Moray Council

Annual report to Those Charged with Governance and the Controller of Audit

Year ended 31 March 2015

September 2015

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16 September 2015

Ladies and Gentleman,

We are pleased to enclose our report to the Moray Council in respect of our audit for the year ended 31 March 2015. 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 Scrutiny Committee (formerly Audit and Performance Review) in February 2015. We have subsequently reviewed our audit plan and concluded that our original risk assessment remains appropriate. The procedures we have performed in response to our assessment of significant audit risks are detailed in Section 2.

We have our audit work and expect to be able to issue an unqualified audit opinion on the financial statements on 16 September 2015, subject to subsequent events procedures.

We look forward to discussing our report with you on 16 September 2015. Attending the meeting from PwC will be Lindsey Paterson.

Yours faithfully

PricewaterhouseCoopers LLP

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Section 1. Executive summary

Introduction

This report sets out the significant findings from our audit of Moray Council ("the Council") for the year ended 31 March 2015. We presented our plan to you in February 2015, setting out the focus of our audit. We have reviewed the plan and concluded that it remains appropriate.

Framework for Our Audit

Our audit is conducted in accordance with Auditing Standards (International Standards on Auditing ('ISAs') (UK and Ireland)) and the Code of Audit Practice ('the Code').

The Code explains how external auditors should carry out their functions under the Local Government (Scotland) Act 1973. The audit of financial statements is covered by engagement and ethical standards issued by the UK Auditing Practices Board (APB), so the Code focuses more on the wider functions of public sector auditors.

Management responsibility

It is the responsibility of the Council and the Responsible Financial Officer to prepare the financial statements in accordance with the requirements of the Local Government (Scotland) Act 1973 and the Local Government in Scotland Act 2003. This means:

- selecting suitable accounting policies and applying them consistently;
- making reasonable and prudent judgements and estimates;
- maintaining proper accounting records; and
- preparing financial statements timeously which give a true and fair view of the financial position of the Council and its expenditure and income for the year ended 31 March 2015 and which comply with the CIPFA / LASAAC Code of Practice on Local Authority Accounting in the UK 2014/15 (the Code).

Auditors' responsibilities

Our statutory responsibilities require us to provide you with an audit report stating whether, in our opinion the financial statements and the part of the remuneration report to be audited:

- give a true and fair view of the financial position of the Council and its expenditure and income for the year;
- were prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements; and
- the information which comprises the management commentary included with the financial statements is consistent with the financial statements.

We are also required to review and report as necessary on other information published with the financial statements, including the annual governance statement and the remuneration report.

Financial Statements

We are pleased to report that our opinion on the financial statements for the year ended 31 March 2015 is **unqualified** subject to subsequent events procedures.

As a result of our work, we proposed a number of disclosure adjustments to the draft financial statements, which have been discussed and adjusted by management. We did not identify any financial adjustments.

We found that the draft financial statements and accompanying working papers were of a high standard and accounting records were appropriately maintained.

Financial performance

In 2014/15, as recorded in the comprehensive income and expenditure statement, the Council spent £286.317million on the provision of services. Income for the year totalled £302.807million, resulting in an accounting surplus of £16.490million.

However, this surplus includes items of income and expenditure which are accounted for in order to comply with the Code of Practice on Local Authority Accounting, which then need to be adjusted to show the impact on the Council's statutory reserves. Taking these adjustments into account, there was an increase in the General Fund balance of £3.663million, as set out below:

	£million
Reduction in Devolved School Management	(0.404)
Increase in Central Energy Efficiency Fund	0.006
Increase in Other Funds	0.061
Increase in General Services	4.000
	3.663

The Council's approved 2014/15 budget anticipated the use of £2.262 million from reserves. However, various cost savings were realised, most notably service underspends of £3.523million and unspent provisions of £1.654million, which resulted in an ultimate increase to reserves instead of the originally budgeted decrease.

The surplus above brings the closing General Fund balance for 2014/15 to £25.044million, which is the significant element of the total useable reserves held by the Council of £31.550million. The other useable reserves retained by the Council did not move significantly in the year. In total, the remaining balance of these other funds was £6.506million with a net increase of £0.497million.

Total efficiencies achieved in 2014/15 were £5.788million (3.05% of the Council's net revenue budget for General Services). This exceeds the Scottish Government target of 3% for 2014/15. Savings were realised through the Designing Better Services programme (£1.861million), Asset Management (£1.170million), Improved Performance (£1.373million) and also various other smaller schemes (£1.384million).

Total revenue expenditure budgeted for 2015/16 is £197.891million. £3million of this is on estimated pay and price increases and £2.760million on budget pressures (ranging from a rise in number of elderly people to schools additional support needs to a decrease in expected income streams). The 2015/16 budget showed an original funding gap of £1.525million. Savings identified at this stage are £1.297million, with the remaining £0.228million expected to be funded from Reserves. With a closing balance of £25.044million, this would represent less than 1% of the total General Reserves balance.

Best value and performance

The Council's performance management arrangements are laid out within its Performance Management Framework. The Council monitors and reports against over 300 performance measures, being a mixture of local and statutory indicators which are aligned to the Moray 2023 priorities.

We reviewed a sample of minutes for the Council's service committees and found that performance is reported in line with the performance reporting timetable, discussions were held around improvements and challenge was made by committee members.

Governance and internal control

The Council and its sub-committees are governed by its Standing Orders, a Scheme of Delegation and its Financial Regulations, all of which were updated in 2014/15. The committee structure remained unchanged during

2014/15, except for the fact that the Audit and Performance Review Committee changed its name to the Audit and Scrutiny Committee. The Council approved the latest Risk Management Strategy on 12 May 2015. Risk registers are maintained, both operational and corporate. The corporate risk register was last updated in March 2015 and presented to Policy and Resources Committee in May 2015.

The Council has an in-house Internal Audit function which carries out a range of audit, risk, governance and control related tasks in line with an annual audit plan approved by the Council. Although we have utilised the work Internal Audit has performed during the year to inform our risk assessment, we have not placed reliance on the work of Internal Audit for the purposes of our 2014/15 external audit.

Fraud

The Council participates in the National Fraud Initiative (NFI). The Council has identified 3,058 matches for the 2014/15 year and as at 23 June 2015 management had investigated 1,925 of these and uploaded results on to the national NFI system. The Council has a number of controls in place in order to prevent and detect fraud and corruption, including codes of conduct for both staff and Councillors, whistleblowing policy, fraud training, etc.

Please note that copies of this report will be sent to the Audits Commission in accordance with their requirements.

We thank the management and staff of the Council for their co-operation and assistance during the course of our work.

Section 2: Significant audit and accounting matters

Our audit approach to the audit of the financial statements was set out in our Audit Plan presented to you in February 2015. We have reviewed the risks set out in our Audit Plan and considered whether there is any change to our assessment of the risk of material misstatement in the financial statements. On the basis of this assessment, we have not changed our audit approach.

We have set out in this section the significant matters arising from our audit.

Matters identified in our audit plan

Set out below is a summary of our response to matters identified in our audit plan:

Risk	Categorisation	Results of work performed
Management override of controls ISA (UK&I) 240 requires that we plan our audit work to consider the risk of fraud, which is presumed to be a significant risk in any audit. In every organisation, management may be in a position to override the routine day to day financial controls. Accordingly, for all of our audits, we consider this risk and adapt our audit procedures accordingly.	Significant ●	To address this risk, we have considered those areas where management could use discretion outside of the financial controls in place to misstate the financial statements. In particular, we performed procedures to: - Review the appropriateness of accounting policies and estimation bases, focusing on any changes not driven by amendments to reporting standards; - Test the appropriateness of journal entries; - Review accounting estimates for bias and evaluate whether judgement and estimates used are reasonable (for example pension scheme assumptions, valuation and impairment assumptions in respect of fixed assets); - Consider if any significant transactions outside the normal course of business occurred, which none were identified; and - Perform unpredictable procedures targeted on fraud risks. **We did not identify any issues to report to you as a result of our work.**

Risk	Categorisation	Results of work performed
Risk of fraud in revenue (non-grant funding) recognition Under ISA (UK&I) 240 there is a presumption that there is a risk of fraud in revenue recognition.	Significant ●	We have considered the ways in which revenue (focusing on non-grant funding only) could be fraudulently reported within the annual accounts and the financial controls in place to mitigate this risk. In particular, we performed procedures to: - Evaluate and test the accounting policy for income recognition; - Perform detailed testing over revenue journals; - Review accounting estimates for income to ensure that they are accounted for on an accurate basis and in the proper period; and - Perform detailed testing over revenue transactions. **We did not identify any issues to report to you as a result of our work.**
Risk of fraud in expenditure recognition For the purposes of the Council the risk of fraud in revenue recognition is more sensibly inverted to reflect the risk around misstatement of expenditure. There is a risk that the Council could adopt accounting policies or treat expenditure transactions in such a way as to lead to material misstatement in the reported expenditure position to ensure budgets are achieved.	Significant ●	We have considered the ways in which expenditure could be fraudulently reported within the annual accounts and the financial controls in place to mitigate this risk. We performed procedures to: - Evaluate and test the accounting policy for expenditure recognition; - Perform detailed testing of expenditure journals; - Perform testing over cut-off and unrecorded liabilities to ensure expenditure has been recognised in the correct period; - Review accounting estimates for expenditure such as accruals and provisions to ensure that they represent genuine liabilities and are accounted for on an accurate basis and in the proper period; and - Perform detailed testing over expenditure transactions. **We did not identify any issues to report to you as a result of our work.**

Materiality

	As reported within Audit Plan £	Final Materiality £
Overall materiality – This is the amount we have applied in assessing the overall impact on the group financial statements of potential adjustments	**5,607,100**	**5,726,340**
Performance materiality - We have applied this to direct the amount of work performed over each financial statement line item – for example in calculating sample sizes	**4,200,000**	**4,294,755**

	As reported within Audit Plan £	Final Materiality £
De-minimus posting level - Under ISA (UK & I) 450, we are required to report to the Audit Committee on all unadjusted misstatements in excess of a 'de-minimus' or 'clearly trifling' amount	**250,000**	**250,000**

Materiality was set to direct the overall audit strategy and to assess the impact of any adjustments identified. Overall materiality was set at 2% of total expenditure.

ISA (UK&I) 450 (revised) requires that we record all misstatements identified except those which are "clearly trivial" i.e. those which we do expect not to have a material effect on the financial statements even if accumulated. We have applied a de-minimus level of £250,000 which we have assessed as clearly trivial. This was agreed with the Audit and Scrutiny Committee (formerly Audit and Performance Review) upon submission of our annual audit plan.

The materiality rationale has not changed from the materiality reported within our audit plan; however, the actual numbers for overall and performance materiality have changed as these were originally calculated on prior year total expenditure. The materiality was updated to use total expenditure per the 2014/15 unaudited accounts.

Whole of government accounts

As part of our work on the financial statements we will also report on the Whole of Government Accounts Return submitted to the National Audit Office. This work will be submitted in accordance with the deadline of 30 September 2015.

Misstatements and significant audit adjustments

There are no misstatements or significant audit adjustments to report.

Significant accounting principles and policies

Significant accounting principles and policies are disclosed in the notes to the financial statements. We will ask Management to represent to us that the selection of, or changes in, significant accounting policies and practices that have, or could have, a material effect on the financial statements have been considered. Accounting policies have been reviewed for both applicability and consistency with prior year. No issues were noted during this review.

Judgments and accounting estimates

The Council is required to prepare its financial statements in accordance with the CIPFA Code of Practice for Local Authority Accounting. Nevertheless, there are still many areas where management need to apply judgement in the recognition and measurement of items in the financial statements as follows:

Pension assumptions

Employees of the Council participate in the North East Pension Fund which is a local authority defined benefit pension scheme. In order to ascertain the value of scheme assets and liabilities attributable to the Council, an actuarial valuation is conducted on an annual basis by independent firm of actuaries Mercer. In financial year 2014/15 the Council recognised a pension liability of £111.740million (2013/14: £97.252million).

The pension liability held by the Council is based on a number of assumptions made by the actuary. We have outlined the principal assumptions applied in arriving at this estimate along with PwC's expected ranges in the table below:

Table 1: Pension assumptions

Pension assumption	Actuary assumptions	PwC expected range/value	Assessment
Pension increase rate	2.00%	Linked with CPI inflation	Pension increase rate is equivalent to CPI assumption used and thus in line with expectation.
Salary increase rate	3.50%	3.00% - 4.30%	Within acceptable range.
Discount rate	3.20%	3.05% - 3.40%	Within acceptable range.
Longevity – current pensioners	Male – 22.1 Female – 24.7	Male – 22.2 Female – 24.5	This is a guide only and should be scheme specific. The assumptions used deemed reasonable.
Longevity – future pensioners	Male – 24.3 Female – 27.5	Male – 23.5 Female – 26.0	This is a guide only and should be scheme specific. The assumptions used deemed reasonable.
CPI inflation	2.00% (0.9% - 1.0% below RPI)	1.65% - 2.05% (0.7% - 1.2% below RPI)	Within acceptable range.

Based on our work performed we have concluded that the assumptions applied are reasonable.

Equal Pay

The Council has a closing provision balance of £0.156million within the 2014/15 accounts in relation to equal pay. During the year, £7,000 was utilised for claims which were settled, with no new claims arising in 2014/15. The provision is deemed reasonable given the level of outstanding claims remaining and the Council's assessment of the likelihood of further claims.

Holiday Pay

As a result of recent case law developments the current UK method of calculating holiday pay has been found to contradict EU law. Current UK holiday pay was being calculated without taking into account additional payments and allowances such as overtime. This would significantly affect employers with staff who are on low salaried contracts but incur significant element of overtime.

The Council has responded to these recent developments by putting in place a new method of calculating holiday pay which was implemented in March 2015 and backdated to the start of 1 January 2015. A holiday payment will now be automatically calculated and included within the staff member's pay upon any recording of overtime, additional hours, etc. In accordance with national guidelines, the holiday payment will be calculated by applying 8.3% to the value of the allowance or additional payment claimed and will be paid two months in arrears.

The Council has not included any provision for holiday pay compensation payments which could be claimed by staff members in relation to potential backdated claims for holiday pay due to the uncertainty of any future liability. The Council considered the need for a contingent liability and were satisfied that this disclosure was not required within the 2014/15 accounts.

Flood Alleviation

The Council has ongoing flood alleviation works in progress. However, on occasion it is subject to claims by constituents who have been affected by flood risks. Currently, there is a closing provision balance of £0.300million within the 2014/15 accounts. This is a specific provision relating to one outstanding claim which is currently going through legal proceedings.

The Council maintains a register of all such claims made or potentially will be made by constituents. Only more advanced claims which can be reasonably estimated in terms of the validity of the claim and the quantum of the potential liability are provided for in the accounts. This is deemed reasonable.

Property, plant and equipment valuation

PwC specialist real estate valuations team reviewed a sample of revaluations performed by the Council during the year, including for the social housing. The methodologies used for each were deemed reasonable.

Management representations

The representation letter that we ask management to sign is attached in Appendix 3.

Related parties

In forming an opinion on the financial statements, we are required to evaluate:

- whether identified related party relationships and transactions have been appropriately accounted for and disclosed; and
- whether the effects of the related party relationships and transactions cause the financial statements to be misleading.

The Council maintains a Register of Interests for Councillors which is published on the Council's website. Councillors are required to disclose a range of information, including any non-financial interests which members of the public might reasonably think could influence actions.

There is no separate Register of Interests for Senior Management. Like all Council employees, they are required to comply with the Council's Code of Conduct for employees. Within this code, there is reference to conflicts of interest and states that individuals should disclose any conflicts so they can be registered centrally. Close family members are explicitly referred to and are required to be considered along with the individual's own interests.

Annual Governance Statement

The CIPFA Code of Practice on Local Authority Accounting states the following in relation to Scottish Local Authorities and the preparation of an annual governance statement:

"Scottish local authorities, which are not required by legislation to conduct a review at least once in a year of the effectiveness of its system of internal control, shall consider doing so voluntarily and preparing an Annual Governance Statement. Authorities that do not voluntarily choose to do this shall include a statement on the system of internal financial control with their Statement of Accounts."

Moray Council does include an Annual Governance Statement within their annual accounts, which reviews the effectiveness of their system of internal control. This includes commentary on Internal Audit and wider governance arrangements.

We review the annual governance statement to consider whether it is consistent with the requirements set out in the Code, and whether it is misleading or inconsistent with other information known to us from our audit work. We found no areas of concern to report in this context.

Accounting matters for 2016/17

The CIPFA Code 2016/17 is expected to adopt a new measurement methodology for infrastructure assets – depreciated replacement cost basis. This will have a significant impact on the value of local authority balance sheets.

This will represent a change in accounting policy and thus a full retrospective restatement (including restated balance sheet at 1 April 2015) will be required. The Council is aware of this issue and is making the necessary steps towards preparing for this change in measurement methodology. The Council's Roads department has already started planning and preparing for the change, with regular progress update meetings held and action plans for work to be performed.

Section 3. Financial standing

2014/15 Financial Performance

The Council achieved a surplus of £16.490million on the provision of services in 2014/15, compared to £10.781million in 2013/14. This surplus reflects the impact of a number of technical accounting adjustments and a more informative indication of the Council's performance in the year is reflected in the movement in the General Fund.

The Council's financial performance for the General Fund and Housing Revenue Account for 2014/15 is summarised in the table below.

Table 2: Financial performance

	2014/15 £000		2013/14 £000	
Net Cost of Services	**196,885**		**194,885**	
Taxation and Non-Specific Grant Income	230,523		222,249	
Other operating expenditure	1,799		525	
Other Income and Expenditure (Financing and Investment)	15,349		16,058	
(Surplus)/Deficit on Provision of Services	**16,490**		**10,781**	
	General Fund	**HRA**	**General Fund**	**HRA**
Surplus/(Deficit) on Provision of Services	**18,692**	**(2,202)**	**14,101**	**(3,320)**
Adjustments between accounting basis and funding basis under regulations.	(15,020)	2,682	(15,692)	3,338
Net Increase/(Decrease) before Transfers to Reserves	**3,672**	**480**	**(1,591)**	**18**
Transfers to/(from) Reserves	(9)	(9)	(8)	(7)
Increase/(Decrease) in Year	**3,663**	**471**	**(1,599)**	**11**
Opening Balance	**21,381**	**1,126**	**22,980**	**1,115**
Closing Balance	**25,044**	**1,597**	**21,381**	**1,126**

Both the General Fund and Housing Revenue Account balances increased in the year and thus the Council was not required to utilise brought forward reserves balances as originally approved within the 2014/15 budget. This was due to the fact that various cost savings were realised, including service underspends of £3.523million and unspent provisions of £1.654million, which resulted in a better financial outturn than was originally budgeted.

Performance against Budget

An analysis of the 2014/15 General Fund budget compared to actual outturn is set out in the table below:

Description	2014/15 Budget £m	2014/15 Actual £m	Variance £m Underspend/(Overspend)
Education & Integrated Children's Services	94,174	92,855	1,319
Health & Social Care	39,702	39,393	309
General Services Housing & Property Service	3,850	3,414	436
Direct Services	22,730	22,347	383
Development Services	4,295	4,154	141
Corporate Services	10,589	9,737	852
Chief Executive	2,052	1,873	179
Other Services	2,106	1,787	319
Loan Charges	12,337	12,342	(5)
Provision for Contingences and Inflation	543	0	543
Additional Costs	1,379	0	1,379
Unallocated Savings	(268)	0	(268)
Total			**5,587**

The key variances against budget were as follows:

- Education & Integrated Children's Services delivered a £1.319million underspend. This is largely attributable to the Devolved School Management earmarked fund which was carried forward from 2013/14 and was expected to be fully utilised in 2014/15. However, only £0.404million was spent, with £1.026million will be carried forward to 2015/16.

- Corporate Services delivered a £0.852million underspend. There are two key factors driving this underspend: net expenditure on benefits is £359,000 less than forecast as a result of an increase in subsidy received and higher recoveries of housing benefit payments; and a net underspend of £0.122million in Non Domestic Rates as a result of better than expected recovery of debtors.

- Additional costs were budgeted for unexpected cost pressures which were not realised.

The 2014/15 Housing Revenue budget and compared to actual outturn is set out in the table below:

Description	2014/15 Budget £m	2014/15 Actual £m	Variance £m Underspend/(Overspend)
Repairs & Maintenance	6.211	6.085	0.126
Supervision & Management	3.695	3.592	0.103
Sheltered Housing	0.025	0.032	(0.007)
Financing Costs	3.524	3.363	0.161
Bad & Doubtful Debts	0.197	0.130	0.067
CFCR	1.699	1.735	(0.036)
Downsizing Incentive Scheme	0.050	0.038	0.012
Service Development	0.008	0	0.008
DBS Contribution	0.259	0.259	0

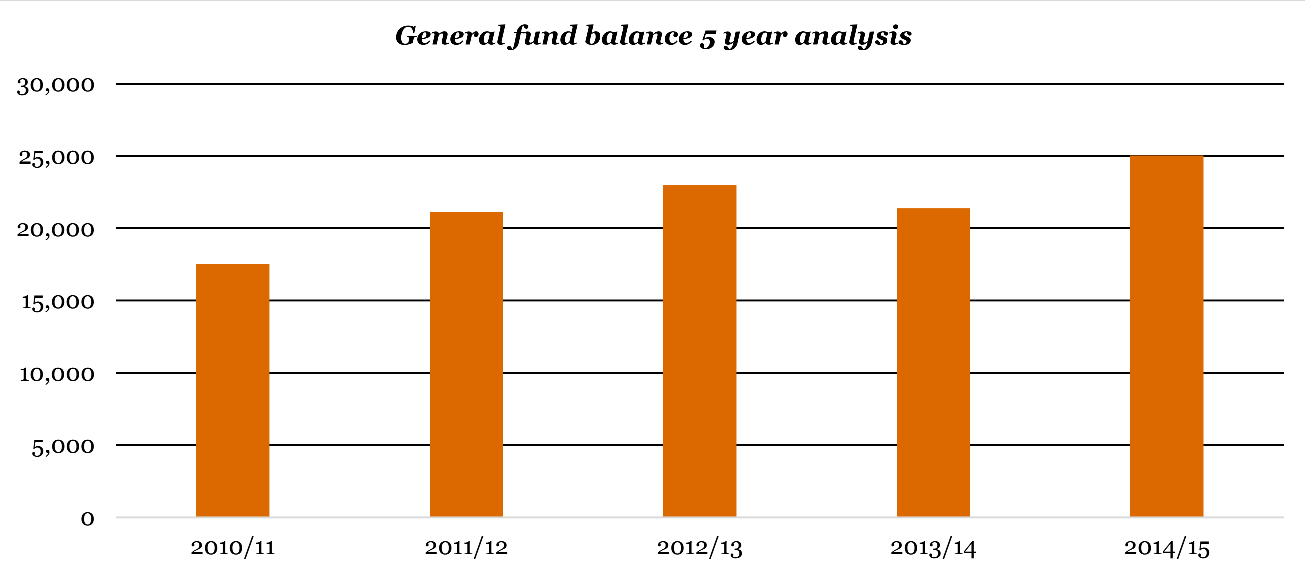
The key variances against budget were as follows:

- Supervision and management delivered a £103,000 underspend, caused by a mixture of lower central services recharges and reduced spend on staffing, partially offset by an overspend on insurance.
- Repairs and maintenance delivered a £0.126million underspend, as a result of lower property fees and a DLO operating surplus which has been returned to the HRA.
- Financing costs experienced a £0.161million underspend, caused by lower levels of borrowing required to finance capital expenditure in the year as a result of higher than anticipated housing sales receipts and grant income.

Reserves

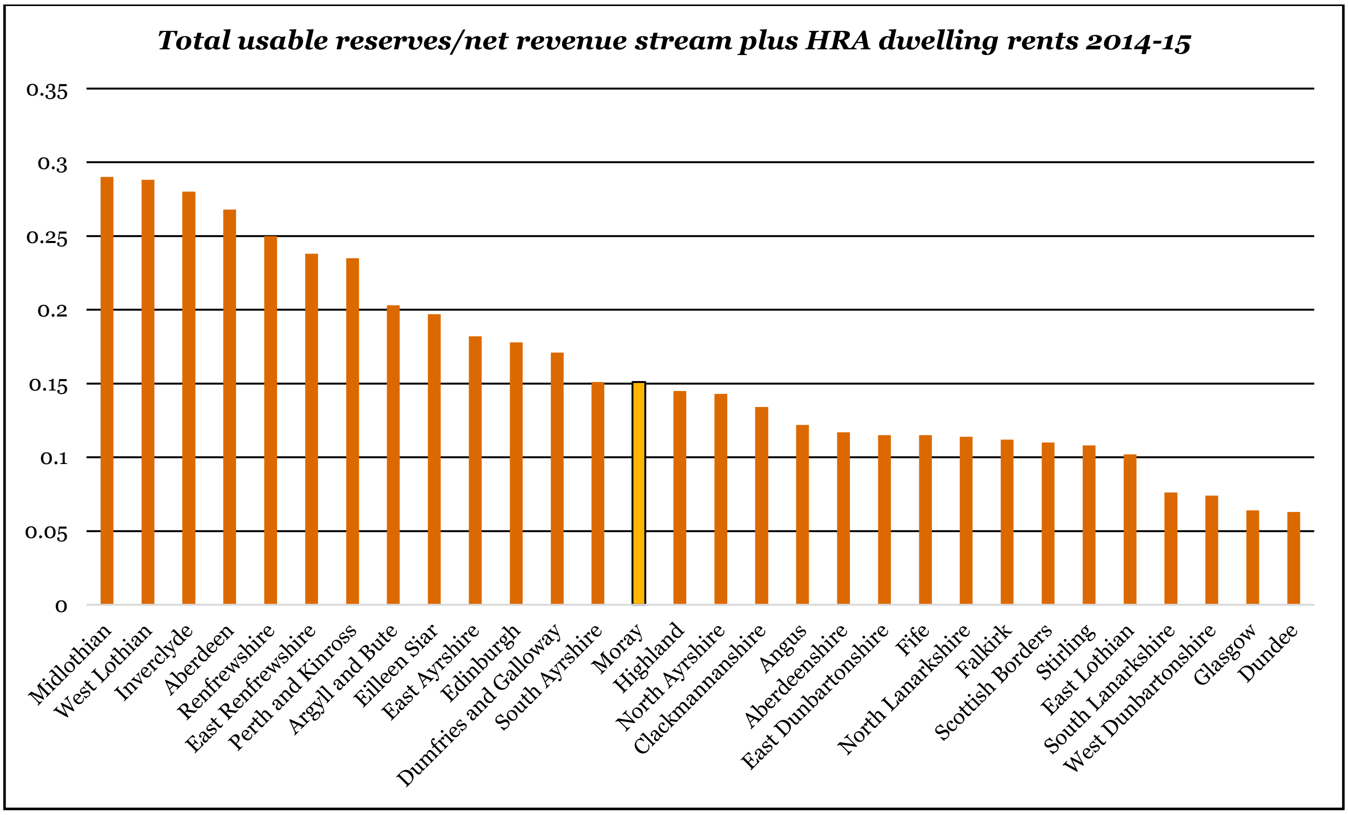
The Council's general fund balance has increased by £3.663million in the current year. The table below shows the movements in the general fund over the last five years.

Table 3: General fund balance 2010/11 – 2014/15



Overall the Council's level of general reserves relative to its revenue stream is shown in the graph below. This table also demonstrates how Moray Council compares to other Scottish local authorities.

Table 4: General fund balances relative to Council size (excluding Orkney and Shetland Islands Council due to their unique reserves position)



Source: Audit Scotland

The General Fund is maintained to ensure the Council has a working balance to help cushion the impact of uneven cash flows, avoid necessary temporary borrowing and provide contingency for unexpected or emergency events. Previously the Council has identified a general fund balance of £5million as desirable. This is significantly lower than the current balance of £25million. The Council does not have a formal long term reserves strategy in place. This was an action within the latest Budget Strategy and is currently planned to be considered in October 2015. £2.771million reserves have been earmarked on 24 June 2015 by the Full Council to use in 2015/16.

Capital Expenditure

The Council had a capital expenditure plan budget for 2014/15 of £43.401million, against which £44.101million of expenditure was incurred. The significant aspect of overspend was in relation to the major flood alleviation schemes in Elgin and Forres, where work was brought forward from 2015/16. However, this was offset by various underspend results throughout other capital expenditure projects.

Capital expenditure was made in relation to the following key projects:

Table 4: 2014/15 capital projects

Project	Capital Expenditure £million
Land and buildings	10.583
Infrastructure	6.412
Vehicles, plant and equipment	2.936
Flood alleviation schemes	24.215
Total	**44.101**

Capital expenditure in year was funded as follows:

Table 5: 2014/15 sources of capital funding

Source	Funding £million
Prudential borrowing	9.687
General Capital Grant	32.186
Specific Capital Grant & designated receipts	0.938
Elgin High grant	0.500
Use of developer contributions & prior year grants	0.209
Other capital receipts generated in year	0.581
Total	**44.101**

Efficiency savings

The Council is required to contribute annual savings towards the Scottish Government's Efficiency Targets. The target for 2014/15 was set at 3% of the Council's net revenue budget for General Services. In the event the Council has achieved £5.788million of savings which represents 3.05% of the net revenue budget, meaning the Council has met its efficiency target in the year.

The key areas where efficiencies were achieved are set out below:

Table 6: Efficiency savings 2014/15

Source	Savings £ million	% of total
Designing Better Services	1.861	32%
Asset Management	1.170	20%
Improved Performance	1.373	24%
Other	1.384	24%
Total reported	**5.788**	**100%**

Designing Better Services – This programme has been a key focus for efficiency savings for the Council for the past few years. The most significant area of savings relates to Procurement (£1.443million total savings).

Asset management – This incorporates two key areas of efficiency generation: capital receipts of £0.581million earned on the disposal of surplus assets; and energy efficiencies of £0.589million. COSLA guidance allows capital receipts to be classified as efficiency savings in the year they are realised on the basis that asset disposals free up public resources.

Improved Performance – This programme relates to various efficiency schemes across the Council to improve service performance and reduce costs. The most significant element of savings was delivered through a reduction in the unit cost of refuse collection and disposal (£0.659million).

Other – A variety of different smaller schemes were delivered during the year, with the most significant being a change in the balance of care provided by the Council from residential to domiciliary care (savings of £0.235million) and £0.401million earned as a result of moving from in-house to external providers.

Exit packages

The Council has incurred a total of £0.173million in 2014/15 for exit packages agreed in respect of compulsory redundancies or other agreed departures. The table below sets out the number and value of packages agreed:

Table 7: Exit packages

Exit package cost band (including special payments)	Total number of exit packages by cost band		Total cash value of exit packages in each band	
	2014/15	2013/14	2014/15 £	2013/14 £
£0 – £20,000	8	26	53,528	96,865
£20,001 - £40,000	1	5	32,622	117,186
£80,001 - £100,000	1	2	86,560	173,478
Total	10	33	172,710	387,529

We have performed sample testing over the exit packages in 2014/15 and can confirm that the packages selected were approved in accordance with the Council's policies and procedures.

The Scottish Government has issued statutory guidance which gives local authorities financial flexibility in meeting the costs associated with equal pay and severance (Finance circular 4/2015 Equal pay and severance) as follows:

- delay the financial impact of equal pay and severance until a cash payment is made;
- use capital receipts to fund equal pay back pay settlements and severance payments.

The statutory guidance, which is not mandatory but gives authorities flexibility, applies from 1 April 2014 and will expire on 1 April 2018.

Full time equivalent employees decreased slightly from prior year. Sometimes a reduction in FTE corresponds to an increase in overtime and additional hours and thus the savings earned on redundancies are not realised. We performed an analysis on the overtime and additional hours incurred in 2013/14 (£4.6million) compared to 2014/15 (£4.1million) and these have in fact decreased, indicating that any savings earned by redundancy schemes are not being eliminated due to an increase in overtime and additional hours.

2015/16 Budget

Revenue budget

Total revenue expenditure budgeted for 2015/16 is £197.891million. This includes £3million which relates to estimated pay and price increases and £2.760million for other budget pressures such as a rise in the number of elderly people, an increase in additional support needs in schools and a decrease in expected income streams. The original 2015/16 budget had a funding gap of £1.525million which will be bridged by savings of £1.297million, with the remaining £0.228million expected to be funded from Reserves.

Given the Council's healthy reserves balance, financial pressures are not having an immediate impact on the Council's ability to maintain services. However, this is not a sustainable position in the long term and as a result, the Council has highlighted its concerns regarding the sustainability of operations in its overall Financial Planning Strategy document. This is further discussed in the 2016/17 Budget section below.

Capital budget

The Capital Budget for 2015/16 has been set at £32.779million, the most significant elements of spend being £11.240million required to maintain the Council's operations at the current level, £10.502million required to ensure the Council meets their set priorities and £8.327million on further flood alleviation schemes in Elgin and Forres.

The £11.240million is primarily to be spent on swimming pool refurbishments and upgrades, carriageway resurfacing and reconstruction and vehicle and dredger replacements. The £10.502million is primarily to be spent on schools estate investment, contribution to the Schools for the Future funding package, development of Western Distributor Route and Newmill flood alleviation scheme.

The capital budget is to be funded primarily through prudential borrowing of £11.434million, as well as the general and specific capital grant allocations received by the Scottish Government.

Grant allocations agreed by the Scottish Government

The Council's indicative grant allocations for 2015/16 as contained in the Local Government Finance Circular no. 2/2015 issued on 12 March 2015 as compared to 2014/15 are as follows:

	2015/16 £million	**2014/15 £million**
Non Domestic Rates	36.789	34.637
General Revenue Grant	123.592	122.802
Total revenue	**160.381**	**157.439**
General Capital Grant	12.556*	32.186
Specific Capital Grants	3.817	5.871
Total capital	**12.695**	**38.057**

*The significant reduction in grant income across the two years relates to £21m of additional grant funding received in 2014/15 relating to major flood alleviation schemes.

2016/17 and onwards Budget

The Council's Financial Planning Strategy highlights three main concerns:

1. Annual operating costs need to be reduced by £15million by 2017/18;
2. £300million capital investment is required over the next 10 years to maintain the Council's estate; and
3. Whilst the Council has significant reserves, these can only be used once.

Projected budgets for 2016/17 and 2017/18 show the following:

	2016/17 £million	2017/18 £million
Funding Gap	9.577	6.960
Savings yet to be identified	8.437	6.580

Whilst this gap in funding over the next two years could be absorbed by the current level of reserves, this is not a sustainable position. The financial strategy points to a number of potential considerations to address the shortfall in funds, such as remodelling, reducing service provision and increasing charges. Councillors have been provided with information on the challenges the Council is facing. This includes detailed elements of Council budgets. They have been requested to identify changes to be implemented to move towards a sustainable model of service delivery. As a result, Councillors have already commissioned a number of strategic reviews, such as:

- Waste management
- Leisure services
- Sustainable education
- Integration of health and social care
- Children's services

The intention is that the outcome of these reviews will inform the future financial planning process. At this stage, the Council is working towards identifying potential areas for savings. These will then be prioritised and implementation plan created based on savings needed.

Financial standing

As this stage, based on our audit work performed, we have no immediate concerns over the financial standing of the Council. However, long term financial planning shows significant funding gaps and unidentified savings in the next few years. The Council is in the process of identifying, prioritising and implementing savings plans. This should be closely monitored to ensure the Council is able to bridge these forecasted funding gaps to maintain service delivery.

See *Action Point 1*.

Health and social care integration

The Public Bodies (Joint Working) (Scotland) Act 2014 was passed in April 2014 as part of the Scottish Government's agenda to drive improvement in the provision of health and social care services. The Act details the integration models available to Health Boards and Local Authorities in developing their integration strategies as well as required documentation and timescales for delivery of integration schemes.

In 7 August 2013 the Council approved the decision to deliver integrated health and social care services through an Integration Joint Board ("IJB") with NHS Grampian. Since that date the IJB has developed an Integration Scheme in line with Scottish Government guidance, which was approved by full Council on 4 March 2015. The governance arrangements and initial plans have been put in place to allow for two parties to work through this next transitional year, aiming for full integration by April 2016.

Financial plans/budgets

An Annual Net Budget for the 2015/16 year has been set for the IJB at £67.619million, with the budget split as follows:

	£million
Community Health and Social Work Services	8.082
Learning Disabilities	3.844
Mental Health/Addictions	7.130
Adult Protection and Health Improvement	0.173
Care Services provided in-house	13.538
Older People and PSD Services	16.038
Care Services provided by external contractors	8.932
Moray Wide Services	7.416
Admin and Management	2.466

Governance arrangements

The remit of the IJB is to prepare and implement a Strategic Plan for the provision of health and social care services. Moray Council and NHS Grampian will support the IJB, but it will have a distinct legal personality and the autonomy to manage and make decisions itself. The Board of the IJB will be made up on 3 Council nominees and 3 Health Board nominees.

In addition, a Joint Performance Management Group has been created to oversee the implementation of the Strategic Plan and to evaluate outcomes for individuals living in the Moray integration authority area. Council members of the Joint Performance Management Group comprise The Joint Performance Quality Officer, The Strategy Development Officer, Support Officer (Research & Information), Commissioning & Performance Manager, Senior Health Intelligence Officer, Integration Project Officer, Interim Business Manager and Performance Officer. NHS counterparts are also in attendance.

Section 4. Best value and performance

Performance management

The Council's performance management arrangements are laid out within its Performance Management Framework. This Framework aims to link the planning, reporting and review of performance at a Community, Corporate and Service Level. For example, at a corporate level, objectives are set out within the Corporate Plan will be monitored through performance reports and performance will be reviewed through a Corporate self-assessment using the Public Service Improvement Framework (PSIF). A similar process is detailed within the Framework for Community Planning and Council services.

The Council monitors and reports against over 300 performance measures, being a mixture of local and statutory indicators. Indicators are aligned to the Moray 2023 priorities. Performance reports are produced and published quarterly via the Council's website and are reported to service committees, Corporate Management Team and sub-committees of the Council either quarterly, half–yearly or yearly depending on the nature of the indicators being presented and the committee timetable.

We reviewed sample of minutes for the Council's service committees and found that performance is reported in line with the performance reporting timetable. We evidenced discussion of areas of improving performance, areas which still require improvement and the actions being taken to improve performance. We also noted instances of committee challenging the performance information that was presented. We also noted instances where the appropriateness of performance indicators was reviewed and new performance measures considered.

Statutory performance indicators

The Accounts Commission has a statutory responsibility to define the performance information that councils must publish in the following financial year. In 2014/15 the Commission has recognised the progress made by Councils in developing their performance data as set by the Local Government Benchmarking Framework (LGBF). Auditors are required to review the arrangements in place for collecting, recording and publishing performance data in accordance with the direction as set by the Accounts Commission.

Our review of SPI's in the year noted steps taken by the Council to strengthen the performance arrangements in place:

- The Council has reviewed the reliability of the data for one third of its performance indicators and will continue to work through the remainder in 2015/16; and
- The Council has developed a Customer Focus Strategy and Customer Charter to assist in delivering information which is relevant to its communities.

We did not identify any issues in relation to the arrangements in place for gathering and reporting performance data.

Significant trading operations

Local authorities have a duty under section 10 of the Local Government in Scotland Act 2003 to conduct each of their significant trading operations so that income is not less than expenditure over each three year period.

Moray Council has reviewed its operations and concluded that no significant trading operations exist for reporting purposes.

Asset Management

The Council's Corporate Asset Management Plan was updated in 2014/15 and approved by Policy and Resources Committee on 4 November 2014. Key targets for 2014/15 and 2015/16 have been formalised and include: the need to benchmark the Plan against the Corporate Asset Management Plans of other Councils; to review the 10 year capital plan; to develop how risks will be reported; to identify areas for improvement in the plan; and to begin to develop more specific plans for issues that have already been identified.

Borrowing and treasury management in Councils

In March 2015 Audit Scotland published its report "*Borrowing and Treasury Management in Councils*" which made recommendations in the following key areas of treasury management:

- Use of the treasury strategy by Officers to present a wider strategic view of borrowing and treasury management, and the preparation of longer term analysis in relation to treasury management;
- Sharing of strategies and joint planning with other Councils;
- Review of annual reports to ensure that a review of the effectiveness of the borrowing and treasury management activities is conducted;
- Review of governance arrangements in relation to borrowing and treasury management to ensure these are appropriate; and
- Consideration of the training arrangements to support Councillors to ensure that scrutiny arrangements are sufficiently robust.

The Council considered the Audit Scotland report's recommendations and responses/action plan was presented at the Audit and Scrutiny Committee on 10 June 2015.

The Council updates its Treasury Management Strategy annually. The policy covers prudential and treasury indicators; the current treasury position; prospects for interest rates and economic background; the borrowing strategy; the policy on borrowing in advance of need; debt rescheduling; financial derivatives; and the investment strategy. The Annual Investment Strategy highlights the Council's creditworthiness policy, permitted investments and non-treasury investments.

The Council's financial planning includes implications of existing and future borrowing requirements in the overall forecast position; however, the Council feels more in depth long term financial planning has been restricted by the insufficient UK and Scottish Government spending review information as the certainty of future government funding is unclear.

An annual year-end report is presented to the Policy and Resources Committee which outlines Prudential Indicators and Treasury Management performance information, using the audited annual report figure from the previous year.

The Council has the opportunity to share good practice and ideas around Treasury Management with other Councils through their participation within the Treasury Management Forum (group of treasury officers across Scotland) and the Directors of Finance Group.

Training options for the Council members include an induction at the start of each administration as well as additional briefings prior to any key Treasury Management reports are reviewed. The Scrutiny checklist provided by Audit Scotland with their report on Treasury Management was presented for members' consideration along with the responses on 10 June 2015.

Scottish Government Guidance on Management Commentary

The Scottish Government has issued guidance on the preparation of a management commentary which the accounts regulations require to be included in the annual accounts from 2014/15. Finance circular 5/2015 '*The*

Local Authority Accounts (Scotland) Regulations 2014' provides statutory guidance on the content of the management commentary within Local Authority accounts.

The statutory guidance interprets the content of the strategic report required by the Companies Act in a local authority context requiring commentary on areas including performance in the year, a description of the principal risks and uncertainties facing the authority and financial key performance indicators.

We have reviewed the Council's Management Commentary against the Finance Circular 5/2015 guidance and consider that management has made the necessary disclosures. We also consider the management commentary to be consistent with the financial statements.

Community Planning Partnerships - Audit Scotland Follow Up

Audit Scotland has audited 8 community planning partnerships (CPPs) since 2013 and produced a national report on community planning in Scotland *Community planning: turning ambition into action* in November 2014. The audit report on Moray CPP was published in July 2014 as part of the second tranche of five local CPP audits that took place during 2014/15.

The audit focused on:

- to what extent has Moray CPP set a clear strategic direction, agreed by all partners, that reflects Moray's needs?
- are Moray CPP's governance and accountability arrangements appropriate and do they allow it to improve outcomes for local people?
- to what extent does Moray CPP encourage collaborative behaviour among staff and use its resources, including money, staff and property, to deliver joint priorities and outcomes?
- how well is Moray CPP delivering the outcomes contained in its Single Outcome Agreements (SOAs) and is it reporting these clearly and accurately to the public?

This report included a ten point improvement agenda for the CPP and in 2015 Audit Scotland carried out some follow up work to assess what progress the CPP has made in addressing these improvement areas. Progress as at September 2015, as assessed by Audit Scotland, is detailed below.

Strategic direction

At the end of 2014 Moray CPP carried out a self assessment with the Improvement Service with resulting in the production of an action plan. Three priority areas were identified; community engagement, prevention and public relations, with contributing groups and partners, outcomes and timeframes identified. In respect of public relations priority, a draft action plan has been prepared and will be submitted to the CPP Board shortly. Regarding the Community Engagement and Prevention priorities, the self assessment confirmed the actions set out in the action plan produced by the Board following on from the CPP Audit Report.

Prevention

Moray CPP now has undertaken a full review of current preventative activities across the partnership linked to the SOA priorities. Work has also been done to gather cost information against these priorities and the CPP Board has approved funds for this prevention work. A Prevention Working Group has been formed to progress this activity.

Community Engagement

Since the action plan was agreed, the lead officer for community engagement has provided two update reports to the Community Planning Board and led a workshop for the Community Planning Officer Group (CPOG). The second report to the Board followed on from the workshop and provided a commitment from CPOG to ensure that the each organisation will report back on the resources it makes available for community engagement and to identify a lead officer from that resource who will be responsible for participation in the Community Engagement Group (CEG) and liaising with the senior management team within their organisation with responsibility for services in Moray. The aim is to enable CEG to take responsibility for the coordination of all community engagement activity in Moray. The first step will be to ensure that all such proposed activity is notified to the CEG. The second stage will be for CEG to work with all the partners to establish a coherent rolling plan of community engagement activities. CPOG are due to report back to CEG and the Community Planning Board in November 2015 on progress. The CEG will take into account the impact of changes resulting from the Community Empowerment Act when establishing the rolling plan of activities.

Section 5. Governance and internal control

Governance arrangements

The Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for, and used economically, efficiently and effectively. In discharging this responsibility the Council has put in place arrangements for the governance of its affairs, through its sub-committees.

The Council and its sub-committees are governed by its Standing Orders, a Scheme of Delegation and its Financial Regulations, all of which were updated in 2014/15.

The committee structure remained unchanged during 2014/15, except for the fact that the Audit and Performance Review Committee changed its name to the Audit and Scrutiny Committee.

The Council leadership changed in the year, with the Convenor of the Council and Leader of the Council switching roles on 1 January 2015. The Council membership is constructed as follows:

- Twelve (46%) Scottish National Party members
- Nine (35%) Independent members
- Three (11%) Scottish Conservative and Unionist
- Two (8%) Labour

We consider that the governance arrangements in place are appropriate.

Accounting systems and systems of internal control

Management is responsible for developing and implementing systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Weaknesses or risks identified by auditors are only those which have come to our attention during the normal audit work in accordance with the Code, and may not be all that exist. Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

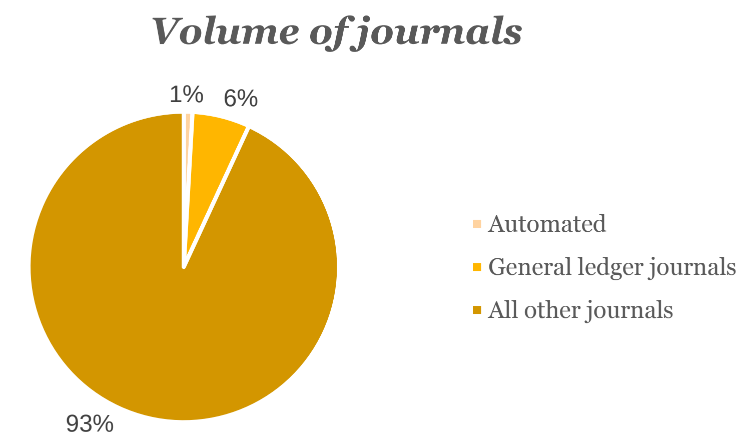
General ledger transactions

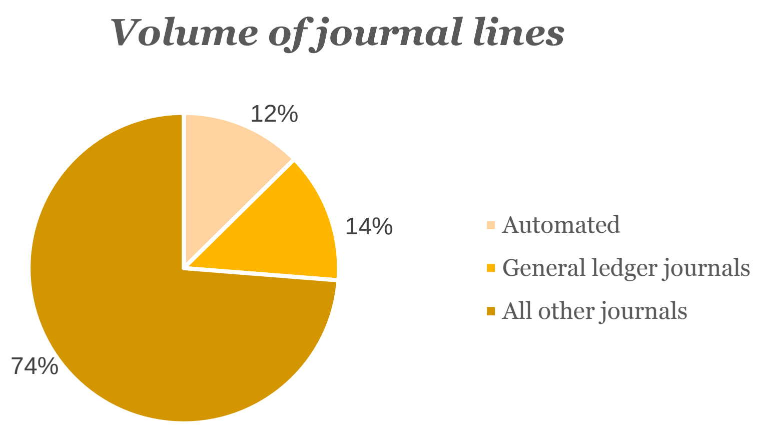
In accordance with *ISA (UK&I) 240 (revised): The Auditor's responsibilities relating to fraud in an audit of financial statements* an auditor is required to test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.

For our journals testing in 2014/15 with have used a data auditing package, 'Halo', which is an application that analyses and assures data using a suite of algorithms. We have used this software to focus our journals testing on the arears of greatest risk and through this process we have identified the following key trends in the Council's use of journal entries:

- Strictly automated journals (i.e. journals being posted through automatic interfaces between systems) was a small amount (1%) of total journals posted. However, these had a significant number of lines within each journal being posted (13% of total journal lines posted).
- Traditional manual journals (i.e. general journals posted into the ledger) made up only 6% of total journals posted, which indicates most journals posted are going through a set process (sales ledger, purchase ledger, etc.) and not through direct manual general journals.

- Non-automated journals which require an element of manual intervention, but not through a direct general ledger journal, made up the significant majority of journals posted (93%). This means that the significant majority of journals posted are going through a pre-defined process within the general ledger, for instance through the sales and purchases ledgers, although there is still manual intervention required.
- 213 distinct users posted journals on the system during the year. Due to the number of users, access rights should be continually monitored and managed to ensure appropriateness.





Control deficiencies

We have no significant matters to bring to your attention in relation to the system of internal control.

Based on our work performed we consider the systems of internal control to be appropriate.

Risk management

The Council approved the latest Risk Management Strategy on 12 May 2015. It is driven by the Council's management of risk, supported by departmental/service plan objectives. The strategy outlines roles and responsibilities, the risk management principles adopted by the Council and the role of Internal Audit in tailoring its annual work plan to focus on the key areas of risk.

Operational risk registers are reviewed annually, with the corporate risk register considered every six months by the Corporate Management Team. It is then reported to the Policy and Resources Committee on the same timeframe. Risks are assessed at both the strategic and operational levels and identified as falling within one of the following categories:

- Political;
- Financial;
- People;
- Regulatory;
- Environmental;
- Reputational;
- Operational Continuity and Performance; and
- IT

The corporate risk register was last updated in March 2015 and presented to Policy and Resources Committee in May 2015.

Internal Audit

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.

We have liaised with Internal Audit during our interim and final audit visits to review their programme of work for the 2014/15 financial year and to establish progress against the internal audit plan. We have also reviewed a summary of their completed reports to determine the main issues being reported to ensure that our audit takes account of any specific risks issues identified.

The 2014/15 Internal Audit plan highlighted twenty two reviews which were to be completed. At the end of March 2015, four were fully complete with the others in various stages of completion (from finalisation of draft report to planning). Internal Audit had numerous resource constraints they were working against as well as additional unplanned work or time being spent on other reviews. We noted, however, that except for an audit of aspects of council tax, the planned audit work on main financial systems was concluded and reported to meetings of the Audit and Scrutiny Committees in June and September 2015. This work informed the annual assurance opinion on the systems of internal control in the Internal Audit Annual Report for the 2014/15 year.

We have utilised the work Internal Audit has performed during the year to inform our risk assessment. We have also placed reliance on the work of Internal Audit in the following areas:

- Bus Service Operators grant claim; and
- Performance Indicators.

We also intend to rely on the work of Internal Audit to complete work on the following grant claims:

- Non Domestic Rates Income grant claim; and
- Housing and Council Tax Benefit Subsidy

Based on audit work performed we consider the Internal Audit function to be appropriate for the needs of the Council.

Section 6. Fraud

International Standards on Auditing (UK&I) state that we, as auditors, are responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. The respective responsibilities of auditors, management and those charged with governance are summarised below:

Auditors' responsibility

Our objectives 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 due to fraud, through designing and implementing appropriate responses; and
- to respond appropriately to fraud or suspected fraud identified during the audit.

Management's responsibility

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.

Responsibility of the Audit Committee

Your responsibility as part of your governance role is:

- to evaluate management's identification of fraud risk, implementation of anti-fraud measures and creation of appropriate "tone at the top"; and
- to investigate any alleged or suspected instances of fraud brought to your attention.

National Fraud Initiative (NFI) and Prevention and detection of fraud

The Council participates in the National Fraud Initiative (NFI). The Council has identified 3,058 matches for the 2014/15 year and as at 23 June 2015 management had investigated 1,925 of these and uploaded results on to the national NFI system. In accordance with our responsibilities as your appointed auditor, we have completed the NFI questionnaire for 2014/15 and noted the following key outcomes:

- No fraud had been identified through the investigations completed.
- The Council undertook certain follow up procedures outwith the NFI website at the time of completing the questionnaire. Duplicate creditor payments were identified through this exercise but had not been quantified on the NFI system.
- Progress relating to NFI has been reported to the Audit and Performance Review Committee in December 2014 and April 2015.

Based on audit work performed we consider that the controls in place to prevent and detect fraud or corruption to be suitable for the operations of the Council.

Standards of conduct and prevention and detection of corruption

The Council has a number of controls in place in order to prevent and detect fraud and corruption, including:

- Codes of conduct for both staff and Councillors;
- A confidential reporting (whistle blowing) policy;
- A range of financial controls such as segregation of duties and authorisation requirements;
- Policy to combat fraud, theft, bribery and corruption;
- Corporate Integrity Group;
- Fraud training for members; and
- Designated fraud officers within the Benefits fraud team.

In addition, a corporate fraud officer post has been created effective 1 August 2015 , the date on which responsibility for the investigation of Housing Benefits fraud was transferred to the Department for Work and Pensions' Single Fraud Investigation Service. The fraud officer is accountable to the Internal Audit Manager.

Based on audit work performed we consider that the standards of conduct and prevention and detection of corruption to be suitable for the operations of the Council.

Section 7. Independence

Independence and objectivity

We are required to follow both the International Standard on Auditing (UK and Ireland) 260 (Revised) “Communication with those charged with governance”, UK Ethical Standard 1 (Revised) “Integrity, objectivity and independence” and UK Ethical Standard 5 (Revised) “Non-audit services provided to audited entities” issued by the UK Auditing Practices Board.

Together these require that we tell you at least annually about all relationships between PricewaterhouseCoopers LLP in the UK and other PricewaterhouseCoopers’ firms and associated entities (“PwC”) and the Authority that, in our professional judgement, may reasonably be thought to bear on our independence and objectivity.

For the purposes of this engagement we have made enquiries of all PricewaterhouseCoopers’ teams and we have no independence issues to report.

Conclusion

We hereby confirm that in our professional judgement, as at the date of this document:

- we comply with UK regulatory and professional requirements, including the Ethical Standards issued by the Auditing Practices Board; and
- our objectivity is not compromised.

Appendix 1: Action plan

Finding	Management response
The Council has identified funding gaps for 2016/17 and 2017/18 of £9.577m and £6.960m respectively. At the date of this report, £8.437m of savings for 2016/17 and £6.580m of savings for 2017/18 had still to be identified. We recognise that the Council is in the process of identifying savings in order to prioritise and implement plans to identify the required savings, however, this should be closely monitored to ensure that the Council is able to achieve a balance budget.	The Corporate Management Team has established a strategy for financial planning and is working closely with the Administration Group to identify options to achieve balanced budgets over the next few years. The Corporate Management Team has also recently commenced similar work with the largest opposition group of councillors. Whilst it is clear that significant savings will be required there is also a high degree of uncertainty in relation to government grant funding and local taxation. Therefore, consideration of reductions in service provision needs to be balanced against these areas of uncertainty and this means that timescales have yet to be set for the completion of the next financial plan. That will not negate the need to prepare an annual budget for 2016/17 and this will be done within the statutory time limit. **Responsible Officer:** Corporate Management Team **Review Date:** January 2016

Appendix 2: Letter of representation

PricewaterhouseCoopers LLP
141 Bothwell Street
Glasgow
G2 7EQ

Dear Sirs

This representation letter is provided in connection with your audit of the financial statements of The Moray Council (the "Authority") and the consolidated financial statements of the Authority and its subsidiaries (together the "group") for the year ended 31 March 2015 for the purpose of expressing an opinion as to whether the financial statements of the Authority and the consolidated financial statements of the group give a true and fair view, have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 (the 2014/15 Code). Subsequent references in this letter to "financial statements" refer to both the financial statements of the Authority and the consolidated financial statements of the group.

We confirm that the following representations are made on the basis of enquiries of management and staff of the Authority and the group with relevant knowledge and experience and, where appropriate, of inspection of supporting documentation sufficient to satisfy ourselves that we can properly make each of the following representations to you.

We confirm, for all directors at the time the directors' report is approved, to the best of our knowledge and belief, and having made the appropriate enquiries, the following representations:

Financial Statements

- We have fulfilled our responsibilities for the preparation of the financial statements in accordance with the IFRSs as adopted by the European Union and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 (the 2014/15 Code).; in particular the financial statements give a true and fair view in accordance therewith.
- All transactions have been recorded in the accounting records and are reflected in the financial statements.
- Significant assumptions used by us in making accounting estimates, including those surrounding measurement at fair value, are reasonable.
- All events subsequent to the date of the financial statements for which IFRSs as adopted by the European Union and Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 (the 2014/15 Code) require adjustment or disclosure have been adjusted or disclosed.

Information Provided

- Each director has taken all the steps that he or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that you (the Authority's auditors) are aware of that information.
- We have provided you with:
  - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
  - Additional information that you have requested from us for the purpose of the audit; and

- Unrestricted access to persons within the group from whom you determined it necessary to obtain audit evidence.
- So far as each director is aware, there is no relevant audit information of which you are unaware.

Fraud and non-compliance with laws and regulations

- We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the group and involves:
  - Management;
  - Employees who have significant roles in internal control; or
  - Others where the fraud could have a material effect on the financial statements.
- We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the Authority and group's financial statements communicated by employees, former employees, analysts, regulators or others.
- We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

Related party transactions

We confirm that we have disclosed to you the identity of the Authority's related parties with which there have been transactions with during the financial year (see appendix). We confirm that there are no other transactions with related parties that are required to be disclosed.

The attached appendix to this letter also discloses all related parties as documented within the Authority's register of interests as well as additional parties disclosed separately by Council members and senior management. We are not aware of any other related parties that require to be disclosed within this.

Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 (the 2014/15 Code).

We confirm that we have identified to you all members of key management, as defined by IAS 24, and included their remuneration in the disclosures of key management compensation.

Employee Benefits

We confirm that we have made you aware of all employee benefit schemes in which employees of the Authority and the group participate.

Retirement benefits

- All retirement benefits that the Authority and the group is committed to providing, including any arrangements that are statutory, contractual or implicit in the Authority's and the group's actions, wherever they arise, whether funded or unfunded, approved or unapproved, have been identified and properly accounted for and/or disclosed.
- All settlements and curtailments in respect of retirement benefit schemes have been identified and properly accounted for.

- The following actuarial assumptions underlying the valuation of retirement benefit scheme liabilities are consistent with our knowledge of the business and in our view would lead to the best estimate of the future cash flows that will arise under the scheme liabilities:

	North East Scotland Pension Fund
	31 March 2015
Financial assumptions:	
Discount rate	3.2%
Rate of increase in salaries	3.5%
Rate of increase in pensions	2.0%
Rate of Inflation (CPI)	2.0%
Mortality assumptions:	
Longevity at 65 for current pensioners:	
Men	22.1 years
Women	24.7 years
Longevity at 65 for future pensioners:	
Men	24.3 years
Women	27.5 years
Long-term expected rates of return on:	
Equities	6.5%
Government bonds	2.2%
Other bonds	2.9%
Property	5.9%
Cash/current assets	0.5%
Other	Dependent on type of asset

- The Authority participates in the Scottish Teachers Superannuation Scheme which is a defined benefit scheme. We confirm that the Authority's share of the underlying assets and liabilities of this scheme cannot be identified and as a consequence the scheme has been accounted for as a defined contribution scheme.

Contractual arrangements/agreements

All contractual arrangements (including side-letters to agreements) entered into by the Authority and the group have been properly reflected in the accounting records or, where material (or potentially material) to the financial statements, have been disclosed to you.

Litigation and claims

We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements and such matters have been appropriately accounted for and disclosed in accordance with IFRSs as adopted by the European Union.

Taxation

We have complied with the taxation requirements of all countries within which we operate and have brought to account all liabilities for taxation due to the relevant tax authorities whether in respect of any corporation or other direct tax or any indirect taxes. We are not aware of any non-compliance that would give rise to additional liabilities by way of penalty or interest and we have made full disclosure regarding any Revenue Authority queries or investigations that we are aware of or that are ongoing.

In managing the tax affairs of the Authority and the group, we have taken into account any special provisions such as transfer pricing, debt cap, tax avoidance disclosure and controlled foreign companies legislation as applied in different tax jurisdictions.

Using the work of experts

We agree with the findings of the Estates team, experts in determining the value of the Authority's social housing dwellings, other land and buildings, community assets and surplus assets and have adequately considered the competence and capabilities of the experts in determining the amounts and disclosures used in the preparation of the financial statements and underlying accounting records. The Authority did not give or cause any instructions to be given to experts with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an impact on the objectivity of the experts.

Assets and liabilities

- We have no plans or intentions that may materially alter the carrying value and where relevant the fair value measurements or classification of assets and liabilities reflected in the financial statements.
- In our opinion, on realisation in the ordinary course of the business the current assets in the balance sheet are expected to produce no less than the net book amounts at which they are stated.
- We have no plans to abandon lines of product or other plans or intentions that will result in any excess or obsolete inventory, and no inventory is stated at an amount in excess of net realisable value.
- The Authority and the group has satisfactory title to all assets and there are no liens or encumbrances on the Authority's and the group's assets, except for those that are disclosed in the financial statements.
- We confirm that we have carried out impairment reviews appropriately, including an assessment of when such reviews are required, where they are not mandatory. We confirm that we have used the appropriate assumptions with those reviews.
- Details of all financial instruments, including derivatives, entered into during the year have been made available to you. Any such instruments open at the year-end have been properly valued and that valuation incorporated into the financial statements. When appropriate, open positions in off-balance sheet financial instruments have also been properly disclosed in the financial statements.

As minuted by the Council at its meeting on 16 September 2015.

....
Head of Financial Services

For and on behalf of ....

Date ....

[APPENDIX TO BE ADDED TO SIGNED LETER]