

# Moray Council

Annual Audit Plan 2021/22



 AUDIT SCOTLAND

Prepared for Moray Council  
April 2022

---

# Contents

---

|  |    |
|--|----|
| Introduction                                     | 3  |
| Financial statements audit planning              | 5  |
| Audit dimensions and Best Value                  | 11 |
| Reporting arrangements, timetable, and audit fee | 14 |
| Other matters                                    | 17 |

---

# Introduction

---

## Summary of planned audit work

**1.** This document summarises the work plan for our 2021/22 external audit of Moray Council (the council). The main elements of our work include:

- evaluation of the key controls within the main accounting systems
- an audit of the 2021/22 annual accounts and provision of an Independent Auditor's Report
- provision of an audit opinion on the other statutory information published within the annual accounts including the Management Commentary, the Annual Governance Statement, and the audited part of the Remuneration Report
- consideration of arrangements in relation to the audit dimensions that frame the wider scope of public sector audit: financial management, financial sustainability, governance and transparency and value for money
- consideration of the council's Best Value arrangements
- providing assurance on the Housing Benefit Subsidy Claim and Non-Domestic Rates Income Return
- review of the council's arrangements for preparing and publishing statutory performance information
- review of the council's participation in the National Fraud Initiative.

## Impact of Covid-19

**2.** The coronavirus disease (Covid-19) pandemic has had a significant impact on public services and public finances, and the effects will be felt well into the future.

**3.** The Accounts Commission and Audit Scotland continue to assess the risks to public services and finances from Covid-19 across the full range of our audit work, including annual audits and the programme of performance audits. The well-being of audit teams and the delivery of high-quality audits remain paramount. Changes in our approach may be necessary and where this impacts on annual audits, revisions to this Annual Audit Plan may be required.

## Adding value

4. We aim to add value to the council through our external audit work by being constructive and forward looking, by identifying areas for improvement and by recommending and encouraging good practice. In so doing, we will help the council promote improved standards of governance, better management and decision making and more effective use of resources. Additionally, we attend meetings of the Audit and Scrutiny Committee and actively participate in discussions.

## Respective responsibilities of the auditor and Moray Council

5. The [Code of Audit Practice \(2016\)](#) sets out in detail the respective responsibilities of the auditor and the council. Key responsibilities are summarised below.

### Auditor responsibilities

6. Our responsibilities as independent auditors are established by the Local Government (Scotland) Act 1973 and the [Code of Audit Practice](#) (including [supplementary guidance](#)) and guided by the Financial Reporting Council's Ethical Standard.

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

### Moray Council's responsibilities

8. The council is responsible for maintaining accounting records and preparing financial statements that give a true and fair view.

9. The council also has primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to deliver their objectives.

## Managing the transition to 2022/23 audits

10. Audit appointments are usually for five years but were extended to six years due to Covid-19. 2021/22 is the final year of the current appointment and we will work closely with our successors to ensure a well-managed transition.

# Financial statements audit planning

## Materiality

**11.** Materiality is an expression of the relative significance of a matter in the context of the financial statements as a whole. We are required to plan our audit to determine with reasonable confidence whether the financial statements are free from material misstatement. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement.

### Materiality levels for the 2021/22 audit

**12.** We assess materiality at different levels as described below. The materiality values for the council and its group are set out in [Exhibit 1](#).

## Exhibit 1

### 2021/22 Materiality levels for Moray Council and its group

| Materiality  | Council      | Group        |
|--|--------------|--------------|
| <b>Planning materiality</b> – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. It has been set at 1% of gross expenditure for the year ended 31 March 2022 based on the latest audited financial statements for 2020/21.   | £3.6 million | £3.6 million |
| <b>Performance materiality</b> – 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 assessed performance materiality at 60% of planning materiality. | £2.2 million | £2.2 million |
| <b>Reporting threshold (i.e. clearly trivial)</b> – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount.   | £150,000     | £150,000     |

Source: Audit Scotland

## Significant risks of material misstatement to the financial statements

**13.** Our risk assessment draws on our cumulative knowledge of the council, its major transaction streams, key systems of internal control and risk management processes. It is also informed by our discussions with management, meetings with internal audit, attendance at committees and a review of supporting information.

**14.** Based on our risk assessment process, we identified the following significant risks of material misstatement to the financial statements. These are risks which have the greatest impact on our planned audit procedures. [Exhibit 2](#) summarises the nature of the risk, the sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurance over the risk.

### Exhibit 2

#### 2021/22 Significant risks of material misstatement to the financial statements

| Significant risk of material misstatement   | Sources of assurance  | Planned audit response  |
|---|---|---|
| <p><b>1. Risk of material misstatement due to fraud caused by the management override of controls</b></p> <p>As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p> | <p>Owing to the nature of this risk, assurances from management are not applicable in this instance</p> | <ul style="list-style-type: none"> <li>• Assess the design and implementation of controls over journal entry processing.</li> <li>• Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments.</li> <li>• Test journals at the year-end and post-closing entries and focus on significant risk areas.</li> <li>• Consider the need to test journal entries and other adjustments during the period.</li> <li>• Evaluate significant transactions outside the normal course of business.</li> <li>• Assess the adequacy of controls in place for identifying and disclosing related party relationship and transactions in the financial statements.</li> <li>• Assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year.</li> </ul> |

| Significant risk of material misstatement   | Sources of assurance   | Planned audit response  |
|---|--|---|
| <p><b>2. Estimation in the valuation of land and buildings</b></p> <p>The council held land and buildings with a net book value of £707 million at 31 March 2021, with land and buildings revalued on a five-year rolling basis.</p> <p>There is a significant degree of subjectivity in the valuation of land and buildings. Valuations are based on specialist and management assumptions and changes in these can result in material changes to valuations.</p> <p>A full valuation exercise of council dwellings was completed during 2020/21, with schools valued in 2018/19. The council has not applied indexation in intervening years previously but plans to introduce this for housing and schools in 2021/22. The council is also introducing a new asset register system in 2021/22.</p> <p>There is a risk that the carrying amount of assets differs materially from the current value at the end of the reporting period.</p> | <ul style="list-style-type: none"> <li>• The council has clearly defined procedures in place, including the use of experts to make significant estimations and judgements.</li> <li>• Estimates and valuations are reviewed by qualified finance staff.</li> </ul> | <ul style="list-style-type: none"> <li>• Substantively test income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year.</li> <li>• Test accounting accruals and prepayments focusing on significant risk areas.</li> <li>• Review the information provided to the valuer to assess for completeness.</li> <li>• Evaluate the competence, capabilities, and objectivity of the professional valuer.</li> <li>• Complete a walkthrough of the valuation process to obtain an understanding of the process, including the methodologies and assumptions applied.</li> <li>• Review of reports from the valuer to confirm overall asset valuation.</li> <li>• Obtain an understanding of management's involvement in the valuation process to assess if appropriate oversight has occurred.</li> <li>• Examine management's assessment of any assets not revalued in 2021/22 against evidence of changes in other revalued assets.</li> <li>• Test the reconciliation between the financial ledger and the property asset register.</li> <li>• Sample test individual asset valuations and lives.</li> </ul> |

**15.** As set out in International Standard on Auditing (UK) 240: *The auditor's responsibilities relating to fraud in an audit of financial statement*, there is a presumed risk of fraud over the recognition of revenue. We have considered the risk that revenue may be misstated resulting in a material misstatement in the financial statements. We also considered the risk of fraud over expenditure, as most public bodies are net spending bodies, and the risk of external fraud (in accordance with Practice Note 10: *Audit of Financial Statements and Regularity of Public Sector Bodies in the UK*).

**16.** We have rebutted the presumption that a material risk exists, with the exception of management override, as noted above. This is on the basis that:

- there are generally no incentives for staff to commit fraudulent financial reporting
- a significant portion of the council's income comes from government grants and contributions that can be readily agreed to funding letters
- an effective control environment operates around income from council tax and non-domestic rates billing
- income derived from fees and charges for the provision of services is well controlled with controls around access to financial systems, segregation of duties, and reconciliations that prevent and detect the risk of misstatement
- most expenditure is in low-risk areas where individual transactions are well-controlled (for example salaried staff costs in a well-defined grading system) and individual transactions are relatively small in scale, with management approval required for material transactions
- evidence of external fraud from counter fraud services and the National Fraud Initiative does not indicate material risk
- experience in the sector and from prior year audits of the council, including a review of past misstatements, does not indicate material risk.

**17.** Our audit testing is directed towards testing significant and unusual transactions and towards assessing accounting estimates to address any residual risk, as part of our standard fraud procedures. We have not, therefore, incorporated specific work into our audit plan in these areas over and above our standard audit procedures.

### Other areas of audit focus

**18.** As part of our assessment of audit risks, we have identified other areas where we consider there are also risks of material misstatement to the financial statements. Based on our assessment of the likelihood and magnitude of the risk, we do not consider these to represent significant risks. We will keep these areas under review as our audit progresses. If our assessment of risk changes and we consider these risks to be significant, we will communicate this to management and those charged with governance and revise our planned audit approach accordingly.



**19.** The areas of specific audit focus are:

- **Valuation of IAS19 net pensions liability:** Actuarial estimates are a complex combination of liabilities over significant future periods based on life expectancy and CPI growth. These are subject to significant discounting based on corporate bond rates. Assets are based on individual employer body shares of assets at last triennial valuation. Roll forward adjustments are provided to members data and to asset valuations.

We will assess the scope, independence and competence of the professionals engaged in providing estimates for pensions and review appropriateness of actuarial assumptions and results including comparison with other councils. We will establish officers' arrangements for ensuring the reasonableness of professional estimations and the accuracy of information provided to the actuary by the council.

## Group consideration

**20.** As group auditors, we are required under International Standard on Auditing (UK) 600: *Audits of group financial statements (including the work of component auditors)* to obtain sufficient appropriate audit evidence on which to base our audit opinion on the group financial statements.

**21.** The council has a group which comprises component entities, including subsidiaries, associates, and joint ventures. The audits of the financial information of some of the components are performed by other auditors. We plan to place reliance on the work of the component auditors. We will obtain sufficient appropriate audit evidence in relation to the consolidation process and the financial information of the components on which to base our group audit opinion.

## Audit of trusts registered as Scottish charities

**22.** Members of Moray Council are sole trustees for 8 trusts registered as Scottish charities, with net assets of £978,000. The preparation and audit of financial statements of registered charities is regulated by the Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006.

**23.** The 2006 Regulations require charities to prepare annual accounts and require an accompanying auditor's report where any legislation requires an audit. The Local Government (Scotland) Act 1973 specifies the audit requirements for any trust fund where some or all members of a council are the sole trustees. Therefore, a full and separate audit and independent auditor's report is required for each registered charity where members of the council are sole trustees, irrespective of the size of the charity.

## Materiality levels for the 2021/22 audit of trusts registered as Scottish charities

**24.** Materiality levels for the charitable trusts are set out in [Exhibit 3](#).

### Exhibit 3

#### 2021/22 materiality levels for charitable trusts

| Materiality  | Amount  |
|--|---------|
| <b>Planning materiality</b> – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. It has been set at 2% of gross assets based on the latest audited financial statements for 2020/21.   | £20,000 |
| <b>Performance materiality</b> – 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 assessed performance materiality at 75% of planning materiality. | £15,000 |
| <b>Reporting threshold (i.e. clearly trivial)</b> – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount.   | £1,000  |

Source: Audit Scotland

**25.** Based on our discussions with staff and initial planning work we have identified the following risk for the audit of the charitable trusts: management override of controls. This risk has been included in [Exhibit 2](#).

### Audit risk assessment process

**26.** Audit risk assessment is an iterative and dynamic process. Our assessment of risks set out in this plan may change as more information and evidence becomes available during the progress of the audit. Where such changes occur, we will advise management and where relevant, report them to those charged with governance.

---

# Audit dimensions and Best Value

---

## Introduction

27. The [Code of Audit Practice](#) sets out the four dimensions that frame the wider scope of public sector audit. The Code of Audit Practice requires auditors to consider the adequacy of the arrangements in place for the audit dimensions in audited bodies.

## Audit dimensions

28. The four dimensions that frame our audit work are shown in [Exhibit 4](#).

---

### Exhibit 4

#### Audit dimensions



Source: Code of Audit Practice

---

29. In summary, the four dimensions cover the following:

- **Financial management** – financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.
- **Financial sustainability** – as auditors, we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We

will also comment on financial sustainability in the longer term. We define this as medium term (two to five years) and longer term (longer than five years).

- **Governance and transparency** – 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.
- **Value for money** – value for money refers to using resources effectively and continually improving services.

## Best Value

**30.** 2021/22 is the final year of the extended six-year approach to auditing Best Value in councils. Best Value work is integrated within the annual audit. It is assessed comprehensively over the period of the audit appointment, both through ongoing annual audit work and through discrete packages of work focussing on specific issues. Conclusions and judgements on Best Value are reported through:

- the Annual Audit Report for each council that provides a rounded picture of the council overall.
- an Annual Assurance and Risks Report that the Controller of Audit will provide to the Accounts Commission that will highlight issues from across all 32 council annual audit reports.
- a Best Value Assurance Report (BVAR) for each council that will be considered by the Accounts Commission at least once over the period of the audit appointment.

**31.** BVARs will be considered by the Accounts Commission between February and September 2022 on the councils listed in [Exhibit 5](#).

---

## Exhibit 5

### 2022 Best Value Assurance Reports



Moray Council follow-up

Shetland Island Council

Angus Council

Comhairle nan Eilean Siar

Source: Audit Scotland

---

**32.** The Best Value work planned in Moray Council this year will focus on equalities and the council's response to the follow-up report published in March 2022. The results of this work will be reported in the Annual Audit Report.

### **Audit dimension risks**

**33.** No new audit dimension risks have been identified for the council in 2021/22. Progress on the outstanding audit dimension risks identified in prior years will be followed-up with management during the course of the 2021/22 audit.

# Reporting arrangements, timetable, and audit fee

## Reporting arrangements

**34.** Audit reporting is the visible output for the annual audit. All Annual Audit Plans and the outputs, as detailed in [Exhibit 6](#), and any other outputs on matters of public interest will be published on our website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

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

**36.** We will provide an independent auditor's report to the council and the Accounts Commission setting out our opinions on the annual accounts. We will also provide the council and the Accounts Commission with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

**37.** [Exhibit 6](#) outlines the target dates for our audit outputs, and we aim to issue the independent auditor's report by 31 October 2022. We acknowledge this will be challenging due to the ongoing pressures and uncertainties caused by Covid-19. The Committee dates are not yet agreed and so are subject to change.

## Exhibit 6 2021/22 audit outputs

| Audit Output                 | Target date     | Committee date  |
|------------------------------|-----------------|-----------------|
| Annual Audit Plan            | 30 April 2022   | 28 June 2022    |
| Independent Auditor's Report | 31 October 2022 | 26 October 2022 |
| Annual Audit Report          | 31 October 2022 | 26 October 2022 |

Source: Audit Scotland



## Timetable

**38.** Covid-19 has had a considerable impact on the conduct and timeliness of the audit. We recognise that it is in the best interests of public accountability to get the reporting of audited accounts back to pre-pandemic timelines. To this end, 2021/22 is a transition year with the reporting deadline brought forward by one month relative to the two prior years. We are identifying ways to work more efficiently to expedite the 2021/22 audits whilst at the same time maintaining high standards of quality.

**39.** We have included a proposed timetable for the audit at [Exhibit 7](#) that has been discussed with management. Progress against this timetable will be discussed with management and finance officers over the course of the audit.

---

### Exhibit 7 Proposed annual accounts timetable

|  Key stage                    |  Provisional Date |
|--|--|
| Consideration of the unaudited annual accounts by those charged with governance                                | 29 June 2022   |
| Latest submission date for the receipt of the unaudited annual accounts with complete working papers package.  | 30 June 2022   |
| Latest date for final clearance meeting with the Chief Financial Officer                                       | 28 September 2022  |
| Agreement of audited unsigned annual accounts<br>Issue of Annual Audit Report to those charged with governance | 12 October 2022  |
| Council meeting to consider the Annual Audit Report and approve the audited annual accounts for signature      | 26 October 2022  |
| Signed Independent Auditor's Report  | 26 October 2022  |

Source: Audit Scotland

---

**40.** To support an efficient audit, it is critical that high quality unaudited accounts and supporting working papers are provided and that the timetable for producing the annual accounts for audit is achieved.

## Audit fee

**41.** The agreed audit fee for the 2021/22 audit of the council is £251,340 (2020/21: £246,240). In determining the audit fee, we have taken account of the risk exposure of the council, the planned management assurances in place and the level of reliance we plan to take from the work internal audit.

**42.** We have also agreed an audit fee of £5,440 (2020/21: £5,330) for the charitable trusts.

**43.** Where our audit cannot proceed as planned through, for example, late receipt of the unaudited annual accounts, the absence of adequate supporting working papers or being unable to take planned reliance from the work of internal audit, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises outwith our planned audit activity.



---

# Other matters

---

## Internal audit

**44.** Internal audit is provided by Moray Council's internal audit section. International standards on Auditing (UK) 610: *Considering the work of internal audit* requires us to:

- consider the activities of internal audit and their effect on external audit procedures
- obtain an understanding of internal audit activities to inform our planning and develop an effective audit approach that avoids duplication of effort
- perform a preliminary assessment of the internal audit function when there is scope for relying on internal audit work which is relevant to our financial statements' responsibilities
- evaluate and test the work of internal audit, where use is made of that work for our financial statements responsibilities to confirm its adequacy for our purposes.

**45.** We plan to place formal reliance on internal audit's work on housing benefits payments (substantive testing) to support our opinion on the council's Housing Benefits Subsidy claim.

## Independence and objectivity

**46.** Auditors appointed by the Accounts Commission must comply with the [Code of Audit Practice](#) and relevant supporting guidance. When auditing the financial statements, auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has robust arrangements in place to ensure compliance with these standards including an annual *'fit and proper'* declaration for all members of staff. The arrangements are overseen by the Director of Audit Services, who serves as Audit Scotland's Ethics Partner.

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

## Quality control

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

**49.** The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the [Code of Audit Practice](#) (and supporting guidance) issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards, Audit Scotland conducts peer reviews and internal quality reviews. Additionally, the Institute of Chartered Accountants of Scotland (ICAS) have been commissioned to carry out external quality reviews.

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

# Moray Council

## Annual Audit Plan 2021/22

Audit Scotland's published material is available for download on the website in a number of formats. For information on our accessibility principles, please visit:

[www.audit-scotland.gov.uk/accessibility](http://www.audit-scotland.gov.uk/accessibility)

For the latest news follow us on social media or [subscribe to our email alerts.](#)



Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN  
Phone: 0131 625 1500 Email: [info@audit-scotland.gov.uk](mailto:info@audit-scotland.gov.uk)  
[www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)