

The Moray Council

Annual Audit Plan 2007/08

February 2008



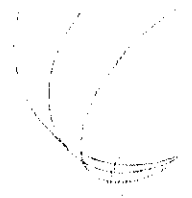
The Moray Council

Annual Audit Plan 2007/08



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Summary plan

Summary of planned audit activity

Based on our analysis of the risks facing The Moray Council, our planned work in 2007/08 includes:

- an audit of the financial statements and provision of an opinion on whether:
 - they present fairly the council's financial position as at 31 March 2008 and its income and expenditure for the year then ended
 - the accounts have been properly prepared in accordance with the Local Government (Scotland) Act 1973 and the 2007 SORP
- reporting the findings of our audit risk assessment process in a Strategic Audit Risk Analysis, highlighting the key risks being faced by the council, the action under way or planned in response to these and the work we plan to undertake in relation to these. Our risk assessment work is informed by the Priorities and Risks Framework published by Audit Scotland and work undertaken to identify issues and risks which are unique to the local situation
- a review and assessment of the council's governance and performance arrangements in a number of key areas including: debtors, treasury management, capital accounting, internal audit, ICT, statutory performance indicators, Best Value follow-up, the corporate governance statement and prevention and detection of fraud (including National Fraud Initiative)
- provision of an opinion on a number of grant claims and returns, including Whole of Government Accounts.

Introduction

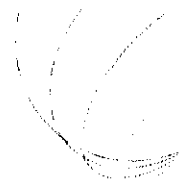
1. Our audit is focused on the identification and assessment of the key challenges and risks to the council in achieving its business objectives. We also assess the risk of material misstatement or irregularity in the council's financial statements. This report summarises specific governance and other risks that may affect the financial statements of the council and sets out the audit work that we propose to undertake in 2007/08 to address these. Our annual audit plan reflects:
 - the risks and priorities facing the council
 - current national risks relevant to local circumstances
 - the impact of changing international auditing and accounting standards
 - our responsibilities under the Code of Audit Practice as approved by the Auditor General for Scotland
 - issues brought forward from previous audit reports.



2. In addition to this annual audit plan, the first audit report of the year we will prepare is a Strategic Audit Risk Analysis which will focus on the key performance risks being faced by the council, along with other governance risks highlighted through our work. The analysis will identify the action under way or planned in response to these risks, and the work we plan to undertake in relation to these. This risk assessment work is informed by the Priorities and Risks Framework published by Audit Scotland, along with work undertaken to identify issues and risks which are unique to the local situation.

Our responsibilities

3. Our responsibilities, as independent auditor, are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice approved by the Auditor General for Scotland, and guided by the auditing profession's ethical guidance.
4. Audit in the public sector goes beyond simply providing assurance on the financial statements and the organisation's internal control environment. We are also required to provide a view on performance, regularity and the organisation's use of resources. In doing this, we aim to support improvement and accountability.
5. In carrying out our audit, we seek to gain assurance that the council :
 - has good corporate governance arrangements in place which reflect the three fundamental principles of openness, integrity and accountability
 - has systems of recording and processing transactions which provides a sound basis for the preparation of financial statements and the effective management of its assets and interests
 - prepares financial statements which present fairly the financial position at 31 March 2008 and income and expenditure for the year then ended, in accordance with the Local Government (Scotland) Act 1973 and other applicable laws and regulations, including the 2007 'Code of practice on local authority accounting in the United Kingdom – A statement of recommended practice' (the SORP)
 - has systems of internal control which provide an adequate means of preventing or detecting material misstatement, error, fraud or corruption
 - complies with established policies, procedures, laws and regulations
 - proactively manages and reviews its performance in line with its strategic and operational objectives
 - has made proper arrangements for securing best value in its use of resources and is complying with its community planning duties.



Our approach to the audit of the accounts

6. Our audit approach is based on an understanding of the characteristics, responsibilities and principal activities, risks and governance arrangements of the council, and identification of the key audit risks and challenges in the local government sector generally. This approach includes:
 - understanding the council's business and the risk exposures which could impact on the financial statements
 - assessing the key systems of internal control, and considering how risks in these systems could impact on the financial statements
 - identifying major transaction streams, balances and areas of estimation, understanding how the council will include these in the financial statements and developing procedures to audit these
 - assessing the risk of material misstatement in the financial statements, in conjunction with our evaluation of inherent risk, the control environment and control risk as part of our risk assessment
 - determining the nature, timing and extent of our testing programme to provide us with sufficient appropriate audit evidence as to whether the financial statements are free of material misstatement.

7. Through this approach we have also considered and documented the sources of assurance which will make best use of our resources and allow us to focus testing on higher risk areas during the audit of the financial statements. The main areas of assurance for the audit come from planned management action and reliance on systems of internal control. Management action being relied on for 2007/08 includes:
 - comprehensive closedown procedures for the financial statements accompanied by a timetable issued to all relevant staff
 - clear responsibilities for the preparation of the accounts and working papers
 - delivery of unaudited accounts to agreed timescales with a comprehensive working papers package
 - completion of key elements of the internal audit plan for 2007/08
 - management representations on key areas of the financial statements.

8. Auditing standards require internal and external auditors to work closely together to make optimal use of available audit resources. We seek to rely on the work of internal audit wherever possible and, as part of our planning process we carry out an early assessment of the internal audit function which is provided by an in-house team within the council.



9. Internal audit experienced significant staff shortages during the year which resulted in slippage against the annual audit plan. This mainly impacted on the time spent on the review of the controls in operation within the council's core financial systems. As a result, we can take only limited assurance from internal audit's work this year and have had to increase the time we spend on obtaining the necessary assurances to enable us to express an opinion on the financial statements.
10. Our approach to the audit of the financial statements is based on an integrated assessment of risk across the Code of Audit Practice responsibilities in relation to governance, performance and opinion.
11. At the completion of the audit we will provide the Head of Financial Services with a summary of significant matters which have arisen in the course of the audit.

Responsibility for the preparation of accounts

12. It is the responsibility of the council and the Chief Financial Officer, as Accountable Officer, to prepare the financial statements in accordance with the SORP. This means:
 - acting within the law and ensuring the regularity of transactions by putting in place systems of internal control to ensure that financial transactions are in accordance with the appropriate authority
 - maintaining proper accounting records
 - preparing financial statements timeously which present fairly the council's financial position as at 31 March 2008 and its expenditure and income for the year then ended
 - preparing the Explanatory Foreword
 - reviewing or obtaining assurances on the main components of the system of internal financial control in advance of the preparation of the corporate governance statement. This should include consideration of issues identified as part of the audit process.

Format of the accounts

13. The financial statements should be prepared in accordance with the SORP which constitutes proper accounting practice for the purposes of section 12 of the Local Government Scotland Act 2003.
14. The council prepares a consolidation pack annually for the Scottish Government under the requirements of the Government Resources and Accounts Act 2000. The Act requires the council to prepare its accounts using common accounting principles and standard formats for summarisation.



Audit issues and risks

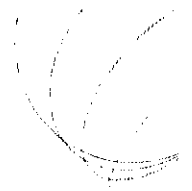
15. This annual audit plan focuses on governance and other risks specific to the council's financial statements. Our Strategic Audit Risk Analysis will provide a broader analysis of the wider risks and issues your council faces, setting out our planned work in relation to performance and other governance issues in more detail.
16. Based on our discussions with staff, attendance at committee meetings and a review of supporting information, we have identified the following main financial statements risk areas for your organisation.

Financial management

17. The council faces significant financial pressure as a result of the change in funding available for flood alleviation schemes. Previously, the council was able to reclaim 80% of the costs of these schemes once a Flood Prevention Order was approved by Scottish Ministers. Under the new concordat, the council estimates that its funding for flood alleviation schemes has been reduced by £80 million over the next 6 years. Without certainty of funding, the council faces a major financial risk in entering into contractual commitments for these schemes. The council will need to consider the impact of this uncertainty on its future financial plans.
18. As part of the 2007/08 budget process each department agreed efficiency savings including an allocation of savings from central initiatives such as vacancy management and procurement. These efficiency savings represent challenging targets for departments who may find it difficult to operate within budgets without adversely affecting service provision.
19. The council has experienced slippage against its capital plan for a number of years. It acknowledges that attempts to address this slippage by undertaking additional works in any one year may impact on contractors' ability to deliver the existing programme.

Accounts presentation and disclosure

20. A number of changes are required by the 2007 SORP. These changes include:
 - accounting for financial instruments based on FRS 25, FRS 26 and FRS 29. This affects soft loans made to voluntary organisations and subsidiaries after April 2007. It also affects premiums/discounts arising from debt restructuring, bad debt provisions and stepped interest loans. The effect of the changes will mean that prior period adjustments will be required and the format of the balance sheet and notes will change
 - replacement of the fixed asset restatement account and capital financing account with a revaluation reserve and capital adjustment account. The council will need to introduce new processes and working papers to support the balance on the revaluation reserve



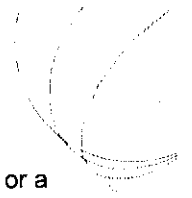
- provision for penalties under the Landfill Allowance Schemes
 - a note to the group accounts disclosing the value of assets, liabilities, gross income and expenditure of charitable funds, the nature of charitable assets consolidated and the fact they are not the property of the local authority.
21. In addition, new guidance has been issued on accounting for common good funds, and the form and content of corporate governance statements which the council requires to take into consideration in the preparation of its 2007/08 financial statements.
22. The council introduced component accounting for capital expenditure, such as replacement windows and doors, on council houses in 2006/07. Our initial review identified that the council may not be correctly applying this capital accounting technique. We intend to review this further as part of the audit of the 2007/08 financial statements.
23. Last year's audit of the financial statements also highlighted that, as part of the preparation of the 2007/08 financial statements, the council needs to improve procedures for:
- eliminating interdepartmental balances
 - ensuring that all loans made by the council are included in the financial statements.

Summary assurance plan

24. Within these identified risk areas there is a range of more specific risks and these are summarised at Appendix A. In most cases, actions to manage these risks are either planned or already underway within the organisation. Details of the sources of assurance that we have received for each of these risks and any audit work we plan to undertake is also set out in Appendix A. In the period prior to the submission of the unaudited financial statements, we will liaise with senior officers on any new or emerging issues.

Materiality

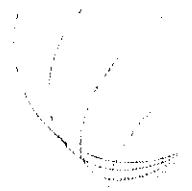
25. We consider materiality and its relationship with audit risk when planning the nature, timing and extent of our audit and conducting our audit programme. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.
26. International Standard on Auditing 320 states that, *"information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size of item or error judged in the particular circumstances of its omissions or misstatement. Thus, materiality provides a threshold or cut-off point rather than being a primary qualitative characteristic which information must have if it is to be useful."*



27. When considering, in the context of a possible qualification, whether the misstatement of an item, or a number of items taken together, is material in terms of its monetary value, we use professional judgement, experience and internal guidelines from peers as broad guidance in regard to considering whether the results of tests of detail are material.
28. An item may be judged material for reasons other than its monetary or quantitative value. An inaccuracy, which would not normally be regarded as material by amount, may be important for other reasons. When such an item affects a critical point in the accounts, its materiality has to be viewed in a narrower context (for example the failure to achieve a statutory requirement, an item contrary to law, or areas affected by central government control). Again we use professional judgement, experience and internal guidelines from peers to determine when such matters would fall to be covered in an explanatory paragraph, rather than as a qualification to the audit opinion.

Reporting arrangements

29. Under the Local Government (Scotland) Act 1973, there is a requirement for unaudited financial statements to be presented to the council and the Controller of Audit within 3 months of the financial year end i.e. 30 June. The non-statutory target for audit completion is 30 September. To achieve this target, it is critical that a timetable for the audit of the accounts is agreed with us. An agreed timetable is included at Appendix B of this plan, which takes account of submission requirements, planned audit committee dates and audit resources.
30. Matters arising from our audit will be reported on a timely basis during the year and our reports will include agreed action plans. Draft reports will be issued to the responsible director and appropriate senior officer to confirm factual accuracy. Responses to draft reports are expected within four weeks of submission.
31. A copy of all final agreed reports will be sent to the Chief Executive, Chief Financial Officer, responsible director and senior manager, Team Leader (Internal Audit) and Audit Scotland's Public Reporting Group.
32. We will provide an independent auditor's report to the council and the Accounts Commission for Scotland that the audit of the financial statements has been completed in accordance with applicable statutory requirements, including an opinion on those financial statements. An annual report to members and the controller of audit will also be produced to summarise all significant matters arising from the audit and overall conclusions about the council's management of key risks.
33. All annual reports produced by Audit Scotland are published on our website: (www.audit-scotland.gov.uk).

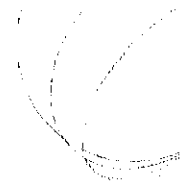


34. The full range of outputs to be delivered by the audit team are summarised below:

Planned outputs	Target delivery date
Governance	
Annual Audit Plan	29 February 2008
Strategic Audit Risk Analysis	31 March 2008
Internal controls management letter	30 June 2008
Review of Internal Audit	30 June 2008
Performance	
PRF position statement	29 February 2008
Statutory Performance Indicators Return	31 August 2008
Financial statements	
Matters arising from the audit of the financial statements	22 August 2008
Report in terms of ISA 260 (Communication of audit matters to those charged with governance)	12 September 2008
Independent auditor's report on the financial statements	30 September 2008
Annual report to the Members and the Controller of Audit	31 October 2008
Audit opinion on Whole of Government Accounts (WGA)	31 October 2008
Grants	
Audit opinions on up to 5 DWP/Scottish Government	As required

Quality control

35. We are committed to ensuring that our audit reflects best practice and demonstrates best value to the council and the Accounts Commission. We operate a strong quality control framework that seeks to ensure that your organisation receives a high quality service. The framework is embedded in our organisational structures and processes and includes an engagement lead for every client; in your case this is Fiona Mitchell-Knight, who is responsible for ensuring that our work is carried out on time and to a high quality standard.
36. As part of our commitment to quality and continuous improvement, we may periodically seek your views. We would be grateful for any feedback on our services.



Fees and resources


37. Our fee for the 2007/08 audit is £271,100 comprising a local audit fee of £189,300 and a fixed charge of £81,800. Our fee covers:
- all of the work and outputs described in this plan
 - a contribution towards the costs of national performance studies and statutory reports by the Controller of Audit and the work of the Accounts Commission
 - attendance at the Audit and Performance Review Committee and key council/committee meetings as appropriate
 - access to advice and information on relevant audit issues
 - access to workshops/seminars on topical issues
 - travel and subsistence costs.
38. In determining the fee we have taken account of the council's risk exposure, *the* management assurances in place, and the level of reliance we plan to take from the work of internal audit. We have assumed receipt of the draft accounts and working papers by 30 June 2008. If the draft accounts and papers are late, agreed management assurances are unavailable, or planned internal audit reliance is not achieved, we reserve the right to charge an additional fee for further audit work.
39. An additional fee will be required in relation to any work or other significant exercises not within our planned audit activity. An additional fee will also be charged for work on any grant claims or returns not included in the planned outputs noted previously.
40. Lynn Bradley, Director, Audit Services (Local Government) is the appointed auditor for all local authorities audited by Audit Scotland. In practice, this operates by delegating management and certification responsibilities to Assistant Directors. For The Moray Council, the Assistant Director is Fiona Mitchell-Knight.
41. The local audit team will be led by Maggie Bruce who will be responsible for the day to day management of the audit and who will be your primary contact. Details of the experience/skills of our team are provided at Appendix C. The core audit team will call on other specialist and support staff, as necessary.



Independence and objectivity

42. 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 within the audit team.

43. We comply with ethical standards issued by the Auditing Practices Board and with Audit Scotland's requirements in respect of independence and objectivity, as summarised at Appendix E.

 **AUDIT SCOTLAND**

29 February 2008

Appendix A

Summary assurance plan

In this section we identify a range of governance and other risks that may affect the financial statements of The Moray Council, the related source of assurance received and the audit work we propose to undertake to secure additional assurance. The management of risk is the responsibility of the council and its officers, with the auditor's role being to review the arrangements put in place by management. Planned audit work, therefore, will not necessarily address all residual risks.

Risk	Source of assurance	Planned audit action
Internal audit		
<p>Insufficient evidence may be available to support the independent assurance provided annually by the Team Leader (Internal Audit) as internal audit spent only limited time on the review of the controls in operation within the council's core financial systems during 2007/08.</p>	<ul style="list-style-type: none"> ▪ the council is currently reviewing the input required by internal audit, including further discussion with Audit Scotland. 	<ul style="list-style-type: none"> ▪ meet with the Chief Financial Officer and Team Leader (Internal Audit) to discuss our expectations of internal audit ▪ assess outcome from review ▪ undertake additional work required to obtain the assurances necessary for our opinion on the financial statements.
Financial management		
<p>The council faces significant financial pressure as a result of the change in funding available for flood alleviation schemes. Without certainty of funding, the council faces a major financial risk in entering into contractual commitments for these schemes. The council will need to consider the impact of this uncertainty on its future financial plans.</p>	<ul style="list-style-type: none"> ▪ the Convenor has written to the Minister for the Environment to request a meeting to discuss this key issue. 	<ul style="list-style-type: none"> ▪ monitor outcome from the meeting ▪ report results in the annual report to members.
<p>Efficiency savings totalling £2.2 million included in the 2007/08 budget may not be realised resulting in increased financial pressures for the council to manage.</p>	<ul style="list-style-type: none"> ▪ regular monitoring of efficiency savings achieved ▪ well established financial monitoring procedures. 	<ul style="list-style-type: none"> ▪ monitor how the council measures efficiencies ▪ report results in the annual report to members.
<p>The council has experienced slippage against its capital plan for a number of years. It acknowledges that attempts to address this slippage by undertaking additional works in any one year may impact on contractors' ability to deliver the existing programme.</p>	<ul style="list-style-type: none"> ▪ well established capital monitoring procedures 	<ul style="list-style-type: none"> ▪ monitor the effectiveness of capital monitoring procedures ▪ report results in the annual report to members.



Risk	Source of assurance	Planned audit action
Accounts presentation and disclosure		
The financial closure planning process does not take account of the additional requirements of the 2007 SORP.	<ul style="list-style-type: none">the council is aware of the changes to the 2007 SORP and is making the required amendments to its closedown procedures and financial statements template.	<ul style="list-style-type: none">early financial statements planning meetingreview issues during the financial statements work.
The financial closure planning process does not take account of the new guidance on accounting for common good funds, and the form and content of corporate governance statements.	<ul style="list-style-type: none">the council is aware of new guidance and is considering how it will impact on the 2007/08 financial statements.	<ul style="list-style-type: none">early financial statements planning meetingreview issues during the financial statements work.
Prior year financial statements issues are not fully addressed in advance of the accounts closure process.	<ul style="list-style-type: none">the council has revised the year end closedown procedures to address issues identified last year.	<ul style="list-style-type: none">early financial statements planning meetingreview issues during the financial statements work.

Appendix B

Financial statements audit timetable

Key stage	Date
Provision of closedown procedures to audit	29 February 2008
Meetings with officers to clarify expectations of detailed working papers and financial system reports	7 March 2008
Testing and review of internal control systems and transactions	31 May 2008
Latest submission of unaudited financial statements and working papers package, including completed ACOP checklist	30 June 2008
Planned committee approval of unaudited financial statements	2 July 2008
Progress meetings with lead officers on emerging issues	As required during audit process
Latest date for submission of matters arising from the financial statements audit	22 August 2008
Latest date for final clearance meeting with Chief Financial Officer	29 August 2008
Latest date for submission of amended financial statements	5 September 2008
Independent Auditor's Report and Report to Councillors on the audit of the financial statements (ISA 260) issued	12 September 2008
Independent Auditors Report signed	30 September 2008
Latest date for submission of unaudited whole of government (WGA) accounts return to external audit	30 September 2008
Latest date for signing of WGA return	31 October 2008
Annual audit report issued	31 October 2008
Annual report and certified accounts presented to Council	19 November 2008
Audit and Performance Review Committee consider financial statements and annual report	26 November 2008

Appendix C

Audit team

A summarised curriculum vitae for each core team member is set out below:

Lynn Bradley BSc CPFA CA

Director

Lynn took up post as Director of Audit in January 2005. Originally trained as an auditor with National Audit Office, Lynn has worked in various senior posts in the public and private sectors in Scotland and England. She spent several years working with local authorities on housing and regeneration projects. Before joining Audit Scotland, she was the Section 95 officer in a Scottish Council. Lynn was the co-author of CIPFA guidance on audit committee principles. She is currently a CIPFA council member and the past chair of CIPFA in Scotland.

Fiona Mitchell-Knight BA FCA

Assistant Director

Fiona took up post as Assistant Director of Audit in August 2007, following six years as the Senior Audit Manager for a number of local authority clients including Glasgow City Council. Fiona trained as an auditor in the private sector in England, and has 15 years experience of public sector audit with Audit Scotland, covering local government, health and the further education sectors.

Maggie Bruce MA CA

Senior Audit Manager

Maggie has over 18 years experience of public sector audit with Audit Scotland, covering local government, health and the further education sectors. Prior to joining Audit Scotland, Maggie trained as an auditor in the private sector.

Jim Convery CA CPFA

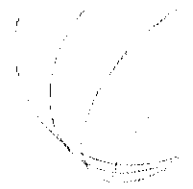
Senior Auditor

Jim has over 20 years experience of public sector audit with Audit Scotland, covering the local government, health and further education sectors. Jim is a member of Audit Service's Professional Standards Group and has been involved in the revision of our procedures to ensure they comply with International Auditing Standards. Prior to joining Audit Scotland, Jim worked for 4 years in internal audit in local government and for a private accountancy practice for 4 years.

Helen Cobb MA (Hons) CA

Senior Auditor

Helen has 8 years of experience of public sector audit with Audit Scotland, covering the local government and health sectors. Helen is a member of Audit Service's Quality Group and undertakes internal quality control reviews as part of our quality control framework. Prior to joining Audit Scotland, Helen worked for a private accountancy practice for 11 years.



Grietje Menger CISA

Senior Auditor (ICT)

Grietje joined Audit Scotland in October 2003. Since then, she has worked mainly in the local and central government sectors as an ICT audit specialist. Grietje trained as an auditor and ICT audit specialist with the Dutch Tax Authority and qualified as a Certified Information Systems Auditor in 2003.

James Lipscombe BA

Professional trainee

James joined Audit Scotland in May 2007 as a professional trainee and is currently studying for the CIPFA professional qualification.



Appendix D

Reliance on internal audit

Auditing standards require internal and external auditors to work closely together to make optimal use of available audit resources. We seek to rely on the work of internal audit wherever possible and as part of our planning process we carry out an early assessment of the internal audit function. Our review of the internal audit service provided by the in-house team highlighted that only limited time was spent on the review of the council's core financial systems during 2007/08. As a result, we can take only limited assurance from internal audit's work this year. We plan to place reliance on the work of internal audit in the following areas:

- payroll (substantive testing)
- creditor payments (substantive testing)
- statutory performance indicators.

Appendix E

Independence and objectivity

Auditors appointed by the Auditor General for Scotland are required to comply with the Code of Audit Practice and standing guidance for auditors, which defines the terms of appointment. When auditing the financial statements auditors are also required to comply with the auditing and ethical standards issued by the Auditing Practices Board (APB). The main requirements of the Code of Audit Practice, standing guidance for auditors and the standards are summarised below.

International Standards on Auditing (UK and Ireland) 260 (Communication of audit matters to those charged with governance) requires that the appointed auditor:

- discloses in writing all relationships that may bear on the auditor's objectivity and independence, the related safeguards put in place to protect against these threats and the total amount of the fee that the auditor has charged the client
- confirms in writing that the APB's ethical standards are complied with and that, in the auditor's professional judgement, they are independent and their objectivity is not compromised.

The standard defines 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case, the appropriate addressee of communications from the auditor to those charged with governance is the Audit and Performance Review Committee. The auditor reserves the right to communicate directly with members on matters which are considered to be of sufficient importance.

Audit Scotland's Code of Audit Practice has an overriding general requirement that appointed auditors carry out their work independently and objectively, and ensure they do not act in any way that might give rise to, or could reasonably be perceived to give rise to, a conflict of interest. Appointed auditors and their staff should avoid entering in to any official, professional or personal relationships which may impair their independence, or might lead to a reasonable perception that their independence could be impaired.

The standing guidance for auditors includes a number of specific requirements. The key requirements relevant to this audit appointment are as follows:

- during the currency of an appointment, auditors should not perform non-audit work for an audited body, consultancy or otherwise, without the prior approval of Audit Scotland
- the appointed auditor and key staff should, in all but exceptional circumstances, be changed at least once every five years in line with Audit Scotland's rotation policy
- the appointed auditor and audit team are required to carry out their duties in a politically neutral way, and should not engage in high profile public party political activity
- the appointed auditor and audit team must abide by Audit Scotland's policy on gifts and hospitality, as set out in the Audit Scotland Staff Code of Conduct.