance arrangements before an election (i.e. members are prohibited from speaking on behalf of the Council on party political issues) will be implemented.

Annual Governance Statement

- 3.07 The Council is required to produce an Annual Governance Statement, which is consistent with guidance issued by CIPFA / SOLACE: 'Delivering Good Governance in Local Government'.
- 3.08 We reviewed the Statement to consider whether it complied with the CIPFA / SOLACE framework and whether it was misleading or inconsistent with other information known to us from our audit work. The main disclosures include the effectiveness of governance and committee frameworks, the work of internal audit and significant governance issues, including health and social care integration, police and fire reform and welfare reform. Based on our normal audit procedures, we **do not disagree** with the disclosures contained in the Statement.

Accounting Systems and Systems of Internal Control

- 3.09 It is the responsibility of the Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. As auditors, we review

these arrangements for the purposes of our audit of the financial statements and our review of the annual governance statement.

- 3.10 The results of our work on systems of internal control were communicated to the Audit and Performance Review Committee in July 2013 in our Interim Management Letter. The report contained two recommendations to improve controls, both of which were classified as low risk. Management has completed an action plan detailing those individuals responsible for implementing our recommendations and the timetable for completion.

Follow up of outstanding recommendations

- 3.11 We followed up on recommendations from previous years during our interim visit. The result of our follow was reported within our Interim Management Letter as referred to above, with overall progress as follows:

Status	Interim Management Letter 2011/12	Annual Report 2011/12	Total
Fully implemented	4	2	6
Partially implemented	4	1	5
Not implemented	-	-	-
No longer applicable	-	-	-
Total	8	3	11

Manual Journals

- 3.12 It is standard practice that senior finance and management team do not formally sign-off and authorise manual journals prior to posting. Whilst it is understood that the majority of journal processing is automated and monthly budgetary monitoring is in place, we would recommend the Council should consider introducing a threshold whereby high value journals are authorised to reduce the risk of fraud.

Action 1

Prevention of Fraud and Corruption arrangements

- 3.13 As Auditors, our responsibilities in relation to fraud are:

- to identify and assess the risks of material misstatement of the financial statements due to fraud;
- to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement of the financial statements due to fraud, through designing and implementing appropriate responses; and
- to respond appropriately to fraud or suspected fraud identified during our normal audit procedures.

- 3.14 Management's responsibilities in relation to fraud are:

- to design and implement programmes and controls to prevent, deter and detect fraud;
- to ensure that the entity's culture and environment promote ethical behaviour; and

- to perform a risk assessment that specifically includes the risk of fraud addressing incentives and pressures, opportunities, and attitudes and rationalisation.

- 3.15 We do not believe that the control weaknesses identified in the Councils' arrangements during our fieldwork have directly contributed to any fraudulent activity that has been uncovered.
- 3.16 The National Fraud Initiative (NFI) brings together data from health bodies, councils, police and fire rescue bodies and other agencies, to help identify and prevent a wide range of frauds against the public sector. These include housing benefit fraud, occupational pension fraud and payroll fraud.
- 3.17 The Council must complete the next NFI exercise by February 2014, investigating and concluding on its matches. The Council continues to demonstrate a commitment to the NFI process and is currently reviewing its NFI matches. The findings from this work will be reported in a separate report.

Internal Audit

- 3.18 As recommended by the International Standards on Auditing Standard (ISA) 610, "Using the Work of Internal Auditors", we have liaised with Internal Audit during our interim audit visit to review their programme of work for the current financial year to establish progress against the internal audit plan and review a summary of their completed reports to determine the main issues being reported. International Standard on Auditing (UK and Ireland) 610: "The auditor's consideration of the internal audit function" requires us to perform the following:
- Consider the activities of Internal Audit and the extent that their work can be relied upon for external audit procedures;
 - Obtain sufficient understanding of internal audit activities and the effectiveness of the function to enable us to identify areas of risk and develop an effective and targeted audit approach; and
 - Evaluate and test the quality and timeliness of internal audit work, where we seek to rely on the findings, in order to confirm its adequacy for our purposes.
- 3.19 We met with Internal Audit during planning and agreed how they could support us during the year. We have since reviewed Internal Audit's working papers and re-performed a sample of their work where we placed reliance as required by Auditing Standards.
- 3.20 We are happy to report that we have been able to rely on the work of Internal Audit in the following areas:
- Bus Service Operators grant claim;
 - Performance Indicators;
 - Controls over the Non-Domestic Rates process;
- 3.21 We also intend to rely on the work of Internal Audit to complete the work on the following grant claims:
- Non Domestic Rates Income grant claim; and
 - Housing and Council Tax Benefit Subsidy.
- 3.22 We would like to take this opportunity to thank the Internal Audit Manager and his team for their assistance during the current financial year.

National Performance Audits

- 3.23 At the request of Audit Scotland, we were required to perform targeted follow up work on their National Performance Reports: *Scotland's Public Finances - Addressing the Challenges* (published February 2011).

-
- 3.24 The findings from our work will be reported to members in a separate letter. Overall, the Council was able to demonstrate it had considered the report at the appropriate level and had taken the original recommendations into account.

Local Impact Returns

- 3.25 Local Impact Return questionnaires provide a template to assist auditors in making an assessment as to how the Council has responded to National Performance Reports from Audit Scotland. During the year the following Return was submitted to Audit Scotland:

- Commissioning Social Care

- 3.26 The report concluded that the Commissioning & Performance team were currently developing a risk-based Monitoring Framework which has a planned implementation date of March 2013. Contracts with a higher risk identified through the contract monitoring process will be subject to a higher level of scrutiny.

4. Performance

Performance Management

- 4.01 The Council's Corporate Plan 2012-2015 brings together the Council's commitments under the Single Outcome Agreement (SOA) and sets out its strategies for achieving local and national priorities, which include a forward looking financial strategy, workforce plan and the prioritisation of projects. The SOA develops a vision for Moray and explains how Community Planning Partners will work together to secure a range of key outcomes for the community.
- 4.02 A report on the Council's Performance Management Arrangements was presented to the Council on 4 September 2012, which highlighted some issues with the performance management arrangements that were in place. A report outlining progress made to address these issues was presented to the Council on 22 May 2013. The most significant change has been to arrangements has been to clarify the relationships between strategic plans and operational performance. The Corporate Management Team will play a more significant role in performance management under the new arrangements by reviewing exception reports on performance before committee reporting. A new minimum requirement for customer satisfaction results to be reported at least every three years has also been introduced.
- 4.03 Further action has also been agreed in relation to identifying relevant Performance Indicators to allow progress against the Corporate Plan to be tracked. This is being taken forward by the Research and Information Teams, working with the Heads of Service. The format of the Public Performance Report will also be reviewed to take account of Audit Scotland guidance.

Statutory Performance Indicators

- 4.04 The Accounts Commission has a statutory responsibility to specify information that all councils must publish about their performance in the form of statutory performance indicators. For 2012/13, the Accounts Commission stipulated the publication of 25 Statutory Performance Indicator (SPIs).
- 4.05 Auditors are required to review those arrangements in place for collecting, recording and publishing performance data. Based on our work performed and review of the procedures undertaken by the internal audit function, the Council was able to demonstrate the basis for the SPIs reported.
- 4.06 We did not identify any issues in relation to the arrangements in place for gathering and reporting performance data. From our testing of the SPIs and also our review of internal audit work over the PIs we have concluded The Moray Council is compliant with all 25 SPIs.

Trading Operations

- 4.07 The Moray Council operates four significant trading operations (Building Services, Road Maintenance, Vehicle Maintenance and Ground Maintenance). Each trading operation has achieved its statutory performance target of 'break-even', over a three year period. The total net surplus on trading services in 2012/13 was £1.375 million (2011/12: £0.217 million).

Trading Operation	2012/13 Surplus/(Deficit) £000	2011/12 Surplus/(Deficit) £000	2010/11 Surplus/(Deficit) £000
Building Services	342	19	54
Roads	606	107	894
Vehicle Maintenance	141	(30)	1
Grounds Maintenance	227	52	61

Best Value Audit

- 4.08 Moray was subject to a Best Value audit by Audit Scotland in November 2012 and the results were reported to the Council in May 2013. The results of those procedures concluded that aside from participation in national scrutiny plans and a few specific improvements no further scrutiny of the Council would be made.
- 4.09 An action plan to capture these improvements was detailed to the Council on the 7th August 2013. At the date of this report 3 actions were due for completion. These included:
- Complete outcome delivery plan to help ensure the review of community planning is completed as evidenced by submission of performance target data. We have obtained the relevant performance data performance indicator data submitted to Community planning Board on the 22 August 2013 and verified this was prepared and reviewed at that meeting.
 - Complete the 2013/14 budget to ensure decisive action can be taken to identify necessary savings by 2016/17 and establish a 4 year plan. We have reviewed the relevant budgetary reports for 2013/14 and onwards and agreed the Council has made plans for identifying the necessary savings.
 - 10 and 4 year plans to be produced by the Area Review Working Party to clarify the Councils strategic planning arrangements. We have reviewed the first Area Review Working Party progress report and noted deadlines have been set for the goal of completing the 10 and 4 year plans required.
- 4.10 We have concluded The Moray Council has achieved the actions that were agreed for delivery by this report date. However, it was noted that the Area Review Working Party whilst has been established, it initially had set a target of mid June 2013 for delivering a 10 year plan. This has proven unachievable and has revised its forecast of the 10 year plan to November 2013 and February 2014 for the four year plan. Management should endeavour to keep to the Area Review Working Party timetable to ensure continued progress on these plans can be attained.

Appendices

Appendix 1 – Action Plan

	Paragraph Reference	Recommendation	Response
1	3.11	Management should consider introducing a threshold whereby high value journals are signed as authorised to reduce the risk of fraud.	<p>It is proposed to undertake an exercise over 3 month period by Accountancy to identify what manual journals are being undertaken. It is anticipated that this review will reduce the number of journals required.</p> <p>It is not agreed that there is a risk of fraud from manual journals as this process only allows for adjustments between financial ledger codes. Any adjustments to bank accounts are processed by other methods and are signed by the Head of Financial Services or other authorised bank signatory in her absence.</p> <p>Responsible Officer:</p> <p>Head of Financial Services</p> <p>Implementation Date:</p> <p>The review of manual journals will be undertaken by the end of the financial year – 31 March 2014.</p>

Appendix 2 - Audit reports issued in 2012/13

Report Name	Report Date
Annual Audit Plan 2012/13	March 2013
Interim Management Letter 2012/13	July 2013
Scotland's Public Finances - A Follow Up Report	September 2013
Annual Report to Members and the Controller of Audit	September 2013

Appendix 3 – ISA 260 Communications to those charged with governance

Communication Required under ISA 260	Reference/Comment
Engagement Letters	✓ Signed Engagement Letter with Audit Scotland at the start of our 5 year appointment and updated annually.
Independence	✓ We confirm that, in our professional judgement, as at the date of this document, we are independent auditors with respect to the Council and its related entities, within the meaning of UK regulatory and professional requirements and that the objectivity of the audit engagement leader and the audit staff is not impaired.
Audit Approach and Scope	✓ Set out within the Annual Audit Plan (reported to Audit and Performance Review Committee 13 March 2013). We have subsequently reviewed our audit plan and have made one change which we wish to bring to members attention: given the financial targets the Council has to meet each year, we have recognised the risk of fraud in expenditure recognition as a significant risk.
Materiality	✓ Annual Audit Plan (reported to Audit and Performance Review Committee 13 March 2013).
Form and Timing of Communications	<ul style="list-style-type: none"> ✓ Annual Audit Plan (reported to Audit and Performance Review Committee 13 March 2013) ✓ Interim Management Letter (reported to Audit and Performance Review Committee 3 July 2013) ✓ Annual Report to Members and Controller of the Audit (reported to Full Council 25 September 2013)
Accounting Policies/Estimates/Disclosures	✓ Significant matters are included within this report
Correspondence with management on significant matters	✓ Discussed and resolved matters arising with management throughout audit process.
Letter of Representation	✓ Signed by the Head of Financial Services on 25 September 2013.
Other matters significant to the oversight of financial reporting process and material Uncertainties relating to Going Concern	✓ None identified.
Related Parties	✓ Other than those transactions disclosed in the financial statements we have not identified any further transactions requiring disclosure.

Fraud	✓ Discussed fraud arrangements with the Audit and Performance Review Committee and management throughout audit process.
Material Weaknesses in Internal Controls	✓ Internal Controls findings reported separately in our 'Interim Management Letter 2012/13'

In the event that, pursuant to a request which Moray Council has received under the Freedom of Information (Scotland) Act 2002, it is required to disclose any information contained in this report, it will notify PwC promptly and consult with PwC prior to disclosing such report. Moray Council agrees to pay due regard to any representations which PwC may make in connection with such disclosure and Moray Council shall apply any relevant exemptions which may exist under the Act to such report. If, following consultation with PwC, Moray Council discloses this report or any part thereof, it shall ensure that any disclaimer which PwC has included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.

©2013 PricewaterhouseCoopers LLP. All rights reserved. PricewaterhouseCoopers refers to PricewaterhouseCoopers LLP (a limited liability partnership in the United Kingdom) or, as the context requires, other member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.