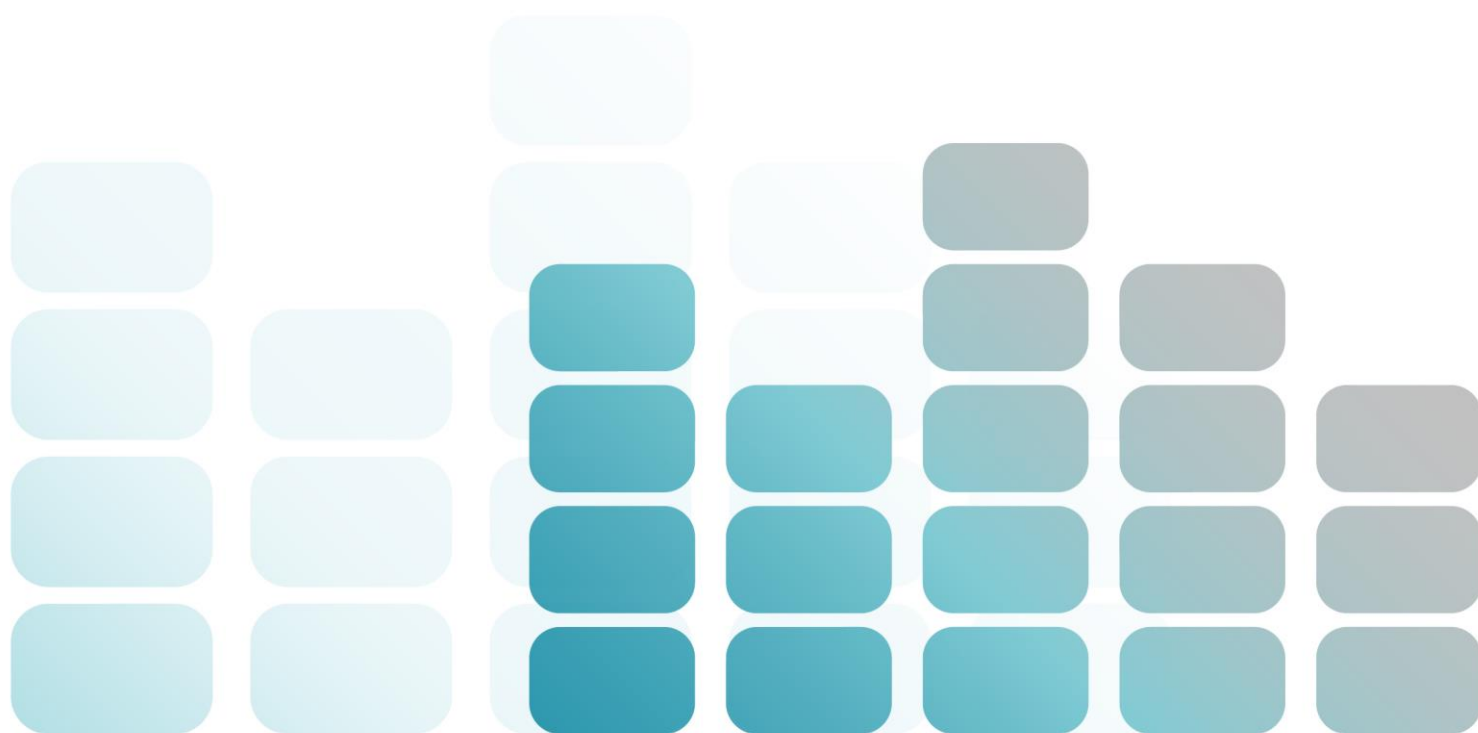


Perth and Kinross Council

Annual Audit Plan 2024/25



Prepared for Perth and Kinross Council
March 2025

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Introduction

Purpose of the Annual Audit Plan

1. The purpose of this Annual Audit Plan is to provide an overview of the planned scope and timing of the 2024/25 audit of Perth and Kinross Council's annual accounts. It outlines the audit work planned to meet the audit requirements set out in auditing standards and the Code of Audit Practice, including supplementary guidance.

Appointed auditor and independence

2. Rachel Browne, of Audit Scotland, has been appointed by the Accounts Commission as external auditor of Perth and Kinross Council for the period from 2023/24 until 2026/27. The 2024/25 financial year is therefore the second year of Rachel's four-year audit appointment.

3. Rachel Browne and the audit team are independent of Perth and Kinross Council in accordance with relevant ethical requirements, including the Financial Reporting Council's Ethical Standard. This standard imposes stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has robust arrangements in place to ensure compliance with ethical standards. The arrangements are overseen by the Executive Director of Innovation and Quality, who serves as Audit Scotland's Ethics Partner.

4. The Ethical Standard requires auditors to communicate any relationships that may affect the independence and objectivity of the audit team. There are no such relationships pertaining to the audit of Perth and Kinross Council to communicate.

Audit scope and responsibilities

Scope of the audit

5. The audit is performed in accordance with the Code of Audit Practice, including supplementary guidance, International Standards on Auditing (UK), and relevant legislation. These set out the requirements for the scope of the audit which includes:

- An audit of the financial statements and an opinion on whether they give a true and fair view and are free from material misstatement.
- An opinion on statutory other information published with the financial statements in the annual accounts, the Management Commentary, and the Annual Governance Statement, and an opinion on the audited part of the Remuneration Report.
- Conclusions on Perth and Kinross Council's arrangements in relation to the wider scope areas: Financial Management, Financial Sustainability, Vision, Leadership, and Governance, and Use of Resources to Improve Outcomes.
- Reporting on Perth and Kinross Council's arrangements for securing Best Value.
- Providing assurance on the Housing Benefit Subsidy Claim and Non-Domestic Rates Return.
- A review of Perth and Kinross Council's arrangements for preparing and publishing statutory performance information.
- Provision of an Annual Audit Report setting out significant matters identified from the audit of the annual accounts and the wider scope areas specified in the Code of Audit Practice.

Responsibilities

6. The Code of Audit Practice sets out the respective responsibilities of Perth and Kinross Council and the auditor. A summary of the key responsibilities is outlined below.

Auditor's responsibilities

7. The responsibilities of auditors in the public sector are established in the Local Government (Scotland) Act 1973. These include providing an independent opinion on the financial statements and other information

reported within the annual accounts, and concluding on Perth and Kinross Council's arrangements in place for the wider scope areas.

Perth and Kinross Council's responsibilities

8. Perth and Kinross Council has primary responsibility for ensuring proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enables it to successfully deliver its objectives. The features of proper financial stewardship include:

- Establishing arrangements to ensure the proper conduct of its affairs.
- Preparation of annual accounts, comprising financial statements and other information that gives a true and fair view.
- Establishing arrangements for the prevention and detection of fraud, error and irregularities, and bribery and corruption.
- Implementing arrangements to ensure its financial position is soundly based.
- Making arrangements to secure Best Value.
- Establishing an internal audit function.

Communication of fraud or suspected fraud

9. In line with ISA 240, in presenting this plan to the Audit and Risk Committee we seek confirmation from those charged with governance of any instances of actual, suspected, or alleged fraud that should be brought to our attention. Should members of the committee have any such knowledge or concerns relating to the risk of fraud within Perth and Kinross Council, we invite them to communicate this to the appointed auditor for consideration. Similar assurances will be sought as part of the audit completion process.

Audit of the annual accounts

Introduction

10. The audit of the annual accounts is driven by materiality and the risks of material misstatement in the financial statements, with greater attention being given to the significant risks of material misstatement. This chapter outlines materiality, the significant risks of material misstatement that have been identified, and the impact these have on the planned audit procedures.

Materiality

11. The concept of materiality is applied by auditors in planning and performing an audit, and in evaluating the effect of any uncorrected misstatements on the financial statements or other information reported in the annual accounts.

12. Broadly, the concept of materiality is to determine whether matters identified during the audit could reasonably be expected to influence the decisions of users of the financial statements. Auditors set a monetary threshold when determining materiality, although some issues may be considered material by their nature. Therefore, materiality is ultimately a matter of the auditor’s professional judgement.

13. The materiality levels determined for the audit of Perth and Kinross Council and its group are outlined in [Exhibit 1](#).

Exhibit 1

2024/25 Materiality levels for Perth and Kinross Council and its group

Materiality	Council	Group
Materiality – based on an assessment of the needs of users of the financial statements and the nature of Perth and Kinross Council’s operations, the benchmark used to determine materiality is gross expenditure based on the audited 2023/24 financial statements. Materiality has been set at 2 per cent of the benchmark.	£15.0 million	£15.3 million

Materiality	Council	Group
Performance materiality – this acts as a trigger point. If the aggregate of misstatements identified during the audit exceeds performance materiality, this could indicate that further audit procedures are required. Using professional judgement, performance materiality has been set at 65 per cent of planning materiality.	£9.8 million	£9.9 million
Reporting threshold – all misstatements greater than the reporting threshold will be reported.	£0.5 million	£0.5 million

Source: Audit Scotland

Significant risks of material misstatement to the financial statements

14. The risk assessment process draws on the audit team's cumulative knowledge of Perth and Kinross Council, including the nature of its operations and its significant transaction streams, the system of internal control, governance arrangements and processes, and developments that could impact on its financial reporting.

15. Based on the risk assessment process, significant risks of material misstatement to the financial statements have been identified and these are summarised in [Exhibit 2](#). These are the risks which have the greatest impact on the planned audit approach, and the planned audit procedures in response to the risks are outlined in Exhibit 2.

16. The risk assessment process is an iterative and dynamic process. The assessment of risks set out in this Annual Audit Plan may change as more information and evidence is obtained over the course of the audit. Where such changes occur, these will be reported to Perth and Kinross Council and those charged with governance, where relevant.

Exhibit 2

Significant risks of material misstatement to the financial statements

Risk of material misstatement	Planned audit response
Fraud caused by management override of controls Management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.	The audit team will: • Evaluate the design and implementation of controls over journal entry processing. • Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries. • Use data analytics to consider, identify, and test journal entries, focusing on those that are assessed as higher risk, such as those affecting revenue and expenditure recognition around the year-end. • Evaluate significant transactions outside the normal course of business. • Assess the adequacy of controls in place for identifying and disclosing related party relationships and transactions in the financial statements. • Assess any changes to the methods and underlying assumptions used to prepare accounting estimates and assess these for evidence of management bias.

Risk of material misstatement	Planned audit response
Valuation of property, plant and equipment – Other Land and Buildings (OLB) Perth and Kinross Council held £1.5 billion of property, plant, and equipment (PPE) at 31 March 2024, of which £770 million was other land and buildings (OLB) assets. Perth and Kinross Council is required to value land and building assets at existing use value where an active market exists for these assets. Where there is no active market, these assets are valued on a depreciated replacement cost (DRC) basis. As a result, there is a significant degree of subjectivity in these valuations which are based on specialist assumptions, and changes in the assumptions can result in material changes to valuations. In addition, OLB assets are revalued on a five-year rolling basis and with a valuation date of 1 April. Values may change between periodic valuations and there is, therefore, a risk of material movement between the date of valuation and the balance sheet date.	The audit team will: • Evaluate the design and implementation of controls over the valuation process. • Review the information provided to the valuer and assess this for completeness and accuracy. • Evaluate the competence, capabilities, and objectivity of the valuers. • Obtain an understanding of management's involvement in the valuation process to assess if appropriate oversight has occurred. • Review the reconciliation between the accounts, property asset register, and valuers' reports. • Test a sample of OLB assets subject to revaluation in 2024/25, confirm to valuers' reports, critically assess the appropriateness of key data and assumptions and challenge these where required. • Review management's fair value assessment that the financial statements accurately reflect the carrying value of the land and buildings at 31 March 2025, and challenge where required.

Source: Audit Scotland

Key audit matters

17. The Code of Audit Practice requires public sector auditors to communicate key audit matters. Key audit matters are those matters, that in the auditor's professional judgement, are of most significance to the audit of the financial statements and require most attention when performing the audit.

18. In determining key audit matters, auditors consider:

- Areas of higher or significant risk of material misstatement.
- Areas where significant judgement is required, including accounting estimates that are subject to a high degree of estimation uncertainty.
- Significant events or transactions that occurred during the year.

19. The matters determined to be key audit matters will be communicated in the Annual Audit Report. Exhibit 2 outlines the significant risks of material misstatement to the financial statements that have been identified, including those that have greatest impact on the planned audit procedures and require most attention when performing the audit.

20. In addition to the significant risks of material misstatement in Exhibit 2, the following areas of specific audit focus have been identified as part of our planning process and will be reported on in the Annual Audit Report:

- **Estimation in the valuation of pension assets and liabilities -** these valuations are based on a range of assumptions including life expectancy, CPI growth and discounting (based on corporate bond rates). Small changes in these assumptions can result in a material change to the valuations. We will assess the scope, independence and competence of the professional actuaries engaged to provide these estimates and review the appropriateness of the actuarial assumptions and results including comparison with other councils. We will also establish officers' arrangements for ensuring the reasonableness of the professional estimates and the accuracy of the information provided to the council by the actuary.
- **Restatement of 2023/24 income and expenditure disclosures –** the council restructured its services with effect from 1 April 2024. Prior year comparative figures will require to be restated to reflect the new structure which will be used to prepare the Net Cost of Services section of the 2024/25 Comprehensive Income and Expenditure Statement. We will review the process for recalculating the prior year comparative figures including management's arrangements for ensuring that these are not materially misstated.

Group audit

21. Perth and Kinross Council is part of a group and prepares group financial statements. The group is made up of ten components, including Perth and Kinross Council which is the parent of the group. Risk assessment procedures have been performed on the group audit to identify if there are any risks of material misstatement to the group financial statements, or any components where audit procedures are required for the purposes of the group audit. The outcome of the risk assessment procedures on the group audit are outlined in [Exhibit 3](#).

Exhibit 3**Outcome of risk assessment procedures on the group audit**

Group component	Accounting treatment	Risk of material misstatement	Audit procedures required	Auditor
Perth and Kinross Council	Parent body	Yes – Exhibit 2	Yes – full scope audit	Audit Scotland
Common Good Funds	Consolidated on a line-by-line basis	No - not material	Yes – analytical procedures at group level	Audit Scotland
Charitable Trusts	Consolidated on a line-by-line basis	No - not material	Yes – analytical procedures at group level	Audit Scotland
Live Active Leisure Ltd	Consolidated on a line-by-line basis	No - not material	Yes – analytical procedures at group level	Azets
Culture Perth and Kinross	Consolidated on a line-by-line basis	No - not material	Yes – analytical procedures at group level	Azets
Perth Theatre and Concert Hall (Horsecross Arts Ltd)	Consolidated on a line-by-line basis	No - not material	Yes – analytical procedures at group level	Henderson Loggie LLP
Tayside Contracts Joint Committee	Accounted for on equity basis	No - not material	Yes – analytical procedures at group level	Audit Scotland
Tayside Valuation Joint Board	Accounted for on equity basis	No - not material	Yes – analytical procedures at group level	Audit Scotland
Perth and Kinross Integration Joint Board	Accounted for on equity basis	No - not material	Yes – analytical procedures at group level	Audit Scotland
Tayside and Central Scotland Transport Partnership (Tactran)	Not consolidated on grounds of materiality	N/A	N/A	Audit Scotland

Source: Audit Scotland

22. Where audit procedures are required on a component's financial statements, and the component auditor is different to Perth and Kinross Council's appointed auditor, group audit instructions will be issued to the component auditor outlining expectations and requirements in performing these audit procedures.

Wider scope and Best Value

Introduction

23. Reflecting the fact that public money is involved, the Code of Audit Practice requires that public audit is planned and undertaken from a wider perspective than in the private sector. The wider scope audit set out by the Code of Audit Practice broadens the audit of the annual accounts to include consideration of additional aspects or risks in four wider scope areas, which are summarised below:

- **Financial Management** – this means having sound budgetary processes. Factors that can impact on Perth and Kinross Council being able to secure sound financial management include the strength of the financial management culture, accountability, and arrangements to prevent and detect fraud, error and other irregularities, bribery and corruption.
- **Financial Sustainability** – this means looking forward over the medium and longer term in planning the services to be delivered and how they will be delivered effectively. This is assessed by considering Perth and Kinross Council's medium- to longer-term planning for service delivery.
- **Vision, Leadership and Governance** – this means having a clear vision and strategy, with set priorities within the vision and strategy. This is assessed by considering the clarity of plans in place to deliver the vision and strategy and the effectiveness of the governance arrangements to support delivery.
- **Use of Resources to Improve Outcomes** – this means using resources to meet stated outcomes and improvement objectives through effective planning and working with partners and communities. This is assessed by considering Perth and Kinross Council's arrangements for ensuring resources are deployed to improve strategic outcomes, meet the needs of service users, and deliver continuous improvement.

24. A conclusion on the effectiveness and appropriateness of the arrangements Perth and Kinross Council has in place for each of the wider scope areas will be reported in the Annual Audit Report.

Best Value

25. Under the Code of Audit Practice, the audit of Best Value in councils is fully integrated within the annual audit. As part of the annual audit, auditors are required to take a risk-based approach to assessing and reporting on whether Perth and Kinross Council has made proper arrangements for securing Best Value, including follow up of findings previously reported in relation to Best Value.

Best Value Thematic review 3: Transformation

26. The Accounts Commission also reports nationally on thematic aspects of councils' approaches to, and performance in, meeting their Best Value duties. As part of the annual audit, thematic reviews, as directed by the Accounts Commission, are conducted on Perth and Kinross Council. The thematic review for 2024/25 is on the subject of service transformation and involves considering how Perth and Kinross Council is redesigning services to maintain outcomes and deliver services more efficiently. Conclusions and judgements on the thematic review will be reported in a separate Management Report and summarised in the Annual Audit Report.

Controller of Audit Report

27. At least once over the five-year appointment, the Controller of Audit will report to the Accounts Commission on Perth and Kinross Council's performance in meeting its Best Value duties. The second year of this programme runs from October 2024 to August 2025. Perth and Kinross Council is not included in the second year of the programme.

Significant wider scope and Best Value risks

28. No significant risks in the wider scope areas or Best Value were identified from the risk assessment process.

Reporting arrangements, timetable and audit fee

Audit outputs

29. The outputs from the 2024/25 audit include:

- This Annual Audit Plan.
- An Independent Auditor's Report to Perth and Kinross Council and the Accounts Commission setting out opinions on the annual accounts.
- An Annual Audit Report to Perth and Kinross Council and the Accounts Commission setting out significant matters identified from the audit of the annual accounts, conclusions from the wider scope and Best Value audit, and recommendations, where required.

30. The matters to be reported in the outputs will be discussed with Perth and Kinross Council for factual accuracy before they are issued. All outputs from the audit will be published on Audit Scotland's website, apart from the Independent Auditor's Report, which is included in the audited annual accounts.

31. Target dates for the audit outputs are set by the Accounts Commission. In setting the target dates for the audit outputs, consideration is given to the statutory date for approving the annual accounts, which is 30 September 2025 for local government bodies.

32. The audit team will be unable to achieve the target date of 30 September 2025 for issuing the Independent Auditor's Report and Annual Audit Report. This is due to the late completion of prior year audits, ongoing resourcing challenges within Audit Scotland and the need to prioritise the quality of our audit work over meeting target dates, as required by the Accounts Commission, and consistent with messaging from the Financial Reporting Council which has made clear that audit quality takes precedence. The audit team are working towards completion of the audit by the later date of 01 December 2025 and are working towards delivering the audit by target dates over the course of the five-year audit appointment.

Audit timetable

33. Achieving the timetable for production of the annual accounts, supported by complete and accurate working papers, is critical to delivery of the audit to agreed target dates. [Exhibit 4](#) includes a timetable for the audit, which has been agreed with management. Agreed target dates will be kept under review as the audit progresses, and any changes required, and their potential impact, will be discussed with Perth and Kinross Council and reported to those charged with governance, where required.

Exhibit 4 2024/25 audit timetable

Audit activity	Perth and Kinross Council target date	Audit team target date	Relevant committee date
Issue of Annual Audit Plan	N/A	17 March 2025	24 March 2025
Annual accounts			
• Consideration of unaudited annual accounts by those charged with governance	25 June 2025	N/A	25 June 2025
• Submission of unaudited annual accounts and all working papers to audit team	27 June 2025	N/A	N/A
• Latest date for audit clearance meeting	30 October 2025	30 October 2025	N/A
• Issue of draft Letter of Representation, proposed Independent Auditor's Report, and proposed Annual Audit Report	N/A	17 November 2025	N/A
• Agreement of audited and unsigned annual accounts	17 November 2025	17 November 2025	N/A
• Approval by those charged with governance and signing of audited annual accounts	1 December 2025	N/A	1 December 2025
• Signing of Independent Auditor's Report and issue of Annual Audit Report	N/A	1 December 2025	N/A

Audit activity	Perth and Kinross Council target date	Audit team target date	Relevant committee date
Best Value (BV3) Transformation			
Issue of Best Value Management Report	N/A	10 September 2025	17 September 2025
Grant Claims			
Certification of Non-Domestic Rates Return	TBC	31 October 2025	N/A
Certification of Housing Benefit Subsidy Claim	30 November 2025	30 November 2025	N/A

Source: Audit Scotland

Audit fee

34. Perth and Kinross Council's audit fee is determined in line with Audit Scotland's fee setting arrangements. The agreed audit fee for the 2024/25 audit is £358,370.

35. In setting the audit fee, it is assumed that Perth and Kinross Council has effective governance arrangements in place and the complete annual accounts will be provided for audit in line with the agreed timetable. The audit fee assumes there will be no significant changes to the planned scope of the audit. Where the audit cannot proceed as planned, for example, due to incomplete or inadequate working papers, the audit fee may need to be increased.

Other matters

Internal audit

36. Perth and Kinross Council is responsible for establishing an internal audit function as part of an effective system of internal control. As part of the audit, the audit team will obtain an understanding of internal audit, including its nature, responsibilities, and activities.

37. While internal audit and external audit have differing roles and responsibilities, external auditors may seek to rely on the work of internal audit where it is considered appropriate. A review of internal audit's 2024/25 audit plan was carried out to identify if there were any areas where the audit team could rely on its work. The audit team concluded it will not rely on internal audit's work. However, the audit team will review internal audit's reports and assess if there is any impact on the audit.

Audit quality

38. Audit Scotland is committed to the consistent delivery of high-quality audit. Audit quality requires ongoing attention and improvement to keep pace with external and internal changes. Details of the arrangements in place for the delivery of high-quality audits is available from the [Audit Scotland website](#).

39. The International Standards on Quality Management (ISQM) applicable to Audit Scotland for 2024/25 audits are:

- ISQM (UK) 1, which deals with an audit organisation's responsibilities to design, implement, and operate a system of quality management (SoQM) for audits. Audit Scotland's SoQM consists of a variety of components, such as: governance arrangements and culture to support audit quality, compliance with ethical requirements, ensuring Audit Scotland is dedicated to high-quality audit through engagement performance and resourcing arrangements, and ensuring there are robust quality monitoring arrangements in place. Audit Scotland carries out an annual evaluation of its SoQM and has concluded it complies with this standard.
- ISQM (UK) 2, which sets out arrangements for conducting engagement quality reviews, which are performed by senior management not involved in an audit, to review significant judgements and conclusions reached by the audit team, and the appropriateness of proposed audit opinions on high-risk audits.

40. To monitor quality at an individual audit level, Audit Scotland carries out internal quality reviews on a sample of audits. Additionally, the Institute of Chartered Accountants of England and Wales (ICAEW) carries out independent quality reviews on a sample of audits.

41. Actions to address deficiencies identified by internal and external quality reviews are included in a rolling Quality Improvement Action Plan, which is used to support continuous improvement. Progress with implementing planned actions is monitored on a regular basis by Audit Scotland's Quality and Ethics Committee.

42. Audit Scotland may periodically seek the views of Perth and Kinross Council on the quality of audit services provided. The audit team would also welcome feedback at any time.

Perth and Kinross Council

Annual Audit Plan 2024/25



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