

# Moray Council

2021/22 Annual Audit Report



 AUDIT SCOTLAND

Prepared for the members of Moray Council and the Controller of Audit

7 November 2022

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# Key messages

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## 2021/22 annual accounts

- 1 Our audit opinions on the annual accounts of the council, its group and the section 106 charities administered by the council are unmodified.
- 2 Significant misstatements in the revaluation and classification of non-current assets were corrected in the audited accounts.

## Financial management and sustainability

- 3 The council planned to use £20 million of reserves during 2021/22 but due to additional funding, slippage and underspends it underspent by £25 million.
- 4 Financial systems of internal control generally operated effectively but we identified some areas where adequate controls don't exist. Weaknesses in payroll controls have resulted in overpayments.
- 5 The council plans to use £17.3 million (43 per cent) of its earmarked reserves to balance its budget in 2022/23.
- 6 Medium term financial plans forecast funding gaps of £21.5 million in 2023/24 and £8.9 million in 2024/25, with savings not yet identified to meet these.
- 7 The council's current transformation programme will not deliver sufficient savings to deliver financial sustainability in the medium-term.

## Governance and transparency

- 8 Overall governance arrangements are appropriate, but members have yet to conclude on the Audit and Scrutiny Committee's remit and agree a shared view on the role and nature of scrutiny.
- 9 Political leadership of the council continues to be finely balanced.

## Best Value

- 10 Given the challenges presented by the pandemic, the council has made adequate progress against its BVAR recommendations. Challenges remain, however, as it seeks to deliver financial sustainability through strategic change.

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# Introduction

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1. This report summarises the findings arising from the 2021/22 audit of Moray Council (the council) and its group.
2. The scope of the audit was set out in our 2021/22 Annual Audit Plan presented to the June meeting of the Audit and Scrutiny Committee. This report comprises the findings from an audit of the annual accounts and consideration of the four audit dimensions that frame the wider scope of public audit set out in the [Code of Audit Practice 2016](#) namely, financial management, financial sustainability, governance and transparency and value for money.
3. The main elements of our audit work in 2021/22 have been:
  - an audit of the annual accounts of the council and its group including the statement of accounts of the eight section 106 charities administered by the council, and the issue of independent auditor's reports setting out our opinions
  - a review of the council's key financial systems
  - a review of the council's progress in implementing the recommendations contained in our Best Value Assurance Report published in August 2020
  - consideration of the four audit dimensions
4. The global coronavirus pandemic has had a considerable impact on Moray Council during 2021/22. This has had significant implications for the services it delivers and its ability to progress its transformation agenda. We considered the risks related to the pandemic as part of our audit planning and did not consider there to be any significant audit risks for 2021/22.

## Adding value through the audit

5. We add value to the council through the audit by:
  - identifying and providing insight on significant risks, and making clear and relevant recommendations
  - sharing intelligence and good practice through our national reports ([Appendix 2](#)) and good practice guides
  - providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance and performance management arrangements and financial sustainability

## Responsibilities and reporting

**6.** The council has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual accounts that are in accordance with proper accounting practices.

**7.** The council is also responsible for compliance with legislation and putting arrangements in place for governance and propriety that enable it to successfully deliver its objectives.

**8.** Our responsibilities as independent auditor appointed by the Accounts Commission are established by the Local Government in Scotland Act 1973, the [Code of Audit Practice 2016](#) and supplementary guidance, and International Standards on Auditing in the UK.

**9.** As public sector auditors we give independent opinions on the annual accounts. Additionally, we conclude on:

- the effectiveness of the council's performance management arrangements,
- the suitability and effectiveness of corporate governance arrangements, and financial position
- the arrangements for securing financial sustainability and,
- Best Value arrangements.

**10.** Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#) and supplementary guidance.

**11.** This report raises matters from our audit. Weaknesses or risks identified are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.

**12.** Our annual audit report contains an agreed action plan at [Appendix 1](#) setting out specific recommendations, responsible officers, and dates for implementation. It also includes outstanding actions from last year and the steps being taken to implement them.

## Auditor Independence

**13.** Auditors appointed by the Accounts Commission or Auditor General must comply with the Code of Audit Practice and relevant supporting guidance. When auditing the financial statements auditors must comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and that the 2021/22 audit fee of £251,340 as set out in our Annual Audit Plan remains unchanged. We are

not aware of any relationships that could compromise our objectivity and independence.

**14.** This report is addressed to both the council and the Controller of Audit and will be published on Audit Scotland's website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk) in due course.

### **Audit appointment from 2022/23**

**15.** External auditors are usually appointed for a five-year term either from Audit Scotland's Audit Services Group or a private firm of accountants. The current appointment round was due to end in 2020/21 but this was extended for a year so that 2021/22 is the last year of the current appointment round.

**16.** The procurement process for the new round of audit appointments was completed in May 2022. From financial year 2022/23 Grant Thornton UK LLP will be the appointed auditor for Moray Council. We are working closely with the new auditors to ensure a well-managed transition.

**17.** A new [Code of Audit Practice](#) applies to public sector audits for financial years starting on or after 1 April 2022. It replaces the Code issued in May 2016. There are several significant changes introduced by the new Code, including the integration of Best Value work into wider scope audit work.

**18.** We would like to thank elected members, the Chief Executive, the Chief Finance Officer, and other staff, particularly those in finance, for their co-operation and assistance over the last six years.

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# 1. Audit of 2021/22 annual accounts

The principal means of accounting for the stewardship of resources and performance

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## Main judgements

Our audit opinions on the annual accounts of the council, its group and the section 106 charities administered by the council are unmodified.

Significant misstatements in the revaluation and classification of non-current assets were corrected in the audited accounts.

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## Our audit opinions on the annual accounts are unmodified

**19.** The accounts for the council and its group for the year ended 31 March 2022 were approved by the council on 7 November 2022. As reported in the independent auditor's report:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework
- the audited part of the remuneration report, management commentary and the annual governance statement were all consistent with the financial statements and properly prepared in accordance with the relevant regulations and guidance.

**20.** Our audit opinions on the Section 106 charities (The Moray Council – Connected Charity Trust Funds) were also unmodified.

## The annual accounts were submitted in line with our agreed audit timetable

**21.** The unaudited annual accounts were received in line with our agreed audit timetable on 30 June 2022. The working papers provided with the unaudited accounts were of a good standard and finance staff provided support to the audit team during the audit.

## There were no objections raised to the annual accounts

**22.** The Local Authority Accounts (Scotland) Regulations 2014 require local government bodies 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. No objections were received to the 2021/22 accounts.

## Overall materiality is £4.1 million

**23.** We apply the concept of materiality in both planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements and in forming the opinion in the auditor's report. We identify a benchmark on which to base overall materiality, such as gross expenditure, and apply what we judge to be the most appropriate percentage level for calculating materiality values, we also determine a lower performance materiality threshold.

**24.** The determination of materiality is based on professional judgement and is informed by our understanding of the entity and what users are likely to be most concerned about in the annual accounts. In assessing performance materiality, we have considered factors such as our findings from previous audits, any changes in business processes and the entity's control environment including fraud risks.

**25.** Our initial assessment of materiality for the annual accounts was carried out during the planning phase of the audit. This was reviewed and revised on receipt of the unaudited annual accounts and is summarised in [Exhibit 1](#).

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### Exhibit 1 Materiality values

Materiality level	Amount
Overall materiality	£4.1 million
Performance materiality	£2.5 million
Reporting threshold	£150 thousand

Source: Audit Scotland

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## We have significant findings to report from our audit of the annual accounts

**26.** International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of the body's accounting practices. The significant findings are summarised in [Exhibit 2](#).



## Exhibit 2

### Significant findings from the audit of financial statements

Issue	Resolution
<p><b>1. Non-current asset valuations</b></p> <p>At 31 March 2022, the council made an adjustment to non-current asset valuations of £108.9 million based on a desktop revaluation exercise of council dwellings and schools. This was to reflect the estimated material movements in fair value since the last full valuation, to ensure the carrying value of assets does not differ materially from current value. The Accounting Code of Practice requires that the carrying value of assets does not differ materially from current value.</p> <p>Audit testing identified that the adjustment did not take account of additions to non-current assets since the last valuation. We also identified minor errors in how the revaluation adjustments were split between the capital adjustment account and revaluation reserve for some assets.</p>	<p>This misstatement was corrected in the audited accounts. As a result, net assets and the revaluation reserve increased by £17.3 million and £19.2 million respectively, and the capital adjustment account reduced by £1.9 million.</p> <p>Although a five-year rolling revaluation programme is permitted by the Code of Accounting Practice, significant movements in intervening years may suggest that revaluing each class of assets once every five years is not sufficient and this should be re-considered, particularly as inflationary pressures are having a significant impact on tender and rebuild prices.</p> <p><b>Recommendation b/f 1</b></p> <p>The council should review the suitability of its 5-year revaluation policy and programme.</p> <p>(Refer <a href="#">Appendix 1</a>, action plan)</p>
<p><b>2. Classification on non-current assets</b></p> <p>Audit testing identified that £0.9 million of expenditure on a third-party asset had been incorrectly included as an addition to council assets. We also identified that £2.6 million of assets were classified as assets under construction (AUC) when they had been completed by 31 March 2022.</p>	<p>These misstatements were corrected in the audited accounts. As a result, taxation and non-specific grant income, and non-current assets were overstated by £0.9 million.</p> <p><b>Recommendation 1</b></p> <p>The council should update its procedures to ensure adequate review of the classification of additions and the status of all projects classified as AUC at year end.</p> <p>(Refer <a href="#">Appendix 1</a>, action plan)</p>
<p><b>3. Repayment and reporting of loans fund advances</b></p> <p>The Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016 requires the council to make loans fund advances for the amount of expenditure and lending that the</p>	<p>There is no impact on our audit opinion on the 2021/22 accounts.</p> <p><b>Recommendation 2</b></p> <p>The council should update its loans fund working papers to include advances</p>

Issue	Resolution
<p>authority has determined is to be financed by borrowing. It should also determine, for each loans fund advance, at the time it is made:</p> <ul style="list-style-type: none"> <li>• the period over which the advance is to be repaid</li> <li>• the amount of repayment in each financial year in that period.</li> </ul> <p>The council made loans fund advances of £21.5 million to services in 2021/22 but did not include these in its loans fund working papers, set out the repayment period for each loans fund advance nor calculate the amount of repayment due in each financial year.</p> <p>In addition, Local Government Finance Circular 7/2016 requires the council to report on its commitment to repay loans fund advances. The report should identify the opening balance of the loans fund as at 1 April, the value of new advances, the value of repayments, and the closing balance as at 31 March. The report should also provide a breakdown of future repayments in five-year periods. This needs to be included within the Management Commentary or cross-referred to these disclosures within the annual Treasury Management Strategy and annual Report. The council has not included the required disclosures in either the Management Commentary or the annual Treasury Management Strategy or annual Report.</p>	<p>made in 2021/22, the repayment period for each loans fund advance, and the amount of repayment in each financial year.</p> <p>The council should disclose the loans fund repayment profile in its Management Commentary in 2022/23.</p> <p>(Refer <a href="#">Appendix 1</a>, action plan)</p>

Source: Audit Scotland

**27.** We have obtained audit assurances over the identified significant risks of material misstatement to the financial statements. [Exhibit 3](#) sets out the significant risks of material misstatement to the financial statements we identified in our 2021/22 Annual Audit Plan. It summarises the further audit procedures we performed during the year to obtain assurances over these risks and the conclusions from the work completed.

**Exhibit 3****Significant risks of material misstatement in the financial statements**

Audit risk	Assurance procedure	Results and conclusions
<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>Assessed the design and implementation of controls over journal entry processing.</p> <p>Made inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments.</p> <p>Tested journals at the year-end and post-closing entries focusing on significant risk areas.</p> <p>Considered the need to test journal entries and other adjustments during the period.</p> <p>Evaluated significant transactions outside the normal course of business.</p> <p>Assessed the adequacy of controls in place for identifying and disclosing related party relationship and transactions in the financial statements.</p> <p>Assessed any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year.</p> <p>Substantively tested income and expenditure transactions around the year-end to confirm they were accounted for in the correct financial year.</p> <p>Tested accounting accruals and prepayments focusing on significant risk areas.</p>	<p><b>Results and Significant Judgements:</b></p> <p>Controls over journal entry processing lack authorisation procedures and we increased our sampling as a result.</p> <p>Officers involved in financial reporting processes did not identify any unusual activity.</p> <p>Our data analytics-based approach to journal testing ensured that we considered those journals that appeared unusual. No inappropriate journals were identified.</p> <p>Testing of journals found no errors.</p> <p>We did not identify any issues with council processes for identifying and disclosing related party relationships and transactions.</p> <p>Methodologies and assumptions employed by management in preparing accounting estimates did not significantly vary from the prior year and were consistently applied.</p> <p>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><b>Conclusion:</b> No issues were identified that indicate management override of controls.</p>

Audit risk	Assurance procedure	Results and conclusions
<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>	<p>Reviewed the information provided to the valuer to assess for completeness.</p> <p>Evaluated the competence, capabilities, and objectivity of the professional valuer.</p> <p>Completed a walkthrough of the valuation process to obtain an understanding of the process, including the methodologies and assumptions applied.</p> <p>Reviewed reports from the valuer to confirm overall asset valuation.</p> <p>Obtained an understanding of management's involvement in the valuation process to assess if appropriate oversight had occurred.</p> <p>Examined management's assessment of any assets not revalued in 2021/22 against evidence of changes in other revalued assets.</p> <p>Tested the reconciliation between the financial ledger and the property asset register.</p> <p>Tested a sample of individual asset valuations and useful lives.</p>	<p><b>Results and Significant Judgements:</b></p> <p>The information provided to the external valuer was found to be complete and accurate.</p> <p>No issues were identified in relation to the competence, capabilities, and objectivity of the professional valuer.</p> <p>An understanding of the valuation process was obtained via a walkthrough. No issues were identified in relation to the controls in place around non-current asset valuations.</p> <p>For schools and council dwellings not fully revalued in 21/22, the valuer provided desktop revaluation based on BCIS indices to bring the carrying value of these assets to a fair value.</p> <p>Non-current asset notes in the financial statements were agreed to the property asset register with no errors identified.</p> <p>Testing of individual valuations noted an issue with how the desktop valuations had been included in the accounts (<a href="#">Exhibit 2, no.1</a>). Testing of asset lives identified no errors.</p> <p><b>Conclusion:</b> appropriate procedures were undertaken by the council to ensure the carrying amount of non-current assets was appropriately reflected at 31 March 2022.</p>

## Other areas of audit focus

**28.** We identified in our 2021/22 Annual Audit Plan areas where we considered there to be other risks of material misstatement to the financial statements. Based on our assessment of the likelihood and magnitude of the risk, we did not consider these to represent significant risks. The areas of specific audit focus were:

- Valuation of the present value of promised retirement benefits and Moray Council's share of the pension asset/liability of North East Scotland Pension Fund.

**29.** We considered the reasonableness of actuarial estimates on material elements of the valuation using PwC LLP to review actuarial assumptions across Scottish LGPS and the accuracy of information provided to the actuary by the council and assurances from the auditor of North East Scotland Pension Fund. There are no matters which we need to bring to your attention.

## Across the UK, a technical accounting issue has been identified covering infrastructure assets

**30.** Infrastructure assets typically include highways, footpaths, bridges, and culverts and are included at depreciated historical cost in the accounts (£236 million at Moray Council). A replaced component of an asset has to be derecognised and at some councils the records of additions were not detailed enough to comply with accounting code requirements. A failure to derecognise assets correctly would have resulted in double-counting and an overstatement of the gross book value, accumulated depreciation and potentially the net book value of the assets.

**31.** CIPFA/LASAAC considered the matter and proposed amendments to the 2021/22 accounting code to allow a reasonable assumption that the net book value of replaced parts of infrastructure assets are £nil and a temporary adaptation to remove the requirement to disclose gross book value and accumulated depreciation in the financial statements. The Scottish Government has issued Finance Circular 9/2022 to implement these changes.

**32.** Moray Council management considered the records available to support infrastructure additions and concluded that both statutory overrides permitted by Finance Circular 9/2022 should be applied resulting in amendments to the infrastructure disclosures in the audited accounts.

## All identified misstatements were adjusted in the audited accounts

**33.** Total misstatements identified were £22.2 million which exceeds our performance materiality threshold. We have reviewed the nature and causes of these misstatements which mainly relate to accounting for non-current assets. We have concluded that they arose from issues that have been isolated and identified in their entirety and do not indicate further systemic error. All misstatements above our reporting threshold have been adjusted for in the audited accounts.

## Only two of the council's eight section 106 charities have disbursed funds in the last six years

**34.** Section 46 of the Charities and Trustee Investment (Scotland) Act 2005 requires auditors to report to the Office of Scottish Charity Regulator (OSCR) when the charity test is not met. The OSCR website states that *'in general, if a charity does nothing for a prolonged period, it is unlikely to be providing public benefit and this may result in it failing the charity test'*.

**35.** There are eight section 106 charities included in The Moray Council – Connected Charity Trust Funds accounts. Of these, two have a nil balance and a further four have not disbursed any funds during the six years of our audit appointment. As a result, it is unclear how these charities meet the public benefit requirement.

**36.** We have been advised that three of the four trusts will be considered for transfer into 'The Moray Council Charitable Trust' which was set up to allow disbursement of funds from trusts with outdated or unclear purposes. The reason for the nil balances will be considered, and if permanent, these will be wound up and an application made to remove them from the Scottish Charity Register.

**37.** The Moray Council Charitable Trust has £0.3 million of assets at 31 March 2022 but has not disbursed any funds since it was set up in August 2016. It is unclear how Trustees plan to use these funds to provide public benefit.

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### Recommendation 3

Trustees should develop clear plans for the use of The Moray Council Charitable Trust funds.

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### Some progress was made on prior year recommendations

**38.** The council has made some progress in implementing our prior year audit recommendations. Three of the ten brought forward recommendations are complete or substantially complete with three others in progress and the rest outstanding. For actions not yet fully implemented, revised responses and timescales have been agreed with management, and are set out in [Appendix 1](#).

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## 2. Financial management

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

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### Main judgements

The council planned to use £20 million of reserves during 2021/22 but due to additional funding, slippage and underspends it underspent by £25 million.

The council needs to review its forecasting process to improve its projections of year-end outturns.

Financial systems of internal control generally operated effectively but we identified some areas where adequate controls don't exist. Weaknesses in payroll controls have resulted in overpayments.

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### The council planned to use £20 million of reserves in 2021/22 but due to additional funding, slippage and underspends it underspent by £25 million

**39.** The council approved its 2021/22 budget in March 2021. The net revenue general services budget was set at £214 million. In order to balance the budget, the council required to make savings of £1.3 million and use financial flexibilities of £1.2 million. The council updated its budget during the year to reflect additional budget pressures, receipt of additional government grant, the 2021/22 outturn and the decision to fund financial flexibilities from the Covid-19 earmarked reserve. As a result, the council's final budget included a planned draw of £20 million of funding from reserves.

**40.** The council underspent its revised general fund budget by £25 million. The majority of this underspend (£13.4 million) resulted from slippage against the council's plans to use earmarked reserves (Covid-19 (£8.3 million) and transformation (£1 million)), some of which was met from additional Scottish Government funding, and inclusion of the whole budget for transformation projects which are due to be delivered over more than one year (£4.2 million). In addition, services underspent by £8.5 million and additional income of £3 million was generated.

**41.** The more significant service underspends are summarised in [Exhibit 4](#). There were no significant overspends.

## Exhibit 4

### Summary of significant underspends against budget

Area	£m	Reason for variance
<b>Underspends</b>		
Education	2.8	Devolved School budgets were underspent largely due to delays in delivery of ICT and building works and Pupil Equity Funds underspent based on funding covering the academic year.
Children's Social Work Services	2.4	Reduced costs of care due to number and type of placements.
Education Resources & Communities	0.9	Mainly staff vacancies. Additional expenditure of repairs of schools after Storm Arwen.
Economic Growth & Development	0.9	Staff vacancies and delays in projects. Building Control and Planning fees below budget.

Source: Moray Council 2021/22 Annual Accounts

## The council needs to review its forecasting process to improve its projections of year-end outturns

**42.** As reported in our [Best Value Assurance Report](#), the council receives good quality information about its finances. During 2021/22 quarterly budget monitoring reports continued to be reported to committee or full council. Regular financial planning updates were also provided to members containing information on the financial impact of Covid-19 on the council's finances, financial forecasts, and savings proposals for inclusion in the 2022/23 budget.

**43.** There was, however, significant movement (£19.7 million) between the forecast outturn at 31 December 2021 and that achieved. The majority of this (£15.6 million) relates to monies held centrally for projects to be funded by Covid-19 and transformation earmarked reserves whilst services underspent by £4.1 million against forecast. The outturn report acknowledges that a review of these service variances may highlight scope for additional savings.

## Recommendation 4

The council should review its forecasting process to ensure the most accurate projection possible of the year end position.



## The Covid-19 pandemic had a significant impact on the 2021/22 budget

**44.** The Covid-19 pandemic had a significant impact on the Council's 2021/22 budget which included £10.8 million of expenditure to be funded from the Covid-19 reserve. The main elements of this expenditure include education recovery (£4 million), loss of income (£1.6 million), early learning and childcare expansion (£1 million) and discretionary business grants (£1.2 million).

**45.** The council continued to administer a number of grant schemes on behalf of the Scottish Government and made grant payments of £15 million in 2021/22. The majority of this (£10.9 million) was through the Strategic Framework Business Fund which provided one-off restart grants to businesses. These amounts are not included in the council's accounts.

## The council has a good track record of delivering savings

**46.** As reported in our [Best Value Assurance Report](#), the council has a good track record of delivering or exceeding its savings targets. The 2021/22 budget included planned savings of £1.3 million. The council exceeded this target with £1.5 million of savings achieved, of which £1.4 million are recurring. Not all individual planned savings were achieved (for example, the Improvement and Modernisation Programme stalled during the year and indicative savings of £0.1 million were not realised) but additional savings were found to replace these.

## The council spent £42.8 million on capital projects, less than planned due to Covid-19 and supply chain challenges

**47.** In February 2021, the council approved capital plans for general services and HRA. Since then, a number of challenges have been encountered as a result of recovering from the pandemic and due to Brexit affecting the availability of labour and raw materials. These factors led to lower-than-expected expenditure with only £42.8 million (67% of budget) spent on capital projects in 2021/22. The majority of the underspend was due to reduced spend on housing new builds (£11.3 million) and housing improvements (£3.8 million) resulting from Covid-19 and supply chain challenges.

## Capital receipts have been used to fund transformation projects during 2021/22

**48.** Scottish Ministers permit councils to use capital receipts to fund projects designed to transform service delivery to reduce costs and/or reduce demand, or both. The council used £0.3 million of its capital receipts to fund transformation projects during 2021/22.

**49.** The guidance has been extended to permit councils to use capital receipts to fund transformation for one more year: 2022/23. The council has £3.7 million of capital receipts at 31 March 2022 available to fund transformation projects in 2022/23.

## Financial systems of internal control generally operated effectively but we identified some areas where adequate controls don't exist

**50.** Auditing standards require external auditors to obtain an understanding of the accounting and internal control systems that exist within the audited body to allow us to plan and develop an effective audit approach for the annual accounts.

**51.** Our 2021/22 testing identified a number of areas where adequate controls don't exist. There are other controls in these areas which mean that related systems are not completely undermined. See [Exhibit 5](#) for details. We carried out additional work in response to these findings as part of our audit of the 2021/22 financial statements. Management has previously accepted the risks associated with some of these weaknesses. However, we consider these to be significant weaknesses and highlight the risk that these may have to the accurate and valid processing of payments and income, and the potential for this to increase audit fees going forward.

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### Exhibit 5

#### Key controls - findings and additional audit work

Issue identified	Additional audit work / Recommendation
<p><b>1. Authorisation of Journals</b></p> <p>There is no authorisation of journals posted to the ledger.</p> <p><b>There is a risk that incorrect or fraudulent changes could be processed within the ledger system.</b></p>	<p>We tested an increased sample of journals and used data analytics to identify and test a sample of high-risk journals. No issues were identified.</p> <p><b>Management has previously accepted the associated risks</b></p>
<p><b>2. Payroll validation</b></p> <p>Regular validation exercise to verify the existence of employees on the payroll system have not been undertaken since the introduction of the new payroll system on 1 April 2017.</p> <p>Establishment lists were sent out to managers in November 2018, but this highlighted that these lists were out of date. No further validation exercise was carried out until March 2022 following identification of a significant overpayment (see paragraphs 52 to 57 below).</p> <p><b>Without regular confirmation of payroll details, there is an increased risk of fraudulent payments being made.</b></p>	<p>We substantively tested a sample of paid employees through confirmation of existence to other records or management confirmation. No issues were identified.</p> <p><b>Management has previously accepted the associated risks but has instigated a validation exercise in March 2022 and we have recommended that this continues going forward.</b></p> <p><b>Recommendation b/f 5</b></p>

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Issue identified	Additional audit work / Recommendation
<p><b>3. Housing rents reconciliation</b></p> <p>A reconciliation between the ledger and the housing rents system is only performed at the year-end.</p> <p>The last four annual reconciliations have had unexplained differences which have subsequently been written-off.</p> <p>Finance and housing staff have attempted to identify the reasons for these differences but have been unable to do so due to the volume of transactions involved.</p> <p><b>The lack of regular reconciliations between the financial ledger and the housing rents system increases the risk that fraudulent transactions or errors will not be identified and corrected.</b></p>	<p>We reviewed the annual reconciliation between the ledger and the housing rents system to ensure that any material difference had been investigated and explained. There was a difference of £2,000 on the housing reconciliation which was written-off as part of the year-end procedures.</p> <p>We also substantively tested a sample of housing rents transactions to ensure that they have been accurately processed through the housing rents system. No issues were identified.</p> <p><b>Management has previously accepted the associated risks</b></p> <p><b>Recommendation b/f 5</b></p>
<p><b>4. Changes to Chart of Accounts</b></p> <p>The council does not have a formal process in place for recording new/amended ledger code requests. Changes are made by the accountancy section following correspondence with the relevant department requesting the change, but audit trails of changes were not evident.</p> <p><b>There is an increased risk of misclassification of transactions if there is no audit trail evidencing the basis for account code changes.</b></p>	<p>We reviewed the mapping of balance sheet codes from the ledger to the accounts using data analytics to identify any significant changes and confirmed that the mapping for the balance sheet was consistent, accurate and complete. No issues were identified.</p> <p><b>Management has previously accepted the associated risks</b></p>
<p><b>5. Payroll user access</b></p> <p>There is no formal review of user access to the 'iTrent' payroll and HR system to ensure access rights remain appropriate. Instead, reliance is placed on the payroll team's knowledge of staffing changes within the council.</p> <p><b>There is a risk that individuals continue to have inappropriate access to the payroll and HR system.</b></p>	<p>We reviewed the active user list and did not identify any users that we were aware had left the council.</p> <p><b>Recommendation 5</b></p> <p>The council should regularly review user access to the 'iTrent' payroll and HR system to ensure access rights remain appropriate.</p> <p>(Refer <a href="#">Appendix 1</a>, action plan)</p>
<p><b>6. Council tax discounts and non-domestic rates reliefs</b></p>	<p>We do not consider this a key risk to our audit opinion and so no additional work has been done in this area. We have taken controls assurance from the checks</p>

Issue identified	Additional audit work / Recommendation
<p>Regular reviews are not undertaken to ensure those in receipt of continuing discounts and reliefs awarded in previous years are still eligible to receive them.</p> <p><b>There is a risk that council tax discounts and non-domestic rates reliefs are awarded to ineligible taxpayers.</b></p>	<p>undertaken on the award of new reliefs and deductions during the year and the annual canvass of council taxpayers in receipt of single person discounts.</p> <p><b>Recommendation 6</b></p> <p>The council should regularly review whether individuals in receipt of discounts and reliefs awarded in prior years remain eligible to receive them.</p> <p>(Refer <a href="#">Appendix 1</a>, action plan)</p>

Source: Audit Scotland

## Weaknesses in payroll controls have resulted in overpayments

**52.** The lack of a formal payroll validation exercise, with positive confirmation required from budget managers, poses a risk that fraudulent payments made be made from the payroll system.

**53.** During our interim audit work, council staff advised us of an overpayment of approximately £10,000 which had been made to a former member of council staff, previously seconded to another organisation. They continued to be paid after leaving council employment due to the employee's line manager not completing a termination form and the lack of ongoing validation exercises.

**54.** The overpayment came to light when the organisation queried the invoice sent by the council to recover the employee's payroll costs. Internal audit has undertaken an investigation and Police Scotland have been informed.

**55.** In response to the overpayment, the council initiated a full payroll validation exercise in March 2022, with positive confirmation required from budget managers to validate the information held on the HR and payroll system. 70% of budget managers responded to the exercise, with 74% of those who responded querying the information provided.

**56.** The HR department are continuing to work through the responses to the exercise. Two further overpayments totalling approximately £5,600 have been identified so far. The council has initiated procedures to recover all instances of overpayment which the council has estimated represent around 0.01% of the annual paybill.

**57.** As noted above, we revised our audit procedures due to these control weaknesses and undertook additional testing of employee existence and the processing of payroll changes. Although our additional testing did not identify any material issues, the instances of overpayment identified by the council highlight the need for a regular, formal, payroll validation exercise to be undertaken.

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## **Recommendation b/f 5**

The Council should implement regular, formal, payroll validation exercises with positive confirmation sought from budget managers.

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### **Arrangements for the prevention and detection of fraud and error and standards of conduct are appropriate**

**58.** The council is responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery, and corruption. Furthermore, it is responsible for ensuring that its affairs are managed in accordance with proper standards of conduct by putting effective arrangements in place.

**59.** The council has a range of established procedures for preventing and detecting fraud and irregularity including a whistleblowing policy, anti-fraud strategy and codes of conduct for members and officers. We concluded that these were appropriate and readily available to staff. There are also established arrangements to maintain standards of conduct.

**60.** The National Fraud Initiative (NFI) is a counter-fraud exercise across the UK public sector which aims to prevent and detect fraud. The council has taken a risk-based approach to the investigation of NFI matches. We considered that the approach was appropriate with the results reported to the Audit and Scrutiny Committee in February 2022.

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## 3. Financial sustainability

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

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### Main judgements

The council plans to use £17.3 million (43 per cent) of its earmarked reserves to balance its budget in 2022/23.

Medium term financial plans forecast funding gaps of £21.5 million in 2023/24 and £8.9 million in 2024/25, with savings not yet identified to meet these.

The council's current transformation programme will not deliver sufficient savings to deliver financial sustainability in the medium-term.

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### The council plans to use £17.3 million (43 per cent) of its earmarked reserves to balance its budget in 2022/23

**61.** In February 2022, the council approved its 2022/23 general services revenue budget. Budgeted net expenditure of £240.7 million was approved after deduction of savings totalling £1.6 million (2020/21: £1.3 million). The most significant savings are in Children's Services (£0.8 million) and £0.3 million from the council's transformation programme. The council balanced its budget through the use of financial flexibilities (£3.1 million) and £10.3 million of reserves.

**62.** The council has updated its budget during the year to reflect additional budget pressures, receipt of additional government grant (£11.2 million) and the 2021/22 outturn. The current budget is £253.8 million. As part of these revisions, the council agreed to use more of the Covid-19 earmarked reserves, in place of financial flexibilities (£3.1 million) no longer permitted by the Scottish Government, and to fund expenditure on projects carried forward from 2021/22 (£1.4 million). As a result, the council currently plans to use £17.3 million (43 per cent) of its earmarked reserves in 2022/23.

### Budget monitoring for 2022/23 notes the council has underspent its quarter 1 budget by £0.7 million

**63.** The latest budget monitoring report notes that the council had underspent its budget by £0.7 million (1% of the phased budget) as at 30 June 2022.

## General Fund reserves have increased by £3.5 million

**64.** One of the key measures of the financial health of a body is the level of reserves held. The level of usable reserves held by the council increased from £53 million in 2020/21 to £59 million in 2021/22. The general fund is the largest usable reserve and is used to support the delivery of services. The general fund balance at 31 March 2022 was £45 million, an increase of £3.5 million during the year.

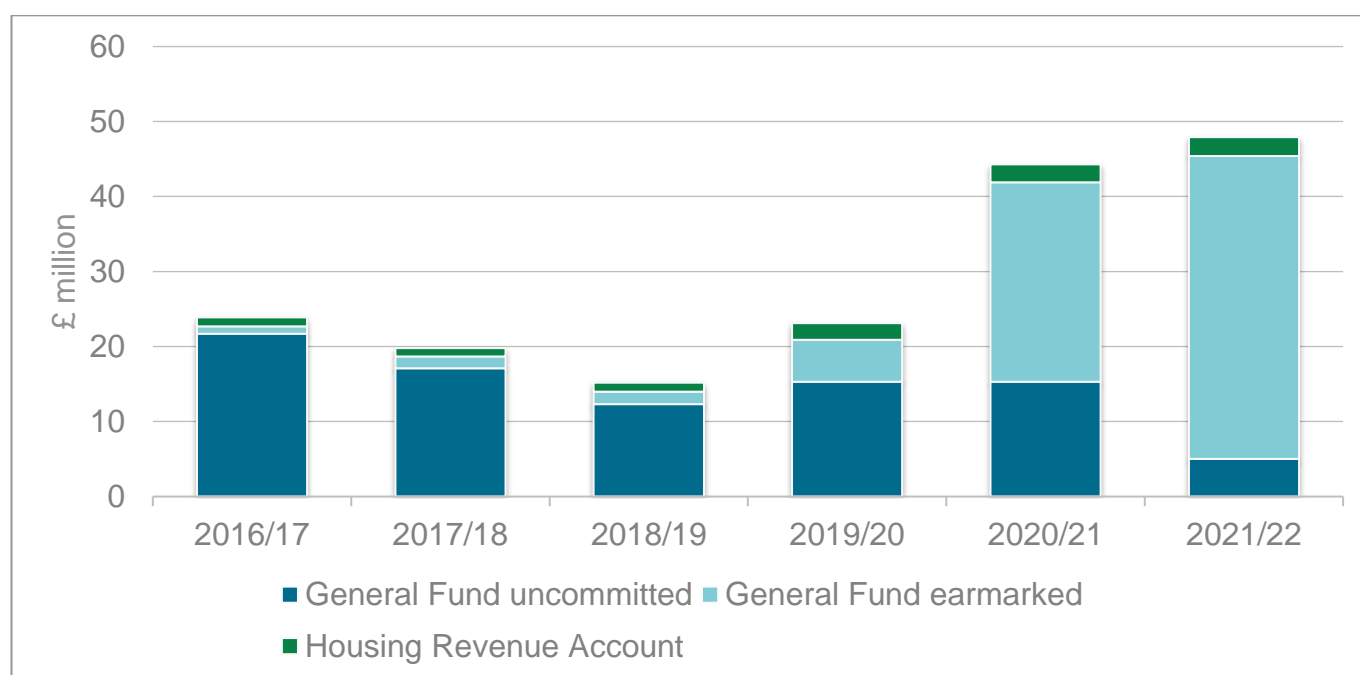
**65.** The general fund reserve includes £22.3 million of earmarked Covid-19 funding and £18.1 million earmarked for specific future commitments such as council priorities (£9.9 million), transformation (£5.5 million), devolved school management (£1.3 million) and pupil equity fund (£1.3 million).

**66.** [Exhibit 6](#) provides an analysis of the general fund and HRA over the last six years and shows the significant increase in reserves over the last three years due to surpluses and Covid-19 funding.

**67.** During the year, the council agreed to earmark £8.8 million of the uncommitted General Fund balance for council priorities (£7 million) and transformation (£1.8 million), reducing the unearmarked balance to £5 million.

**68.** The unearmarked General Fund balance of £5 million is the minimum the council considers necessary to hold as a contingency to provide cover for unexpected expenditure and as a working balance to help cushion the impact of uneven cash flows.

### Exhibit 6 Analysis of general fund balance



Source: Moray Council's 2016/17 to 2021/22 Annual Accounts

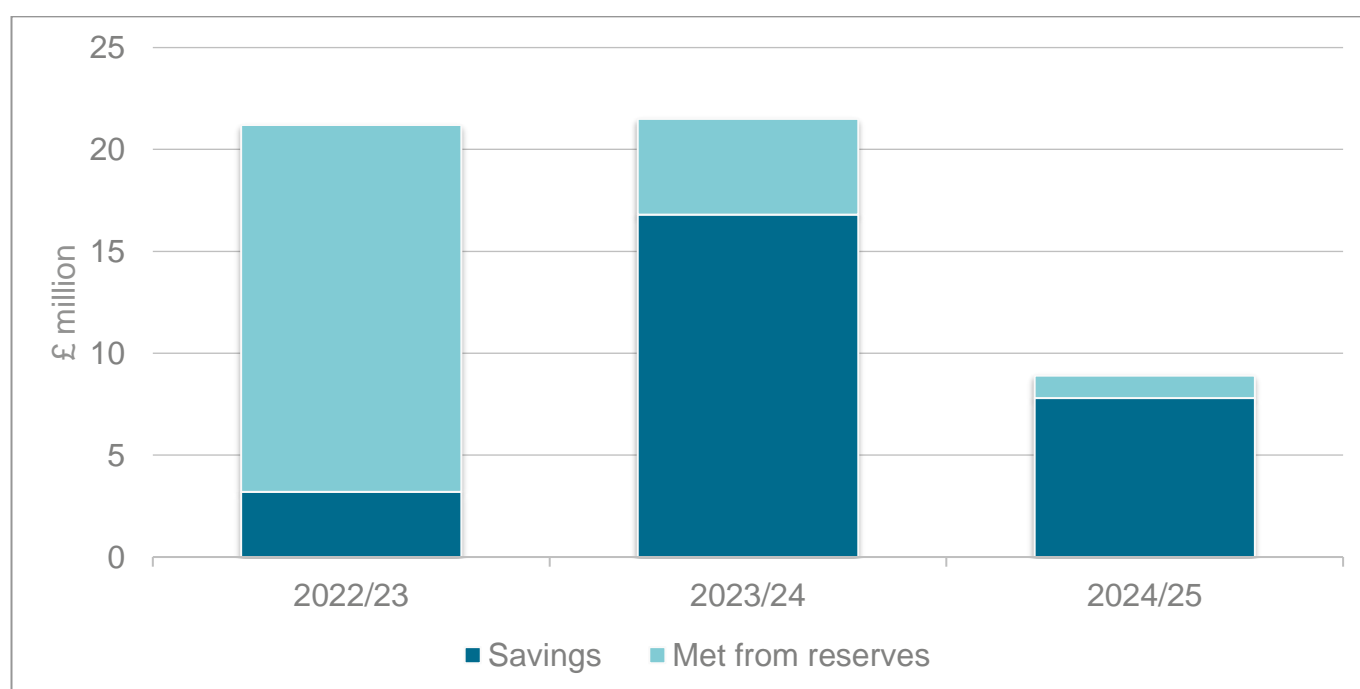
## Medium term financial plans forecast funding gaps of £21.5 million in 2023/24 and £8.9 million in 2024/25, with savings not yet identified to meet these

69. An updated medium to long term financial strategy was approved as part of the council's budget setting process in March 2021. This was further updated during the year, most recently in September 2022, to reflect the impact of additional budget pressures on the council's short to medium term financial plans.

70. [Exhibit 7](#) shows the projected funding gaps to 2024/25 and how these will be funded. Savings of £20.9 million have yet to be identified to balance the budget in 2023/24 and 2024/25. The council is considering taking a loans fund repayment holiday in 2022/23 which would delay the need to find some of the savings by up to one year but recognises that more needs to be done to address the underlying deficit against a backdrop of planned reductions in reserves.

71. The report notes that there is considerable uncertainty regarding key budget pressures including pay awards, inflationary price increases, and the impact of the Scottish Government Spending Review, and that savings targets may need to increase further. The updated plan reflects an estimated pay award of 5% although it is recognised this is unlikely to be sufficient. The Scottish Government continues to review the potential for additional flexibilities to support councils to fund the pay award.

### Exhibit 7 Identified funding gaps 2022/23 – 2024/25



Source: Moray Council's Short to Medium Term Financial Planning report – September 2022



## **The council's current transformation programme will not deliver sufficient savings to deliver financial sustainability in the medium term**

**72.** The council approved an Improvement and Modernisation Programme (IMP), in December 2018, to deliver transformational change. In previous years, we have reported that progress has been slower than expected and that this was exacerbated due to the redeployment of the Head of Transformation to assist in managing the council's response to the Covid-19 pandemic during 2020/21. The impact of the pandemic on delivery of the transformation programme was recognised in the BVAR progress report, published in March 2022, which concluded that *'immediate progress now needs to be evidenced in more urgent implementation of the improvement and modernisation programme.'*

**73.** The council reviewed its IMP in March and August 2022. An additional workstream (Strategic and Corporate Workstream) has been added to capture work on projects such as Climate Change, Poverty and Participatory Budgeting. A review of project governance arrangements and how projects will contribute to the council's financial sustainability has also been undertaken. The council continues to review how it delivers services with a view to developing new projects which will generate more savings. There is a risk, however, that the introduction of new projects could impact on the council's ability to deliver current ones.

**74.** The council has agreed a hierarchical approach to budget savings, with preference given to transformation of services, thereafter to income generation and finally to service reduction/cessation. The latest IMP report (August 2022) predicts cashable savings totalling £1.6 million will be generated from transformation projects. The 2022/23 budget includes £0.3 million of savings to be delivered from council's transformation programme. The remainder (£1.3 million) represents only 5.3% of the £24.6 million of savings the council needs to find to balance its budgets in 2023/24 and 2024/25.

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# 4. Governance and transparency

The effectiveness of scrutiny and oversight and transparent reporting of information

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## Main Judgements

Overall governance arrangements are appropriate.

Members have yet to conclude on the Audit and Scrutiny Committee's remit and agree a shared view on the role and nature of scrutiny.

Political leadership of the council is still finely balanced.

The council has improved its approach to monitoring and reporting progress against its equality outcomes.

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## Overall governance arrangements are appropriate

**75.** As part of our audit process, we are continually assessing the governance arrangements within Moray Council. Our previous years' conclusion is still relevant: that, overall, appropriate governance arrangements are in place.

## Members have yet to conclude on the Audit and Scrutiny Committee's remit and agree a shared view on the role and nature of scrutiny

**76.** The 2022 BVAR progress report noted that the remit of the Audit and Scrutiny Committee had still to be reviewed and clarified, and that the council needed to address the lack of a shared view of the role and nature of scrutiny. Members had previously agreed to postpone this review until after the local elections in May 2022. Our review of committee minutes noted that this key finding has still to be addressed.

## Political leadership of the council is still finely balanced

**77.** Initially, the Local Government elections held in May 2022, and subsequent meeting of the council, led to a change in council leadership from a minority SNP administration to a minority Conservative administration.

**78.** However, there have been a number of changes to the leadership of the council in the five months since the elections. Two members left the administration group and the Convener resigned from their post resulting in a decision to approve a new structure consisting of a Leader, Depute Leader and Civic Leader. In addition, a by-election was held in early November following the resignation of one of the new intake of councillors from an opposition party in May. Since then, some council committees have been running with vacancies. It is anticipated that these will be filled, taking into consideration political balance, at the full council meeting in December.

### **The council has improved its approach to monitoring and reporting progress against its equality outcomes.**

**79.** Every public sector body must be able to demonstrate how it fulfils the general equality duty under the Equality Act 2010. We have undertaken a high-level review of how the council demonstrates its compliance with the Act, and how it advances equalities within the organisation and in its business activities.

**80.** In line with the requirements, reports are produced every two years which focus on progress against the council's equality outcomes. The latest (2021) report reviewed progress against the outcomes covering the period 2017 to 2021 under five themes: bullying, domestic violence, access to streets, the gender pay gap and support of Syrian refugees in their process of integration in Moray.

**81.** Progress against the 2017-21 outcomes which have performance data, has been mixed, with progress being made in some areas but declining in others:

- the employee survey 2019 showed a reduction in the number of employees subject to bullying (from 16% to 14%) and harassment (from 11% to 10%)
- incidents of domestic violence show an upward trend, with a marked uplift in 2020/21 associated with the Covid-19 pandemic lockdown period. A community safety strategy is being developed to address this issue within Moray
- the mean gender pay gap has reduced to 6.14% (exceeding the target of 5%) from 7.59% reported in 2018/19. A reduction in the gender pay gap is included as one of the key outcomes of the latest Corporate Plan 2024 and actions to tackle the gap has been incorporated into various projects proposed under the Moray Growth Deal
- the council employs more women (78%) than men (22%), but more women tend to be in lower grade posts, with 35% of the total workforce being women in Grade 3 posts or below, compared to 5% of the total workforce being men in Grade 3 posts or below
- the implementation of the Living Wage has benefitted both genders, but with a more significant impact for women as more women occupy lower grade posts.

**82.** The report recognises there have been challenges in collecting and disseminating data as the equality outcomes cut across services within Moray Council. Work is ongoing to ensure that the outcomes are captured within the cyclical performance reporting mechanisms so that progress on the equality outcomes will be captured every 6 months.

**83.** Equality outcomes have been revised for 2021-2025 and are now more clearly linked to the Corporate Plan (and through that the Local Outcomes Improvement Plan), with a defined set of actions and outcome measures. The revised themes are intended to tackle inequalities in the following areas: bullying, domestic violence, housing, inclusive economic growth (which includes reducing the gender pay gap) and ethnicity.

**84.** We concluded that the council shows a strong commitment to promoting and complying with equality legislation.

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# 5. Best Value

Using resources effectively and continually improving services.

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## Main judgements

Given the challenges presented by the pandemic, the council has made adequate progress against its BVAR recommendations. Challenges remain, however, as it seeks to deliver financial sustainability through strategic change.

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**The council has made adequate progress against its BVAR recommendations. Challenges remain, however, as it seeks to deliver financial sustainability through strategic change.**

**85.** Best value is assessed over the audit appointment, as part of the annual audit work. In addition, a Best Value Assurance Report (BVAR) for each council is considered by the Accounts Commission at least once in this period. The [BVAR](#) for the council was published in August 2020 and a progress report in March 2022.

**86.** The progress report concluded that the council *'has put in place elements needed to deliver improvements, against a backdrop of the challenges of the Covid-19 pandemic, to which the council responded well. We note in particular the attention being given by the council to its approach to improving educational attainment and housing. We are not, however, assured that this momentum will be maintained. We remain disappointed that the strong cohesive leadership required from elected members is not yet being demonstrated.'*

**87.** In June 2022, the council updated the BVAR action plan, approved in October 2020, to reflect the findings of the BVAR progress report. The updated action plan includes actions under the following themes:

- Increase the pace of transformational change
- Improve performance management reporting
- Financial Planning
- Continue to progress the Governance Review
- Improve Educational Attainment
- Committed and Decisive Leadership
- Workforce and Capacity

**88. Exhibit 8** summarises Appendix 1 of the BVAR progress report which set out progress against each of the recommendations in the original BVAR, and our assessment. Due to the recent timing of the BVAR progress report, our best value work this year has focussed on the council's financial position, scrutiny arrangements and performance reporting.

**89.** The new auditors will continue to monitor and report on the council's progress against the improvement actions as part of the new approach to auditing and reporting Best Value. The Accounts Commission has requested that the Controller of Audit monitor the situation closely and report back in 2023.

## Exhibit 8

### Progress on Best Value Recommendations

BVAR Recommendation	Summary of progress
The council needs to make some difficult strategic decisions on areas such as, asset management, leisure services, flexible working, income generation and service transformation in education and social work.	<p><b>Recent progress after delays</b></p> <p>The council approved a revised and re-prioritised improvement and modernisation programme, this more clearly aligns the IMP to council priorities, and sets short and medium- to long-term targets.</p> <p><b>Update from 2021/22 audit:</b> The IMP stalled during 2021/22 resulting in planned savings of £0.1 million not being delivered. The council has recently reviewed project governance arrangements and how projects will contribute to the council's financial sustainability. It has also reviewed processes to provide assurance that projects will be delivered on time.</p> <p><b>There needs to be more urgent implementation of the improvement and modernisation programme.</b></p>
The council needs to complete its performance management suite of documents. This should include key indicators to support priorities and address the level of reporting at an overall council level versus service level. Improvements to reporting should include a review of targets and better summary of key areas of good and poor performance and any specific actions to be taken.	<p><b>Good progress</b></p> <p>Performance reports are now more focused on strategic priorities, summarising key areas of good and poorer performance and identifying what needs to improve. The performance management team continue to work closely with services to ensure indicators and targets are relevant. The emphasis is now on continuing to refine and build on what is in place, using it to drive priorities and making sure there is a good understanding of outcome-based performance management among officers and members.</p>

BVAR Recommendation	Summary of progress
<p>The medium- and longer-term financial position needs to be addressed and the continued reduction in the council's reserves position halted before the position becomes acute.</p>	<p><b>Recent improvement, but the outlook is for reserves to again be used increasingly to balance future budgets</b></p> <p>The council's financial position has improved over the last two years and Moray Council is no longer in danger of running out of reserves in the medium term.</p> <p>The council plans to use significant Covid-19 reserves to balance its budget in 2022/23 and 2023/24 and use this time to develop new transformation projects and consider other approaches to deliver the savings required to ensure services are financially sustainable in the medium to longer term.</p> <p><b>Update from 2021/22 audit:</b> The council increased its usable reserves by £5.8 million during 2021/22 but plans to use £17.3 million (38%) of its General Fund to balance its 2022/23 budget.</p> <p>The council's current transformation programme will not deliver sufficient savings to deliver financial sustainability in the medium-term. Cashable savings of £1.6 million will be generated by these projects, of which £0.3 million has been included in the 2022/23 budget. The remainder represents 5.3% of the savings required to balance the 2023/24 and 2024/25 budgets. The council continues to review how it delivers services with a view to developing new projects which will generate more savings. There is a risk, however, that the introduction of new projects could impact on the council's ability to deliver current ones.</p>
<p>The elected member development strategy should be implemented through programmed activity and personal development plans.</p>	<p><b>In progress</b></p> <p>The council now has a comprehensive elected member development strategy which is being implemented. The council plans to roll this out to new members from May 2022. It is important that all elected members take responsibility for their training and development.</p>
<p>To help streamline processes, the council needs to continue to progress its governance review, including reviews of committee structures, schemes of delegation and reporting to committees.</p>	<p><b>In progress</b></p> <p>A governance review is being finalised, the remit of the Audit and Scrutiny Committee is still to be reviewed and clarified and the council needs to address the lack of a shared view on the role and nature of scrutiny.</p> <p>Cross-party working has been affected by political differences between some groups and some poor relationships. The administration group has been</p>

BVAR Recommendation	Summary of progress
	<p>able to gain support for key decisions, but this can be time-consuming and challenging.</p> <p>It is the responsibility of all officers and members to work together to create a positive culture in the best interests of the people of Moray. This should be a priority of the council and external support will be helpful.</p> <p><b>Update from 2021/22 audit:</b> Members had previously agreed to postpone the review of the Audit and Scrutiny Committee until after the local elections in May 2022. Our review of committee minutes since May 2022 noted that members have yet to conclude on this review or agree a shared view of the role and nature of scrutiny. We have been advised that this will be considered at the council meeting in December 2022.</p>
<p>Considerable development work and additional measures are required to improve educational attainment, alongside making significant changes to the school estate.</p>	<p><b>Data not yet available to assess, but good progress in approach</b></p> <p>Measures have continued to be taken to improve attainment over the audit period, alongside responding to Covid-19, although it is not possible to make national comparisons on performance due to the absence of external assessment information.</p>
<p>The council should investigate and better understand the reasons for poorer satisfaction levels in housing, learning from councils with higher satisfaction levels.</p>	<p><b>Complete</b></p> <p>The Scottish Housing Regulator has no major concerns about the housing services in Moray and actions are being taken to better understand tenant satisfaction.</p>
<p>The council needs to continue working with CPP partners to determine clear outcome milestones and performance reporting.</p>	<p><b>Good progress has been made.</b></p> <p>Performance management is being refocused. This is an evolving area of work which has been affected by the pandemic. Now need to focus on making improvements required.</p> <p><b>Update from 2021/22 audit:</b></p> <p>Performance against the outcomes in the 10-year Local Outcomes Improvement Plan (LOIP) is now reported quarterly to the Community Planning Board, with reports published on the 'Community Performance' section of the council's website. Timeliness of performance reporting has improved.</p>



## The council complies with the Accounts Commission's statutory performance indicators (SPIs) Direction

**90.** The Accounts Commission has a statutory responsibility to define the performance information that councils must publish. In turn, councils have their own responsibility, under their Best Value duty, to report performance to the public. 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.

**91.** The Accounts Commission issued a revised [Statutory Performance Information Direction](#) in December 2018. It requires a council to report:

- its performance in improving local public services provided by the council (on its own and with its partners and communities), and progress against agreed desired outcomes
- its own assessment and independent audit assessments of how it is performing against its duty of Best Value, and how it plans to improve these assessments
- how it (with its partners where appropriate) has engaged with and responded to its diverse communities

**92.** We have evaluated the council's arrangements for fulfilling the above requirements and concluded that the council complies with the Direction. Last year we noted that performance reporting in the early part of 2020/21 had been adversely impacted by the Covid-19 pandemic. There has been a significant improvement in the timeliness of performance reporting in 2021/22 with performance information promptly published on the council's website after approval by committee.

**93.** During 2020/21 and 2021/22, the council's focus has been on responding to the findings and recommendations made in our Best Value Assurance Report (August 2020) and BVAR progress report (March 2022). Going forward, the council should ensure it completes its own internal assessments of performance against its duty of Best Value. These assessments should include plans for improvement.

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## Recommendation 7

The council should complete its own internal assessments of performance against its duty of Best Value and report these and how it plans to improve them.

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## National performance audit reports

**94.** Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2021/22, Audit Scotland published a number of reports which may be of interest to the council. These are outlined in [Appendix 2](#).

**95.** 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 2021/22

## 2021/22 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p><b>1. Non-current assets</b></p> <p>Audit testing identified that £0.9 million of expenditure on a third-party asset had been incorrectly included as an addition to council assets. We also identified that £2.6 million of assets were classified as assets under construction (AUC) when they had been completed by 31 March 2022.</p> <p>Risk – non-current assets are misclassified in the accounts.</p>	<p>The council should update its procedures to ensure adequate review of the classification of additions and the status of all projects classified as AUC at year end.</p> <p><a href="#">Exhibit 2, no. 2</a></p>	<p>Year-end procedures will be updated to include checks on assets under construction and to review capital expenditure for payments to third parties.</p> <p><b>Responsible officer:</b> Principal Accountant</p> <p><b>Agreed date:</b> 31 March 2023</p>
<p><b>2. Loans Fund advances</b></p> <p>The council made loans fund advances of £21.5 million to services in 2021/22 but did not include these in its loans fund working papers, set out the repayment period for each loans fund advance nor calculate the amount of repayment due in each financial year.</p> <p>In addition, the council has not included the disclosures required by Finance Circular 7/2016 in either the Management Commentary or the annual Treasury Management Strategy or Annual Report.</p>	<p>The council should update its loans fund working papers to include advances made in 2021/22, the repayment period for each loans fund advance, and the amount of repayment in each financial year.</p> <p>The council should disclose the loans fund repayment profile in its management commentary in 2022/23.</p> <p><a href="#">Exhibit 2, no. 3</a></p>	<p>Loans pool working papers will be updated to include the 2021/22 loans fund advances.</p> <p><b>Responsible officer:</b> Principal Accountant</p> <p><b>Agreed date:</b> 30 April 2023</p> <p>Loan pool procedures will be updated, and the appropriate disclosures included in the annual accounts.</p> <p><b>Responsible officer:</b> Chief Financial Officer</p> <p><b>Agreed date:</b> 30 June 2023</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>Risk – the council does not comply with the requirements set out in Finance Circular 7/2016.</p>		
<p><b>3. Charities</b></p> <p>The Moray Council Charitable Trust has £0.3 million of assets at 31 March 2022 but has not disbursed any funds since it was set up in August 2016.</p> <p>Risk – the charity does not provide public benefit requirements and so does not meet the charity test.</p>	<p>Trustees should develop clear plans for the use of The Moray Council Charitable Trust funds.</p> <p><a href="#">Paragraph 34 to 37</a></p>	<p>This will be progressed as staff resource permits</p> <p><b>Responsible officer:</b> Head of Governance, Strategy and Performance</p> <p><b>Agreed date:</b> Date dependent on available resource</p>
<p><b>4. Financial management</b></p> <p>Budget monitoring reports did not satisfactorily forecast and report the development of the final position shown in the audited financial statements.</p> <p>Risk – members do not have up to date and accurate financial information on which to base their decision-making.</p>	<p>The council should review its forecasting process to ensure the most accurate projection possible of the year end position.</p> <p><a href="#">Paragraph 42 to 43</a></p>	<p>The projected use of reserves will be scrutinised as part of the estimation process.</p> <p><b>Responsible officer:</b> Chief Financial Officer</p> <p><b>Agreed date:</b> 30 November 2022</p>
<p><b>5. Payroll user access</b></p> <p>There is no formal review of user access to the 'iTrent' payroll and HR system to ensure access rights remain appropriate.</p> <p>Risk – individuals continue to have inappropriate access to the payroll and HR system.</p>	<p>The council should regularly review user access to the 'iTrent' payroll and HR system to ensure access rights remain appropriate.</p> <p><a href="#">Exhibit 5, no. 5</a></p>	<p>User access to 'iTrent' will be cross checked with the leavers report on a quarterly basis.</p> <p><b>Responsible officer:</b> Head of HR, ICT &amp; OD / Assistant Payroll Manager</p> <p><b>Agreed date:</b> 31 December 2022</p>
<p><b>6. Council tax discounts and non-domestic rates reliefs</b></p> <p>Regular reviews are not undertaken to ensure those in receipt of continuing</p>	<p>The council should regularly review whether individuals in receipt of discounts and reliefs awarded in prior years remain eligible to receive them.</p>	<p>A timetable for the review of all Council Tax reductions will be put in place.</p> <p>All NDR reliefs will terminate on 1 April 2023 as part of the national revaluation of all</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>discounts and reliefs awarded in prior years are still eligible to receive them.</p> <p>Risk – discounts and reliefs are awarded to ineligible taxpayers.</p>	<p><a href="#">Exhibit 5, no. 6</a></p>	<p>NDR subjects. Ratepayers will be invited to reapply for relief.</p> <p><b>Responsible officer:</b> Taxation Manager</p> <p><b>Agreed date:</b> 31 March 2024</p>
<p><b>7. Statutory Performance Indicators (SPIs)</b></p> <p>Going forward, the council should ensure it completes its own internal assessments of performance against its duty of Best Value. These assessments should include action plans for improvement</p> <p>Risk – the council does not comply with the requirements of the SPI Direction.</p>	<p>The council should complete its own internal assessments of performance against its duty of Best Value and report these and how it plans to improve them.</p> <p><a href="#">Paragraph 90 to 93</a></p>	<p>The range of BVAR related reporting across the Performance Management Framework will be reviewed to ensure compliance with the SPI directive.</p> <p><b>Responsible officer:</b> Head of Governance, Strategy and Performance</p> <p><b>Agreed date:</b> 31 March 2023</p>

## Follow-up of prior year recommendations

Issue/risk	Recommendation	Update/revised management action/timing
<p><b>b/f 1. Non-current asset valuations</b></p>	<p>The council should complete a management review of its fixed asset register at each year end and reconsider its approach to five-year programme of revaluation</p>	<p><b>Substantially complete</b></p> <p>At 31 March 2022, the council applied an adjustment of £108.9 million based on a desktop review of BCIS rebuild costs to reflect estimated material movements in current value since the last valuation.</p> <p>Refer to <a href="#">Exhibit 2, no. 1</a>.</p> <p>Recent increases in rebuild/retender prices due to high levels of inflation may indicate that the council's five-year approach to full revaluation may no longer be</p>

Issue/risk	Recommendation	Update/revised management action/timing
		<p>appropriate to reflect fair value movements. We recommend that the council reviews its rolling approach to asset revaluation over 5 years.</p> <p><b>Revised action:</b></p> <p>No change proposed</p> <p>The annual review process agreed with the auditors and implemented in 2021/22 is designed to capture material changes in asset values in the most effective manner in the context of limited staff resources.</p>
<p><b>b/f 2. Moray Leisure Limited</b></p>	<p>The council should review its treatment of Moray Leisure Limited (MLL) in 2021/22</p>	<p><b>Outstanding</b></p> <p>The council has not reviewed its treatment of Moray Leisure Limited and has continued to consolidate MLL as an associate within the group financial statements. In our opinion, MLL should be accounted for as a subsidiary. The amounts are not material to our opinion on the group accounts.</p> <p><b>Revised action:</b></p> <p>Review (not necessarily amend) treatment.</p> <p><b>Responsible officer:</b></p> <p>Principal Accountant</p> <p><b>Revised date:</b></p> <p>31 March 2023</p>
<p><b>b/f 3. Cyber Security</b></p>	<p>The council should reapply for PSN and Cyber Essentials Plus accreditations as soon as practical.</p>	<p><b>Outstanding</b></p> <p>The council has recently completed an external IT Health Check. Any high impact risks will need to be addressed before applying for</p>

Issue/risk	Recommendation	Update/revised management action/timing
		<p>PSN or Cyber Essentials Plus accreditations.</p> <p><b>Revised action:</b></p> <p>The service provider has submitted the IT Health Check report. This is currently being assessed with a view to compiling a list of remedial actions to address the high impact risks. Submissions for accreditation will be made once the appropriate risks have been remediated.</p> <p><b>Responsible officer:</b></p> <p>ICT Infrastructure Manager</p> <p><b>Revised date:</b></p> <p>31 Jan 2023</p>
<p><b>b/f 4. Management Commentary</b></p>	<p>The council should review its management commentary against the expectations set out in Audit Scotland's Financial Overview 2017/18 report and the recommended good practice example (Comhairle Nan Eilean Siar).</p>	<p><b>Complete</b></p> <p>The council has improved the clarity of the reporting of financial performance against budget and how it reconciles to the financial statements.</p>
<p><b>b/f 5. Internal controls</b></p>	<p>The council should ensure that a robust payroll validation process is introduced across all services, and any differences on the annual housing rents reconciliation are timeously investigated and cleared.</p>	<p><b>Outstanding</b></p> <p>Establishment lists were issued to all budget managers in March 2022 following identification of a £10k overpayment to an ex-employee. HR are still processing responses received but so far two further overpayments have been identified totalling £5,600.</p> <p>Refer to <a href="#">paragraphs 52 to 57</a>.</p> <p>There was a difference of £2,000 on the housing reconciliation which was written-off as part of the year-end procedures.</p>

Issue/risk	Recommendation	Update/revised management action/timing
		<p><b>Revised action:</b></p> <p>Payroll - regular routine for review of establishment list by managers being scheduled.</p> <p>Housing - no amendment to current procedures proposed.</p> <p><b>Responsible officer:</b></p> <p>Head of HR, ICT &amp; OD and Assistant Payroll Manager</p> <p><b>Revised date:</b></p> <p>Schedule in place by Nov/Dec 2022</p>
<p><b>b/f 6. Financial sustainability</b></p>	<p>The council needs to increase the pace of delivery of its Improvement and Modernisation Programme so that it can deliver the savings necessary to deliver sustainable services.</p>	<p><b>Outstanding</b></p> <p>The council's programme stalled in 2021/22 and, as a result, planned savings of £0.1 million were not delivered.</p> <p><b>Revised action:</b></p> <p>Progress was reported to Corporate Committee on 30 August 2022 and progress will continue to be reported to committee.</p> <p><b>Responsible officer:</b></p> <p>Depute Chief Executive (EC&amp;OD)</p> <p><b>Revised date:</b></p> <p>Ongoing</p>
<p><b>b/f 7. Business continuity planning</b></p>	<p>The council should review its business continuity arrangements to ensure that they are up to date and fit for purpose. Lessons learned from the pandemic should also be incorporated.</p>	<p><b>In progress</b></p> <p>The council has appointed a Business Continuity and Risk Management Officer and work is ongoing to review procedures and support services to update their business continuity plans.</p> <p><b>Revised action:</b></p> <p>As above</p>



Issue/risk	Recommendation	Update/revised management action/timing
		<p><b>Responsible officer:</b> Audit and Risk Manager</p> <p><b>Revised date:</b> 31 March 2023</p>
<p><b>b/f 8. Money Laundering policy</b></p>	<p>The council should ensure that the money laundering guidance is updated.</p>	<p><b>In progress</b></p> <p>The council has reviewed its money laundering policy, but it has not yet been updated.</p> <p><b>Revised action:</b> Update policy</p> <p><b>Responsible officer:</b> Chief Financial Officer</p> <p><b>Revised date:</b> 31 March 2023</p>
<p><b>b/f 9. Capitalisation of borrowing costs</b></p>	<p>The council should review its procedures for the capitalisation of borrowing costs to ensure that they meet the requirements of the Code.</p>	<p><b>Complete</b></p> <p>The council reviewed its procedures in previous years and the issue identified last year did not recur this year.</p>
<p><b>b/f 10. Risk Management (from 2020/21 Management Report)</b></p>	<p>The council should ensure that adequate resources are put in place to support its risk management processes.</p>	<p><b>In progress</b></p> <p>The council has appointed a Business Continuity and Risk Management Officer and work is ongoing to review procedures and support services to update their risk registers.</p> <p><b>Revised action:</b> As above</p> <p><b>Responsible officer:</b> Audit and Risk Manager</p> <p><b>Revised date:</b> 31 March 2023</p>

# Appendix 2. 2021/22 national reports and briefing papers

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## May

[Local government in Scotland Overview 2021](#)

## June

[Covid 19: Personal protective equipment](#)

## July

[Community justice: Sustainable alternatives to custody](#)

## September

[Covid 19: Vaccination programme](#)

## January

[Planning for skills](#)

[Social care briefing](#)

## February

[NHS in Scotland 2021](#)

## March

[Local government in Scotland: Financial Overview 20/21](#)

[Drug and alcohol: An update](#)

[Scotland's economy: Supporting businesses through the Covid 19 pandemic](#)

# Moray Council

## 2021/22 Annual Audit Report

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