

Moray Council

2016/17 Annual Audit Report



 AUDIT SCOTLAND

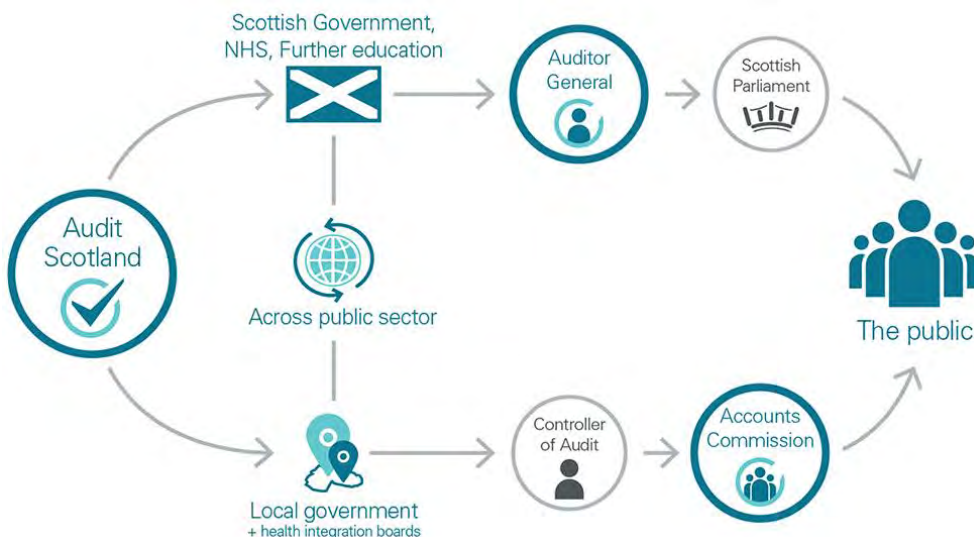
To Members of the Moray Council and the Controller of Audit

27 September 2017

Who we are

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

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



About us

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

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

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

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Key messages

Audit of the 2016/17 annual accounts

- 1 Our audit opinions were all unqualified. These covered the financial statements, management commentary, remuneration report and the annual governance statement.
- 2 £6 million of cash and cash equivalents that Moray Council holds on behalf of others were re-classified in the audited financial statements. There was no impact on the Council's net financial position.
- 3 An unqualified opinion was also issued on The Moray Council – Connected Charity Trust Funds' annual accounts.

Financial management

- 4 Financial management is effective and the Council has a good track record of delivering planned savings.
- 5 The majority of key controls were operating effectively. We identified a small number of controls which could be strengthened.
- 6 The Council is making adequate progress in following up the matches identified in the latest NFI exercise.

Financial sustainability

- 7 Further efficiency savings of £3.4 million are needed for 2017/18 and £14.4 million in 2018/19.
- 8 The Council has limited medium and no long term financial planning in place to demonstrate how it will address future budget challenges.
- 9 The Council's approved reserves strategy is to hold £5 million as a contingency. The current level of reserves is significantly above this at £22 million, but financial plans identify that existing reserves will be exhausted by 31 March 2019.

Governance and transparency

- 10 Adequate arrangements are in place for standards of conduct, but improvements are required to arrangements for the maintenance of registers of interests.
- 11 The Council conducts its business in an open and transparent manner, and has appropriate governance arrangements in place.

Value for money

- 12 Overall, we concluded that the Council's arrangements for the publication of Statutory Performance Indicators are satisfactory.

Introduction

1. This report is a summary of the findings arising from the 2016/17 audit of Moray Council.

2. The scope of the audit was set out in our Annual Audit Plan presented to the March 2017 meeting of the Audit and Scrutiny Committee. This report comprises:

- an audit of the annual report and accounts
- consideration of the four dimensions that frame the wider scope of public sector audit requirements as shown in [Exhibit 1](#).

Exhibit 1

Audit dimensions



Source: Code of Audit Practice 2016

3. The main elements of our audit work for Moray Council in 2016/17 have been:

- an audit of the key controls operating within the main financial systems and review of governance arrangements
- audit work covering the arrangements for securing Best Value relating to financial planning and financial management
- an audit of the 2016/17 annual accounts including the issue of an independent auditor's report setting out our opinions.

4. Moray Council is responsible for preparing annual accounts that show a true and fair view in accordance with the Local Authority Accounts (Scotland) Regulations 2014. It is also responsible for establishing effective governance arrangements and ensuring financial management is effective.

- 5.** Our responsibilities as independent auditor are established by the Local Government in Scotland Act 1973 and the [Code of Audit Practice 2016](#) guided by the auditing profession's ethical guidance.
- 6.** As public sector auditors we provide an independent auditor's report on the annual accounts. We also review and report on the arrangements within Moray Council to manage its performance and use of resources such as money, staff and assets. Additionally, we report on the best value arrangements. In doing this, we aim to support improvement and accountability.
- 7.** Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#).
- 8.** This report raises matters from the audit of the annual accounts and the identified risks or control weaknesses from our audit work. Communicating these does not absolve management from its responsibility to address the issues we raise, and to maintain adequate systems of control.
- 9.** Our annual audit report contains an action plan at [Appendix 1](#). It sets out specific recommendations, responsible officers and dates for implementation
- 10.** As part of the requirement to provide fair and full disclosure of matters relating to our independence, we can confirm that we have not undertaken non-audit related services. The 2016/17 audit fee for the audit was set out in our Annual Audit Plan and as we did not carry out any work additional to our planned audit activity, the fee remains unchanged.
- 11.** This report is addressed to both Moray Council and the Controller of Audit and will be published on Audit Scotland's website www.audit-scotland.gov.uk.
- 12.** We would like to thank all management and staff who have been involved in our work for their co-operation and assistance during the audit.

Part 1

Audit of 2016/17 annual report and accounts



Main judgements

Unqualified audit opinions on the Council's annual accounts, management commentary, remuneration report and annual governance statement.

Unqualified audit opinion on The Moray Council – Connected Charity Trust Funds' accounts.

£6 million of cash and cash equivalents that Moray Council holds on behalf of others were re-classified in the audited financial statements. There was no impact on the Council's net financial position.

In 2016/17 we piloted the use of data analytics in Moray Council as part of our planned audit approach.

Unqualified audit opinions

13. The annual accounts for the year ended 31 March 2017 were approved by the Council on 27 September 2017. We reported, within our independent auditor's report:

- an unqualified opinion on the financial statements
- unqualified opinions on the management commentary, remuneration report and annual governance statement.

14. Additionally, we have nothing to report in respect of those matters which we are required by the Accounts Commission to report by exception.

The annual accounts are the principal means of accounting for the stewardship of its resources and its performance in the use of its resources.

Audit of charitable trusts administered by Moray Council

15. Due to the interaction of the Local Government in Scotland Act 1973 with the charities legislation, a separate audit and auditor's report is required for The Moray Council – Connected Charity Trust Funds' annual accounts as Moray Council's elected members are sole trustees of 38 charitable trusts.

16. Our duties as auditors of the charitable trusts administered by Moray Council are to:

- express an opinion on whether the charities' financial statements properly present the charitable trusts' financial position and are properly prepared in accordance with charities legislation
- read the trustees' annual report and express an opinion as to whether it is consistent with the financial statements

- report on other matters by exception to the trustees and to the Office of the Scottish Charity Regulator (OSCR).

17. We received the trust funds' accounts in line with the agreed timetable and have issued an unqualified audit opinion on The Moray Council – Connected Charity Trust Funds' 2016/17 financial statements.

18. The Council has undertaken a review of its non-charitable trusts, in consultation with OSCR, to identify options for restructuring in order to create a smaller number of trusts with improved governance arrangements and with the opportunity to maximise the use of these resources to the benefit of the citizens of Moray. There are a number of trust funds which have no resources to expend and there is a risk that they do not meet the public benefit requirement. Since 2012/13, the Council has reduced the number of trusts from 127 to 65.

19. The next stage of the reorganisation is to start the transfer of the trusts into a single trust 'The Moray Council Charitable Trust' which was registered with OSCR in August 2016.

Submission of the Council's annual report and accounts for audit

20. We received the unaudited annual accounts on 30 June 2017, in line with the audit timetable set out in our 2016/17 Annual Audit Plan. The working papers provided with the unaudited annual accounts were of a good standard and finance staff provided good support to the audit team which assisted the delivery of the audit.

21. In 2016/17 the Council's group accounts included the financial results of the Moray Integration Joint Board for the first time. The consolidation of the Integration Joint Board did not cause any significant issues for the preparation of the accounts.

Risk of material misstatement

22. [Appendix 2](#) provides a description of those assessed risks of material misstatement that were identified during the audit planning process which had the greatest effect on the overall audit strategy, the allocation of resources to the audit and directing the efforts of the audit team. Also, included within the Appendix are wider audit dimension risks, how we addressed these and our conclusions from our work.

Materiality

23. Materiality defines the maximum error that we are prepared to accept and still conclude that our audit objective has been achieved (i.e. true and fair view). The assessment of what is material is a matter of professional judgement and involves considering both the amount and nature of the misstatement.

24. Our initial assessment of materiality for the annual accounts was undertaken during the planning phase of the audit and included in our Annual Audit Plan. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.

25. On receipt of the annual accounts, and following consideration of the results of our interim audit testing, we reviewed our original materiality calculations and revised them based on the updated information available. Our materiality values are summarised in [Exhibit 2](#).

Exhibit 2

Materiality values

Materiality level	Amount
Overall materiality – This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It was set at 1% of gross expenditure for the year ended 31 March 2017.	£3.4 million
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement we have calculated performance materiality at 40% of overall materiality.	£1.4 million
Reporting threshold (i.e. clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements in excess of the 'reporting threshold' amount. This has been calculated at 2.5% of overall materiality.	£85,000

Source: Audit Scotland

Materiality in the charitable trusts

26. We also set separate materiality values for The Moray Council - Connected Charity Trust Funds as detailed in [Exhibit 3](#).

Exhibit 3

Materiality values

Materiality level	Amount
Overall materiality – This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It was set at 1% of gross assets as at 31 March 2017.	£9,500
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement we have calculated performance materiality at 60% of overall materiality.	£5,700
Reporting threshold (i.e. clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements in excess of the 'reporting threshold' amount. This has been calculated at 5% of overall materiality.	£500

Source: Audit Scotland

How we evaluate misstatements

27. A number of misstatements were identified during the course of the Moray Council audit. These were discussed with relevant officers, and one material adjustment was made to the financial statements. [Exhibit 4](#) details the significant findings from the audit and includes details of all misstatements above our reporting threshold. The impact of unadjusted misstatements is detailed in [Appendix 3](#).

28. In assessing the total error of £7.2 million we recognised that this exceeded our performance materiality value of £1.4 million. We concluded, however, that further audit procedures were not required as most of this total error (£6 million) related to the classification of cash and cash equivalents that Moray Council holds on behalf of the Grampian Valuation Joint Board, Common Good Funds and Trust Funds. This was the full extent of funds held on behalf of these bodies and the classification has been corrected in the audited financial statements. All errors were deemed to be isolated issues which do not indicate that further systematic errors exist within the account area, or more pervasively within the financial statements.

29. There were no misstatements identified during the audit of The Moray Council - Connected Charity Trust Funds' annual accounts. [Exhibit 5](#) details the significant finding from our audit of the charitable trusts.

30. It is our responsibility to request that all errors are corrected although the final decision lies with those charged with governance taking into account advice from senior officers and materiality. Management do not propose to adjust for the items detailed in [Appendix 3](#).

Significant findings

31. International Standard on Auditing 260 (UK & Ireland) requires us to communicate to you significant findings from the audit. These are summarised in [Exhibit 4](#). Where a finding has resulted in a recommendation to management, a cross reference to the Action Plan in [Appendix 1](#) has been included.

Exhibit 4

Significant findings from the audit of Moray Council accounts

Issue	Resolution
<p>Cash and Cash Equivalents</p> <p>1. Moray Council holds funds totalling £6 million on behalf of the Grampian Valuation Joint Board, Common Good Funds and Trust Funds. Cash and cash equivalents were shown net of these balances resulting in the disclosure of a liability for cash and cash equivalents within the unaudited accounts. The cash and cash equivalents figure should include monies held by the Council on behalf of others and a short term creditor should be included to reflect the amount due to other bodies. As a result, cash and cash equivalents and short term creditors in the audited Balance Sheet have increased by £6 million.</p>	<p>Management have amended the audited financial statements to correct this misstatement. Prior year figures have also been restated.</p>
<p>Cash Flow Statement</p> <p>2. Our audit identified an error in the classification of items within the Cash Flow Statement. As a result, the 'adjustment for non cash movements' figure had been understated and the 'financing activities' figure overstated by £0.2 million in the unaudited accounts. There is no impact on the other core financial statements.</p>	<p>Management have amended the audited financial statements to correct this misstatement.</p>

Issue	Resolution
<p>Revaluations</p> <p>3. Council dwellings are revalued each year by using the Beacon Principle (adjusted vacant possession) methodology in accordance with the Royal Institution of Chartered Surveyors' guidance. In 2016/17 the Council revalued council dwellings downwards by £2.7 million. However, the wrong social discount factor was used and as a result the downward revaluation was overstated and the net book value of council dwellings was understated by £0.5 million (Appendix 3, no. 1).</p>	<p>Management have not adjusted for this error in the audited financial statements. The amount is below our performance materiality level.</p> <p>Action plan (Appendix 1, point 1)</p>
<p>Depreciation</p> <p>4. Non current assets are accounted for on a components basis. During the year as components (eg windows) were replaced, the old component was derecognised and the new component was added to the capital accounting system. Audit testing identified that the system does not depreciate these additions until the following year which is contrary to the Council's accounting policy. As a result, depreciation was understated and the net book value of property, plant and equipment was overstated by £0.1 million (Appendix 3, no. 2).</p>	<p>Management have not adjusted for this error in the audited financial statements. The amount is below our performance materiality level.</p> <p>Action plan (Appendix 1, point 2)</p>
<p>Holiday pay accrual</p> <p>5. Audit testing identified errors in the methodology used to calculate the holiday pay accrual. As a result, short term creditors and the employee statutory adjustment account were understated by £0.2 million (Appendix 3, no. 3).</p>	<p>Management have not adjusted for this error in the audited financial statements. The amount is below our performance materiality level</p> <p>Action plan (Appendix 1, point 3)</p>
<p>Rental income</p> <p>6. The Council does not review rental invoices that span two financial years to ensure that income has been recorded in the correct financial year. Following discussion with officers, we have estimated that rental income (and short term debtors) is overstated by a maximum of £0.2 million (Appendix 3, no. 4).</p>	<p>Management have not adjusted for this error in the audited financial statements. The amount is below our performance materiality level</p> <p>Action plan (Appendix 1, point 4)</p>
<p>Internal Recharges</p> <p>7. Gross income and gross expenditure in the Comprehensive Income and Expenditure Statement (CIES) include £15 million of internal recharges between Council services ie income and expenditure that has not been received from or spent with bodies outwith the council. It is acknowledged that the LASAAC guidance is not clear, but we would expect that these amounts would be eliminated within the net cost of services section of the CIES. There is no impact on the net cost of services or deficit on provision of services within the accounts.</p>	<p>Management have agreed to reconsider how they account for internal recharges prior to the preparation of the 2017/18 unaudited accounts.</p> <p>Action plan (Appendix 1, point 5)</p>

Issue	Resolution
<p>Group boundary</p> <p>8. The Council consolidates Moray Leisure Limited as an associate within its group accounts. The Council has not reviewed its group boundary since the introduction of the new definition of 'control' of group components was introduced in 2015/16. Moray Leisure Limited's results are not material to our opinion on the group accounts.</p>	<p>Management have agreed to review the group boundary prior to the preparation of the 2017/18 accounts. We have also asked that they obtain a current cost valuation of Moray Leisure Limited's non current assets to evidence that it is not materially different to the historic cost valuation used to prepare the group accounts.</p> <p style="text-align: right;">Action plan (Appendix 1, point 6)</p>

Exhibit 5

Significant findings from the audit of The Moray Council - Connected Charity Trust Funds accounts

Issue	Resolution
<p>Endowments Funds</p> <p>1. The 2016/17 Moray Council - Connected Charity Trust Funds unaudited financial statements stated that all funds were unrestricted. However, our audit testing identified that Moray & Nairn Investment Trust is an endowment fund placing certain restrictions on the disbursement of funds. The Charities SORP (FRS 102) requires the Statement of Financial Activities and the Balance Sheet to differentiate between unrestricted and restricted funds. This does not have an impact on the total funds of the connected charities.</p>	<p>Management have amended this error in the audited financial statements</p>

Going concern

32. The financial statements of the Council, its group and the associated charitable trusts have been prepared on the going concern basis. The Council has tax raising powers and we are not aware of any significant change in government policy that might affect the continued provision of services. We concur with management's view that the going concern assumption remains appropriate.

Data Analytics

33. In 2016/17 we piloted the use of data analytics in Moray Council as part of our planned audit approach. Data analytics is defined by the International Auditing and Assurance Standards Board (IAASB) as "the science and art of discovering and analysing patterns, deviations and inconsistencies.... in the data underlying.... an auditfor the purpose of planning and performing the audit". Such techniques provide ways of dealing with high volumes of transactions as well as complexity. They also enhance audit quality and efficiency.

34. In Moray Council we obtained and analysed every general ledger transaction processed in 2016/17: There were over 91,000 postings with an average value of £32,000, posted from 140 user accounts. We also analysed transactions posted immediately prior to and following the financial year.

35. The focus of our data analytics audit work was on journal entries and feeder systems ([Exhibit 6](#)). The vast majority of these were from the purchase and sales ledgers, but there were nearly 12,000 manual journal entries. We identified the following patterns/ audit conclusions:

Fraud and management bias: Pattern of consistent activity

36. The frequency of transactions by system was consistent during the year, with the exception of roads and schools feeder systems, where the volume was low/ infrequent.

37. The frequency of transactions by person was consistent during the year. There are very few entries posted from “chief accountants” rather than “senior accountants” or “other finance staff” and a reduced risk from senior management bias. Nearly half of all “senior accountant” journals are posted in April and May 2017, as expected, due to the year end process.

38. Our detailed testing focussed on a higher risk group of journals based on value, timing, source and judgement. We found no issues with the nature and accuracy of these journal transactions.

Cut-off: Assurances over processes

39. Feeder system close-down (including purchase and sales ledgers) was clear at 31 March, with only 13 transactions after this date (mainly from schools feeder systems).

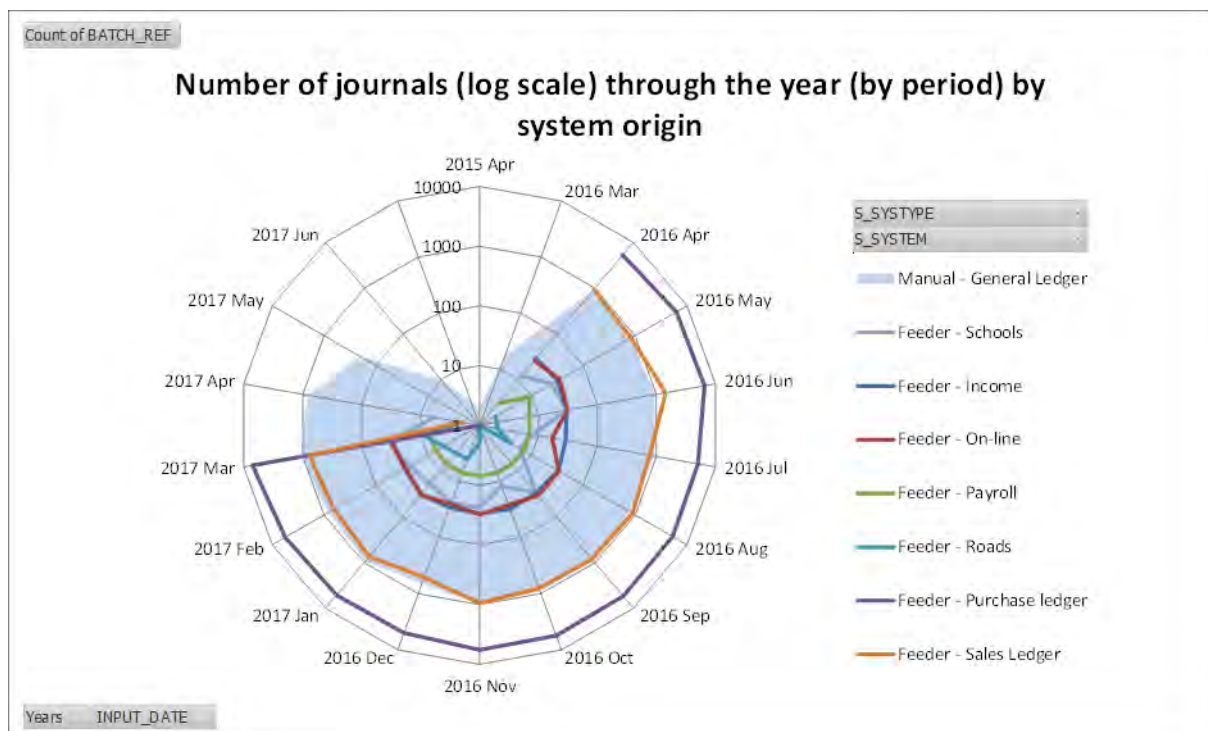
40. Manual journals continued after the year end and these were largely complete at the end of May with only 10 manual journals posted in June 2017.

Classification and completeness:

41. The mapping of the ledger via Trial Balance to the Balance Sheet was confirmed via 100% re-performance.

Exhibit 6

Analysis of ledger postings



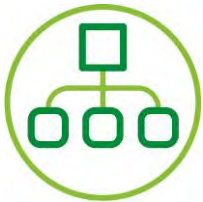
Source: Moray Council ledger

Public notice and objections to the accounts

42. The Local Authority Accounts (Scotland) Regulations 2014 require a local authority to publish a public notice on its website that includes details of the period for inspecting and objecting to the accounts. This must remain on the website throughout the inspection period. The Council complied with the regulations and we did not obtain any objections to the annual accounts.

Part 2

Financial management



Main judgements

Financial management is effective.

The Council has a good track record of delivering services within its budgets and planned savings.

The majority of key controls were operating effectively. We identified a small number of controls which could be strengthened.

The Council is making adequate progress in following up the matches identified in the latest NFI exercise.

Financial performance in 2016/17

43. The *Local Government in Scotland: Financial overview 2015/16* (November 2016) highlighted that good financial management is required to ensure spending is accurately forecast and monitored within the year against robust budgets.

44. In February 2016 the Council approved a balanced revenue budget of £206 million for 2016/17 through the use of £6.8 million of reserves. During the year, the Council continued to review its budget and agreed amendments, including a further £1.9 million of savings, which reduced the budgeted use of reserves to £4.8 million for 2016/17.

45. Financial monitoring reports (revenue and capital) are included in a comprehensive financial reports monitoring pack and discussed at the Policy and Resources Committee on a quarterly basis. The information presented in the pack is appropriate and sufficiently detailed to support effective scrutiny. In addition, budget monitoring reports are reviewed by budget holders on a monthly basis and reports are provided to the Corporate Management Team on a quarterly basis.

46. Our review of these reports concluded that they provided an overall picture of the budget position at service level. The reports also included a forecast out-turn position and good narrative explanations for significant variances against budget. They allowed both members and officers to scrutinise the Council's finances.

47. The Council has a good track record of delivering services within budget over the last 3 years. The Council reported a year-end underspend for 2016/17 of £2.6 million, in the final Revenue Outturn report considered at the Moray Council meeting on 29 June 2017, with £2.1 million of reserves used to deliver this position. Management have advised all of the planned savings (£3.3 million) were achieved and that additional savings totalling £0.5 million were also delivered.

48. The key elements making up the £2.6 million underspend against budget are set out below:

- service underspends (£3.7 million)

Financial management is about financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.

- loans charges underspend (£0.7 million)
- contingencies and inflation budget overspend (£0.4 million)
- additional costs budget overspend (£1.9 million)
- additional savings achieved (£0.5 million)

Housing Revenue Account

49. The Council is required by legislation to maintain a separate housing revenue account and to ensure that rents are set to at least cover the costs of its social housing provision. Rent levels are, therefore, a direct consequence of the budget set for the year. The income requirement for 2016/17 was set at £17.6 million primarily funded from council house rents. This resulted in a rent increase of 5% with the average weekly rent increasing from £52.33 to £54.94.

50. The Council's current rent arrears in 2016/17 were £0.4 million representing 2.1% of the gross rental income for 2016/17. This was consistent with last year. The overall position is relatively stable and the Council is continuing to work to improve the overall collection levels.

51. In 2016/17, the Council recorded a deficit on HRA services of £0.7 million. After applying the statutory accounting adjustments of £0.8 million, the HRA balance reduced by £0.1 million. This leaves a cumulative surplus of £1.2 million to be carried forward to future years.

Capital programme 2016/17

52. The Council approved the 2016/17 Capital Plan of £40 million in March 2016. Subsequent amendments were made to the Capital Plan by the Council and the Policy and Resources Committee throughout the financial year to give a final approved Capital Plan of £41 million. In 2016/17 the Council delivered 96% of the approved capital programme. There was £1.7 million of slippage, primarily in relation to the 'Schools for the Future' capital programme.

Financial capacity within the Council

53. The Section 95 officer is the Head of Financial Services at Moray Council. Although not a formal member of the corporate management team she is actively involved in and is able to influence decision making. She also has direct access to the Chief Executive and Council members. We concluded that the Section 95 officer has appropriate status within the Council.

54. We noted, however, that neither the Section 95 Officer nor the Monitoring Officer was included in the Remuneration Report within the unaudited accounts. The audited Remuneration Report has been updated to include the Head of Financial Services and officers have agreed to consider the inclusion of the Monitoring Officer in the 2017/18 Remuneration Report.

55. At the end of June 2017, the Director of Corporate Services and Head of Financial Services left the employment of the council. An Acting Director of Corporate Services and permanent Head of Financial Services have been appointed and there was a smooth transition during the summer.

56. With the recent Council elections there have been a number of new members elected. It is important that they receive adequate training on how the Council works and how it is financed if they are to exercise their scrutiny responsibilities effectively. We reviewed the induction training and materials provided to new members and concluded that they were fit for purpose.

Internal controls

57. As part of our audit we identify and inspect the key internal controls in those accounting systems which we regard as significant for the production of the financial statements. Our objective is to gain assurance that the Council has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements.

58. Our findings were included in our interim audit report that was presented to the Audit & Scrutiny Committee in September 2017. We concluded that the majority of key controls were operating effectively. We identified a number of areas where controls could be strengthened including obtaining positive confirmations of staff numbers and that goods are received before payment is made. As a result of these control weaknesses we adapted our substantive approach for the financial statements audit. Our substantive testing did not identify any issues for our opinion.

59. The Internal Audit Manager concluded, in his Annual Audit Report, that *'based on the audit work completed, reasonable assurance can be placed on the adequacy and effectiveness of the council's internal controls system for the year to 31 March 2017'*.

Prevention and detection of fraud

60. We have responsibility for reviewing the arrangements put in place by management for the prevention and detection of fraud. We reviewed the Council's arrangements including the whistleblowing and fraud prevention policies and codes of conduct for staff and elected members.

61. Based on the evidence reviewed by us, we concluded that the Council has adequate arrangements in place for the prevention and detection of fraud.

National Fraud Initiative

62. The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise co-ordinated by Audit Scotland. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify 'matches' that might suggest the existence of fraud or error.

63. The Council recognises that NFI is an important tool in allowing investigative resources to be targeted at risk areas. NFI progress and outcomes are reported regularly by Internal Audit to the Audit and Scrutiny Committee. The latest position on NFI activity is summarised in [Exhibit 7](#).

Exhibit 7**National Fraud Initiative****Total number of matches****2,815****Number recommended for investigation****807****Completed/closed investigations****511**Source: NFI website

64. The NFI secure website lists a total of 2,815 data matches and of this total, 807 are classed as 'recommended' matches (high risk) for investigation. The Council is making adequate progress in following up the matches identified in the latest NFI exercise. As at the time of writing, the Council had processed 511 matches and identified five errors totalling £7,774.

Part 3

Financial sustainability



Main judgements

Further efficiency savings of £3.4 million are needed for 2017/18 and £14.4 million in 2018/19

The Council has limited medium and no long term financial planning in place to demonstrate how it will address future budget challenges.

The Council's approved reserves strategy is to hold £5 million as a contingency. The current level of reserves is significantly above this at £22 million, but financial plans identify that existing reserves will be exhausted by 31 March 2019.

Financial position

65. The annual accounts show that the Council has net assets of £402 million a decrease of £85 million from last year, mainly attributable to:

- the increase in the pension net liability of £64 million due to a decrease in the discount factor applied to liabilities (reduced from 3.5% to 2.6%)
- an increase in total borrowing of £23 million
- an increase in assets of £2.5 million

66. The Council incurred positive net cash flows from operating activities of £16 million. There is, however, a significant shortfall in current assets over current liabilities of £60 million, a position that has increase by £26 million since last year. This is due to the Council's current policy of using short term borrowing to take advantage of low interest rates compared to long term borrowing.

Financial sustainability

67. In assessing financial sustainability we are concerned with whether:

- there is an adequate level of reserves
- spending is being balanced with income in the short term
- long term financial pressures are understood and planned for
- investment in services and assets is effective.

Financial sustainability looks forward to the medium and longer term to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.

Reserves

68. One of the key measures of the financial health of a local authority is the level of reserves held, reflecting the capacity for a council to respond to unexpected events, including short term funding issues. The level of usable reserves held by the Council decreased slightly from £31 million in 2015/16 to £30 million in 2016/17 as illustrated in [Exhibit 8](#). This level of reserve is average, for the comparative size of the Council.

69. The **general fund reserve** is the largest reserve (£23 million). Only a small proportion of this is earmarked for specific purposes. The Council considers the level of its general fund reserve when setting the budget each year. The Council's approved reserves strategy is to hold £5 million as free reserves. At 31 March 2017 the Council's non-earmarked reserves were significantly above this level at £22 million.

70. [Exhibit 8](#) provides an analysis of the general fund reserve over the last five years split between committed and uncommitted reserves. This shows that the general fund reserve reached a peak of £25 million in 2014/15 but has reduced in recent years as reserves have been used to maintain financial balance.

Exhibit 8

Analysis of general fund over last five years

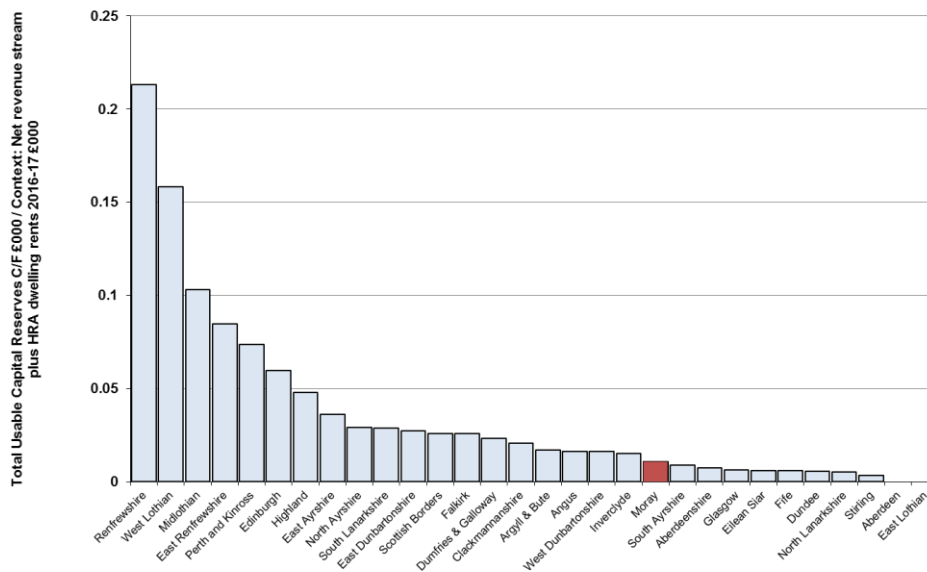


Source: Moray Council Annual Accounts 2012/13 to 2016/17

71. [Exhibit 9](#) shows that the Council has a very low level of **capital** reserves compared to most other councils which means that any funding of capital projects is not drawn from existing reserves, but is dependent either on government grants, funding from current revenue resource or new borrowing.

Exhibit 9

Capital reserves relative to the size of council's net revenue



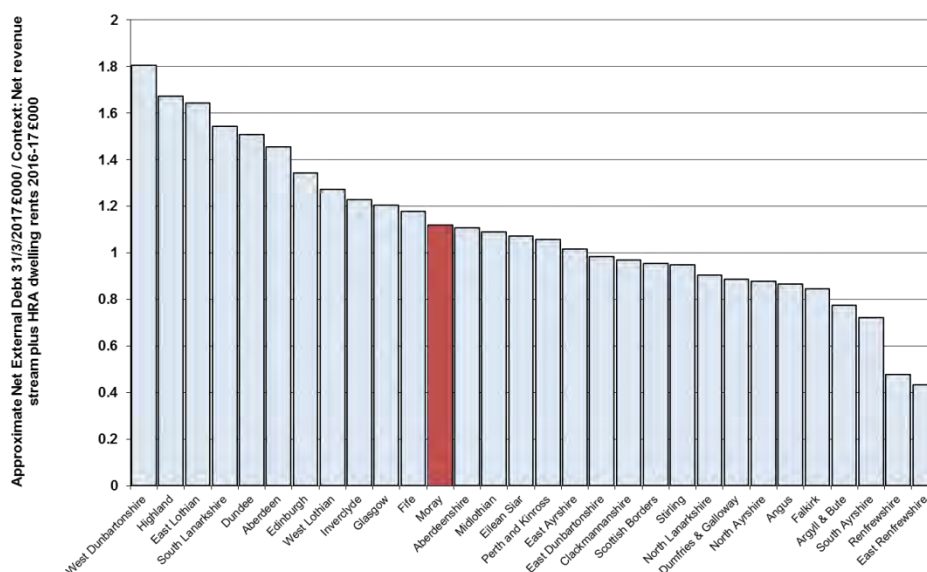
Source: unaudited financial statements 2016/17

Treasury management

72. In line with the Council's Treasury Management Strategy for 2016/17, short-term borrowing was undertaken during the year to take advantage of low interest rates compared to long-term borrowing. As at 31 March 2017, long-term borrowing stood at £157 million, a decrease of £3 million on the 2016 level of. During the same period, however, short-term borrowing increased from £13 million to £39 million.

Exhibit 10

Net external debt relative to the size of council's net revenue



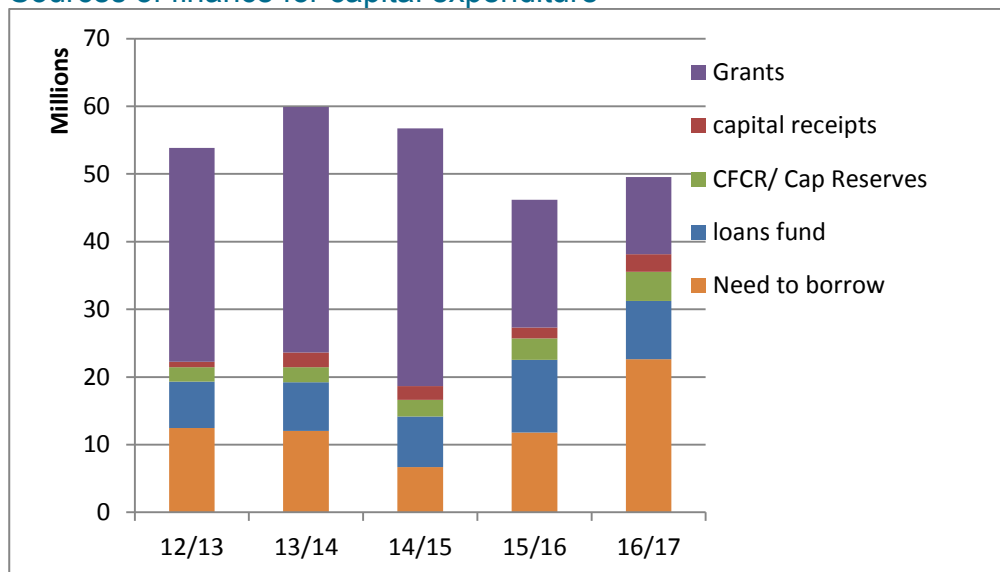
Source: unaudited financial statements 2016/17

73. The cost of servicing this debt was 10% of net revenue expenditure. This is a relatively low level compared to other Scottish Councils.

74. A core element of the Council's policy on capital funding has been from borrowing and government grants. These contribute over 69% of the capital expenditure funding. The full analysis of capital financing is shown in [Exhibit 11](#). This demonstrates that the Council has increased its borrowing requirement in each of the last five years by an average of £13 million each year.

Exhibit 11

Sources of finance for capital expenditure



Source: Moray Council Accounts 2012/13 to 2016/17

2017/18 budget and future savings plans

75. As part of the budget setting process the Council consults citizens and service users on the financial plans and savings options. The Council approved its 2017/18 budget in February 2017. The budget included a 3% increase in council tax and identified a funding gap of £11 million. In order to balance its budget, the Council agreed to make £3.4 million of savings and use £7.6 million from its reserves.

76. The Council achieved its efficiency savings target in 2016/17 of £3.3 million. As noted above, additional savings totalling £3.4 million are required in 2017/18 and a further £14.4 million is required in 2018/19 to maintain financial balance. Although the Council has a detailed savings plan for 2017/18, individual savings proposals have not been assessed to identify the risk of them not being achieved.

Medium and long term financial planning

77. Audit Scotland and the Account Commission's report [Scotland's public finances – a follow-up audit: Progress in meeting the challenges](#) (June 2014), highlighted that public bodies need to develop effective longer-term financial plans which identify potential risks and ensure spending decisions are affordable. The Accounts Commission recommended that when future Scottish Government funding is not known, councils should plan for a range of scenarios so they are prepared for different levels of funding and income.

78. It is important that long-term financial strategies (typically covering five to ten years) are in place which link spending to the Council's priorities. Although councillors only approve the budget for a single year, this should be supported by indicative future spending plans (covering three years at least) that forecast the impact of relevant pressures on the Council.

79. The Council does not yet have a long-term financial plan for revenue resources. As outlined in our 2016/17 Annual Audit Plan, the Council has acknowledged that its current level of service provision is not financially sustainable and has projected that the Council's reserves will be exhausted by 31 March 2019.

80. The majority of the Council's current 10 year Capital Plan is not directly linked to the Council's priorities, but arises from the need to invest in the Council's current asset base to bring it up to, or maintain it at, the approved standard for the asset type. The Council has recognised that more work is required to develop a long term capital plan that is priority based, affordable and financially sustainable, and that demonstrates compliance with the prudential code requirement that borrowing is prudent, sustainable and affordable.

81. Long term financial planning will be essential if the Council is to achieve a sustainable financial position.

Action plan (Appendix 1, point 7)

Part 4

Governance and transparency



Main Judgements

Adequate arrangements are in place for standards of conduct, but improvements are required to arrangements for the maintenance of registers of interests.

The Council conducts its business in an open and transparent manner.

The Council has appropriate governance arrangements in place.

Strategic plans

82. The Moray Community Planning Partnership has set out a 10 year plan (Moray 2026) *'to improve life for those living and working in Moray'*. The Partnership has identified five priorities to achieve this aim:

- a growing, diverse and sustainable economy
- healthier citizens
- ambitious and confident young people
- adults living healthier, sustainable independent lives safeguarded from harm
- safer communities

83. The Council's Corporate Plan 2015-17 sets out how the Council will contribute to the achievement of these priorities, and the values that will be promoted to support their delivery. Each Council Service also prepares a plan setting out how the available resources will be used to deliver the Corporate Plan's priorities.

Standards of conduct and arrangements for the prevention and detection of bribery and corruption

84. The Council has a range of activities in place designed to maintain standards of conduct including Codes of Conduct for members and officers. There are established procedures for preventing and detecting bribery and corruption including a policy to combat fraud, theft, bribery and corruption.

85. During 2016/17 we reviewed the Council's register of interests and found it met basic practice, as set out in statutory guidance, for elected members. However, this doesn't extend to staff where arrangements are less well developed. Councillors and senior officers also complete a related party declaration, to support the final accounts disclosures, advising whether they had any significant transactions with the Council during the year. We noted that these declarations were not completed by the Section 95 Officer or the Monitoring Officer in 2016/17. Management have agreed to review the current arrangements for registers of interests in response to the action plan point in our Interim Report (August 2017).

Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision-making and transparent reporting of financial and performance information.

86. Based on our review of the evidence, we concluded that adequate arrangements are in place for standards of conduct and the prevention and detection of bribery and corruption, but that improvements are required to the arrangements for the maintenance of register of interests.

Transparency

87. Transparency means that the public, in particular local residents, have access to understandable, relevant and timely information about how the Council is taking decisions and how it is using resources such as money, people and assets.

88. There is evidence that demonstrates the Council's commitment to transparency including:

- members of the public can attend meetings of the full Council and other committees and the agenda, papers and minutes of these committee meetings are readily available on the Council's website. All meetings are webcast and available to view for 12 months after the meeting
- the Council's website allows the public to access a wide range of information including the register of members' interests, current consultations and how to make a complaint.
- the Council makes its annual accounts available on its website.

89. The management commentary should be fair, balanced and understandable and also clearly address the longer-term financial sustainability of the body. Based on our knowledge and work performed, we concluded that the management commentary, annual governance statement and remuneration report are consistent with the financial statements.

90. Overall, we concluded that the Council conducts its business in an open and transparent manner.

Governance arrangements

91. The Council is required to establish governance arrangements to ensure that its business is conducted in accordance with law and proper standards, that public money is safeguarded and that the adequacy and effectiveness of these arrangements is monitored.

92. As part of the wider review of governance arrangements across the public sector, we completed a follow-up of our 'Role of Boards' national report, published in September 2010. This involved review of documentation, discussions with key officers and attendance at Audit and Scrutiny Committee meetings.

93. Overall, we concluded that the Council's governance arrangements were satisfactory. The Council has acknowledged that there is a need to develop arrangements to support elected members performance by making available personal development and training opportunities and encouraging attendance at these events.

Internal audit

94. Internal audit provides senior management and elected members with independent assurance on the Council's overall risk management, internal control and corporate governance processes.

95. The internal audit function is carried out in-house. As outlined in our Annual Audit Plan, our review of the Council's internal audit section identified that an internal assessment against the Public Sector Internal Audit Standards (PSIAS) has not been undertaken and so internal audit cannot demonstrate compliance with these Standards (including reporting all areas of non-compliance to the Audit and Scrutiny Committee). Plans are, however, in place for the internal audit function to be externally assessed during 2017/18. Overall, we concluded that the internal audit section has the skills, experience and competence to enable us to place formal reliance on their work.

96. To avoid duplication effort we place reliance on the work of internal audit wherever possible. In 2016/17 we placed formal reliance on internal audit's work in the following areas: creditors and housing benefits payments. We also considered internal audit report findings on health and social care integration, and ICT (network access) as part of our wider dimension work.

Correspondence received - Lender Option Borrower Option

97. During the year we received correspondence about a number of councils and their use of Lender Option Borrower Option (LOBO) loans. A LOBO loan is typically a long term loan where the interest rate is initially fixed but the lender has the option to propose or impose on pre-determined future dates, a new fixed interest rate. The borrower has the option to either pay the revised interest rate or to repay the loan.

98. As at 31 March 2017, Moray Council has one LOBO for £10 million within its market debt portfolio. The option element of this loan does not relate to a change in interest rate, but to the option to repay or continue with the loan. During the year, a second LOBO for £23 million was converted to a fixed term loan by the lender. There is no impact on the Council as the loan was already beyond its last option date.

99. In following up this correspondence we have held discussions with senior Council officers, and reviewed supporting papers including an analysis of the LOBOs held by the Council, comparable PWLB rates of interest and the Council's treasury management policies and controls.

100. Based on our work we can conclude that:

- the use of LOBOs has been undertaken in line with the Council's treasury management policy, which has been reviewed and approved annually by councillors
- the interest rates on the standard LOBOs were lower than the comparable PWLB rates available at the time
- the potential for debt restructuring is kept under regular review by the Council as part of its treasury management arrangements.

101. There are no further issues we wish to raise in this report.

Integration of health and social care

102. Legislation to implement health and social care integration, passed by the Scottish Parliament in February 2014, came into force on 1 April 2016. This brings together NHS and local council social care services under one partnership arrangement for each council area. These health and social care partnerships are known as Integration Joint Boards (IJBs).

103. The Moray Integration Joint Board is provided in partnership with NHS Grampian and became fully operational on 1 April 2016. The financial transactions of the Moray Integration Joint Board have been consolidated into the Council's group accounts.

104. In December 2015, we published the first, [Health and Social Care Integration](#), of three national reports looking at the integration of health and social care. In the report, we recognised that The Public Bodies (Joint Working)(Scotland) Act 2014 introduced a significant programme of reform affecting most health and care services and over £8 billion of public money. The reforms have the scope to address the barriers to providing the right care for people closer to home. There are, however, significant challenges including complex governance arrangements, difficulties in budget-setting and consequent delays in strategic planning. We will carry out a second audit, in 2018, to look at progress and to follow up on these risks. The audit will examine changes to the system, including evidence of shifts in service delivery from acute to community-based and preventative services, and of the impact on the lives of local people.

Equalities

105. The Equality Act 2010 introduced a public sector general duty that encourages public bodies to mainstream equality, that is, ensure it is part of their core work. The Act requires that by no later than 30 April 2015 and every two years thereafter, public bodies must publish a report on the progress made to achieve the quality of outcomes it has set.

106. We reviewed the key Council documents including Mainstreaming Equality Report 2017 and Moray Joint Equality Outcomes 2017-2021 and concluded the Council has met its statutory duty to:

- publish information on progress made in mainstreaming equality within the Council
- report on progress made towards achieving equality outcomes published in 2013
- publish annual employee information and details of the progress made in gathering and using information to better meet the duty
- publish updated gender pay gap information.

Equal Pay in Scottish Councils

107. In September 2017, the Accounts Commission published its findings from an audit of equal pay across local government. The audit found that councils underestimated the challenges involved in implementing the Single Status Agreement, and that some of the approaches taken by councils did not always prioritise pay equality and were later found to be discriminatory.

108. Moray Council implemented single status in December 2006 and reports that between 2004/05 and 2015/16 it spent over £6 million compensating workers who had been unfairly paid and settling equal pay claims. As at 31 March 2017, Moray Council had three equal pay claims that were still live.

109. Across Scotland, there are almost 27,000 live equal pay claims. Workers could potentially still make new claims against councils. This means that councils need to be confident that they have fair and transparent pay arrangements and take necessary action, such as regular equal pay audits, to deliver pay equality in line with their public sector equality duty. The 2015/16 Local Government Benchmarking Framework indicators show that Moray Council is in the lowest quartile of Scottish Councils for its gender pay gap.

110. We concluded, on the basis of evidence reviewed, that the Council is proactive in ensuring that equality is mainstreamed.

Part 5

Value for money



Main judgements

The Best Value audit work carried out this year focussed on the Council's arrangements for demonstrating Best Value in financial management and financial sustainability.

Overall, we concluded that the Council's arrangements for SPI publication are satisfactory.

Best Value

111. The Accounts Commission agreed the overall framework for a new approach to auditing Best Value in June 2016. Best Value will be assessed over the five year audit appointment, as part of the annual audit work. In addition a Best Value Assurance Report (BVAR) for each council will be considered by the Accounts Commission at least once in this five year period. The BVAR report for Moray Council is planned for later in the five year programme.

112. The Best Value audit work carried out this year focussed on the Council's arrangements for demonstrating Best Value in financial planning and financial governance and resource management. The findings of this work were reported in our interim report and are also reported above. The effectiveness of the Council's Best Value arrangements in other areas will be assessed and reported throughout our audit appointment.

Value for money is concerned with using resources effectively and continually improving services.

Local Scrutiny Plan

113. The 2017/18 Local Scrutiny Plan prepared by the Local Area Network (LAN) of scrutiny partners for the Council was finalised in May 2017 and considered by the full Council in June 2017. The LAN did not identify any new scrutiny risks which would require specific scrutiny work during 2017/18. The Council will be subject to a range of nationally driven scrutiny activities as set out in the Local Scrutiny Plan.

Performance management

114. Moray Council has a Performance Management Framework in place which demonstrates how the components of performance management fit together and how Moray's ten year plan – Moray 2026 – is used to inform corporate, service and team level plans within the Council. The Performance Management Framework is currently undergoing review to ensure that it is fit for purpose and reflects best practice.

115. The Council participates in the [Local Government Benchmarking Framework](#) (LGBF). The framework aims to bring together a wide range of information about how all Scottish councils perform in delivering better services to local communities, including the cost of services, and how satisfied citizens are with them.

116. The most recent [National Benchmarking Overview Report 2015/16](#) by the Improvement Service was published in February 2017 and covered the 2015/16 reporting period. This report was submitted to the Audit and Scrutiny Committee in March 2017.

117. The information presented to the Audit and Scrutiny Committee identified areas where the Council is performing well and areas where improvement is required, as well as comparing the Council's performance to a Scotland wide benchmark for each performance indicator.

118. Of the indicators measured as part of the 2015/16 reporting period, 17 indicators had improved and 32 indicators had worsened. Compared to other councils, 40 indicators (63%) were ranked in the 1st and 2nd quartile (34 in 2014/15). Areas performing well include pupils gaining more than five National 5 awards, invoices paid within 30 days, the net cost of waste collection and the quality of housing.

119. Areas for improvement include sickness absence (non-teaching), gender pay gap, satisfaction with adult social work, libraries, museums, street cleanliness and local schools and business start ups. In total, there were 17 indicators which fell into the bottom quartile. Each of the Council's services reviews their indicators and actions are incorporated into delivery plans to sustain or improve performance.

Statutory performance indicators (SPIs)

120. The Accounts Commission places great emphasis on councils' responsibility for public performance reporting. The Commission does not prescribe how councils should report this information but expects them to provide the public with fair, balanced and engaging performance information.

121. For 2016/17 two (SPIs) were prescribed:

- SPI 1: covering a range of information relating to areas of performance such as improving local public services, improving local outcomes, engaging with communities and achieving Best Value
- SPI 2: relates to the reporting of performance information as required by the Local Government Benchmarking Framework.

122. We reviewed the Council's arrangements for the collection, verification and reporting of performance information. The Council operates a team of Research and Information Officers (RIOs) who are each assigned to a particular service and are responsible for helping them with the necessary collection of performance data. The RIOs' duties include reviewing the service's performance indicators, framework and service plans annually (including quarterly monitoring) and performing more detailed analysis of data in specific areas, if required.

123. Overall, we concluded that the Council's arrangements for the publication of SPIs are satisfactory, with quarterly, half-yearly and annual performance information being published within the expected timeframes. We identified the lack of a formal process for communicating to all staff on the arrangements for collecting, verifying and reporting of performance information, although reports have always been made to committee on time. Consideration should be given to putting a more formal procedure in place.

National performance audit reports

124. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2016/17, a number of reports were issued which may be of interest to the Council. These are outlined in Appendix 4.

125. The Council has a process in place to ensure that findings from national reports are reviewed, and where relevant, presented to the Audit and Scrutiny Committee. This reporting includes an assessment of current arrangements and the identification of actions to be taken to apply good practice examples highlighted in the reports.

Appendix 1

Action plan 2016/17

2016/17 recommendations for improvement

Para no.	Issue/risk	Recommendation	Agreed management action/timing
31 (3)	<p>1. Revaluations</p> <p>The wrong social discount factor was used to revalue council dwellings.</p> <p>Risk: council dwellings are materially misstated in the annual accounts.</p>	<p>Year end working papers should be reviewed to ensure that the correct discount rate is used to revalue council dwellings.</p>	<p>Revaluations are made every five years. Procedures will be updated to ensure that checks are made to ensure the updated discount factor is used.</p> <p>Responsible officer: Principal Accountant</p> <p>Agreed date: 31 March 2018</p>
31 (4)	<p>2. Depreciation</p> <p>Where components are replaced during the year, depreciation is not charged on the replacement component as required by the accounting policy.</p> <p>Risk: non-current assets are misstated in the annual accounts.</p>	<p>All non current asset additions should be depreciated in the year of acquisition as set out in the Council's accounting policy.</p>	<p>A query has been raised with the fixed asset register supplier to correct the error. If no system amendment is available, a manual adjustment will be made.</p> <p>Responsible officer: Principal Accountant</p> <p>Agreed date: 31 March 2018</p>
31 (5)	<p>3. Holiday pay accrual</p> <p>Errors were identified in the spreadsheet used to calculate the holiday pay accrual.</p> <p>Risk: the holiday pay accrual is misstated in the annual accounts.</p>	<p>The spreadsheet should be reviewed to ensure that the holiday pay accrual is complete and accurate.</p>	<p>Extra checks will be included in the process for 2017/18.</p> <p>Responsible officer: Principal Accountant</p> <p>Agreed date: 31 March 2018</p>



Para no.	Issue/risk	Recommendation	Agreed management action/timing
31 (6)	<p>4. Rental income</p> <p>Rental income invoices are not reviewed to ensure that they are accounted for in the correct financial year.</p> <p>Risk: rental income and debtors are overstated in the annual accounts.</p>	<p>Rental invoices should be reviewed to ensure that they have been allocated to the correct financial year.</p>	<p>Processes will be reviewed and a procedure commensurate with the value of the invoices will be drafted and piloted for 2017/18.</p> <p>Responsible officer: Head of Financial Services</p> <p>Agreed date: 31 December 2017</p>
31 (7)	<p>5. Internal recharges</p> <p>Internal recharges have not been eliminated from the gross income and gross expenditure figures included in the CIES.</p> <p>Risk: gross income and gross expenditure are overstated in the annual accounts.</p>	<p>Management should review how they account for internal recharges within the CIES.</p>	<p>Procedures for accounting for internal recharges will be reviewed when the Code of Practice for 2017/18 is issued.</p> <p>Responsible officer: Head of Financial Services</p> <p>Agreed date: 31 March 2018</p>
31 (8)	<p>6. Group boundary</p> <p>The Council has not reviewed its group boundary since the introduction of the new definition of 'control' of group components was introduced in 2015/16. Moray Leisure Limited's non current assets are not revalued to current cost on consolidation.</p> <p>Risk: the group accounts are materially misstated.</p>	<p>The Council should review its group boundary against the new definition of 'control'. A current cost valuation of Moray Leisure Limited's non current assets to evidence that it is not materially different to the historic cost valuation used to prepare the group accounts.</p>	<p>The Council will review its group boundary against the current definition of 'control'.</p> <p>Accounting for Moray Leisure Ltd will also take into account the findings of the Leisure Review, if relevant.</p> <p>Responsible officer: Head of Financial Services</p> <p>Agreed date: 31 March 2018</p>
77 to 81	<p>7. Financial Sustainability</p> <p>The current level of service provision is not financially sustainable and the Council is currently using its reserves to maintain services at previous levels.</p> <p>Risk: the Council is unable to agree and implement a sustainable model for service delivery before its reserves are exhausted.</p>	<p>Members need to make difficult decisions about which services (and at what level) the Council can afford to deliver in the future. These decisions need to be made quickly as officers have projected that the Council's reserves will be exhausted by 31 March 2019.</p>	<p>The Council has formed a new Corporate Plan Steering Group which will focus on the financial sustainability of the Council over the next two years as a priority.</p> <p>Responsible officer: Corporate Management Team and Heads of Service.</p> <p>Agreed date: Work to progress with the aim of securing sustainable budget for 2018/19.</p>

Appendix 2

Significant audit risks identified during planning

The table below sets out the audit risks we identified during our planning of the audit and how we addressed each risk in arriving at our opinion on the financial statements.

Audit risk	Assurance procedure	Results and conclusions
Risks of material misstatement in the financial statements		
<p>1 Risk of management override of controls</p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.</p>	<p>Detailed testing of journal entries.</p> <p>Review of accounting estimates.</p> <p>Focused testing of accruals and prepayments.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p>	<p><u>Results</u></p> <p>We did not identify any significant issues within our work on journals or accounting estimates. Our testing of accruals and prepayments did not identify any errors and there were no significant transactions outside the normal course of business.</p> <p><u>Conclusion</u></p> <p>No issues were identified that would indicate management override of controls.</p>
<p>2 Risk of fraud over income</p> <p>Moray Council receives a significant amount of income from sources other than Scottish Government funding. The extent and complexity of income means that, in accordance with ISA 240, there is an inherent risk of fraud that requires an audit response</p>	<p>Analytical procedures on income streams.</p> <p>Detailed testing of revenue transactions focusing on the areas of greatest risk.</p> <p>Walk through of controls over income transactions and significant grant income.</p> <p>Review of National Fraud Initiative arrangements and results.</p>	<p><u>Results</u></p> <p>We did not identify any significant issues from our testing of income controls and transactions. Our work on National Fraud Initiative did not identify any issues.</p> <p><u>Conclusion</u></p> <p>No fraud issues were identified.</p>

Audit risk	Assurance procedure	Results and conclusions
<p>3 Risk of fraud over expenditure</p> <p>The Code of Audit Practice expands the ISA assumption on fraud over income to aspects of expenditure. The Council incurs significant expenditure in areas such as welfare benefits, social care payments and grants.</p>	<p>Audit work on the National Fraud Initiative matches.</p> <p>Walk through of controls over social care payments.</p> <p>Detailed testing of expenditure including grants and housing benefit transactions.</p>	<p>Results</p> <p>We did not identify any significant issues in our testing of expenditure controls, although we reported areas where controls could be strengthened. Our testing of transactions and our work on National Fraud Initiative did not identify any issues.</p> <p>Conclusion</p> <p>No fraud issues were identified.</p>
<p>4 Estimation and judgements</p> <p>There is a degree of subjectivity in the measurement and valuation of the material account areas of pensions, non current assets, accruals and provisions. This subjectivity represents an increased risk of misstatement in the financial statements</p>	<p>Completion of 'review of the work of an expert' in accordance with ISA 500 for the professional valuer and actuary.</p> <p>Focused substantive testing of accruals and provisions.</p>	<p>Results</p> <p>We did not identify any issues from our review of the work of the professional valuer or actuary. Our substantive testing of accruals and provisions did not identify any issues.</p> <p>Conclusion</p> <p>No issues identified with valuation of material account areas.</p>
<p>5 Highway network assets (HNA)</p> <p>HNA will be recognised for the first time in the 2017/18 financial statements of councils. While this is not a risk to the 2016/17 financial statements, this is a new and complex area and there is a risk that the Council does not have sound arrangements in place to support adoption in 2017/18.</p>	<p>Assess the arrangements in place to obtain the required knowledge and expertise to implement the new requirements.</p> <p>Review and assess the measurement, existence and completeness of HNA records to ensure compliance with the Code of practice on highway network assets.</p>	<p>Results</p> <p>At its meeting on 8 March 2017, the CIPFA/LASAAC Code Board decided not to proceed with the introduction of the current value basis for the highways network asset. Therefore, this was not assessed as part of the 2016/17 audit.</p> <p>Conclusion</p> <p>No requirement to recognise highway network assets in the accounts.</p>
<p>6 Group accounts</p> <p>For 2016/17, the Council will be required to consolidate the Moray Integration Joint Board into its group for the first time. The complexity of this consolidation leads to a risk over the accuracy and completeness of the group accounts.</p>	<p>Consider whether the process for consolidation is in line with the integration scheme.</p> <p>Agree the consolidation adjustment is accurate and correctly disclosed.</p> <p>Confirm balances have been agreed by the partner bodies.</p> <p>Review the group boundary.</p>	<p>Results</p> <p>We did not identify any issues with the consolidation process. Assurances were obtained from component and service auditors in accordance with our planned audit approach.</p> <p>Conclusion</p> <p>No issues identified with the group accounts consolidation process.</p>

Audit risk	Assurance procedure	Results and conclusions
<p>7 Revised financial statements formats</p> <p>From 2016/17 the Code requires authorities to present their service segments on the face of the Comprehensive Income and Expenditure Statement (CIES) based on the way in which they operate and manage services. There is a risk that comparative 2015/16 data may not be presented correctly.</p>	<p>Review work done on mapping the audited 2015/16 CIES to the new service structure to ensure completeness/accuracy/categorisation of comparative information.</p>	<p>Results</p> <p>The new CIES categorisation was consistent with internal reporting. As noted at Exhibit 4 point 7 and action plan point 5 above, internal recharges were not eliminated from gross income and expenditure totals within the CIES.</p> <p>Conclusion</p> <p>Internal recharges should be eliminated from the CIES in future years.</p>
<p>8 Loans funding accounting</p> <p>The Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016 came into force on 1 April 2016. The Regulations set out the powers of local authorities to borrow and maintain a loans fund and result in a change in accounting treatment from 2016/17. There is a risk that the Council does not have arrangements in place to comply with the new accounting practices.</p>	<p>Review the arrangements in place to comply with the new loans fund accounting requirements.</p> <p>Detailed audit testing on loans fund transactions within the financial statements.</p>	<p>Results</p> <p>We did not identify any significant issues in our testing of loans fund arrangements and transactions.</p> <p>Conclusion</p> <p>No issues were identified from our audit work.</p>
<p>9 Changes in key finance staff</p> <p>The Head of Financial Services plans to retire at the end of June 2017, and other key finance staff have indicated they may also retire during 2018/19. There is a risk that the Council does not have appropriate succession planning arrangements in place to ensure a smooth transition during the accounts preparation and audit processes.</p>	<p>Clarify the arrangements for signing the unaudited and audited accounts and other section 95 officer responsibilities.</p> <p>Ensure section 95 officer responsibilities are adequately documented.</p> <p>Confirm arrangements for regular and final clearance meetings during final accounts audit process.</p>	<p>Results</p> <p>A new Head of Financial Services/Section 95 Officer was appointed in June 2017 who will sign the audited accounts. Regular meetings were held with finance staff during the final accounts audit process to agree all adjustments to the accounts.</p> <p>Conclusion</p> <p>No issues were identified with the changes in key finance staff.</p>

Audit risk	Assurance procedure	Results and conclusions
Risks identified from the auditor's wider responsibility under the Code of Audit Practice		
<p>10 Financial Sustainability</p> <p>Moray Council's overall financial strategy is that it will use reserve funds to maintain services at current levels during 2016/17 and 2017/18. The Council has acknowledged that the current level of service provision is not financially sustainable.</p> <p>The Council has prepared a ten year capital plan but has recognised that it is unable to implement the plan due to insufficient finance. It has, therefore, adopted a 'Make Do and Mend' approach for 2016/17 and 2017/18 and has recognised that a financially sustainable future needs to include a reduction in the number of assets used to deliver services.</p> <p>Financial challenges are unlikely to reduce and there is a risk that budget gaps will not be addressed.</p>	<p>Undertake specific audit work on financial planning and governance. This will include assessing the robustness of long term financial planning.</p> <p>Review the council's progress in achieving its planned savings.</p>	<p>Results</p> <p>The findings from our review of financial planning and sustainability were reported in our 2016/17 Interim Report, and at paragraphs 77 to 81 and action plan point 7 above.</p> <p>The Council achieved its savings target of £3.3m with additional savings of £0.5m also achieved.</p> <p>Conclusion</p> <p>The Council has yet to develop a sustainable financial strategy for the medium to long term. Current projections are that all of the Council's reserves will be exhausted by 31 March 2019.</p>
<p>11 Financial Management</p> <p>Moray Council approved a budget for 2016/17 that included the requirement for £3.284 million of savings and the use of £6.815 million of reserves to achieve financial balance. There is a risk that the Council fails to make the required level of savings and that any overspend on IJB related services impacts on the council's ability to achieve a balanced year end position.</p>	<p>Review financial monitoring reports and the financial position.</p> <p>Undertake specific audit work on financial governance and resource management.</p>	<p>Results</p> <p>The 2016/17 outturn resulted in the use of £4.8m of reserves instead of £6.8m. In addition, the Council achieved its savings target of £3.3m with additional savings of £0.5m also achieved.</p> <p>Conclusion</p> <p>No issues were identified from our audit work.</p>
<p>12 Registers of interest</p> <p>From a review of Member's registers of interest it has been identified that several returns are out of date, including a number which have not been updated since 2012. There is a risk that members have roles or interests which are not disclosed resulting in conflicts of interest not being identified.</p>	<p>Detailed review of processes in place for completion of register including review of guidance and assessment of compliance.</p> <p>Consideration of any issues identified through NFI matches and the appropriateness of existing disclosures in registers.</p>	<p>Results</p> <p>The findings from our review were reported in our 2016/17 Interim report and at paragraph 85 above. NFI matches did not identify any issues.</p> <p>Conclusion</p> <p>Improvements are required to the Council's arrangements for the maintenance of the registers of interests.</p>

Appendix 3

Summary of unadjusted errors

We report all uncorrected misstatements that are individually greater than our reporting threshold of £85,000.

The table below summarises uncorrected misstatements that were noted during our audit testing and were not corrected in the financial statements (see Exhibit 4 for details). Cumulatively these errors are below our performance materiality level as explained in [Exhibit 2](#). We are satisfied that these errors do not have a material impact on the financial statements.





















No.	Misstatement	Comprehensive income and expenditure statement		Balance sheet	
		Dr £m	Cr £m	Dr £m	Cr £m
1	Revaluations				
	Gross Expenditure (HRA)		0.5		
	Property, Plant and Equipment			0.5	
	Capital Adjustment Account				0.5
2	Depreciation				
	Education & Integrated Children's Services	0.1			
	Property, Plant and Equipment				0.1
	Capital Adjustment Account			0.1	
3	Holiday Pay Accrual				
	Cost of Services	0.2			
	Short Term Creditors				0.2
	Employee Statutory Adjustment Account			0.2	

No.	Misstatement	Comprehensive income and expenditure statement		Balance sheet	
		Dr £m	Cr £m	Dr £m	Cr £m
4	Rental income				
	Development Services	0.2			
	Short Term Debtors				0.2
	General Fund			0.2	
	Net impact – Net expenditure		0.0		
	Net impact – Net assets				0.0

Appendix 4

Summary of national performance reports 2016/17



Apr			
May	 Common Agricultural Policy Futures programme: an update		
Jun	 South Ayrshire Council: Best Value audit report	 The National Fraud Initiative in Scotland	
Jul	 Audit of higher education in Scottish universities	 Supporting Scotland's economic growth	
Aug	 Maintaining Scotland's roads: a follow-up report	 Superfast broadband for Scotland: a progress update	 Scotland's colleges 2016
Sept	 Social work in Scotland	 Scotland's new financial powers	
Oct	 Angus Council: Best Value audit report	 NHS in Scotland 2016	
Nov	 How councils work – Roles and working relationships in councils	 Local government in Scotland: Financial overview 2015/16	
Dec	 Falkirk Council: Best Value audit report	 East Dunbartonshire Council: Best Value audit report	
Jan			
Feb	 Scotland's NHS workforce		
Mar	 Local government in Scotland: Performance and challenges 2017	 i6: a review	 Managing new financial powers: an update

Moray Council

2016/17 Annual Audit Report

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Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
T: 0131 625 1500 E: info@audit-scotland.gov.uk
www.audit-scotland.gov.uk