HENDERSON LOGGIE

Perth & Kinross Council

Report to Members and the Controller of Audit

2007/2008

External Audit Report No: 2008/06

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Contents

Executive Summary

1.1 Introduction (Section 2, page 6)

1.1.1 We are pleased to submit our annual report for the second year of our five year appointment as external auditors of Perth & Kinross Council. The report highlights key issues grouped under three distinct headings of financial, governance and performance.

1.1.2 Of particular note this year is the full audit of Best Value and Community Planning carried out during 2007/08. The report was published in August 2008 and the overall conclusion was "*Perth & Kinross Council demonstrates a strong commitment to Best Value. The council and its strategic partners work well together, are clear about priorities for the area and are committed to the Perth & Kinross Single Outcome Agreement (SOA). The leadership of the council is strong and effective in terms of strategic direction, delivering change and providing capacity for further improvement. There are good working relationships between elected members and executive directors and relations between political group leaders are constructive.*"

1.1.3 The report also acknowledged that the Council recognised the areas where improvements in service delivery were required. An improvement action plan has been agreed and progress against this plan will be followed up over the next few years by external audit.

1.1.4 Together with officers from across all of the Council's Services an effective working relationship has been developed. This will greatly aid the audit process for both the Council and us over the remaining term of our appointment.

1.2 Financial (Section 3, page 7)

1.2.1 The Council achieved the statutory deadline for the submission of its accounts for audit. The audit was completed with the issue of an unqualified audit opinion on 26 September 2008.

1.2.2 On 25 September 2008 we issued our ISA 260 report to the Head of Finance and the Leader of the Administration, as the Council's representatives of those charged with governance, to advise them of the issues arising from the audit and the final audit adjustments to the draft accounts were agreed.

1.2.3 We were not obliged to make any adverse comment on the Council and its group's Statement on the System of Internal Control. This confirmed that the content of the Statement was not inconsistent with information arising from our audit work.

1.2.4 The financial statements presented for audit had been prepared using the new format introduced by the 2007 Statement of Recommended Practice (SORP).

1.2.5 There were no material audit adjustments. Twelve significant audit adjustments were identified during the course of our audit of the financial statements of which ten adjustments were made. Details of the agreed audit adjustments were highlighted in our ISA 260 Report issued to the Head of Finance and the Leader of the Administration on 25 September 2008.

1.2.6 Two further immaterial items were considered but were not made. These would not have had a material impact on the accounts or our certificate.

1.2 Financial (Section 3, page 7) (Cont'd)

1.2.7 The Council's only Significant Trading Operation (STO) for Building Services achieved its statutory break-even target covering the three years of operation to 31 March 2008.

1.2.8 The Council has reviewed the status of its STO and determined that it no longer meets the criteria and from 1 April 2008 the Building Services will form part of the Single Repairs Organisation within the Housing and Community Care Services.

1.2.9 The Council's income from government grants and local taxation exceeded its net operating expenditure of £258.668 million resulting in a surplus for the year of £10.586 million on the Income and Expenditure Account. After making the necessary adjustments the movement on the General Fund Balance for the year of £2.574 million increased the General Fund Balance to £36.419 million at 31 March 2008. The budgeted deficit of £6.583 million for the General Fund was under spent by £9.157 million. Details of the significant underspends are given in Table 1 on page 9.

1.2.10 The Housing Revenue Account balance was reduced by £4.136 million during the year leaving a balance on this fund of £0.981 million at 31 March 2008. There was increased expenditure on responsive repairs to council houses.

1.2.11 Commitments against the General Fund Balance total £24.217 million leaving an uncommitted balance at 31 March 2008 of £11.221 million. Commitments against the HRA Balance total £0.231 million leaving an uncommitted balance of £0.750 million. The overall total uncommitted balance reported in the accounts is £11.971 million.

1.2.12 The main commitments include a provision of £5.027 million for Single Status, £2.768 million for the Equal Pay Strategy and as part of the Funding Strategy for the Investment In Learning (IIL) project, in setting the 2008/09 revenue budget the Council earmarked £2.274 million from General Fund Reserves to part finance the purchase of decant accommodation.

1.2.13 The Council's net pension liabilities at 31 March 2008, estimated by the Actuary, exceeded its share of pension scheme assets by £27.521 million (2006/07 - £45.099million). The favourable movement of £17.578 million is mainly due to changes in the assumptions underlying the present value of the scheme's liabilities and the discount rate used.

1.2.14 The Council implemented the new staff terms and conditions under the Single Status agreement on 1 August 2007. A funding strategy is in place and it is intended that the earmarked reserves of £5.027 million at 31 March 2008 will be used to help meet these costs up to the end of 2013/14.

1.2.15 During 2007/08 the Council wrote back to the General Fund Balance a provision from 2006/07 of £0.535 million relating to part of its potential share of Tayside Contracts employees' equal pay claims liability. This was due to the uncertainty in determining the potential liability. The Council has recognised the potential liability for its own and Tayside Contracts employees as a contingent liability and has earmarked £2.768 million within its reserves to meet estimated further equal pay claim costs. Details are provided in note 36 to the accounts.

1.2 Financial (Section 3, page 7) (Cont'd)

1.2.16 The Council's Budget Flexibility Scheme allows for underspends against budgets to be carried forward to help services fund cost pressures in later years. The total carried forward under this scheme into 2008/09 was £2.349 million.

1.2.17 The Council reached financial close on its new schools PPP project; Investment in Learning (IIL), on 4 October 2007 when a contract was signed to deliver £127.687 million of investment in its school estate. This project involves the construction of six new community school campuses in Blairgowrie, Aberfeldy, Kinross, and Crieff and at two sites in Perth. These assets are deemed by the Council and its financial advisers to be off balance sheet for accounting purposes and will transfer back into Council ownership at the end of the contract at no additional cost. The campuses will open on a phased basis from 2009/10 until 2011/12 and the Council will start to pay an annual unitary charge to the contractor as each site opens until the contract ends in 2042.

1.2.18 For the first time the Council included Horsecross Arts Limited in its group accounts 2007/08 as an associate. The 2006/07 figures were also adjusted.

1.3 Governance (Section 4, page 20)

1.3.1 Following on from a number of extensive reviews over the past few years the Council's committee structure is now fully aligned with the revised management structure.

1.3.2 The Corporate Plan *"Securing the Future 2006 -2010"* was approved in December 2006. The corporate vision and objectives are linked to the Community Plan, which was also reviewed during 2006. Both plans identify the key delivery strategies and have detailed indicators and targets for measuring and reporting performance.

1.3.3 The Council has continued to refine its budgeting processes over the past two years in order to improve the transparency of linkages between the budgets and the Services' and Corporate Plans.

1.3.4 The Council has an approved Local Code of Corporate Governance which is currently being updated. The Executive Director (Corporate Services) has specific responsibility for overseeing the implementation and monitoring of the Code and reporting annually to the Council on compliance.

1.3.5 The Chief Executive and the Leader of the Administration reported in the Statement on the System of Internal Control (SSIC) included in the Council's accounts that they were satisfied the Council has in place sound systems of internal control with no material weaknesses identified. We are satisfied that this statement complies with the 2007 SORP.

1.3.6 In June 2007 CIPFA, in association with SOLACE, published a revised framework - ***Delivering Good Governance in Local Government***. A guidance note was issued for Scottish authorities in May 2008.

1.3.7 The Council has a framework in place that could be easily updated to comply with the revised framework and the Policy and Governance Group are currently looking into this.

1.3 Governance (Section 4, page 20) (Cont'd)

1.3.8 The Council put an extensive training programme in place for all members following the May 2007 elections. Further training has been undertaken during 2007/08 by every member. Job descriptions are in place for all members. Each member has had a one-to-one training needs assessment interview. Personal Development Plans (PDPs) are to be taken forward in 2008/09.

1.3.9 Community planning is well developed in the Council and is supported by a strong commitment to partnership working, with effective planning structures and a clearly defined set of desired outcomes. The Council and its partners share a clear and ambitious vision and they are committed to delivering the Single Outcome Agreement for the area.

1.3.10 For 2007/08 we agreed to rely on the work of Internal Audit covering twenty-five areas. However not all of the reviews originally scheduled were in fact carried out, and some were not completed within our required timescale.

1.3.11 During 2007/08 we continued to monitor the Council's participation in the 2006/07 National Fraud Initiative (NFI) exercise in Scotland. 13 potential frauds were discovered, and the total overpayments identified amounted to £49,767, including £20,000 notional future savings. Recovery proceedings have begun for £13,282 of the overpayments made.

1.4 Performance (Section 5, page 25)

1.4.1 The Council has a good performance management framework in place across the Council. Rigorous scrutiny arrangements are in place to monitor performance against both the corporate and service plans.

1.4.2 Public performance reporting has further improved recently with the introduction of "PKC Performs" in November 2007, accessed on the Council's website.

1.4.3 A revised Risk Management Strategy was approved by the Strategic Policy and Resources Committee on 25 June 2008. The Corporate Risk Management Team's forward work plan includes working with the Council's partners to identify and manage key risks related to partnership working.

1.4.4 The Perth & Kinross Community Planning Partnership's initial Single Outcome Agreement (SOA) was agreed at a special meeting of the full Council on 26 March 2008, and by the Community Planning Partnership on 28 March 2008. Following discussions with the Scottish Government the final version was agreed by the Council on 25 June 2008, and was signed by John Swinney on 16 July. It is based on the priority outcomes within the Community Plan and the Corporate Plan.

1.4.5 The Council's 2007/08 Efficiency Statement was submitted to the Scottish Government by the suggested date of August 2008. The Council delivered cashable efficiency savings of £3.945 million in 2007/08. The total efficiencies achieved in 2007/08, including non-cashable savings of £0.299 million amounted to £4.244 million which exceeded the total reported efficiencies in 2006/07 by more than £1 million.

1.4 Performance (Section 5, page 25) (Cont'd)

1.4.6 For the three year period 2008-2011 the Scottish Government has set efficiency targets of 2% per annum for all public sector bodies. The Council is making progress in delivering efficiency savings and expects to meet its future targets now that a collaborative procurement framework is in place. The anticipated saving from procurement over the next three years is in excess of £1 million. Further savings will be achieved through the review of internal working practices, investment in improved information systems, mobile working and where appropriate delivery of support service functions in conjunction with partner organisations.

1.4.7 The 2007/08 return to Audit Scotland for Council SPIs was made by the 31 August 2008 deadline and publication was made by the 30 September deadline. We concluded that the systems in operation for the production and publication of the SPIs were reliable for all of the indicators. Further commentary about the Council's overall performance is included in the main body of the report at 5.7.

1.4.8 We reviewed Corporate Asset Management during 2007/08. The Council has recognised the need to improve its corporate management of assets. One of the key Improvement Actions listed in the Organisational Change and Improvement Plan was the introduction of an overarching Corporate Asset Management Plan and this is due to be delivered in December 2008. The main finding of our review relates to the need to provide more information to members about progress in improving asset management, and that a 'champion' is nominated by members for corporate asset management as a whole. Full details can be found in our report 2007/07, *"Corporate Asset Management",* issued on 18 February 2008.

2.1 Introduction

2.1.1 We are pleased to submit our second annual report, covering significant matters arising during the course of our audit of Perth & Kinross Council for the year ended 31 March 2008.

2.1.2 The framework under which we operate under appointment by Audit Scotland is as outlined in our Report 2008/01 *"Risk Assessment, Annual Audit Plan and Fee Proposal for 2007/08"*. The respective responsibilities of Council members, officers and the auditors are set out in Appendix I to this report.

2.1.3 Broadly the scope of our audit was to

- provide an opinion on the financial statements in accordance with relevant legal and regulatory requirements and international standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Accounts Commission;
- review and report on the Council and its group's corporate governance arrangements in relation to systems of internal control, the prevention and detection of fraud and irregularity, standards of conduct, prevention and detection of corruption, and the Council's financial position;
- review and report on the Council's arrangements to manage its performance, as they relate to economy, efficiency and effectiveness in the use of resources and in securing Best Value; and
- review and report on whether the Council has made adequate arrangements for collecting, recording and publishing prescribed performance information.

2.1.4 Our audit approach focused on the identification of strategic business risks and operational and financial risks impacting on the Council.

2.2 Basis of Information

2.2.1 External auditors do not act as a substitute for the Council's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for and used efficiently, economically and effectively.

2.2.2 We have raised a number of issues during the course of our audit, including matters highlighted in our *Report to those charged with Governance on the audit of Perth & Kinross Council* (ISA 260 report); Report 2008/05 issued on 25 September 2008. The main points from our audit are summarised in this report.

2.2.3 To a certain extent the content of this report comprises general information that has been provided by, or is based on discussions with, management and staff at the Council. Except to the extent necessary for the purposes of the audit, this information has not been independently verified.

2.2.4 We take this opportunity to remind you that this report is prepared for the sole use of Perth & Kinross Council and the Audit Sub-Committee and will be shared with Audit Scotland. No responsibility is assumed by us to any other person who may chose to rely on it for his or her own purposes.

2.3 Acknowledgements

2.3.1 Our audit for this year has brought us in contact with a wide range of Council staff and members. We would like to take this opportunity to place on record our appreciation of the co-operation and assistance extended to us by both staff and members in the discharge of our duties.

Financial

3.1 Audit Completion

3.1.1 We are pleased to report that the target date of 30 September 2008 for the audit completion and certification of the annual accounts was met.

3.1.2 On 25 September 2008 we issued our ISA 260 report to the Head of Finance and the Leader of the Administration, as the Council's representatives of those charged with governance, to advise them of issues arising from the audit. The final audit adjustments to the draft accounts were agreed.

3.2 Accounts Certification

3.2.1 On 26 September 2008 we issued our audit report expressing an unqualified opinion on the financial statements of the Council and its group for the year ended 31 March 2008. We set out below a summary of the audit certification issues:

- The financial statements present fairly, in accordance with relevant legal and regulatory requirements and the 2007 SORP the financial position at 31 March 2008 and the income and expenditure for the year then ended.

- The Council's Significant Trading Operation (STO) met its statutory three year break-even target.

- The Statement on the System of Internal Control complies with the SORP. We were not required to consider whether the statement covers all risk and controls or form an opinion on the effectiveness of the Council's corporate governance and risk and control procedures.

3.3 Financial Position

3.3.1 In accordance with the changes in the 2007 SORP the Council made the appropriate entries and disclosures required in the accounts for pension funds and FRS 17 accounting requirements, capital adjustment account, revaluation reserve and financial instruments with the exception of an immaterial interest free soft loan which is in the Balance Sheet at nominal value. Further details are included in paragraph 3.7.1 of this report and in note 22 to the accounts.

3.3.2 The Council's income from government grants and local taxation exceeded its net operating expenditure of £258.668 million resulting in a surplus for the year of £10.586 million on the Income and Expenditure Account (2006/07 – Surplus £1.661 million). After making the necessary adjustments the movement on the General Fund Balance for the year of £2.574 million increased the total General Fund Balance (including the HRA Balance) to £36.419 million at 31 March 2008 (2006/07 – increase £7.065 million).

3.4 Audit Adjustments

3.4.1 There were no material audit adjustments. Twelve significant audit adjustments were identified during the course of our audit of the financial statements of which ten adjustments were made, one of these adjustments also impacted on the Common Good Assets.

3.4.2 A proposed adjustment that was not accepted related to a potential equal pay provision of £0.244 million relating to Tayside Contracts staff. A further potential additional Housing Revenue adjustment of £0.450 million was agreed to be further investigated.

3.4 Audit Adjustments (Cont'd)

3.4.3 The Council is now satisfied that this difference relates to the treatment of management charges. Neither adjustment would have had a material impact on the accounts or our certificate.

3.4.4 Five trifling adjustments to the Council's Accounts identified during the audit were also proposed and accepted for adjustment together with a further two trifling adjustments to the Charitable Trusts Accounts.

3.4.5 A number of presentational changes to the notes to the accounts were required to ensure compliance with the SORP.

3.4.6 The Council's Group Accounts were adjusted to include the final audited results of the Tayside Police, Tayside Fire and Rescue, Tayside Valuation Joint Boards, Tayside Contracts, Charitable Trusts, Perth & Kinross Leisure and Horsecross Arts. The Group Accounts were also adjusted for the agreed changes to the Council's single entity accounts.

3.4.7 The net effect of the agreed adjustments on the Income and Expenditure Account for 2007/08 was £1.098 million, changing the surplus reported in the draft accounts of £9.488 million to a surplus in the final accounts of £10.586 million. As the Income and Expenditure adjustments related to entries which are then cancelled in the movements on the General Fund there was no impact on the total General Fund Balance which remained at £2.574 million increase for the year.

3.4.8 The audit adjustments impacting on the Council's Balance Sheet increased the Total Net Worth by £0.476 million to £248.119 million at 31 March 2008.

3.4.9 The Common Good's Balance Sheet at 31 March 2008 was also adjusted by £0.354 million (for an element of land at the Castle Gable area adjacent to the Concert Hall that had been re-valued during the year) increasing both the Total Net Assets and Reserves to £5.697 million.

3.4.10 One additional disclosure amendment relating to the Internal Audit function was also agreed for the Statement on the System of Internal Control for 2007/08.

3.4.11 There was no change to the Charitable Trusts' Balance Sheet as a result of the audit adjustments made.

3.4.12 The net effect of the Council's own adjustments of £1.098 million and the adjustments for group entities of £0.079 million on the group's reported deficit on the Group Income and Expenditure Account totalled £1.177 million in 2007/08. The effect of these adjustments changed the reported deficit on the Group Income and Expenditure Account of £0.961 million to a surplus of £0.216 million.

3.4.13 Details of these audit adjustments were highlighted in our ISA 260 Report issued to the Head of Finance and the Leader of the Administration on 25 September 2008.

3.5 Financial Performance

3.5.1 Financial performance can be measured against the financial budget approved by the Council on 8 February 2008 (and subsequent approved amendments) for the financial year 2007/08. In this regard the Council's General Fund Balance shows a surplus of £2.574 million for the year against a budgeted deficit or use of balances of £6.583 million (as amended), a variance against the approved budgeted expenditure of £9.157 million under spent. (This includes both the General Fund and the HRA balances)

3.5.2 A number of factors have contributed to these underspends. Details of the most significant factors were given in the Foreword by the Head of Finance in the accounts and a summary of the main factors is highlighted in the table below.

Table 1 – Financial Performance against 2007/08 budget

General Fund Balance	£m	£m
Budgeted General Fund movement		**(6.583)**
Significant factors		
Underspends on Net Cost of Services	6.258	
Additional deficit from Trading Operations	(0.040)	
Other Net Operating Expenditure/Income #	7.549	
Principal Sources of Finance; mainly Council Tax	1.256	
Net variance on the Income and Expenditure Account	**15.023**	
Other- movement on the General Fund #	(8.012)	
Various other non material movements	2.146	
Overall variance		**9.157**
Actual increase in General Fund Balance		**2.574**

 # includes gains on disposal of assets cancelled in the movement on the General Fund

3.5.3 Other Net Operating Income includes unbudgeted net gains on repurchase or early settlement of borrowing of £1.598 million which have been written off to revenue in accordance with the new SORP financial instruments requirements.

Housing Revenue Account

3.5.4 The Housing Revenue Account (HRA) Balance was reduced by £4.136 million (2006/07- £1.700 million) during the year leaving a balance on this fund of £0.981 million at 31 March 2008, (£5.117 million at 31 March 2007).

3.5.5 The approved HRA budget included the use of resources for 2007/08 was to rectify the slippage in the previous year on major property improvement works using capital from current revenue (CFCR). £4.568 million of CFCR was charged against the HRA balance in 2007/08. There was also increased expenditure on responsive repairs to council houses.

Significant Trading Operation (STO)

3.5.6 In accordance with the requirements of the Local Government in Scotland Act 2003 the Council disclosed the trading results of its sole STO, Building Services, within the accounts in Note 14. This reported a deficit of £0.132 million for 2007/08 and an overall surplus of £0.289 million for the three year rolling period to 31 March 2008. The STO met the statutory break-even target.

3.5.7 The Council had budgeted for the STO to make a loss of £0.092 million in 2007/08 and the accounts reported a deficit of £0.132 million giving a variance against the budget of £0.040 million. A profit of £0.236 million was disclosed in the audited accounts for 2006/07.

3.5 Financial Performance (Cont'd)

Significant Trading Operation (STO)

3.5.8 On 12 March 2008 the Council's Housing and Health Committee approved the establishment of a single repairs service and a new single Housing Repairs organisation has been set up. In light of this change a review of the Building Services' trading status was carried out and from 1 April 2008 Building Services ceased to be a significant trading operation.

3.6 Pensions

3.6.1 Accounting for the costs of pensions presents a difficult challenge for councils. The amounts involved are large, the timescales long, and the estimation process is complex involving many areas of uncertainty that are subject of assumptions. Financial Reporting Standard (FRS) 17 (Retirement Benefits) is based on the principle that a body accounts for retirement benefits at the point at which it commits to paying them, even if the actual payment will be made years into the future.

3.6.2 The Council participates in two pension schemes on behalf of its employees; the Scottish Teachers' Superannuation Scheme (Teachers) administered by the Scottish Government and the Local Government Pension Scheme (LGPS); the Tayside Superannuation Fund administered by Dundee Council. Both schemes provide members with defined benefits related to pay and service.

3.6.3 The Council disclosed the FRS 17 requirements for the LGPS whereas the Teachers' scheme is an unfunded scheme which is excluded from the accounting requirements of FRS 17 as it is a national scheme that cannot separately identify the pension liabilities of the individual contributing bodies. The exception to this is payments in relation to unfunded pension enhancements for teachers as they are administered by the LGPS and taken into consideration for liabilities under FRS 17. The amounts paid in the year have been disclosed in note 9 to the accounts but the estimated cost of future liabilities was not provided by the actuary and therefore has not been disclosed in the 2007/08 accounts. This is not a SORP requirement and the Council has advised that arrangements will be put in place to obtain this information for next year's accounts.

3.6.4 The Council's net pension liabilities at 31 March 2008, estimated by the Actuary, exceeded its share of pension scheme assets by £27.521 million (2006/07 - £45.099 million). The favourable movement of £17.578 million is mainly due to a change in the actuary's financial assumptions underlying the present value of the scheme's liabilities and changes in the discount rates used.

3.6.5 The Tayside Superannuation Fund is subject to a triennial valuation and the last full review was carried out at 31 March 2005. This highlighted a deficit on the fund of 9% and required an increased employer contribution rate over the next three year period to 31 March 2009 rising from 275% to 315% of employee contributions by 2008/09. The next triennial valuation will take place during 2008/09 and will set the rate for the following three years.

3. 7 Financial Instruments

3.7.1 In accordance with the new requirements of the 2007 SORP relating to financial instruments the Council made the appropriate accounting entries and disclosure notes in the accounts with the exception of a soft loan of £400,000 granted to Perth & Kinross Leisure limited during the year (Refer to paragraph 3.3.1).

3.7.2 Guidance was issued by the Scottish Ministers under section 12(2) (b) of the Local Government Scotland Act 2003 to ensure that adjustments required to the opening balance had no impact on the General Fund Balance. The main impact of these new requirements on the Council's accounts are as follows:

Deferred Premiums/Discounts on Early Repayment of Debt

3.7.3 The Council's Balance Sheet at 31 March 2007 included £15.863 million relating to premiums and £0.235 million relating to discounts incurred on the early redemption of debts which were replaced as part of debt restructuring exercises in previous years. In accordance with the requirements of the 2007 SORP these balances have been charged to the opening General Fund Balance and subsequently reversed out to the Financial Instruments Adjustment Account (FIAA) in line with the statutory guidance.

3.7.4 An annual charge in relation to this balance of £0.637 million has been written off in line with the existing schedules to the General Fund in accordance with the guidance.

3.7.5 Premiums and discounts on debt rescheduling arising during the year have been charged to the Income and Expenditure Account in line with the new requirements (Refer to paragraph 3.5.3).

Stepped Loans

3.7.6 The Council's long term borrowing portfolio includes market loans with variable rate terms which are lender option borrower option arrangements (LOBOs) and in accordance with the new SORP their effective interest rate must be calculated to meet the new requirements.

3.7.7 The carrying value of £43.200 million for these loans at 31 March 2007 has been adjusted by £1.179 million against the opening General Fund Balance. In line with the statutory guidance this adjustment has then been transferred to the FIAA, cancelling the impact on the General Fund.

3.7.8 An annual credit of £0.151 million, based on the difference between the effective interest rate due and the actual amount paid on these loans at the start and end of the year, has been charged to the Income and Expenditure Account and debited to the movements on the General Fund in 2007/08 in accordance with the statutory guidance.

3.7.9 Further detail of all of the new required disclosures for the Council's financial instruments are included in notes 26 to 30 to the accounts on pages 36 to 40. As required the fair values of all financial instruments have been disclosed in these notes based on information provided by the Council's professional advisers Sector.

3.7.10 The Council dealt correctly with the valuation of the Public Works Loan Board (PWLB) loans. In calculating the fair value of the PWLB loans, Sector used the rate for new borrowing as per interest rate notice number 064/08 for fixed rates as at 31 March 2008. The PWLB has also provided figures based on the prevailing interest rate of the loans which is significantly different from the Sector figures as follows:

3. 7 Financial Instruments (Cont'd)

3.7.10 (cont'd)

Sector (as disclosed in the accounts)	£123.755 million
PWLB	£133.293 million
Difference	£ 9.538 million

The carrying value of these loans is £114.412 million

The SORP and statutory guidance do not state which rates are to be used for calculating the fair values of this type of loan, therefore either method is acceptable. (Audit Scotland has asked for the above information).

3.8 Financial Pressures

Single Status

3.8.1 The Council implemented the new staff terms and conditions under the Single Status agreement on 1 August 2007 and had earmarked £4.624 million in the General Fund at 31 March 2007 to help meet these costs. The total earmarked within the General Fund Reserves at 31 March 2008 to help meet the increased costs of the new grading and pay rates up to the end of 2013/14 is £5.027 million. Approximately 4,500 employees are affected by Single Status, with the cumulative expected cost to the Council originally estimated at £7.444 million over the first 7 years.

3.8.2 Approximately 800 appeals are to be considered by the appeals panel and a further 100 appeals have been referred back to the Council's Job Evaluation Team. In accordance with the Council's approved Reserves Strategy any potential liabilities in respect of retrospective changes from the appeals process are to be met by the Services.

Equal Pay

3.8.3 The Council had provided for £0.535 million in last year's accounts in respect of part of its potential share of Tayside Contracts' staff estimated liabilities for the gap period from the last settlement date up until the year-end and had paid out £2.006 million in settlements for Tayside Contracts staff and £0.981 million for its own staff up to 31 March 2007. Due to the increasing uncertainty around estimating this potential liability the Council wrote back this provision to revenue (Education Service) in 2007/08. The Council has however an approved strategy for managing the financial risks and in February 2008 approved an earmarked sum of £2.768 million in its General Fund Balances to meet any further liabilities both in relation to its own and its share of Tayside Contracts staff claims. The Council has disclosed a contingent liability in respect of potential equal pay claims in note 36 on page 43 of the accounts.

Free Personal Care

3.8.4 The provision of Free Personal Care (FPC) has been subject to a degree of inconsistency in treatment across local authorities in Scotland. Some authorities had not included the cost of meal preparation as a task coming under the umbrella of FPC, and in the past the Council had charged separately for this part of the service.

3.8 Financial Pressures (Cont'd)

Free Personal Care

3.8.5 A sum of £0.400 million has been earmarked within the reserves at 31 March 2008 to meet any potential liability in respect of claims by individuals under the FPC legislation who met their own personal care costs after having been assessed as eligible for free personal care while on waiting lists. The Council now includes meal preparation as part of FPC with no separate charge being made.

3.8.6 Despite care costs being recognised as a key cost pressure in the preparation of the 2007/08 budget and an additional £0.348 million approved to help cover the loss of income from charges for meal preparation budget expenditure on home care services was £0.847 million over budget due to an increased number of clients being assessed as suitable for home care packages. An additional £1.736 million was approved to meet the costs of residential and nursing care placements and overall expenditure on these placements for clients aged over 65 was £1.283 million less than budgeted. The Head of Finance advised (in his Explanatory Foreword to the Accounts) that further growth in home care will be limited by difficulties experienced by both the Council and external providers in recruiting appropriately qualified staff.

3.8.7 The cost of FPC in 2007/08 amounted to £11.742 million, comprising £4.709 million for people over 65 in care homes (including nursing care costs) and £7.033 million for Home Care, again for people over 65. Overall there was an underspend of £1.021 million on Social Work Services and £0.322 million of this will be carried forward under the Budget Flexibility scheme to help meet these costs in future years.

General

3.8.8 In preparing their 2008/09 budget submissions, Services were required to identify options for funding all non-pay expenditure pressures within their own budgets through identifying compensating savings within the controllable service budget expenditure or through the use of budget flexibility to transfer resources between years.

3.8.9 The Budget Flexibility Scheme also allows for underspends against budgets to be carried forward to help Services fund cost pressures in later years. The total carried forward under this scheme into 2008/09 was £2.349 million.

3.8.10 The Council identified a number of significant risks in preparing the revenue budgets. The most significant of these include the potential exposure to further costs in relation to equal pay claims, the development of the IIL programme and the challenging targets set for savings from shared support services and business redesign. In addition the Head of Finance also recognised in his Explanatory Foreword that inflation has increased significantly since the budget was set in key areas such as energy and fuel costs.

Bank Failures

3.8.11 The recent events in the global financial environment have had an impact on the Council which had a £1million deposit in an Icelandic Bank that recently failed. The Council (working with COSLA) and the Scottish and UK Governments are making every effort to recoup this deposit. To date there is no evidence of any risk of default in respect of the Councils' other deposits.

3.8 Financial Pressures (Cont'd)

Bank Failures (Cont'd)

3.8.12 A significant number of councils and other public bodies have been affected by this situation, many to a far greater extent than the Council. The Council's relatively better position is due to prudent treasury management, which significantly reduced exposure to this type of risk throughout 2008.

3.9 Reserves and Balances

3.9.1 All Councils hold reserves which consist of earmarked amounts set aside to support future years' expenditure and contingencies for unexpected events or emergencies. At 31 March 2008 the "cash-backed" fund balances and reserves held by the Council totalled £46.251 million (at 31 March 2007 - £43.120 million).

3.9.2 The following table details the balances and movements on these reserves. The Capital Adjustment Account, the Financial Instruments Adjustment Account, the Revaluation Reserve and the Pensions Reserves are specific accounting reserves and have been excluded as these are not "cash backed" reserves.

Table 2 – Fund balances and reserves

Fund balances and reserves	2008 £m	2007 £m	Movement £m
General Fund	35.438	28.728	6.710
Housing Revenue Account	0.981	5.117	(4.136)
Renewal and Repair Fund	1.171	1.065	0.106
Insurance Fund	1.863	1.772	0.091
Capital Fund	3.636	3.328	0.308
Capital Receipts Reserve	3.162	3.110	0.052
At 31 March	46.251	43.120	3.131

3.9.3 Overall Funds and Reserves have increased by £3.131 million (7.26 %) during the year. The main movements are on the General Fund which has increased by £6.710 million in 2007/08 as a result of a surplus for the year leaving a closing General Fund balance of £35.438 million and the HRA which has used £4.136 million of the balance to fund expenditure, together giving an overall surplus of £2.574 million for the year.

3.9.4 The main reasons for the variance against the approved budget have been reported in Table 1 on page 9. The Head of Finance in his Explanatory Foreword to the accounts includes the HRA Balance of £0.981 million as part of the overall General Fund Balance giving a total balance of £36.419 million before commitments.

3.9.5 Commitments against the General Fund Balance total £24.217 million leaving an uncommitted balance at 31 March 2008 of £11.221 million. Commitments against the HRA balance to support the delivery of the Housing Investment Plan total £0.231 million leaving an uncommitted balance of £0.750 million. The overall total uncommitted balance is £11.971 million.

3.9 Reserves and Balances (Cont'd)

3.9.6 Three of the main commitments outlined in the Explanatory Foreword by the Head of Finance; Single Status provision of £5.027 million, Equal Pay Strategy of £2.768 million, and Budget Flexibility of £2.349 million, have already been covered in this report at section 3.8. Other significant commitments include Devolved School Management (DSM) £1.151 million, car parking £1.383 million and council tax income on second homes and long term unoccupied dwellings of £2.708 million.

3.9.7 The Council's policy on the approved range for uncommitted balances on the General Fund (excluding the HRA balance) is 2% to 4% of the budgeted Net Revenue Expenditure for the year and the balance held on the General Fund at 31 March 2008 is within the range at 3.5% based on the 2008/09 budget of £320.352 million.

3.9.8 The latest Revenue Budget 2008/09 - Monitoring Report No 1 (08/488) revised the General Fund Management Budget to £325.213 million and projected a final outturn of £323.952 million based on the ledger for the three month period to June 2008 which would result in an underspend of £1.261 million. The main reason for the increased budget is the use of £1.652 million of the Investment in Improvement Fund monies, a transfer of £1.151 million of DSM balances and supplementary estimates for both energy and fuel prices of £0.758 million.

3.9.9 Overall Services are currently anticipating a small overspend of £75,000 representing just 0.03% of the net service budgets. This is offset against lower than anticipated capital financing costs of £1.160 million and higher than budgeted income from interest on revenue balances of £176,000. All together this currently gives an overall projected underspend of £1.261 million.

3.9.10 The report also projects a breakeven position on the HRA. Pressures such as increased housing repairs costs of £0.500 million and increased capital financing charges of £0.307 million and other minor overspends will be contained by reducing the planned CFCR by £1.002 million.

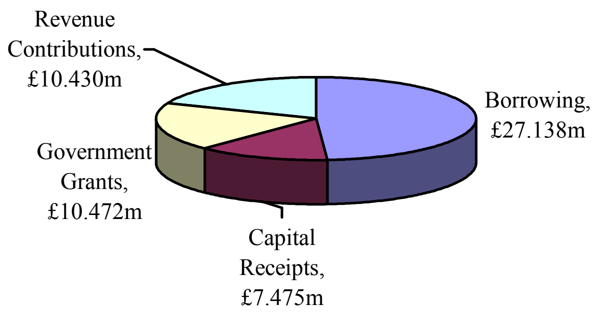
3.9.11 Regular revenue expenditure monitoring reports are submitted to the Strategic Policy & Resources Committee throughout the year and revisions and virements to the approved budgets are detailed, including additional sources of finance and high level variances for each of the main services.

3.10 Capital Expenditure

3.10.1 Gross capital expenditure in 2007/08 amounted to £55.515 million of which £18.615 million was spent on the Council's Housing Revenue Account and £36.900 million was spent on the General Fund (Composite) Programme. Funding for the capital expenditure was made up as follows:

3.10 Capital Expenditure (Cont'd)

Capital Expenditure Funding Sources 2007/08



3.10.2 The Service areas where the most significant capital expenditure was incurred within the General Fund were Education £9.635 million and Roads and Transport £12.813 million. The main projects included in these areas were £4.687 million on the completion of the new Fairview Additional Support Needs School; £2.698 million on upgrading various primary schools in Education; £6.927 million on roads structural maintenance; and £3.240 million on improvement schemes.

3.10.3 The main projects included in the remaining £14.452 million of General Fund capital expenditure were new vehicles (£1.886 million); wheeled bins (£0.192 million); completing the new depot at Inveralmond Industrial Estate (£3.174 million); and various energy efficiency schemes, including double glazing on Council's operational property (£1.772 million).

3.10.4 The main items of capital expenditure within the Housing Programme were kitchen and bathroom replacements and improvements of £12.167 million and £3.187 million on energy efficiency measures, including replacement double glazing as part of the Council's Housing Investment plan set to achieve the Scottish Housing Quality Standard.

3.10.5 In 2007/08 the Council adopted for one year only a de-minimis level of £25,000 for capitalisation of property expenditure in order to reduce the workload associated with changes in the SORP's fixed asset accounting requirements. This change would have had a maximum impact of reducing capital expenditure and increasing revenue expenditure by £0.426 million although no detailed analysis was carried out to determine the exact amount involved.

3.10.6 This has been noted within the Fixed Asset note rather than within the Statement of Accounting Policies, as it is not strictly a change in accounting policy. The Council is noted to be reviewing the de-minimis level for 2008/09

3.11 Capital Accounting

3.11.1 The Council complied with the 2007 SORP's new requirements and introduced a Revaluation Reserve and a Capital Adjustment Account (amalgamating the balances on the Fixed Asset Restatement Account and Capital Financing Account) at 1 April 2007.

3.11.2 Major revaluations in line with the Council's five year rolling programme included car parks, depots and shops. This resulted in an increased carrying value of these assets of £4.696 million. Further revaluations on schools, industrial units and other miscellaneous properties increasing the values of these assets by £23.437 million.

3.11 Capital Accounting (Cont'd)

3.11.3 The total of these revaluations during the year were credited to the new Revaluation Reserve together with a small adjustment made for the difference in depreciation on the new revalued amount and the historical amount of £0.451 million giving a balance on this reserve carried forward at 31 March 2008 of £27.991 million.

3.11.4 The main asset revalued on acquisition was the Concert Hall building which was acquired from Perth & Kinross Leisure Limited for nil consideration and revalued on acquisition to £18 million (using depreciated replacement cost basis for operational property).

3.11.5 In discussion with the Valuer about the valuation of the Mill Street/Concert Hall property it was identified that an element of the land (the Castle Gable area) adjacent to the Concert Hall that had been re-valued and included in the Council's accounts belonged to the Common Good. The value of this land, £0.354 million has been adjusted for in both the Council and Common Good accounts.

3.11.6 A review of Common Good assets is currently underway, to be completed by 31 March 2009. The potential liability that may arise if other assets are identified that belong to the Common Good has been disclosed in the notes to the accounts.

3.11.7 A number of fixed asset valuations were carried out during the year however the valuation reports were originally dated 31 March instead of the date the assets were purchased or completed. Valuations at the earlier dates were provided, resulting in a reduction in value of £27,500. This was noted as a trifling error and no adjustment proposed.

3.11.8 To avoid this issue in future revaluations on a rolling programme should be made on 1 April with other revaluations made at the date of purchase or completion and not at 31 March.

3.11.9 Impairment charges of £5.570 million on operational property and £2.889 million on non operational property were written off to the Income and Expenditure Account, then credited to the General Fund along with the depreciation charges and taken to the Capital Adjustment Account.

3.11.10 The Council's housing stock was revalued at 1 April 2004 on a discounted cash flow method that assumes the housing stock will remain as social housing with rents continuing below the level for private residential accommodation and takes account of Right to Buy legislation, future maintenance costs and rental voids. Under this method expenditure on additions is often written off annually to the capital accounting reserves as a downward revaluation.

3.11.11 However with the introduction of the Revaluation Reserve and the adoption of component accounting for council house stock in 2007/08 it was no longer appropriate to write off a downward revaluation in this first year as it would create a negative balance which is not permitted. Additions of £18.615 million in 2007/08 have therefore been added to the carrying value the Council House stock in the Balance Sheet.

3.11.12 The additions have been deemed to have added value and enhanced the property in line with the significant investment made by the Council in achieving the Scottish Quality Housing Standard during this year. The next revaluation of the housing stock will take place during 2009/10.

3.11 Capital Accounting (Cont'd)

3.11.13 The net book value of the council dwellings at 31 March 2008 was £30.839 million (31 March 2007 - £14.506 million). The Council held 7,573 council dwellings at 31 March 2008 (7,819 at 31 March 2007). The Council disposed of 282 houses (and acquired 36) in 2007/08 giving rise to a gain on disposal of £4.772 million.

3.11.14 An average selling price of £18,740 per house was achieved. This exceeds the average carrying value of £4,072 per dwelling by £14,668.

3.11.15 The basis of valuation includes a provision for future maintenance costs and is not intended to reflect disposal values. While this is an acceptable method of valuation it is not typically adopted by other Scottish councils. In consequence the carrying value of the Council's housing stock is one of the lowest in Scotland.

3.11.16 There is a requirement under LAAP 73 to match government grants and capital contributions with specific fixed assets expenditure or write off the amounts received in the accounts as revenue. We have been assured that a full review of the Government Grants Deferred account will be carried out in 2008/09 and that any unmatched element will be written back to Income and Expenditure Account.

3.12 Public Private Partnership (PPP)

3.12.1 The Council reached financial close on its new schools PPP project; Investment in Learning (IIL), on 4 October 2007 when a contract was signed to deliver £127.687 million of investment in its school estate.

3.12.2 This project involves the construction of six new community school campuses in Blairgowrie, Aberfeldy, Kinross, and Crieff and at two sites in Perth.

3.12.2 These assets are deemed by the Council and its financial advisers to be off balance sheet for accounting purposes and will transfer back into Council ownership at the end of the contract at no additional cost. The campuses will open on a phased basis from 2009/10 until 2011/12 and the Council will start to pay an annual unitary charge to the contractor as each site opens until the contract ends in 2042.

3.12.3 The Council included an impairment charge of £23.344 million in last year's accounts in respect of those existing schools which are to be disposed off as part of the new IIL project and as each existing school is demolished a further adjustment to the fixed assets will be required to write out any remaining balance included in the Council's Balance Sheet.

3.12.4 By meeting the Scottish Government's Value for Money assessment for PPP schemes the Council will be eligible for Scottish Government Revenue Support Grant amounting to £214 million over the 30 year life of the contract. A funding strategy for this project was submitted to Members in August 2007.

3.12.5 As the Council's external auditors we were required to form an independent view on how the Council has discharged its stewardship of public funds. In December 2007 we wrote to the Head of Finance with our judgement based on the final business case. We concluded that the process followed to determine whether this transaction was on or off balance sheet was in accordance with current underlying guidance and that the Council's judgement on the accounting treatment was reasonable.

3.13 Group Accounts

3.13.1 The results of Horsecross Arts Limited were included in the Council's group accounts as an associate for 2007/08 and the 2006/07 accounts group figures were also revised to include them.

3.13.2 The Council nominate three elected members to the Board of Horsecross Arts and provides grants and various other funding, including other services to the company. Horsecross Arts Limited is a registered charitable trust and its principal activity is to run both Perth Theatre and Perth Concert Hall for the Council, under a service level agreement with the Council.

3.13.3 The company is limited by guarantee and as there is no share capital board membership and related voting rights has been used to establish a percentage for calculating the Council's share of this associate's results.

3.13.4 The 2007 SORP introduced new requirements that additional details of registered charities and trusts should be disclosed in the accounts. The Council included the additional disclosures for Perth & Kinross Leisure Limited and Horsecross Arts Limited in note 9 on page 66 of the Accounts

3.13.5 All of the associates' accounts have been prepared on a going concern basis. These accounts have been audited and there were no qualifications included in the audit opinions. The Council's group accounts have also been prepared on a going concern basis.

4.1 General Governance

4.1.1 The Council has implemented significant structural change in recent years to both the management and committee structures following extensive reviews carried out by external consultants. These structures are now fully aligned. The Best Value Review found that these new structures provide a better position to deliver the Council's corporate objectives.

4.1.2 The Corporate Plan *"Securing the Future 2006 -2010"* was approved in December 2006. The corporate vision and objectives are linked to the Community Plan, which was also reviewed during 2006. Both plans identify the key delivery strategies and have detailed indicators and targets for measuring and reporting performance. The plans are supported by the Organisational Change and Improvement Plan (OCIP). The Services' Business Management and Improvement Plans (BMIPs) for 2008/09 are closely linked with the objectives of the Corporate Plan.

4.1.3 The Council has continued to refine its budgeting processes over the past two years in order to improve the transparency of linkages between the budgets and the Services' and Corporate Plans. The Executive Officer Team (EOT) scrutinises all the Services' budget submissions to ensure that corporate priorities within the plans are properly resourced.

4.2 Annual Governance Statement

4.2.1 The Council has an approved Local Code of Corporate Governance which is currently being updated. The Executive Director (Corporate Services) has specific responsibility for overseeing the implementation and monitoring of the Code and reporting annually to the Council on compliance.

4.2.2 The annual Statement on Internal Control included in the Statement of Accounts for 2007/08 concluded that the Council's corporate governance arrangements are adequate and operating effectively.

4.2.3 The Chief Internal Auditor is required to prepare an annual year-end report and provide an audit opinion on the adequacy and effectiveness of the Council's system of internal control. In the Chief Internal Auditor's report to the Audit Sub-Committee in August 2008 he concluded that "*…reasonable reliance can be placed on the Council's systems of internal control for 2007/08, subject to Internal Audit's previously reported findings related to 'material areas for improvement' noted in section 4…*"

4.2.4 There were six areas noted for improvement where controls were noted as 'moderately weak', 'weak' or 'unacceptably weak' in Internal Audit reports. These included a lack of a documented insurance strategy and control weaknesses relating to information and systems security and procurement practices to secure temporary agency workers, controls relating to safeguarding finances of vulnerable service users and to statutory requirements in respect of performance monitoring and control objectives in connection with the District Court.

4.2.5 Although we are not required to audit compliance with the Council's Code we review this statement and the Council's processes to inform our view of the governance arrangements in place. We are satisfied with the Council's processes and that it has identified the key areas where work is still required to ensure full compliance with the Code.

4.2 Annual Governance Statement (Cont'd)

4.2.6 The Chief Executive and the Leader of the Administration reported in the Statement on the System of Internal Control (SSIC) included in the Council's accounts that they were satisfied the Council has in place sound systems of internal control with no material weaknesses identified. We are satisfied that this statement complies with the 2007 SORP.

4.2.7 In our ***Financial Statements Audit Plan 2007/08*** (Report 2008/02 issued on 30 May 2008) we also concluded that for the main financial systems reviewed, with the exception of Housing Rents system, where we planned to carry out detailed testing at the year-end covering the reconciliations of movements in dwellings and voids and between the rents system income and the main financial ledger, the expected key controls appear to be in place and no material weaknesses were identified that would impact significantly on our year-end audit testing. The key controls for fixed assets and capital accounting are mainly covered by year-end processes and our detailed testing of these areas during our audit of the accounts did not reveal any material errors or control weaknesses. An unreconciled difference relating to the Housing Rents was discussed and not made but this was not material. The Finance Team investigated this difference and concluded that it related to management charges. We therefore concur with the Chief Executive's and Leader's assessment that the systems of internal control are sound.

4.2.8 In Scotland there is no statutory requirement for local authority bodies to conduct an annual review of the effectiveness of their system of internal control and prepare a Statement on the System of Internal Control (SIC), as there is for bodies in England and Wales. However authorities in Scotland are encouraged to produce a SIC on a voluntary basis.

4.2.9 The Council already has in place arrangements for an annual review of the local code which covers both financial controls and all other governance arrangements, including risk and asset management that would be required for the annual governance statement.

4.2.10 In June 2007 CIPFA, in association with SOLACE, published a revised framework **- *Delivering Good Governance in Local Government***. This framework represents a change in the available good practice and recommends that the annual review of internal controls should be reported in an Annual Governance Statement. The 2008 SORP will be revised to incorporate this change.

4.2.11 LAAP Bulletin 71 issued in March 2008 advises that for Scotland the new framework does meet the definition of proper practice referred to in the regulations and as such authorities are encouraged to produce an Annual Governance Statement with their Statement of Accounts. A guidance note for Scottish authorities was issued by CIPFA/SOLACE in May 2008, to assist authorities in complying with the Delivering Good Governance in Local Government Framework.

4.2.12 The Policy and Governance Group are currently considering options in relation to this issue and will report to the Executive Officer Team later this year.

4.3 Members' Training

4.3.1 The Council put an extensive training programme in place for all members following the May 2007 elections. Initial training, attended by all members, provided a broad understanding of the Council and its business and covered a range of regulatory and legislative issues, including planning regulations, licensing, the Code of Conduct, scrutiny and financial regulations. Further training has been undertaken during 2007/08 by every member.

4.3.2 At the Council meeting on 1 October 2008 revised job descriptions were approved. Personal Development Plans (PDPs) have not been in place during 2007/08, but at the above meeting it was agreed that this would be put in place by 31 December 2008. These PDPs will be informed by one to one training needs assessment interviews taking place over the next two months.

4.3.3 We are not aware of any problems arising from the introduction of multi-member wards. The Best Value audit found good communication and working relationships at member level.

4.4 Community Planning and Partnership Working

Community Planning

4.4.1 The Best Value audit found that community planning is well developed in the Council and was supported by a strong commitment to partnership working, with effective planning structures and a clearly defined set of desired outcomes.

Partnership Working

4.4.2 The review also found that the Council and its partners shared a clear and ambitious vision and that they are committed to delivering the Single Outcome Agreement (SOA) for the area.

4.5 Reliance on Internal Audit

4.5.1 At the start of our appointment we reviewed the Council's Internal Audit provision and determined that we could rely on their work. We reported our findings in our ***Financial Statements Audit Plan*** (Report 2007/03 issued on 25 July 2007).

4.5.2 To minimise audit duplication we liaise with Internal Audit during our planning to identify areas of their work that we can place reliance on. For 2007/08 we agreed to place reliance on work covering twenty-five areas, of which eleven were financial and fourteen non-financial. However not all of the reviews originally scheduled were in fact carried out, and some were not completed within our required timescale. From the sixteen reviews available, nine financial and seven non-financial, we were able to rely on the work of Internal Audit in these areas, with the exception of the review of creditors. There were also some issues around timing of the reviews which meant that additional work was undertaken during the year end audit as a consequence of not having the agreed Internal Audit reviews completed.

4.5.3 New arrangements following the review of Internal Audit are still in the process of bedding in, and resources have been increased in 2007/08, although the full staffing level was only achieved during July 2007.

4.6 National Fraud Initiative

4.6.1 During 2007/08 we continued to monitor the Council's participation in the 2006/07 National Fraud Initiative (NFI) in Scotland. The exercise is undertaken as part of the audits of the participating bodies. NFI brings together data from Councils, Police and Fire and Rescue Boards, Health Bodies and other agencies, to help identify and prevent a wide range of frauds against the public sector. These include housing benefit fraud, occupational pension fraud and payroll fraud. The NFI has generated significant savings for Scottish public bodies (£9.7 million from the 2006/07 exercise and £37 million including previous exercises). Where fraud or overpayments are not identified by a body, assurances may be taken about internal arrangements for preventing and detecting fraud.

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4.6.2 In 2007/08 the Council completed work on the 2006/07 exercise. Attention was concentrated on those matches which appeared most likely to be in error. 13 potential frauds were discovered, and the total overpayments identified (including error) amounted to £49,767, (benefits £27,956, care homes £21,371 (including £20,000 notional future savings) and payroll £440). Recovery proceedings have begun for £13,282 of the overpayments made.

4.6.3 The Council was not specifically mentioned in Audit Scotland's national report on the exercise published in May 2008, suggesting that its conduct of the exercise and findings are in the middle of the spectrum. Our detailed review of the exercise resulted in no significant comment being made. We noted minor input errors which were also made by other councils, and which could have led to erroneous estimates of savings being made.

4.6.4. We reported last year that the Council would be involved in a new data matching area of single person discounts for Council Tax. In fact, early this year a number of councils and assessors throughout Great Britain became concerned about the legality of the use of the Electoral Roll, and so the Council did not take part in this exercise during 2007/08. At this stage participation in this part of the 2008/09 exercise seems unlikely.

4.6.5 The 2008/09 exercise commenced in October 2008 with the upload of data via the new secure Data File Upload facility which removes the need to send data by post. Following changes to the legislative framework in England and developing understanding of data protection good practice, new guidance has been issued on the fair processing notices issued to possible data subjects. The approach should be 'layered'; subjects receive a summary which directs them to condensed text which in turn directs them to the full text. Although legislation is not yet in place in Scotland requiring bodies to adopt this approach, it is regarded as good practice. The Council has put arrangements in place to comply with the new guidance in time for the 2008/09 exercise.

4.6.6 The 2008/09 exercise covers the same datasets as in 2006/07, but Disabled Parking Permits and Private Care Home Residents datasets are now mandatory, rather than risk-based. We will again monitor the Council's participation in the exercise. Corporate preparations for the new exercise have been full and efficient, and the data planned to be submitted is in place.

4.7 Audit Sub-Committee and Other Scrutiny Arrangements

4.7.1 The Audit Sub-Committee of the Scrutiny Committee generally meets five times each year and approves the plans and considers reports, including follow-up reports, of both internal and external audit. Progress with each plan is also considered at these meetings.

4.7.2 Members generally hold officers to accounts regarding issues raised by audit, and there is a good level of debate at meetings.

4.7.3 The Council also has a separate Scrutiny Committee that reviews and monitors the Council's corporate and service performance, including public performance reports and Statutory Performance Indicators, against the Corporate Plan and the Services' BMIPS.

5.1 Performance Management and Reporting

5.1.1 The Council has a good performance management framework in place across the Council which was described in the Best Value report as "robust". Rigorous scrutiny arrangements are in place to monitor performance against both the corporate and service plans. Service delivery performance has improved over the past few years with the Council performing slightly above the Scottish average in most areas (For more detail refer to Section 5.7 on SPIs).

5.1.2 Public performance reporting has further improved with the Council's introduction of "PKC Performs" in November 2007. Accessed on the Council's website this provides a scorecard approach as to how well the Council is performing overall giving the public, at a glance, a picture of where it is improving and where it needs to do better.

5.1.3 The Council's Annual Performance Report for 2007/08 was submitted to the Scrutiny Committee on 30 October 2008. The report provides a balanced account of how well the Council has performed over the year combined with areas noted where the Council still needs to improve.

5.2 Risk Management

5.2.1 We noted in our 2006/07 Report that Internal Audit had carried out a review of risk management in the Council which had found no serious problems. An improvement action plan was agreed, covering the need to finalise Service risk profiles which had been in draft since 2005, the revision of the Risk Management Strategy, and various measures aimed at further embedding risk management within the Council and in its partnership arrangements. All the recommendations in the action plan were fully implemented by July 2008.

5.2.2 A revised Risk Management Strategy was approved by the Strategic Policy and Resources Committee on 25 June 2008, and this incorporated several of the action plan points. The Corporate Risk Management Team continues to monitor corporate risks and to work with Services to understand and deal with their risks. The Team has rolled out an e-learning package on risk management. Included in the Team's forward work plan is working with the Council's partners to identify and manage key risks related to partnership working.

5.3 Single Outcome Agreement

5.3.1 In 2007 national and local government leaders signed a concordat which required each local authority to produce a Single Outcome Agreement (SOA) detailing how it would contribute to national outcomes whilst meeting its own local priorities. In return the Scottish Government pledged to allow councils greater freedom, for example, by removing ring-fencing of funds. The Council was involved with the Scottish Government in the development of the approach. The Chief Executive is the national lead for SOLACE for the development of SOAs.

5.3.2 The initial SOA was agreed at a special meeting of the full Council on 26 March 2008, and by the Community Planning Partnership on 28 March 2008. Following discussions with the Scottish Government the final version was agreed by the Council on 25 June 2008, and was signed by John Swinney on 16 July. It is based on the priority outcomes within the Community Plan and Perth & Kinross Council's Corporate Plan.

5.3 Single Outcome Agreement (Cont'd)

5.3.3 Work is underway within the Council and the CPP to further develop the SOA, notably in respect of local indicators and baselines, service planning processes to reflect the role of Community Planning partners in delivering the SOA, and financial processes.

5.4 Efficient Government

Background

5.4.1 The Scottish Government issued a paper on Efficient Government Reporting *"Framework for Local Authorities in Scotland"* in 2007 which introduced arrangements for reporting on efficiency savings. Efficiency Statements are compulsory from 2007/08.

Efficiency Statement

5.4.2 The Council's 2007/08 Efficiency Statement was submitted to the Scottish Government by the suggested date of August 2008. Planning for producing the 2008/09 statement is already underway. The Council is following COSLA guidance to ensure Service standards are not being adversely impacted.

5.4.3 The Council delivered cashable efficiency savings of £3.945 million in 2007/08. The total efficiencies achieved in 2007/08, including non-cashable savings of £0.299 million amounted to £4.244 million which exceeded the total reported efficiencies in 2006/07 by more than £1 million. 2006/07 was the first year that the Council reported efficiency savings. The main area of efficiency savings in 2007/08 were from asset and debt management of £2.487 million with a one off saving relating to discount on early redemption of debt accounting for £2.135 million.

5.4.4 For the three year period 2008-2011 the Scottish Government has set efficiency targets of 2% per annum for all public sector bodies, including a cashable efficiency target of £174.700 million per annum set for local government as a whole. Targets have not been set for individual councils.

5.4.5 The Council is making progress in delivering efficiency savings and expects to meet these targets now that a collaborative procurement framework is in place. Collaboration with Dundee City and Angus Councils to establish Tayside Procurement Consortium which, in addition to Tayside Contracts, demonstrates that a shared approach will achieve efficiencies. The anticipated savings from procurement over the next three years is in excess of £1 million.

5.4.6 Further savings are also anticipated from a range of continuous improvement activity currently ongoing. Services have been asked to contain expenditure pressures within their revenue budget through the identification of efficiency savings with specific targets set for procurement and staff absence management over the next three years.

5.4.7 The Council has already put some building blocks in place to achieve efficiencies in shared services including established governance arrangements for projects supported by a Head of Services post focussing on ensuring shared services savings are achieved. A target has been set for the delivery of efficiencies from recurring savings of £0.5 million in 2009/10 rising to £1.9 million in 2011/12. Savings will be achieved through the review of internal working practices, investment in improved information systems, mobile working and where appropriate delivery of support service functions in conjunction with partner organisations.

5.4 Efficient Government (Cont'd)

5.4.8 The Council is also making progress on identifying opportunities to introduce more efficient business processes including purchasing a new integrated Human Resource and Payroll system and taking the lead role in the national Diagnostic Review. This review has identified further areas which will contribute towards the shared services efficiency targets.

5.5 Best Value Audit

5.5.1 A full audit of Best Value and Community Planning in Perth & Kinross Council was carried out during 2007/08 and the report was published in August 2008. Audit Scotland carried out this review for the Accounts Commission with input at partner and director level from Henderson Loggie, the external auditors. Copies of the report are available on Audit Scotland's website- www.audit-scotland.gov.uk.

5.5.2 The overall conclusion of this report was "*Perth & Kinross Council demonstrates a strong commitment to Best Value. The council and its strategic partners work well together, are clear about priorities for the area and are committed to the Perth & Kinross Single Outcome Agreement (SOA). The leadership of the council is strong and effective in terms of strategic direction, delivering change and providing capacity for further improvement. There are good working relationships between elected members and executive directors and relations between political group leaders are constructive.*"

5.5.3 The review also noted that a robust performance management framework is in place across the Council supported by good scrutiny and acknowledged the council's high level of self awareness, culture of continuous improvement, good corporate working and open, clear and balanced public reporting.

5.5.4 Whilst acknowledging the Council's rate of service improvement is good the report noted that there are areas of service delivery that needs to further improve.

5.5.5 The report also acknowledged that the Council recognised the areas where improvements in service delivery were required. An improvement action plan has been agreed and progress against this plan will be followed up over the next few years by external audit.

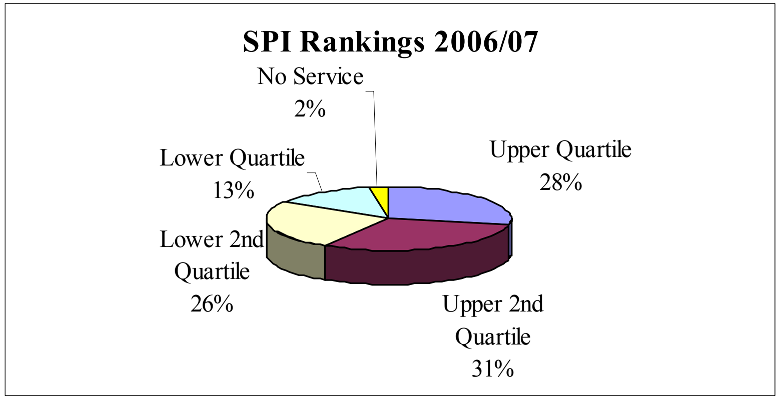
5.6 Progress on Following the Public Pound

5.6.1 Slippage in delivery of some aspects of agreed action plans relating to Following the Public Pound have been the subject of previous comment in both our and Internal Audit reports. The outstanding actions feature in the Internal Audit review of follow-up presented routinely to the Audit Sub-committee. Following the Audit Sub-Committee expressing concern at the pace of progress to finalise the actions responsibility for completion has been assigned to an officer. As a result there has now been some movement towards completion of the actions during 2008/09.

5.7 Statutory Performance Indicators (SPIs)

5.7.1 The 2007/08 return to Audit Scotland for Council SPIs was made by the 31 August 2008 deadline and publication was made by the 30 September deadline. In addition to the work which we carried out, we also placed reliance on a review undertaken by Internal Audit. We concluded that the systems in operation for the production and publication of the SPIs were reliable for all of the indicators. We are pleased to report that fewer changes were necessary to the SPIs as a result of audit than in the previous year.

5.7.2 The SPIs cover a wide variety of council functions and it can be difficult to make comparisons between councils and between the same council across years. Nevertheless, there are some comments which can be made based on the Council's results for 2007/08 and latest available published cross-council figures for 2006/07. In paragraphs 5.7.3 to 5.7.7 we have concentrated below on the areas of best and worst performance, but to set them in context, in 2006/07 performance in relation to other councils was as follows.



There are 32 councils, so if a ranking is within the range 1 to 8, the Council is in the upper quartile, and so on. Rankings are available for 82 measures, and the chart shows that Perth & Kinross Council was in the two upper quartiles for 48 of these, with 2 measures having no service, leaving 32 within the lower two quartiles

5.7.3 Adult Social Work Indicator 4: Home Care.
Figures are based on the same snapshot week for all councils and four items are measured. In 2007/08 1,080 people received home care, a level which has been reasonably similar since 2004/05. 8,001 hours were provided in that week, which equates to 296 hours per thousand population over 65, and is a rise from 2004/05 when 242 hours were provided. The Council was 30th out of 32 for this measure. Other measures relate to the type of service provided. In these the Council is above the mid-point among Scottish councils, and for one, the percentage of home care clients receiving personal care, it is in the upper quartile.

5.7 Statutory Performance Indicators (SPIs) (Cont'd)

5.7.4 Benefits Administration 2: Time to Process New Claims
The Council is in the lowest quartile, having fallen sharply from 3rd position in 2002/03. The actual time to process claims rose from 25 days in 2002/03 to 56 in 2003/04, and since then it has fallen consistently over that time to 26 days in 2007/08. The major drop from 2006/07 may result in an improvement to the Council's position relative to other councils once the 2007/08 results are published.

5.7.5 We do not propose to deal with the indicators relating to planning applications, since although performance is poor, it has been extensively reported elsewhere and action has been taken to improve performance in this area.

5.7.6 Education and Children's Services 7: Staff Qualifications
This indicator relates to the percentage of care staff within residential children's homes that have the appropriate level of qualification. The Council is the top performing Scottish council, with 100% of staff holding appropriate qualifications. However, with only 14 staff, it does have one of the smallest establishments.

5.7.7 Corporate Management 2: Litigation Claims
This indicator covers several areas of litigation, including public liability. In 2006/07 the Council ranked 5th in Scotland with 214 claims made in the year, equating to 15.5 per 10,000 population. The Scottish average is twice Perth & Kinross Council's. In 2007/08 there were 189 claims, a drop of nearly 12%, although it is too early to say that this is a trend.

5.7.8 The remaining paragraphs in this section highlight indicators which, although not areas of high or low performance, are areas in which there is particular interest.

5.7.9 Housing 1: Response Repairs
Councils divide these into their own categories by the type of priority given, and the Council has identified four categories, recording the numbers completed within the target time. There is a new category of 'Area Response Team' which is geographically based, and this has taken repairs from the three other categories. This makes comparisons more difficult, but generally the more urgent categories have increased the percentage of repairs completed within the target time, while the less urgent one has fallen.

5.7.10 Housing 4: Rent Management
This indicator looks at tenant arrears. In 2007/08, current tenants owed nearly £466,000, which is 5.1% of the total amount due in the year. This has increased considerably from the 2004/05 figure of 3.4%, but remains below the Scottish average for 2006/07. 3.1% of current tenants owed more than 13 weeks rent. The percentage of tenants giving up their tenancies whilst in arrears remained roughly the same in 2007/08 at 30.9%, with an average debt equivalent to 10.4 weeks rent, up from 8.5 weeks in 2006/07.

5.8 The Impact of the Race Equality Duty on Council Services

5.8.1 In November 2008, Audit Scotland will publish a national report about the impact of the race equality duty. The report will:

- Examine the impact of the duty on council services and people from minority ethnic communities;
- Consider the main factors that affect the performance of councils on race equality;
- Set out how councils can now improve their performance; and
- Make recommendations to councils as well as to national bodies that are active in the equalities field and have a role to play in supporting councils meet their race equality responsibilities.

5.8.2 Following publication, Audit Scotland will track councils' progress in addressing the recommendations.

5.9 Climate Change and Carbon Management

5.9.1 The Council signed the Scottish Climate Change Declaration in September 2007 and is working hard on its commitments.

5.9.2 The Council participated in the Carbon Trust's Carbon Management Programme during 2007. A Carbon Management Strategy and Implementation Plan are currently being prepared.

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5.10 Asset Management

5.10.1 We reviewed Corporate Asset Management during 2007/08. The Council has recognised the need to improve its corporate management of assets. One of the key Improvement Actions listed in the Organisational Change and Improvement Plan was the introduction of an overarching Corporate Asset Management Plan.

5.10.2 The Council has made progress in compiling and updating inventories for all types of assets; property, public space, fleet and ICT, with a target for completion by the end of 2008. It has also bought into an internationally recognised asset management methodology.

5.10.3 Property is the area which is furthest ahead in terms of data tracking, but also planning. All Services in the Council have produced at least one Service Property Asset Management Plan, and the second annual Corporate Property Asset Management Plan was approved by the Property Sub-Committee on 5 March 2008.

5.10.4 The main finding of our review relates to the need to provide more information to members about progress in improving asset management, and that a 'champion' be nominated by members for corporate asset management as a whole.

5.10.5 Full details can be found in our report 2007/07, *"Corporate Asset Management",* issued on 18 February 2008.

5.11 Improving the School Estate

5.11.1 In March 2008 Audit Scotland published the national report 'Improving the School Estate'. This considered the impact, at both local authority and Scottish Government level, of the Scottish Executive's strategy to improve the condition of the school estate.

5.11.2 The main findings were that by 2007 36% of Scottish schools remained in poor condition, and that it could take another 20 years to bring all up to standard. Many schools have been improved via Public-Private Partnership (PPP) schemes, and councils must ensure that they can fund them long term, but not at the expense of the maintenance of other schools. Better design is needed for new schools to improve environmental conditions (especially overheating), and sustainability should be built in as a matter of course. Long term demand planning varies considerably between councils, but should operate for at least ten years ahead to inform decisions on school property. Joint working between councils could be improved.

5.11.3 Perth & Kinross Council is currently involved in a PPP scheme, Investment in Learning, to build six new community campuses. It has ensured that the increasing costs of the 30 year contract are affordable by having a funding strategy in place covering the period up to 2014/15. This is updated annually as part of the budget process and is a key risk assessed in determining the Council's medium term plans.

5.11.4 At present, the Council only projects its school rolls forward over three years, rather than the ten suggested by Audit Scotland. Longer term planning in the current financial position world-wide is more problematic and may have a dramatic impact on the numbers of recent inward migrants into the area.

Appendix I – Respective Responsibilities

Respective Responsibilities of Members, Officers and Auditors

Each public sector body is accountable for the way in which it has discharged its stewardship of public funds. Stewardship is a function of both executive and non-executive management and, therefore, responsibility for effective stewardship rests upon both members and officers of a public sector body.

That responsibility is discharged primarily by the establishment of sound arrangements and systems for the planning, appraisal, authorisation and control over the use of resources and by the preparation, maintenance and reporting of accurate and informative accounts.

It is our responsibility to undertake an independent appraisal of the discharge by management of its stewardship responsibilities, to enable us to give an assurance that those responsibilities have been reasonably discharged.

The Council and the Head of Finance's responsibilities for the Financial Statements are set out on page 10 of the Financial Statements. Our responsibility is to form an independent opinion, based on our audit, on the abstract of accounts and report that opinion to you.

We are required to review whether the Council's Statement on the System of Internal Control reflects the Council's and the group's compliance with the SORP, and we report if, in our opinion, it does not. We are not required to consider whether the statement covers all risk and controls, or form an opinion on the effectiveness of the Council's and group's corporate governance procedures or its risk and control procedures.