Moray Council

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

Year ended 31 March 2016

September 2016

PricewaterhouseCoopers, LLP
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26 September 2016

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 2016. 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 in March 2016. 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 substantially completed our audit work and expect to be able to issue an unqualified audit opinion on the financial statements on 26 September 2016, subject to the completion of our subsequent events procedures.

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

Yours faithfully

PricewaterhouseCoopers LLP

Contents

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 2016. We presented our plan to you in March 2016, 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 2016 and which comply with the CIPFA / LASAAC Code of Practice on Local Authority Accounting in the UK 2015/16 (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 2016 is **unqualified** subject to the completion of our 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 2015/16, as recorded in the comprehensive income and expenditure statement, the Council spent £296.937million on the provision of services. Income for the year totalled £282.570million, resulting in an accounting surplus of £14.367million.

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 a decrease in the General Fund balance of £0.331million, as set out below:

	£million
Reduction in Devolved School Management	(0.454)
Reduction in Central Energy Efficiency Fund	(0.045)
Increase in Other Funds	0.066
Increase in General Services	0.102
	(0.331)

The Council's approved 2015/16 budget anticipated the use of £0.797 million from reserves. However, various cost savings were realised, most notably service underspends of £2.346million and unspent budget provisions of £1.540million. These savings were offset by abortive costs of £2.603million in relation to the Western Link Road, which was removed from the capital plan as approved by the Council. Taken together, this resulted in an overall decrease to reserves of £0.331million. This reduction brings the closing General Fund balance for 2015/16 to £24.713million.

Total efficiencies achieved in 2015/16 were £5.840million Savings were realised through the Designing Better Services programme (£1.385million), Asset Management (£1.059million), Improved Performance (£0.899million) and also various other smaller schemes (£2.497million).

Total revenue expenditure budgeted for 2016/17 is £206.741million. Included within this overall budget is £2million of estimated pay and price increases and £5.962million of budget pressures (ranging from a rise in number of elderly people; to schools additional support needs; and a decrease in expected income streams). When setting the 2016/17 budget, an original funding gap of £10.097million was identified. Savings of £3.282million were identified, with the remaining £6.815million expected to be funded from the Council's reserves. With a closing balance of £24.713million as at 31 March 2016, this would represent approximately 28% 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.

In October 2015, Audit Scotland issued a report '*The Audit of Best Value and Community Planning- The Moray Council Progress Report*'. The Council's response to this report, and the areas of improvement identified, is discussed further in Section 5.

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 2015/16. The committee structure remained unchanged during 2015/16. The latest Risk Management Strategy was approved on 12 May 2015. Risk registers are maintained, at both operational and corporate levels. The corporate risk register was last updated in March 2016 and presented to Policy and Resources Committee in May 2016.

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 of Internal Audit to inform our risk assessment, we have not placed formal reliance on the work of Internal Audit for the purposes of the audit of the financial statements. However, we have relied upon their work for a number of grant claims we are required to certify as part of our audit appointment.

Fraud

The Council participates in the National Fraud Initiative (NFI). The council has invested considerable resources in assessing the validity or otherwise of the returned matches, with the exercise providing welcome positive assurances on the accuracy of the Council's systems. 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, and so on.

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

We would like to take this opportunity to 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 approach to the audit of the financial statements of the Council was set out in our Audit Plan presented to you in March 2016. 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 review, we have not changed our assessment of the audit risk and hence our audit approach remains unchanged.

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, using data analytics to focus our testing on journals that were considered higher risk in nature; - Review accounting estimates for bias and evaluate whether judgement and estimates used were 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. No such transactions were identified.; and - Perform unpredictable procedures targeted on fraud risks. We tested a sample of repairs and maintenance expenses to check they were genuine expenses. No exceptions were noted. **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 and expenditure recognition Under ISA (UK&I) 240 there is a presumption that there are risks of fraud in revenue recognition. For the Council we consider this to be a significant risk for certain revenue streams only. We extend this presumption to the recognition of expenditure in local government, as there is arguably greater risk associated with the recognition 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 revenue (focusing on non-grant funding only) and expenditure 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 and expenditure recognition; - Perform detailed testing over revenue and expenditure journals; - Review accounting estimates for income and expenditure to ensure that they are accounted for on an accurate basis and in the proper period; and - Perform testing over cut-off and unrecorded liabilities to ensure expenditure has been recognised in the correct period. **We did not identify any issues to report to you as a result of our work.**
Property Valuations The Council has a significant property portfolio on its balance sheet which was valued at £708 million (including £3.8m of investment property) at 31 March 2015. Given the quantum of this figure, and the number of assumptions used to determine the valuation, PwC's policy is to treat this as an elevated risk. However, we do not have any specific concerns over management's approach to property valuation.	Elevated ●	We have reviewed the valuation basis adopted for each category of property to ensure it is in compliance with the Code of Practice for Local Authority Accounting. This has involved the use of our internal property valuation experts. We also assessed the competence of management involved in undertaking the property valuation assessments. We have tested a number of individual assets to ensure that the valuation has been undertaken in accordance with policy and that the underlying data used is accurate. We also reviewed management's procedures to identify any indicators of impairment to the value of its properties for appropriateness; Finally we reviewed the useful economic lives attached to a sample of assets to ensure that it is an appropriate basis to calculate depreciation on. **We did not identify any issues to report to you as a result of our work.**

Risk	Categorisation	Results of work performed
Risk of misstatement in pension valuation The risk lies that the asset and liabilities of the pension fund may not be valued correctly, leading to a material misstatement in the pensions balance which is disclosed in the accounts	Elevated ●	We performed procedures to: - Confirm securities held by custodians and other parties; - Examine the pension and post-employment benefit plan items recognised in total comprehensive income; - Perform detailed testing over the fair value of plan assets; - Assess actuarial valuation and assumptions applied to the pension liability; - Test discount rate and other assumptions against expected benchmark amounts; - Test the accuracy of employee data used by actuary in determining the liability of the pension scheme; - Performed a reasonableness test over the assets apportioned to Moray Council by the actuary; - Liaised with the external auditors of the North East of Scotland Pension Fund to understand the procedures performed over the valuation of assets; - Perform detailed testing over defined benefit plan contributions; and - Perform detailed testing over multi-employer pension scheme assets. **We did not identify any issues to report to you as a result of our work.**
Wider Scope Audit Risk – Financial Sustainability There is unprecedented financial pressure on local government in Scotland as a result of ever increasing demand during a period of financial austerity in UK public services. This is leading to Councils across the country finding it increasingly difficult to bridge budget gaps through efficiency savings and service reductions. As a result there is an increasing risk that financial statements could be manipulated through manual transactions to present a financially sustainable position.	Elevated ●	During the interim visit we built our understanding of the 2015/16 financial performance and tailored our substantive testing programme to reflect the areas of risk such as cut off, provisioning and unrecorded liabilities. We reviewed management's financial plans going forward and considered management's arrangements to manage its future financial position through identification of savings proposals and income generating initiatives. **Our commentary in relation to financial sustainability of the Council is set out in Section 3.**

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	**5,726,340**	**5,869,910**
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	**4,294,755**	**4,402,440**
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. This was calculated as gross expenditure plus other operating 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 Full Council 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 2015/16 unaudited accounts.

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.

Judgements 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

The Council participates in two schemes, the North East Scotland Local Government Pension Scheme (NESPF) which is administered by Aberdeen City Council and the Scottish Teachers' Superannuation Scheme (SSTS) which is administered by the Scottish Government through the Scottish Public Pensions Agency. The STSS is accounted for as a defined contribution scheme and as such no underlying pension liabilities are recognised in the balance sheet.

In order to ascertain the value of scheme assets and liabilities attributable to the Council from the NESPF, an actuarial valuation is conducted on an annual basis by independent firm of actuaries. In financial year 2015/16 the Council recognised a pension liability of £97.858million (2014/15: £111.740million).

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, both set at 2%, thus in line with expectation.
Salary increase rate	3.50%	3.00% - 4.30%	Within acceptable range.
Discount rate	3.5%	3.25% - 3.60%	Within acceptable range.
Longevity – current pensioners	Male – 22.1 Female – 24.7	Male – 22.2 Female – 24.6	This is a guide only and should be scheme specific. The assumptions used are deemed reasonable.
Longevity – future pensioners	Male – 24.4Female – 27.6	Male – 23.5 Female – 26.1	This is a guide only and should be scheme specific. The assumptions used are deemed reasonable.
CPI inflation	2.00% (0.9% - 1.0% below RPI)	1.95% - 2.00% (0.8% - 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 2015/16 accounts in relation to equal pay. This is consistent with the 2014/15 provision, as none of the provision was utilised during the year and no new claims have arisen during the year. The provision is deemed reasonable given the level of outstanding claims remaining and the Council's assessment of the likelihood of further claims.

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. There was a £0.300million closing provision within the 2014/15 accounts which related to one outstanding claim going through legal proceedings A settlement was made in June 2015 and the entire provision was released in 2015/16.

Property, plant and equipment valuation

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

Valuation of property, plant and equipment

The Council's property portfolio is subject to a 5 year rolling revaluation programme which is undertaken by the Housing and Property Department. Through this programme all assets are formally revalued on a five yearly basis.

The revaluation exercise in 2015/16 has resulted in a net upward revaluation of £91m in the current year relating to land and buildings. This was largely due to all the HRA housing stock being re-valued in 2015/16, which have resulted in a net upward revaluation of £82m to Council Dwellings. We have selected a sample of revaluations performed in the year and engaged our internal valuations experts to consider the methodology and assumptions applied in reaching the valuation. We have also tested the accuracy of the inputs into the each revaluation exercise. We have noted no issues in relation to the work performed.

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 Interest 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 Interest 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.

As part of our audit, we received a confirmation, signed by the Head of Financial Services, detailing related parties for Councillors and Senior Management. We performed testing over the completeness of this listing and no exceptions were noted.

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:

The 2015/16 Code includes the requirements under the Local Authority Accounts (Scotland) Regulations 2014 for Scottish local authorities to undertake a review of internal control and produce an Annual Governance Statement as part of the Annual Accounts"

Moray Council does include an Annual Governance Statement within its annual accounts. This statement reviews the effectiveness of the system of internal control in operation and it 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.

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 2016.

Accounting matters for 2016/17

The following amendments have been identified in the 2016/17 CIPFA code:

- Amendments to IAS19 Employee Benefits (Defined Benefit Plans: Employee contributions) (November 2013)
- Amendment to IFRS 11 Joint Arrangements (Accounting for Acquisitions of Interests in Joint Operations) (May 2014)
- Annual Improvements to IFRSs 2010-2012 Cycle & 2012-2014 Cycle
- Amendment to IAS 16 Property, Plant & Equipment and IAS 38 Intangible Assets (clarification of Acceptable Methods of Depreciation and Amortisation) (May 2014)
- Amendment to IAS 1 Presentation of Financial Statements (Disclosure Initiative) (March 2014)
- The changes to the format of the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement and the introduction of the new Expenditure and Funding Analysis

In addition, 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

2015/16 Financial Performance

The Council recorded a deficit of £14.367million on the provision of services in 2015/16, compared to a surplus of £16.490million in 2014/15. This deficit 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 2015/16 is summarised in the table below.

Table 2: Financial performance

	2015/16 £000		2014/15 £000	
Net Cost of Services	**208,768**		**196,885**	
Taxation and Non-Specific Grant Income	215,772		230,523	
Other operating expenditure	6,141		1,799	
Other Income and Expenditure (Financing and Investment)	15,230		15,349	
Deficit/(Surplus) on Provision of Services	**14,367**		**(16,490)**	
	General Fund	**HRA**	**General Fund**	**HRA**
Surplus/(Deficit) on Provision of Services	**(6,663)**	**(7,704)**	**18,692**	**(2,202)**
Adjustments between accounting basis and funding basis under regulations.	6,341	7,458	(15,020)	2,682
Net Increase/(Decrease) before Transfers to Reserves	**(322)**	**(246)**	**3,672**	**480**
Transfers to/(from) Reserves	(9)	(9)	(9)	(9)
Increase/(Decrease) in Year	**(331)**	**(255)**	**3,663**	**471**
Opening Balance	**25,044**	**1,597**	**21,381**	**1,126**
Closing Balance	**24,713**	**1,342**	**25,044**	**1,597**

Both the General Fund and Housing Revenue Account balances decreased in the year as the Council was required to utilise brought forward reserves balances as originally approved within the 2015/16 budget.

Performance against Budget

An analysis of the 2015/16 General Fund budget compared to actual outturn is set out in the table below:

Description	2015/16 Budget £000	2015/16 Actual £000	Variance £000 Underspend/(Overspend)
Education & Integrated Children's Services	95,614	95,449	165
Health & Social Care	40,029	40,628	(599)
General Services Housing & Property Service	3,929	3,471	458
Direct Services	24,040	23,461	579
Development Services	4,384	4,095	289
Corporate Services	11,220	10,436	784
Chief Executive	2,083	1,964	119
Other Services	1,912	1,755	157
Loan Charges	13,309	15,466	(2,157)
Provision for Contingences and Inflation	451	0	451
Additional Costs	1,090	0	1,090
Additional Savings	613	0	613

The key variances against budget were as follows:

- **Corporate Services -** Total underspend for the year was £784,000, primarily due to the staff savings target being exceeded by £374,000. The service also benefitted from a net underspend of £186,000 in welfare benefits

- **Loan Charges -** The overspend arose due to the outstanding loan balances on the previously capitalised work on the Western Link Road being treated as abortive costs which have to be charged to the revenue account. Following the Council's decision to remove the project from the capital plan, £2.200million previously capitalised costs were expensed.

- **Additional Costs** – the budget included a contingency for unexpected cost pressures which were not realised.

The 2015/16 Housing Revenue budget and compared to actual outturn is set out in the table below:

Description	2015/16 Budget £m	2015/16 Actual £m	Variance £m Underspend/(Overspend)
Repairs & Maintenance	6.384	7.008	(0.624)
Supervision & Management	3.841	3.553	0.288
Sheltered Housing	0.029	0.032	(0.003)
Financing Costs	3.629	3.663	(0.034)
Bad & Doubtful Debts	0.200	0.088	0.112
CFCR	2.138	2.575	(0.437)
Downsizing Incentive Scheme	0.050	0.032	0.018
Service Development	0.095	0.038	0.057
DBS Contribution	0.130	0.130	0

The key variances against budget were as follows:

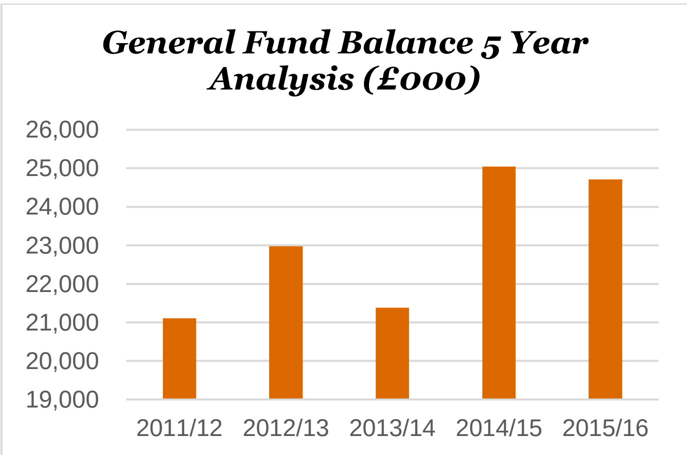
- **Repairs and maintenance -** the overspend of £624,000 is due to a Direct Labour Organisation (DLO) overspend, additional expenditure incurred on the Home Energy Efficient Programme and additional planned repairs and maintenance activities. As highlighted earlier, our unpredictability testing focussed upon testing a sample of repairs and maintenance expenses to check they were genuine expenses. No exceptions were noted.

- **Capital From Current Revenue (CFCR)** - an additional £437,000 was allocated to CFCR to help reduce borrowing costs and thus supporting s the Council's strategic aim to continue to fund its new build housing programme.

Reserves

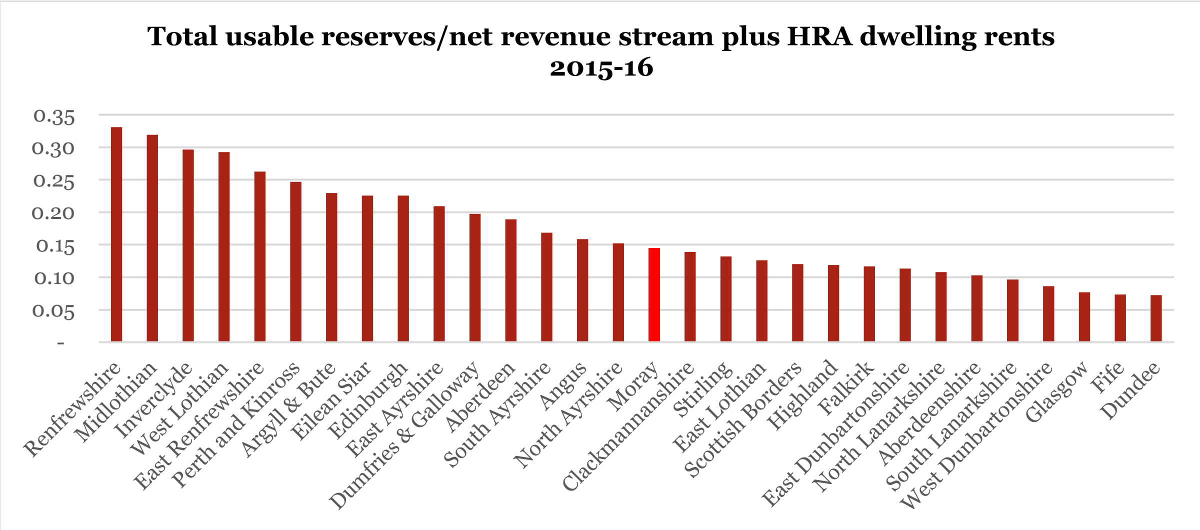
The Council's general fund balance has decreased by £0.331million in the current year. The table below shows the movements in the general fund over the last five years.

Table 3: General fund balance 2011/12 – 2015/16



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

A Reserves strategy which reflected existing custom and practice, was approved by the Council on 7 June 2016 which details the types of reserves held by the Council and what they can be used for. This was done at the request of elected members following consideration of an Audit Scotland report. "An Overview of Local Government in Scotland 2016". It was agreed that this would be revised every 3 years.

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 £24million. However, given the current financial challenges being faced by the Council the use of reserves is planned over the coming financial years.

Capital Expenditure (General Services)

For General Services, the Council had a capital expenditure budget for 2015/16 of £36.234million, against which £32.529million of expenditure was incurred. The underspend is due to mixture of factors: there was a £0.906million underspend in the refurbishment of primary schools due delays in programme of works; and an underspend of £0.870million in industrial estates expenditure is a result of delays in concluding missives for the purchase of additional land at Buckie. The remaining variance is explained by a mixture of smaller underspends, offset by overspend of £1.018million on flood alleviation schemes due to expenditure being incurred earlier than expected.

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

Table 4: 2015/16 capital projects

Project	Capital Expenditure £million
Land and buildings	10.624
Infrastructure	8.415
Vehicles, plant and equipment	4.460
Flood alleviation schemes	9.030
Total	**32.529**

Capital expenditure in the year was funded as follows:

Table 5: 2015/16 sources of capital funding

Source	Funding £million
Prudential Borrowing	16.112
General Capital Grant	14.134
Specific Capital Grant	0.139
Government Grant	1.669
Developer Contributions	0.082
Other capital receipts to be generated in year	0.393
Total	**32.529**

As part of discussions on the affordability of the Council's capital plan for 2016/17, at a Full Council meeting on 30th March 2016, it was agreed that the Western Link Road (WLR) be removed from the capital plan. This resulted in previously capitalised expenditure of £2.2million being expensed. WLR, previously known as the 'Elgin Western Distributor Road' project was first introduced in 2010/2011 and approved by the Full Council. It has now been proposed that a new transport strategy for Elgin should be developed in order to address the issues of changes in landscapes/ new sites developed, assess the impact of the anticipated planning applications on local road networks and the opportunities that exist for the WLR developer contributions to be applied to other network enhancements. An initial indication is that such a strategy will cost approximately £100k to develop.

Efficiency savings

The Council is required to contribute annual savings towards the Scottish Government's Efficiency Targets. The Council has achieved £5.840million of savings in 2015/16. The table below provides an overview of the final savings reported for 2015/16.

Table 6: Efficiency savings 2015/16

Source	Savings £ million	% of total
Designing Better Services	1.385	24%
Asset Management	1.059	18%
Uptake of Services	0.495	9%
Improved Performance	0.899	15%
Other	2.002	34%
Total reported	**5.840**	**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 (£1.132million total savings).

Asset management – This incorporates two key areas of efficiency generation: capital receipts of £0.435million earned on the disposal of surplus assets; and energy efficiencies of £0.624million. 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.

Uptake of Services- Efficiencies have been achieved by increased uptake of services following initiatives to target service users or to develop services, ie increased uptake of school meals (£0.161million). In addition to the extra income generated, this has led to a drop in unit cost which equates to an efficiency saving of £235,000.

Improved Performance – This programme relates to various efficiency schemes across the Council to improve service performance and reduce costs. The savings were delivered through a range of projects, including a reduction in the unit cost of refuse collection and disposal.

Other – A variety of different smaller schemes were delivered during the year, with the most significant being a greater use of out-sourced domiciliary care, resulting in savings of £0.447million. Also the increased use of e-training resulted in efficiencies of £0.206million.

Exit packages

The Council has incurred a total of £25,000 in 2015/16 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	
	2015/16	2014/15	2015/16 £	2014/15 £
£0 – £20,000	2	8	1,522	53,528
£20,001 - £40,000	1	1	23,920	32,622
£80,001 - £100,000	-	1	-	86,560
Total	3	10	25,442	172,710

We have performed sample testing over the exit packages in 2015/16 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.

2016/17 Budget

Revenue budget

Total revenue expenditure budgeted for 2016/17 is £206.024million. Within this overall budget is £2million which relates to estimated pay and price increases and £5.682million 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. Further budget pressures are estimated to arise from the integration of health and social care services as a consequence of demographic growth.

The original 2016/17 budget had a funding gap of £10.099million which was approved to be met from £3.284 million savings and £6,815 million from general reserve.

To date, required savings have been achieved with any gaps funded from reserves.

Capital budget

The Capital Budget for 2016/17 has been set at £43.469 million, with £27.496 million being spent on land and buildings, £7.123million infrastructure and £5,788million on vehicles, plant and equipment and £3.062million on further flood alleviation schemes in Elgin and Forres.

Main areas of spending relate to £13.900millon for the Schools for the Future funding package, £4.127millon on investment to bring schools to 'BB' condition (part of the Council's internal procedure for grading properties), £2.420million for a complex housing needs residential facility, £3.125 million on road improvements and £2.303million on the vehicle and plant replacement programme. The Council grades its properties based on the assessment of the condition of a variety of factors, ie roofs, walls and interior work, in order to produce an overall grading for the condition of properties. The council has also adopted a "make do and mend" policy until a sustainable financial position has been achieved.

The capital budget is to be funded primarily through prudential borrowing of £34.653 million and general capital grant of £9.215million.

Grant allocations agreed by the Scottish Government

The Council's indicative grant allocations for 2016/17 as contained in the Local Government Finance Circular no. 1/2016 issued on 27 April 2016 as compared to 2015/16 are as follows:

	2016/17 £million	2015/16 £million
Non Domestic Rates	35.582	38,036
General Revenue Grant	120.444	123.303
Total revenue	**156.026**	**161.339**
General Capital Grant	8.588	12.556
Specific Capital Grants	0.104	0.139
Total capital	**8.692**	**12.695**

The reduction of £5.313milliom in revenue allocations will add to the financial pressures being faced by the Council.

2017/18 and onwards Budget

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

1. Annual operating costs need to be reduced by £10million before 1 April 2018;
2. Capital expenditure should be limited until a sustainable position has been reached;
3. Whilst the Council has significant reserves, these can only be used once. The usage of reserves is highly unlikely to be an option when setting the budget for 2018/19.

Projected budgets for 2017/18 show the following:

	2017/18 £million
Income	194.530
Expenditure	209.093
Budgeted use of reserves/ Forecast funding gap	14.563

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 and the decrease in reserves will be unlikely to be sufficient for long term funding. The Financial Strategy points to a number of potential considerations to address the shortfall in funds, such as remodelling services, reducing service provision and increasing charges. Papers have been provided to members setting out the financial challenges the Council is facing and they have been asked to approve a plan which will help them to identify service changes to allow a move towards a sustainable model of service delivery. Meanwhile, Councillors have already commissioned a number of strategic reviews, such as:

- Waste management
- Leisure services
- Sustainable education

The intention is that the outcome of these reviews will form part of the information gathered to inform the future financial planning process. Areas identified for action will then be prioritised and implementation plans created based on required savings.

Given the Council's current 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 has been supplemented by the process identified to create the next Corporate Plan incorporating the Financial Plan, approved on 17 August 2016.
In these documents, the Council has set the scene for Councillors and highlighted both the challenges ahead and the need for change. It was identified in the Council's Local Scrutiny Plan 2016/17 that although positive steps were being taken the pace of change needs to improve.

In summary the nature of the financial challenge faced by the Council is such that some difficult decisions will need to be made by members in terms of service delivery arrangements going forward.

Financial sustainability

As this stage, based on our audit work performed, we have no immediate concerns over the financial standing of the Council. However, medium term financial planning shows significant funding gaps and unidentified savings in the next few years with a funding gap or £14.56m in 2017/18. 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 in a financially sustainable way

Section 5. 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 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.

Best Value Report: Follow Up

In October 2015, Audit Scotland issued a report '*The Audit of Best Value and Community Planning- The Moray Council Progress Report'*. The report highlighted that the Council is moving in the right direction but the pace of improvement needs to increase significantly. In particular, the financial challenge facing the Council- to reduce spending by over £16million by March 2018- requires demonstrable leadership by elected members in approving and implementing a comprehensive strategy to achieve the necessary savings. In addition, the Council need to quicken progress in its approach to engaging with customers.

From the report, Audit Scotland have identified six areas for improvement:

1. Political leadership and development
2. Managerial leadership and development
3. Financial sustainability
4. Workforce culture
5. Strategic planning and continuous improvement
6. Customer and citizen focus.

This was acknowledged by the Council on 11 November 2015 and the six areas of improvement will be integrated into the Council's current and planned improvement activities. Various reports have been presented at Full Council meeting and the Audit and Scrutiny Committee reinforcing the Council's commitment to Best Value and reinforcing that the extent of the financial challenges facing the Council should not be underestimated. In August 2016, 'Developing the Council for the Future: Supporting Model and Action Plan' was presented to the Full Council. The report notes the Scottish Government's priorities to make Public Services more flexible, responsive and effective in planning and delivery. The Moray Model of Improvement, based on three drivers of Strong Leadership, Effective and targeted Resource Allocation, and Political and Strategic Direction.

Specific actions have been identified under each driver in response to the identified areas for improvement:

- Political and Strategic Direction – The Council has identified that there is a fine balancing act between Members and officers in terms of leading, managing and developing the Council. Maintaining appropriate working relationships with Members will be vital in the continued success of the Council. The Model of Improvement seek to foster a positive, productive culture by reinforcing the following actions:
  - Simplify and streamline governance process-
  - Promote effective cross party working- Examine best practice in other areas including those with minority administrations; examine option of role descriptors for Administration members around portfolios to create strategic connection based on local issues;
  - Support development of members according to need and corporate priorities- Advance planning and agreement of induction program for new intake and annual review of personal development plans.
  - Develop programme to promote and embed corporate values and positive working culture;
  - Develop consistent and effective methods of engagement between senior staff and members on strategic issues.

- Strong Leadership at management level remain vital in leading the Council forward, the following actions have been developed:
  - Development of a robust induction programme for new managers;
  - Developing a leadership and management development programme;
  - Frame clear and concise remits and portfolios backed by regular performance appraisal;
  - Hold regular strategic meetings with community planning partners;

- Effective and Targeted Resource Allocation – In shaping the ideal organisation of the future, robust systems need to be in place for knowing how and where to deploy Council resources. The following actions will be taken forward by the Council:
  - Ensure alignment of Financial plan to the Corporate, Service and Team Plans;
  - Develop a gateway process to assess and prioritise projects;
  - Create a Project Management Office to support and monitor major corporate projects;
  - Review corporate working practices to promote efficiency;
  - Ensure performance management and continuous improvement framework delivers the intended benefits

These drivers and actions underpin the Council's aim for continuous improvement through being customer and staff focused and take account of the findings of Audit Scotland's Best Value follow up report.

Duty of Best Value: New Audit and Reporting Framework

In June 2016, Audit Scotland introduced a new approach for the audit of best value. The Accounts Commission has agreed the overall framework of the new approach to auditing Best Value in order to assure itself that the approach is reflective of the changing and complex challenges faced by the local government in the current political, demographic and financial environment.

The key characteristics of best value are as follows:

1. Commitment and leadership- A commitment to delivering better public services year on year and acceptance of the key principles of accountability, ownership, continuous improvement and transparency;
2. Responsiveness and consultation- responsiveness to the needs of its communities, citizens, customers, employees and other stakeholders, so that plans, priorities and actions are informed by an understanding of those needs.

The Controller of Audit will submit to the Audit Commission a Best Value Assurance Report on each Council at least once during the five year period beginning April 2017.

Statutory performance indicators

The Accounts Commission has a statutory responsibility to define the performance information that councils must publish in the following financial year. As part of continuing improvements being made to the SPI regime by the Accounts Commission since 2008, the Accounts Commission has considered how the SPI process could be made more effectively aligned with their new integrated approach to auditing Best Value.

The Accounts Commission have therefore adopted a new SPI strategy which incorporates longer-term performance information, reflecting the increasing maturity of the Commission's ongoing support and integrating Councils' assessment of performance management approaches. This will first apply for the financial year 2016/17.

In terms of our responsibilities as your appointed auditor, we were not required to formally audit the SPI return for 2015/16 submitted by the Council. We however were required to comment on the arrangements in place for collecting, recording and publishing performance data in accordance with the direction as set by the Accounts Commission.

We found that processes for the collection and reporting of performance indicators were unchanged during the year, and remain in accordance with previously stated guidance from the Accounts Commission.

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. This remains consistent with previous years.

Asset Management

The Council's Corporate Asset Management Plan was updated in 2015/16 and approved by Policy and Resources Committee on 12 May 2015. Key targets for 2015/16 and 2016/17 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 minimise the amount of potentially abortive work; to develop guidance on the process of prioritising projects for inclusion in the 10 year plan; to develop monitoring and reporting of projects.

Borrowing and treasury management in Councils

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.

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.

Workforce planning in Councils

In November 2013 Audit Scotland published its report "*Scotland's Public Sector Workforce*" which made recommendations in relation to workforce planning. In particular, organisations should:

- Develop and use organisation-wide workforce plans, informed by a series of service or departmental plans that are consistent in their structure and content and which are scrutinised and monitored by senior managers and boards or elected members;
- Assess the impact of different terms and conditions on the likely costs and uptake of their early retirement/voluntary redundancy schemes before they put a scheme in place;
- Collect information on the costs and net savings from their workforce programmes and report these details to boards and elected members;
- Forecast expected staff numbers, skill needs and costs on a rolling three year basis, using scenario planning where necessary; and
- Make better use of existing mechanisms, such as community planning partnerships, to identify opportunities to share resources, including workforces.

In accordance with our responsibilities as your appointed auditor, we have completed the follow-up questionnaire and submitted this to Audit Scotland.

Key points noted from our follow up procedures include the following:

- A workforce strategy and plan is in place which was approved by the Policy and Resources Committee in May 2016.
- Longer term work force requirements are considered in departmental workforce planning templates which make reference to immediate and longer-term requirements and are part of the service plan process.
- A workforce planning framework is in place and includes statistical information such as workforce, data on absence and grievances, as well as HR metrics.

Community Empowerment Act

The Community Empowerment (Scotland) Act 2015 was passed by the Scottish Government in June 2015 and it is expected the majority of the provisions will come into effect by late summer 2016. The overall objective of the legislation is to empower local communities by improving their level of involvement in local decisions and strengthening the statutory provisions for community involvement.

The new legislation places duties on Community Planning Partnerships (CPPs) in relation to planning and delivery of local outcomes. Tackling inequalities has also been identified as an area of required focus for CPPs.

During the year the Council worked with partners and representatives from local community groups to identify how engagement with communities could be improved. The result of this work was to recognise the importance of engagement as a continuous process and to establish a six point improvement plan for the year ahead. Implementation of the improvement plan is well advanced and includes better coordination of partnership resources, a standardised survey and greater use of social media as well as more traditional formats, such as information at libraries and other public service points.

The Council has developed an innovative engagement programme which increases both the Community Planning Partnership and the Council's presence online. The improvements also aim to achieve greater transparency and promotion of planned consultations with the community through the calendar, widely encouraging participation through promotion at our local services points and seeking invitations to attend community groups to discuss and influence our priorities in the years ahead.

Community Asset Transfers continue to be promoted by the Council, with two transfers completed in 2015/16, 3 new applications received and 13 expressions of interest in hand. At the meeting of 17 August 2016, the Moray Council agreed to a new sub-committee of the Council specifically to consider applications for Asset Transfer under the Community Empowerment (Scotland) Act 2015.

Moray Integration Joint Board

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.

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 into place and the IJB was formally established in April 2016. The main purpose of integration is to improve the wellbeing of people who use health and social care services, particularly those whose needs are more complex and involve support from health and social care at the same time.

Opportunities and Risks

The IJB in its financial statements has identified the following as its most significant risk:

1. Recurring overspends in Community Health Services budgets;
2. GP prescribing can be extremely volatile with volume and price increases leading to large financial fluctuations;
3. Mental Health Services and the issue of high cost locums;
4. Scottish Government have announced the reduction in earmarked funding in 2016/17 for various services.
5. There is uncertainty surrounding the funding of individuals moving into Moray and requiring high cost care packages.

Financial plans/budgets

The Council has set aside, an Annual Net Budget for 2016/17 for the IJB at £46.540million, with the budget split as follows:

	£million
Learning Disabilities	4.150
Mental Health/Addictions	1.264
Adult Protection and Health Improvement	0.190
Care Services provided in-house	13.834
Care Services provided by External Contractors	9.351
Older People and PSD Services	15.901
Admin and Management	0.290
Provision for Inflation and Budget Pressures	1.560

A particular financial challenge will be meeting the Scottish Government's objective of paying the Living Wage to all Social Care employees. The IJB is challenged with identifying savings measures to meet this target within 2016/17.

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 has a distinct legal personality and the autonomy to manage and make decisions itself. The Board of the IJB are made up on 3 Council nominees and 3 Health Board nominees who are voting members.

In addition, governance arrangements will form part of decision making processes and be monitored throughout the year by the IJB, through its sub-committees of Audit and Risk, and Clinical and Care Governance and by its supporting groups in the Strategic Planning and Commissioning Group, Joint Operational Management Team and the Strategic Planning Advisory Group.

Section 4. 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 2015/16.

Based on our planning procedures, our assessment of the overall control environment, our review of minutes and the consistency of arrangements with CIPFA good practice guidance 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.

Control deficiencies

Based on our work performed, we have identified one control deficiency which has been reported to management:

1. Fixed asset disposals- As part of our disposals testing, we have identified vehicles which had been disposed of by the fleet department in 2014. However, this was not communicated to the finance department on a timely basis in order for the asset to be removed from the fixed asset register and they were recorded as a disposal in 2015/16. The overall net book value of the asset disposed is nil, thus has no overall impact on the value of the assets or on the Council's financial performance.

See action plan in Appendix 1.

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

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 2015/16 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) and 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 (95%). 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.
- Traditional manual journals (i.e. general journals posted directly into the ledger) made up the remaining 5% of journals.
- 182 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.

Risk management

The Council approved the latest Risk Management Strategy on 12 May 2015. It is driven by the Council's management of risk and is 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 2016 and presented to Policy and Resources Committee in May 2016.

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 2015/16 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 2015/16 Internal Audit plan noted twenty seven reviews which were to be completed. At the end of June 2016, fourteen 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. However, the work completed was sufficient to inform the annual assurance opinion on the systems of internal control in the Internal Audit Annual Report for the 2015/16 year.

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 2015/16 external audit.

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

Section 5. 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 Full Council

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). In accordance with our responsibilities as your appointed auditor, we have completed the NFI questionnaire for 2015/16 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. The match between council tax recipients of single person discounts and electoral registration data was carried out and the Council identified 141 cases were recipients were not entitled to the single person discount. As a result, £0.051million of discounts were cancelled and recovery sought. The match will be repeated again later this year.
- Progress relating to NFI was reported to the Audit and Scrutiny Committee in August 2016 and it was noted that work was on-going entitlement to validate entitlement to single person discounts.

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 was created with effect from 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 6. 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
As part of our disposals testing, we have identified vehicles which had been disposed of by the fleet department in 2014. However, this was not communicated to the finance department on a timely basis in order for the asset to be removed from the fixed asset register and they were recorded as a disposal in 2015/16. The overall net book value of the asset disposed is nil, thus has no overall impact on the value of the assets or on the Council's financial performance.	As vehicle records did not have enough details in the Accountancy Terrarius system to identify some disposals, a reconciliation between this system and Fleet Services' Tranman system was undertaken during 2015/16. This resulted in some vehicles all at nil value being removed from accountancy's asset register. Fleet Services currently provide Accountancy with monthly auction statements which record sales of vehicles. Accountancy, with assistance from Fleet Services, will undertake a further reconciliation between the two systems in 2016/17 to ensure that all disposals have been recorded properly **Responsible Officer:** Head of Financial Services **Review Date:** March 2017