



Perth & Kinross Council

Annual audit report to
Members and the
Controller of Audit

September 2015

The Accounts Commission is a statutory body which appoints external auditors to Scottish local government bodies. (www.audit-scotland.gov.uk/about/ac)

Audit Scotland is a statutory body which provides audit services to the Accounts Commission and the Auditor General. (www.audit-scotland.gov.uk)

The Accounts Commission has appointed Stephen Boyle as the external auditor of Perth & Kinross Council for the period 2012/13 to 2015/16.

This report has been prepared for the use of Perth & Kinross Council and no responsibility to any member or officer in their individual capacity or any third party is accepted.

This report will be published on our website after it has been considered by the council. The information in this report may be used for the Accounts Commission's annual overview report on local authority audits published on its website and presented to the Local Government and Regeneration Committee of the Scottish Parliament.

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Key messages

 <p>Audit of financial statements</p>	<ul style="list-style-type: none">• Unqualified auditor's report on the 2014/15 financial statements.• Unqualified auditor's reports on the Perth and Kinross Council Charitable Funds financial statements administered by the council.
 <p>Financial management and sustainability</p>	<ul style="list-style-type: none">• Financial management arrangements are satisfactory, although there may be scope to refine the budget setting process to more closely align service budgets with their anticipated spending.• The council's financial position is currently sustainable and it has managed to significantly increase its reserves over the past five years. It has identified that savings of £53 million are required over the next five years and a transformation programme has been developed to contribute towards these. The programme's success will be key to the future financial sustainability of the council.• Rising demand for and costs of services will continue to place a strain on the council's capacity to deliver services at the current levels.
 <p>Governance and transparency</p>	<ul style="list-style-type: none">• The council's existing governance arrangements provide an appropriate framework for organisational decision making, although further improvements could be achieved by removing any duplication in reporting.• Systems of internal control operated effectively during the year.• The council's arrangements in relation to the prevention and detection of fraud and corruption have been strengthened in the year and satisfactory arrangements are in place for investigating and reporting data matches identified by the NFI.

 <p>Best Value</p>	<ul style="list-style-type: none">• The council has a strong track record of partnership working• There is a strong focus on performance management and a sound framework for monitoring and reporting performance against the council's priorities.• Appropriate SPI arrangements were in place within the council for 2014/15.• The council's approach to public performance reporting was generally very positive with only one indicator – <i>Responsiveness to communities</i> – classed as an area for improvement.
 <p>Outlook</p>	<ul style="list-style-type: none">• In common with other councils, Perth & Kinross Council faces the key challenges of reducing budgets, an aging population with higher levels of need and the public expectation of high quality services. Continuing effective partnership working and the successful implementation of its transformation programme will be essential to make the best use of available resources as well as strong governance and leadership.

Introduction

1. This report is a summary of our findings arising from the 2014/15 audit of Perth & Kinross Council. The report is divided into sections which reflect our public sector audit model.
2. The management of Perth & Kinross Council is responsible for:
 - preparing financial statements which give a true and fair view
 - implementing appropriate internal control systems
 - putting in place proper arrangements for the conduct of its affairs
 - ensuring that the financial position is soundly based.
3. Our responsibility, as the external auditor of Perth & Kinross Council, is to undertake our audit in accordance with International Standards on Auditing, the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011 and the ethical standards issued by the Auditing Practices Board.
4. An audit of financial statements is not designed to identify all matters that may be relevant to those charged with governance. It is the auditor's responsibility to form and express an opinion on the financial statements; this does not relieve management of their responsibility for the preparation of financial statements which give a true and fair view.
5. The significant audit risks identified at the planning stage and how we addressed each risk in arriving at our opinion on the financial statements is set out in **appendix I**.
6. A number of reports, both local and national, have been issued by Audit Scotland during the course of the year. These reports, summarised at **appendices II and III**, include recommendations for improvements.
7. **Appendix IV** is an action plan setting out our recommendations to address the high level risks we have identified during the course of the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "Management action/response". We recognise that not all risks can be eliminated or even minimised. What is important is that Perth & Kinross Council understands its risks and has arrangements in place to manage these risks. The council and executive officer team should ensure that they are satisfied with proposed action and have a mechanism in place to assess progress and monitor outcomes.
8. We have included in this report only those matters that have come to our attention as a result of our normal audit procedures; consequently, our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.
9. The cooperation and assistance afforded to the audit team during the course of the audit is gratefully acknowledged.

Audit of the 2014/15 financial statements

<p>Audit opinion</p>	<ul style="list-style-type: none"> • We have completed our audit and issued an unqualified independent auditor’s report on the council’s accounts.
<p>Going concern</p>	<ul style="list-style-type: none"> • The financial statements of the council, its group and the associated charitable trusts have been prepared on the going concern basis. We are unaware of any events or conditions that may cast significant doubt on the council, its group and associated charitable trusts ability to continue as a going concern.
<p>Other information</p>	<ul style="list-style-type: none"> • We review and report on other information published with the financial statements, including the management commentary, annual governance statement and the remuneration report. We have nothing to report in respect of these statements.
<p>Charitable trusts</p>	<ul style="list-style-type: none"> • We have completed our audit of the 2014/15 financial statements of the charitable funds administered by Perth & Kinross Council and issued an unqualified independent auditor’s report.
<p>Group accounts</p>	<ul style="list-style-type: none"> • Perth & Kinross Council has accounted for the financial results of two subsidiaries, two associates, the common good funds and sundry trusts in its group accounts for 2014/15. The overall effect of consolidating these balances on the group balance sheet is to increase total reserves and net assets by £11.467 million.
<p>Whole of government accounts</p>	<ul style="list-style-type: none"> • The council submitted a consolidation pack for audit and the certified return was submitted to the National Audit Office by the 30 September deadline.

Submission of financial statements for audit

10. We received the unaudited financial statements on 23 June 2015, in accordance with the agreed timetable. The working papers were of a good standard and council staff provided good support to the audit team which assisted the delivery of the audit to deadline.

Overview of the scope of the audit of the financial statements

11. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined in our Annual Audit Plan presented to the Audit Committee on 1 April 2015.
12. As part of the requirement to provide full and fair disclosure of matters relating to our independence, we can confirm that we have not undertaken non-audit related services. The 2014/15 agreed fee for the audit was set out in the Annual Audit Plan and, as we did not carry out any work additional to our planned audit activity, the fee remains unchanged.
13. The concept of audit risk is of central importance to our audit approach. During the planning stage of our audit we identified a number of key audit risks which involved the highest level of judgement and impact on the financial statements and consequently had the greatest effect on the audit strategy, resources and effort. We set out in our Annual Audit Plan the audit work we proposed to undertake to secure appropriate levels of assurance. **Appendix I**

sets out the significant audit risks identified during the course of the audit and how we addressed each risk in arriving at our opinion on the financial statements.

14. Our audit involved obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.

Materiality

15. Materiality can be defined as the maximum amount by which auditors believe the financial statements could be misstated and still not be expected to affect the decisions of users of financial statements. A misstatement or omission, which would not normally be regarded as material by amount, may be important for other reasons (for example, an item contrary to law).
16. We consider materiality and its relationship with audit risk when planning the nature, timing and extent of our audit and conducting our audit programme. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.
17. We summarised our approach to materiality in our Annual Audit Plan. Based on our knowledge and understanding of Perth & Kinross Council we set our planning materiality for 2014/15 at £4.1 million (1% of gross expenditure). We report all misstatements greater than £0.1 million. Performance materiality was calculated at £2 million, to reduce to an acceptable level the probability of

uncorrected and undetected audit differences exceeding our planning materiality level. For the audit of the Council's charitable trusts planning materiality was set at £237 (1% of gross expenditure and due to the size and nature of the investments held a separate materiality of £17,700 (1% of gross assets) was applied.

18. On receipt of the financial statements we reviewed our overall and performance materiality and concluded that our original audit approach remained appropriate.

Evaluation of misstatements

19. All misstatements identified during the audit, which exceeded our misstatement threshold, have been amended in the financial statements.
20. A number of presentational and monetary adjustments were identified within the council's financial statements during the course of our audit. These were discussed with relevant officers who agreed to amend the unaudited financial statements. These monetary adjustments had no impact on either the comprehensive income and expenditure statement or the balance sheet. There were some presentational adjustments made to the council's charitable funds but no monetary adjustments were required.

Significant findings from the audit in accordance with ISA260

21. International Standard on Auditing 260 requires us to communicate to you significant findings from the audit, including:
 - The auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures.
 - Significant difficulties encountered during the audit.
 - Significant matters arising from the audit that were discussed, or subject to correspondence with management.
 - Written representations requested by the auditor.
 - Other matters which in the auditor's professional judgment, are significant to the oversight of the financial reporting process.
22. During the course of the audit we identified the following significant issues that, in our view, require to be communicated to you.

Significant findings from the audit

Issue	Resolution
<p>Tayside Contracts – Minute of Agreement: In 2011/12 it was agreed that the Minute of Agreement would be reviewed by March 2013 to ensure it reflected the actual operation and governance of Tayside Contracts. Legal representatives from the three councils have met at various points over the years, however, a revised Minute of Agreement has yet to be agreed.</p>	<p>The council had anticipated a signed agreement by August 2015 and although this target date was not achieved is hopeful of a conclusion being reached imminently</p>
<p>Council House Valuations: Local authority guidance issued by CIPFA/LASAAC in October 2010, specified that all Scottish local authorities should use the Beacon (Adjusted Vacant Possession) methodology to value council dwellings. Councils have until 2015/16 to reflect this in their financial statements.</p>	<p>The council adopted this approach in 2014/15 (previously a discounted cash flow approach was applied). This resulted in an increase of £194 million on the value of council houses.</p>
<p>Disposal of council house components: There was an adjustment to the unaudited accounts for the accounting treatment of its component replacement programme for council houses (windows, doors etc.). Following the move to the Beacon methodology council houses were revalued during 2014/15. As part of the revaluation accumulated depreciation on these assets was removed. However, during the year a number of components were replaced as part of the council’s rolling programme and an adjustment was made to remove both the gross book value and accumulated depreciation of the assets being replaced. This duplicated the removal of the accumulated depreciation following revaluation.</p>	<p>An adjustment to remove £4 million from gross assets and accumulated depreciation was actioned to correct the position. Note 22 <i>property plant and equipment</i> to the annual accounts has been updated to correct this error.</p>

Issue	Resolution
<p>Non Domestic Rates Income Account: An error was noted during the audit relating to the impairment for bad and doubtful debt. This was caused by a formula error in the spreadsheet used to compile the account.</p>	<p>A correction was made which reduced the impairment by £0.4 million. This adjustment was contained within the NDRI Account.</p>
<p>Charitable Trusts Governance documentation: The governance documentation for several trusts could not be located as a consequence of the age of the trust, in some cases dating back over 100 years. As a result, classification of these funds between restricted, unrestricted and endowment funds can not readily be established and is it not possible to verify whether spend in these areas was in line with the original stated purpose for these individual trusts.</p>	<p>Disclosures in the accounts identified the trusts for which governance documentation is not held and on what basis the trustees account for and use these funds. All funds are treated as endowments and where there is an absence of governance documentation the council rely on custom and practice to inform any decisions by the trustees in respect of the trusts expenditure and use of assets. The process of amalgamating smaller charities with a view to streamlining the administrative requirements and establishing clearer governance arrangements is continuing. We are not aware of any matters which would materially impact the financial statements.</p>

Future accounting and auditing developments

Revisions to the Code of Practice

23. The financial statements of the council are prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) which interprets and adapts International Financial Reporting Standards (IFRS) to the local authority context. The following paragraphs set out the most significant changes to accounting requirements introduced by the 2015/16 Code.
24. **(IFRS) 13 Fair value measurement:** Although the measurement requirements for operational property, plant and equipment will not change, enhanced valuation disclosures will be required. However, the 2015/16 Code requires surplus assets to be measured at fair value in accordance with IFRS 13. The council will need to make the necessary preparations to ensure that the new requirements are addressed for the 2015/16 financial statements.
25. **Transport infrastructure assets:** The council's roads assets are currently carried within infrastructure assets in the balance sheet at depreciated historic cost. The 2016/17 Code will require highways to be measured, for the first time, on a depreciated replacement cost basis. This is a major change in the valuation basis for highways and will require the availability

of complete and accurate management information on highway assets.

Health and Social Care Integration

26. From 1 April 2016 Integrated Joint Boards (IJBs) will be accountable for the provision of health and social care. IJBs will be required to produce financial statements in compliance with the Code and the Accounts Commission will appoint auditors to audit the financial statements. We comment on the progress of the Perth and Kinross IJB at paragraphs 129 to 132.

Financial management and sustainability

Net service budget
expenditure £320.8m

Service Outturn
£309.9m

Service Budget
Underspend
£10.9m

Original planned capital
expenditure £71.3m

Outturn Capital
spend £73.0m

Additional capital
spend £1.7m

Planned use of reserves
£5.5m

Actual increase
in usable
reserves £9.4m

Outturn usable
reserves £79.9m

Financial management

27. In this section we comment on the council's financial outcomes and assess its financial management arrangements.
28. The council sets an annual budget to meet its service and other commitments for the forthcoming financial year. The setting of the annual budget impacts directly on residents as it determines council tax and other fees and charges. Regular monitoring of expenditure and income against agreed budgets is central to effective financial management.

Financial outcomes

29. In cash terms, funding through taxation and grant income has increased in 2014/15 by 3.6% to £335.5 million. The council reported £309.9 million expenditure on the cost of services with an overall deficit of £3.1 million after funding and financing activity are deducted.
30. The council's budgeted deficit on provision of services was £16.0 million in 2014/15. The actual deficit of £3.1 million represents an underspend against budget of £12.9 million (4.2% of the cost of service). This difference is largely due to underspends across a number of its service departments as well as from extra income received in the year. Key variations in performance against budget are detailed in the Management Commentary within the Annual Accounts and include:
 - underspends in employee costs across services due to vacancies and workforce planning measures estimated to be in the region of £3 million
 - savings on property costs (energy, maintenance and other running costs) across services in the region of £1.9 million due to management of the council estate
 - additional income generated of £2.1 million including £0.7 million additional council tax income
 - £1.3 million savings for the Devolved School Management Scheme which will be carried forward by schools into 2015/16
 - savings on individual care packages of £0.5 million
 - reduced fuel costs of £0.5 million In addition there were £3.6 million of general underspends across services.
31. It can be difficult to assess which underspends represent efficiencies and which may have a detrimental impact on service delivery. However, the council through its 2014/15 annual efficiency statement assessed cash savings to be in the range of £17 million (Scottish Government target 3% of net budget expenditure: £10 million) and highlighted that there is no evidence to suggest that the efficiency gains reported led to a reduction in performance or service quality. The Annual Performance Report 2014/15 highlights that whilst 7 key performance indicators need attention, overall performance has been either maintained or improved in the year.
32. The management of the general services budget is, broadly, satisfactory. There are a number of underspends against budget as a result of the council actively accelerating the savings required.

Officers should continue to ensure that the budget approved is up to date and reflects the underlying cost of the service level approved by members (see also paragraph 40).

33. The council is required by legislation to maintain a separate housing revenue account (HRA) and to ensure that rents are set to at least cover the costs of its social housing provision. Rent levels are therefore a direct consequence of the budget set for the year. The HRA budget set a break even budget for 2014/15 in January 2014.
34. The annual accounts reported an overall HRA deficit of £0.05 million. Adjusting this deficit to remove the accounting entries required by the Code, the HRA balance decreased by £0.85 million before transfers from reserves. The council has previously agreed to reduce the level of council tax discounts on second homes and long term unoccupied dwellings to create funding to support the development of affordable housing. Approval to use £0.74 million of the affordable housing earmarked reserve within the general fund was agreed in October 2014. The closing earmarked HRA balance within the general fund was £0.8 million (prior year £0.9 million) which is in line with the level the council aims to maintain.

Financial management arrangements

35. As auditors, we need to consider whether councils have established adequate financial management arrangements. We do this by considering a number of factors, including whether:
- the proper officer has sufficient status within the council to be able to deliver good financial management
 - financial regulations are comprehensive, current and promoted within the council
 - reports monitoring performance against budgets are accurate and provided regularly to budget holders
 - monitoring reports do not just contain financial data but are linked to information about performance
 - members provide a good level of challenge and question budget holders on significant variances.
36. We assessed the role and status of the proper officer against CIPFA's "Statement on the role of the Chief Financial Officer in Local Government" and concluded that the council complies with the statement's five principles.
37. We reviewed the council's financial regulations, which are revised biennially, and concluded that they are comprehensive and current. The council's financial regulations are available on the council's intranet site. The scheme of administration was updated in October 2014, however this does not contain reference to the Public Bodies Joint Working Scotland Act.
38. Financial monitoring reports (both revenue and capital) are submitted to the Strategic Policy & Resources Committee every second month from September to April. Reports are comprehensive and follow a consistent structure. Explanations for variances across individual budgets are detailed in the reports however the use of technical language may make these difficult for a member of the public to understand. The council should consider whether the

further improvements to the readability of the financial reports could be made.

39. As auditors we attend a number of council and committee meetings each year. Members provide a good level of challenge and question budget holders on significant variances and service performance issues.

Conclusion on financial management

40. We have concluded that the council's financial management arrangements are broadly satisfactory. However, services are consistently under spending against budgets which has resulted in significant increases in the level of reserves. The council should continue to review whether this pattern of underspending is due to sound financial management or whether there is scope to refine the budget setting process to more closely align service budgets with their anticipated spending (*refer paragraph 46*).

Financial sustainability

41. The council delivers a broad range of services, both statutory and discretionary, to its communities. Financial sustainability means that the council has the capacity to meet the current and future needs of its communities.
42. In assessing financial sustainability we are concerned with whether:
- there is an adequate level of reserves
 - spending is being balanced with income in the short term

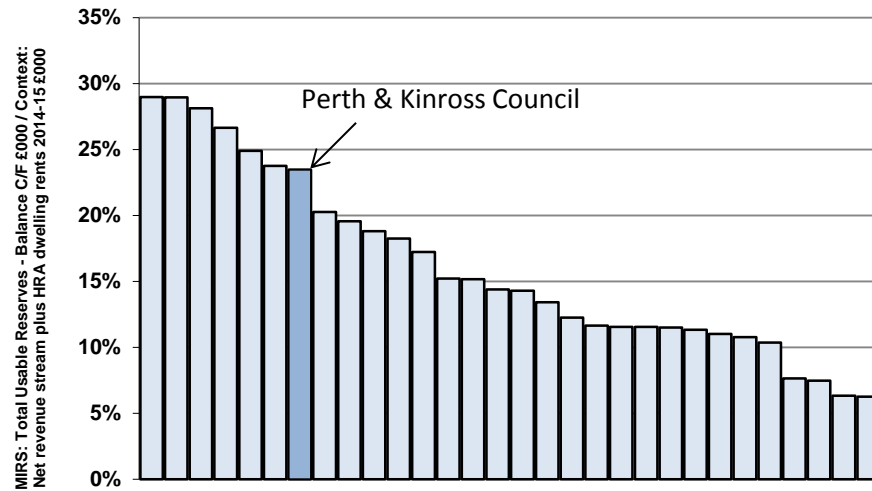
- long term financial pressures are understood and planned for
- investment in services and assets is effective.

43. Effective long-term financial planning, asset management and workforce planning are crucial to sustainability.

Reserves

44. The council budgeted to use £5.5 million of useable reserves during 2014/15. Of this £3.2 million related to contributions to other usable reserves and £8.7 million taken from the general fund. After adjusting the revenue outturn position by £12.6 million to remove the accounting entries required by the Code, the council increased its general fund balance by £4.5 million.
45. The overall level of usable reserves held by the council continues to increase with the balance as at 31 March 2015 totalled £79.9 million. Exhibit 1 below presents the council's usable reserves position in relation to net revenue stream for the year in comparison to other Scottish councils, excluding Orkney and Shetland (net revenue stream being presented as general revenue grant, council tax, non domestic rates and dwelling rents). The council is one of eight councils where the usable reserves are over 20% of the net revenue stream.

Exhibit 1: Usable Reserves as a proportion of revenue



Source: Scottish councils' unaudited accounts 2014/15 (excluding Orkney/Shetland)

46. As demonstrated in Exhibit 2 and as reported as part of the council's reserve strategy, usable reserves have increased by 78.7% since 2010/11. This represents a significant strengthening of the council's financial position, which has been achieved during a sustained downturn in public sector spending.

Exhibit 2: Usable reserves

Description	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m
General fund	31.3	36.7	41.7	48.0	52.7
Housing revenue	0.8	0.8	0.8	0.9	0.8
Capital fund	8.3	10.4	12.8	15.8	19.3
Capital grants unapplied	0.2	1.0	0.7	0.1	0.1
Capital receipt reserve	2.7	2.9	2.1	1.8	1.8
Repair & renewal fund	0.5	0.5	0.5	0.5	1.4
Insurance fund	0.9	1.1	2.0	3.4	3.8
Total Usable Reserves	44.7	53.4	60.6	70.5	79.9

Source: Perth & Kinross Council 2014/15 financial statements

47. The balances held by the council are discussed by members as part of the regular budget monitoring processes and the council considers its reserve strategy on an annual basis with the most recent report considered in February 2015. The most significant increase outwith the general fund is within the capital fund which

has more than doubled since 2011 to £19.3 million as part of an approved strategy for funding the capital programme over the medium term.

48. By definition the useable reserves, with the exception of part of the general fund, are earmarked for specific purposes. The principal purposes of holding a general fund reserve are to provide a contingency fund to meet unexpected events; as a working balance to help cushion the impact of uneven cash flows and a means of building up funds, referred to as earmarked portion of the general fund.
49. The council hold £13.3 million of unallocated general fund reserves. The council's planned commitments from the general fund balance amounted to £39.4 million covering 27 separate areas including the transformation programme (including workforce management), revenue budget flexibility, affordable housing strategy and devolved school management budgets.
50. The unallocated general fund balance at 31 March 2015 of £13.3 million represents 4% of budgeted net expenditure (2013/14: 4%). This position is in line with the council's policy of holding between 2% -4% and is in line with the approach taken by a number of other councils.
51. The council agreed as part of its reserve strategy in February 2015 that any amount of uncommitted reserves in excess of 4% of the net revenue budget is earmarked for future costs in relation to its transformation programme. The earmarked portion for the transformation programme increased by £4.1 million to £13.0 million

(2013/14 increased by £4.8 million to £8.9 million). This represents the main reason for the continuing increase in earmarked reserves during 2014/15. We were not clear whether the year end transformation balance of £12.9 million reflects the amounts needed to deliver the programme. However, we understand that the £12.9 million was earmarked whilst officers developed business cases to determine the investment required. Officers are currently working on establishing firm costs in conjunction with the budget process. We intend to review the implementation of the transformation programme as part of our 2015/16 audit work.

Action plan no 1

Financial planning

52. The net service expenditure budget set for 2015/16 is £332.8 million and represents an increase of 0.8% on that set for 2014/15 (£330.2 million). The 2015/16 provisional budget approved in February 2014 incorporated savings of £4.6 million with a further £5.5 million savings agreed as part of the February 2015 budget consideration (overall savings £10.1 million). Some of the more significant measures include:
 - workforce management savings – which has an impact on most saving areas outlined
 - review of the delivery of Culture and Leisure Services with indicative savings of £0.5 million
 - reduction in funding support for the local bus service network with proposed savings of £0.1 million

- free school meals P1 to P3 & early learning & childcare savings of £0.3 million
 - mainstream care at home savings of £0.4 million
 - budgeted energy price and volume reductions of £0.6 million
 - property - recharge of additional staff time £0.5 million
53. The 2015/16 budget plans to reduce the council's useable reserves by £4.6 million during the year. The budget also highlights that £5.3 million budget flexibility will be used during 2015/16 (use of budget underspends from the previous year). It is of note that approximately £2.2 million of the savings outlined in the 2015/16 budget papers also relate to the use of budget flexibility or the use of reserves. Whilst the council holds a significant reserve balance the use of reserves on a recurring basis, as highlighted by the Head of Finance in the reserves strategy, is not sustainable in the long term.
54. The council agreed an update to the medium term financial plan in July 2015 which will inform the budget setting process for 2016/17. The medium term financial plan is comprehensive, drawing on a variety of authoritative sources and identifies the potential risks to its financial position. The council will continue to operate in a funding environment which is subject to sustained pressure to deliver more with less. The plan estimates savings of approximately £53 million will be required over the next five years which it aims to achieve partly via its transformation programme.
55. The medium term financial plan is subject to on-going review and following its approval in July 2015 officers have identified further

changes which are expected to reduce the level of required savings. Revised figures will be reported to members shortly for consideration and approval.

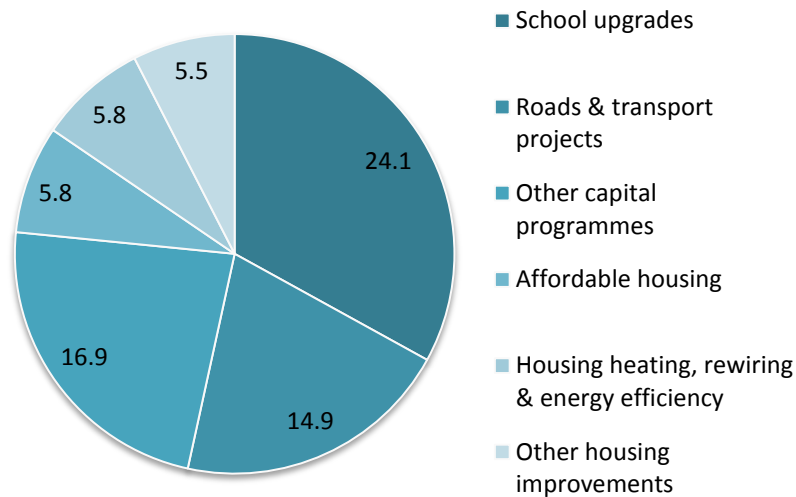
Transformation programme

56. The *Building Ambition: The Council's Transformation Strategy 2015-2020* was approved in July 2015. This strategy identifies thirty-nine wide ranging review areas which the council will consider in terms of its seven transformation themes:
- **Efficiency** – embedding efficiency and productivity into the fabric of the organisation to make the best use of human, financial and other resources
 - **Redesign** – generating innovative ideas to transform services, to deliver different ways of working, and to keep the council at the forefront of modern councils
 - **Targeted savings/Increased income** – making the best use of financial resources, to prioritise services to areas of greatest need, avoid additional future costs and proactively pursue commercial opportunities as a means of generating income, to offset the need to make savings
 - **Partnerships** – participating in effective place-based partnership and integrated service provision between public services, to deliver services which best meet customer needs
 - **Tackling Inequality** – pursuing preventative approaches to tackle disadvantage, prejudice and discrimination.

- **Community co-production** - engaging with the energy, wisdom, experience, knowledge, skills and other assets of communities. Recognising the vital role that people have in shaping and improving their own areas – making a difference to the places that they know best
 - **Technology** – maximise the opportunities for transforming customer services, and improving efficiency through technological advancements
57. In addition to this, a number of years ago the council introduced an approach to budgeting which set corporate savings targets in excess of the anticipated reductions in grant funding and agreed corporate pressures. This approach is intended to provide members with flexibility in choosing between different budget options and create capacity to:
- offset future budget pressures in the medium term
 - allow for adverse movements in the council's overall financial position
 - consider investment in regeneration projects, transformational change or severance costs.
58. Whilst many of the more readily achievable savings have already been made, services are required to continue to identify recurring savings going forward. Through its transformation programme and the budget process the council continues to actively accelerate savings to enable it to manage the anticipated financial challenges faced by the public sector.

Capital programme 2014/15

59. The council in February 2014 approved its 2014/15 general services and housing capital programmes for £51 million and £20.3 million respectively. Actual capital expenditure for 2014/15 was £56 million and £17 million respectively. In previous years we have reported on significant underspends against the council's capital programme. The outturn for 2014/15 represents progress in delivering the original programme, although it was again unable to deliver fully on its housing capital programme.
60. The capital programme main expenditure in the year is detailed in the Management Commentary in the Annual Accounts and is outlined in Exhibit 3 below.

Exhibit 3: Capital programme expenditure (£'m)

Source: Perth & Kinross Council audited financial statements

61. Capital expenditure in 2014/15 was £73 million with the sources of funding, other than borrowing, totalling £48 million resulting in an increase of £25 million in the council's capital financing requirement (CFR). The CFR represents the council's need to borrow to finance capital expenditure.
62. The Prudential Code is a professional code of practice designed to support local authorities in taking capital investment decisions. The Code's objectives aim to ensure that, within a clear framework, the capital investment plans of local authorities are prudent and sustainable. The Head of Finance reviews the capital financing

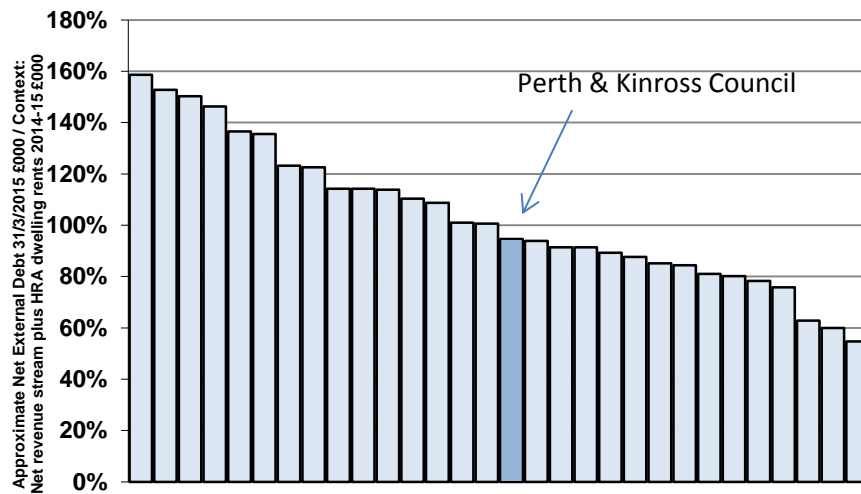
requirement on an annual basis and reports to the council on a series of prudential indicators as recommended by the Prudential Code. Performance against these indicators is reported to council quarterly and this helps the council to plan its capital investment.

Treasury Management

63. High levels of debt may reduce a council's budget flexibility going forward as revenue resource has to be set aside to service that debt. The impact that debt levels have on net revenue expenditure will be affected by interest rates and repayment periods.
64. The council's CFR at 31 March 2015 was £408.2 million (March 2014 £383.2 million) while the gross external debt was £33.1 million lower at £375.1 million (2013/14: £331 million).
65. The treasury management strategy agreed in February 2014 anticipated the need for further long term borrowing of £147.4 million over the seven years to 2020/21 with £20.4 million expected in 2014/15. The strategy highlighted that accelerating some borrowing to meet future requirements within the 7 year period may be required. During the year the council accelerated its borrowing with £55 million actually undertaken in the year.
66. The council's net external debt of £318.4 million as at 31 March 2015 comprises three main areas:
 - borrowing of £249.7 million (2013/14: £201.8 million), 80% of which is at fixed rate and is a repayable over the long term

- Public Finance Initiative (PFI) liability of £125.4 million (2013/14: £129.2 million) continues to be paid over the life time of the agreements
 - Deposits and investments held of £56.7 million (2013/14: £24.7 million)
67. The council's net external debt as a proportion of net revenue spend when compared to other Scottish councils is shown in Exhibit 4. In line with 14 other authorities the council's net borrowing is below its net revenue spend.

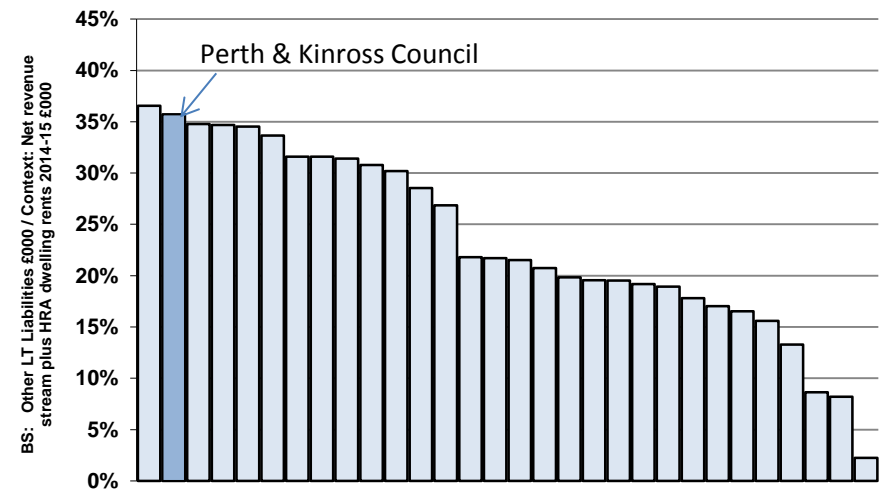
Exhibit 4: External debt as a proportion of revenue



Source: Scottish councils' unaudited accounts 2014/15 (excluding Orkney/Shetland)

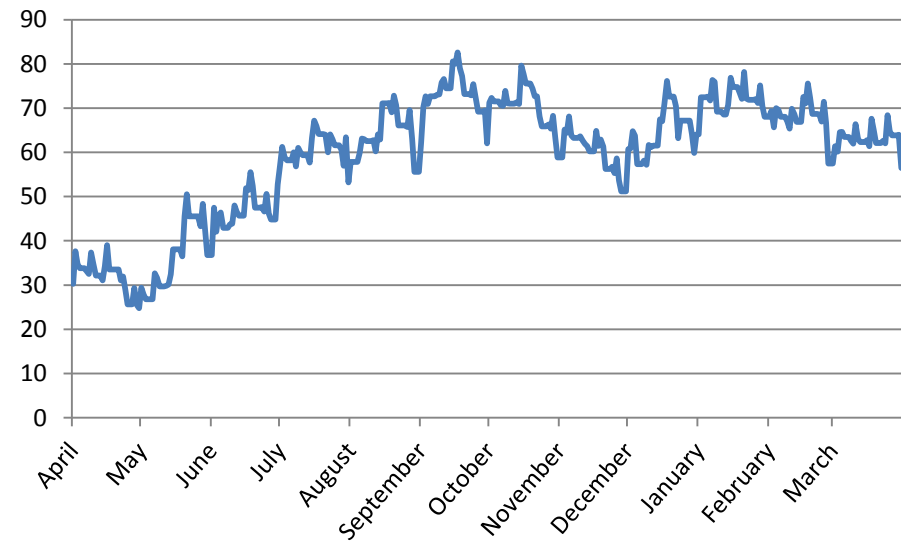
68. Interest payable to service debt in 2014/15 increased slightly to £17.5 million (2013/14: £16.2 million) mainly due to the increase in long term borrowing.
69. Exhibit 5 illustrates that the council has a high exposure to other long term liabilities as a proportion of total debt. This represents the council's three PFI projects (a schools project to deliver six school campuses, an office accommodation project and a car park project). Accounting requirements mean that the council must recognise both the asset acquired under the PFI scheme and the related liability in its balance sheet.

Exhibit 5: Other long term liabilities as a proportion of total debt



Source: Scottish councils' unaudited accounts 2014/15 (excluding Orkney/Shetland)

70. Exposure to PFI debt is of interest as many local authorities have also incurred high contingent rental increases in recent years making servicing this debt more expensive.
71. The council's contingent rental to service the PFI debt as at 31 March 2015 is projected to be £117.8 million over the remainder of the contracts (2013/14: £118.1 million). PFI obligations of this degree reduce the council's flexibility in dealing with future funding challenges that are likely to present themselves across the public sector.
72. The council's treasury management strategy anticipated that investments would not exceed £50 million during the year unless, for example, new borrowing was undertaken. New long-term borrowing was undertaken during the year and therefore the average investment balance held was £59.2 million (2013/14: £40 million). Exhibit 6 demonstrates the trend in investment held over the year.

Exhibit 6: Trend of deposits/Investments held (£million)

Source: Perth & Kinross Council's treasury management system

73. Audit Scotland published *Borrowing and treasury management in councils* in March 2015. This report concluded councils are meeting professional requirements but need to do more to set out the longer term implications of borrowing and other debt on their finances. The March 2015 report was considered as part of the Annual Treasury Report by the council in July 2015 with action being agreed to consider how the analysis of the impact of borrowing over the longer term could be better reported more widely and also to organise another treasury management training session for members.

Pension liability

74. The council is a member of the Tayside Pension Fund which is a multi employer defined benefit scheme. In accordance with pension accounting standard IAS19 'Retirement Benefits' the council has recognised its share of the net liabilities for the pension fund in the balance sheet. The pension liability represents the difference between expected future pension payments and the underlying value of pension fund assets available to meet this cost.
75. The valuation as at 31 March 2015 provided by the scheme's actuaries decreased the council's share of the deficit from £266 million last year to £178 million this year.
76. A small change to the actuarial assumptions applied can have a significant impact on the liability. The scale of the movements in the council's pension liability over the last 5 years, arising from the annual valuation, can be seen in Exhibit 7 below.

Exhibit 7: Movement in Net Pension liability 2010 to 2015

	2010/11	2011/12	2012/13	2013/14	2014/15
	£m	£m	£m	£m	£m
Assets	420.1	418.8	492.5	531.6	593.8
Liabilities	(550.2)	(618.5)	(681.6)	(797.6)	(771.8)
Net	(130.1)	(199.7)	(189.1)	(266.0)	(178.0)

Source: Perth & Kinross Council audited financial statements

77. The council is one of only four councils where the pension liability has decreased (two of which are also in the Tayside Pension Fund). This decrease is mainly due to an experience gain of £117.9 million against the council's liabilities during 2014/15.
78. The actuary has explained *the experience gain is a result of the impact of using the 2014 triennial actuarial valuation as a base point for the accounting position. These experience items relate to updated individual member data, as the roll-forward methodologies used between triennial valuations to calculate IAS 19 figures use approximate methods which do not allow for individual member movements.* Whilst some movement would be expected the magnitude of this gain is significant.
79. We sought assurance from the auditors of Tayside Pension Fund on this and following their discussions with the Fund actuary we have received the necessary assurance on the assumptions used to calculate the experience gain.
80. Officers have confirmed that the assumptions used by the actuary were reasonable and have explained in Note 4 the impact of small changes in these assumptions. We have examined the assumption used in 2014/15 and these are all within expected parameters. We are satisfied, therefore, that the pension liability as at 31 March 2015 is reasonable.
81. At the last triennial valuation the Tayside Pension Fund was 99.8% funded and had assets of £2,396 million. The next valuation will take place in 2017. The 2014 triennial valuation reduced the actual

rate of contribution payable by the council for the period April 2015 to March 2018 to 17.0% of pensionable payroll.

savings of around £0.9 million per annum from reduced rental and service costs from 2017/18.

Asset Management

82. The council recognises that there are likely to be difficult decisions ahead about prioritising services and allocating resources. Through its transformation work it has an on-going programme of service reviews. The programme approved in July 2015 identifies a few areas where specific property asset management reviews are planned including:
- **Corporate Property Asset Management Review** - Developing a portfolio strategy to ensure future investment areas are prioritised, providing fit for purpose accommodation.
 - **Securing the Future of the School Estate** – Modernising the school estate by making efficiencies and more effective use of all existing resources.
 - **Council Vehicle Fleet Utilisation and Optimisation Review** – Investigating the use of technology and telematics in the council’s smaller fleet vehicles, and reviewing the use of personal vehicles for council business, to identify greater efficiency opportunities.
 - **The Perth Office Programme** is designed to reduce the number of offices the council uses in the city centre, allowing customers to access services more easily. By the end of 2016, the programme is expected be complete and the council will vacate a further two properties (Blackfriars and the Atrium). This will reduce the number of leased properties, making

Workforce Management

83. In July 2013 the council agreed an approach to workforce management designed to reshape its workforce to meet the financial challenges and facilitate service redesign, transformation and efficiencies. This built on the existing workforce management measures approved in February 2010 and aimed to maximise the opportunities for workforce change over the medium term while safeguarding jobs, the need to manage change in a consensual way in partnership with employees and trade unions, and the importance of giving greater choice and support to employees.
84. The council consider its workforce management process annually through *Securing The Future Through Our People*. The latest report, considered in December 2014, highlighted that workforce management measures had contributed approximately £20.6 million to savings in 2011/12 to 2013/14.
85. As highlighted at paragraph 54 the council is anticipating it will need to make an estimated £53 million of savings in the next five years. A key part of how the council will deliver these saving as part of the transformation programme (refer paragraph 56) is through the organisational development framework approved in July 2015.
86. It is inevitable that there will be a reduction in staffing costs as a result. A voluntary severance scheme has been in place for a number of years and the council are promoting this again. Exhibit 8

highlights there have been 348 exit package departures in the council since 2010. As at 31 March 2015 there were 5,793 employees (approx. 4,875 full time equivalents).

Exhibit 8: Exit packages 2010 to 2015

	No. of exit packages	Cost of exit packages (£'m)
2010/11	118	3.601
2011/12	31	0.670
2012/13	40	1.149
2013/14	135	2.002
2014/15	24	0.168
Total	348	7.590

Source: Perth & Kinross Council audited financial statements

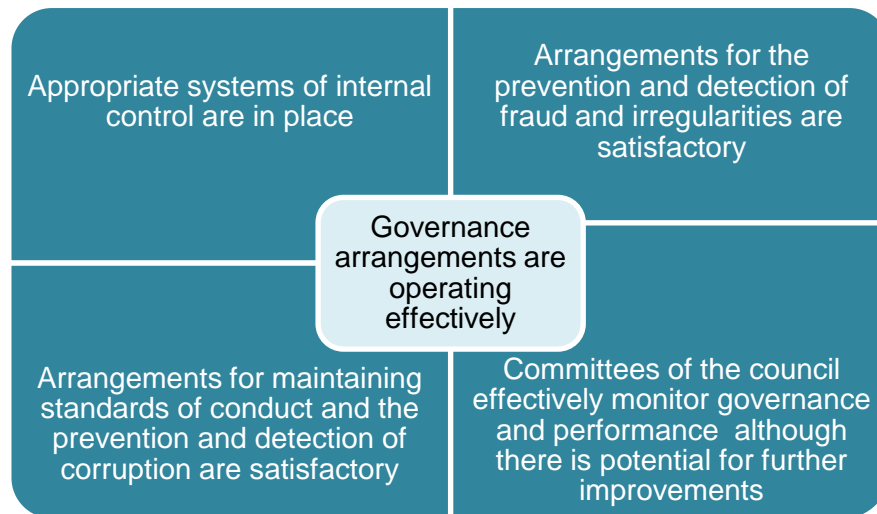
Outlook

88. Councils face increasingly difficult financial challenges. Public sector budgets are reducing and demand for council services is increasing. Increased national insurance charges will create further cost pressures on the council.
89. In common with other councils, Perth & Kinross Council has highlighted the need to identify significant savings over the next few years. With further funding reductions expected, councils face tough decisions to balance their budgets. These decisions must be based on a clear understanding of the current financial position and the longer-term implications of decisions on services and finances.

Conclusion on financial sustainability

87. We have concluded that the council has an adequate level of reserves, is containing its expenditure within annual budgets and has a credible medium term financial plan in place. Overall we conclude that the financial position is sustainable currently and in the foreseeable future, although rising demand for and costs of services will continue to place a strain on the council's capacity to deliver services at the current levels.

Governance and transparency



90. Members and management of the council are responsible for establishing arrangements to ensure that its business is conducted in accordance with the law and proper standards, that public money is safeguarded and for monitoring the adequacy and effectiveness of these arrangements.
91. The corporate governance framework is centred around Perth & Kinross Council which is supported by a number of standing committees including:

- Scrutiny Committee responsible for monitoring overall performance at a council and service level and considering national reports from scrutiny bodies
- Audit Committee responsible for ensuring action is taken to improve controls and address concerns raised by both internal and external auditors (*refer paragraph 102*)
- Strategic Policy and Resources Committee which determines the strategic policy of the council and monitors the financial position.

92. There are also a number of theme related committees in place including, Lifelong Learning Committee, Housing & Health Committee, Enterprise & Infrastructure Committee and Environment Committee. The committee structure reflects the themes of the Perth & Kinross Community Plan and the council's Corporate Plan. However, this can result in individual reports being discussed by several committees, for example, the Environment Service Joint Business Management & Improvement Plan (for 2015/16) and Annual Performance Report (2014/15) was presented to:
- Community Safety Committee 20 May 2015
 - Environment Committee 3 June 2015
 - Enterprise and Infrastructure Committee 3 June 2015 and
 - Scrutiny Committee 17 June 2015
93. Whilst it is acknowledged that each committee will cover specific elements of the reports the council should ensure that its

governance arrangements remain fit for purpose and avoid unnecessary duplication of reporting wherever possible.

Action plan no 2

94. We note that the Head of Legal Services will undertake a review of the governance framework. This is expected to address changes required as a result of integration of health and social care services which will be in place by 1 April 2016 (*refer paragraph 129 to 132 below*). A review of the senior management structure has recently been undertaken with a view to increasing capacity, introducing more flexible arrangements and moving toward new models of management and delivery over the next two years. Implementation of the new structures will begin from October 2015.
95. We concluded that whilst the council's existing governance arrangements provide an appropriate framework for organisational decision making, further improvements could be achieved.

Corporate governance

96. The council's standing orders took effect from January 2013. The Scheme of Administration which sets out the membership, powers and responsibilities of the council's committees, sub-committees and working groups and lists the areas where the council has delegated decision-making to officers was updated in October 2014. The council also reviews its financial regulations every two years. The last review was in October 2014. The standing orders, scheme of administration and financial regulations taken together address all principal risk areas and are in line with our expectations.

Local code of corporate governance

97. The council developed and adopted a local code of corporate governance in 2012 which reflects the key components as set out in the CIPFA/SOLACE Framework Corporate Governance in Local Government: A Keystone for Community Governance. However, the local code has not been subject to review since its introduction but we have been advised that the Head of Legal will include this as part of the wider review of the governance framework in 2015/16.

Internal control environment

98. As part of our audit we reviewed the high level controls in a number of systems fundamental to the preparation of the financial statements. Our objective was to obtain evidence to support our opinion on the council's financial statements.
99. This audit work covered payroll, trade payables, trade receivables, general ledger, cash & banking, non-domestic rates, council tax, housing rents, treasury management, benefits, capital accounting and SWIFT. We reported our findings to the Audit Committee in September 2015. No material weaknesses in the accounting and internal control systems were identified which could adversely affect the ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements. Our findings included some recommendations to enhance the control system in operation.
100. In May 2014 we issued *Arm's-length external organisations (ALEOs) – are you getting it right? A follow-up* report. This report provided a

position statement on the use of ALEOs and found that overall the council demonstrated that many elements of good or best practice were evident in the governance arrangements in place.

101. An action plan containing three risk points was agreed with officers for further improvements:
- maintaining a record of national reports and action taken to respond to these. Services are required to present national reports to themed committees (*Implemented -refer paragraph 168*).
 - developing a training programme by December 2014 to ensure the members appointed to ALEO's have the appropriate skills and training required for the role.
 - developing written agreement with ALEOs where the council participates as a decision maker setting out roles and responsibilities by September 2014.
102. Two of the improvements points agreed last year have still to be actioned. We note that a revised date of September 2015 has been agreed for one (development of written agreements). Progress against both actions continues to be monitored by internal audit and reported to each meeting of the Audit Committee. This is one of a number of reports where agreed actions have not been delivered within the planned timescale and in some instances are more than a year behind schedule.

Action plan no 3

Internal audit

103. Internal audit provides members and management of the council with independent assurance on risk management, internal control and corporate governance processes. We are required by international auditing standards to make an assessment of internal audit to determine the extent to which we can place reliance on its work. To avoid duplication, we place reliance on internal audit work where possible.
104. As part of our 2014/15 audit we undertook a review of internal audit and concluded that it generally operates in accordance with the Public Sector Internal Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place. An external quality assessment is planned for 2016/17, however, in the interim the chief internal auditor has undertaken a self assessment to highlight compliance with PSIAS. Areas internal audit plan to address include:
- improving documentation including an internal audit charter
 - updating the audit manual; evidence of integrity & objectivity (conflicts of interest)
 - formalising professional development records
 - the lack of certain technical expertise (e.g. IT). Where technical expertise is required, this is externally sourced.
105. We placed formal reliance on the work of internal audit on general ledger and housing benefits this year.

ICT audit

- 106.** In 2014/15 the council started looking at the strategic influences affecting its ICT and digital environment. A new digital strategy has been prepared which outlines how digital technologies and approaches will be used over the next five years to help deliver the strategic ambitions. The strategy is currently being considered by the executive officer team and is expected to be submitted to the Strategic Policy and Resource Committee for approval by December 2015.
- 107.** Investigations are also underway to determine how the council can deliver quality ICT services more efficiently and at a reduced cost, through 'cloud' storage and partnering with neighbouring public bodies.
- 108.** The council's preparation for the Public Sector Network is nearing completion and is expected to be submitted for re-accreditation by the Cabinet Office in early Autumn. Various technological replacements and mitigation measures have been put in place during the year, and further work is ongoing, such as the replacement of the main firewall. Officers advised that an IT Health Check was recently carried out by an external consultant and this did not highlight any significant areas of risk.

Arrangements for maintaining standards of conduct and the prevention and detection of fraud and corruption

- 109.** Our 2013/14 annual audit report highlighted that the council's Fraud and Corruption Policy had not been updated since 2006 and did not include specific reference to the requirements of the Bribery Act 2010. Following an internal review of its existing policies in relation to fraud and corruption, the Strategic Policy & Resources Committee approved a Counter Fraud and Corruption Strategy in February 2015. This addressed the requirements of both the 2010 Bribery Act and the CIPFA Code of Practice on Managing the Risk of Fraud issued in October 2014.
- 110.** The internal review confirmed that adequate policies and procedures were in place in relation to gifts and hospitality, conflict of interest, employee and councillor codes of conduct and information security. Additional policies were required to specifically cover the risk of bribery and money laundering and the following three policy documents were approved at the same time as the updated strategy:
- Anti-bribery policy
 - Anti-money laundering policy and
 - Whistleblowing policy
- 111.** The Strategic Policy and Resources Committee asked the Chief Internal Auditor to submit a further report to the Audit Committee within six months which will set out how the Strategy and related

policies are being implemented. This was submitted to the June meeting of the Audit Committee.

- 112.** We have concluded that the council's arrangements in relation to the prevention and detection of fraud and corruption have been strengthened this year and will monitor progress with implementation of the new strategy and policies as part of our 2015/16 annual audit work.

National Fraud Initiative in Scotland

- 113.** The National Fraud Initiative (NFI) in Scotland brings together data from councils, the police board, the fire and rescue board, health bodies and other agencies, to help identify and prevent a wide range of frauds against the public sector. Matching data obtained from the systems of participating bodies allows the identification of potentially fraudulent claims on the public purse including housing benefit fraud, occupational pension fraud and payroll fraud. If fraud or overpayments are not identified in a body, and the NFI exercise has been undertaken properly, assurances may be taken about internal arrangements for preventing and detecting fraud.
- 114.** The NFI exercise identified 1,033 cases recommended for investigation and as at July 2015 the council had dealt with 446 of these. The total monies recovered or being pursued so far of £26,256 related to one duplicate payment (£10,605) and 7 housing benefit claims (£15,651). No frauds were identified and the council is continuing to progress matches identified. Officers have indicated

that the council will complete its review of matches by September 2015.

- 115.** Perth & Kinross Council is one of only two Scottish councils that do not submit the electoral register as part of the National Fraud Initiative submission. To ensure that the risk of fraud relating to council tax single occupancy discounts is minimised the council procured a data matching exercise.
- 116.** A report to the June 2015 Audit Committee highlighted that 156 of the 2,162 matches identified for investigation were found to have claimed this discount incorrectly. Of those, 43 had a student or apprentice resident in the property and therefore there was no financial loss to the council. A further 113 declared that the single person discount no longer applied and as a result £72,011 has been billed. A further 72 claims were cancelled for the current and last financial year resulting in a further £50,186 being identified for collection.
- 117.** Overall, we concluded that the council has satisfactory arrangements in place for investigating and reporting data matches identified by the NFI.

Correspondence referred to the auditor by Audit Scotland /Statutory objections to the accounts

- 118.** During 2013/14 the council received correspondence relating to a potential loss on the part of a contractor and included a contingent liability in its 2013/14 annual accounts. This correspondence related to the Roads Maintenance Partnership (RMP) and implied

improper practices and improper relationships by employees of both organisations. The RMP is a partnering agreement between Perth & Kinross Council and Tayside Contracts for delivery of the council's roads maintenance service. The council had instructed a number of internal and external reviews on the issues raised and no evidence was found to support the allegations.

119. Part of Audit Scotland's duties as external auditors of Perth & Kinross Council is to consider concerns raised by members of the public about the council. We received a number of pieces of correspondence in relation to the allegations made and meetings were held to explore specific concerns raised by the complainants including:

- the allegation of alteration of quantities and values between initial measurements and final invoices
- use of sub-contracting of work by Tayside Contracts
- the inappropriate inclusion of a contractor on the RMP's contractors listings.

120. We carried out a review to evaluate whether there was any evidence available to support the allegations raised with us. We obtained details of how the RMP operated including reviewing its minute of agreement, the partnership agreement and relevant committee papers. We focussed specifically on:

- evaluating the process used from initial measurement of the work through to final payment

- evaluating the procedure by which sub-contracting is undertaken and assessing whether this process has been appropriately followed
- establishing how contractors are assigned to contractor's lists for works and evaluating whether this procedure has been applied in respect of the named contractor.

121. The findings from our review were reported to the Audit Committee in September 2015. Our overall conclusion was that the poor quality of files maintained by the council in relation to the awarding of contracts under the RMP and the lack of an audit trail makes it difficult to detect any manipulation of quantities and values between initial measurements and final invoices. Whilst our testing found no evidence on files, to suggest that quantities and values were being manipulated, we were unable to provide any assurance that this has not occurred.

122. Our review did not uncover any evidence to support the other allegations received.

Transparency

123. Local residents should be able to hold the council to account for the services it provides. Transparency means that residents have access to understandable, relevant and timely information about how the council is taking decisions and how it is using its resources. We have considered this under various headings including:

- Clarity and presentation of financial statements – a copy of the council's unaudited accounts was made available on the

website. The format of the accounts complies with the Code and the narrative sections are written, as far as possible, in plain English to provide the reader with an understanding of the council's business

- Budget monitoring reports –refer paragraph 38
- Performance reporting - refer paragraphs 151-154
- Registers of interest – these are available on the website

124. Overall we have concluded that the council is open and transparent although further improvements could be made by ensuring the information on the website is kept up to date and improving the navigation/search facilities (refer paragraph 164).

Freedom of Information requests

125. The Freedom of Information (Scotland) Act 2002 (FOI) established a general public right of access to all information held by Scottish public authorities. The council's performance in relation to FOI requests is reported annually to the executive officer team and the Scrutiny Committee.

126. The report to the April 2015 committee confirmed that 1,385 FOI requests had been received in 2014. This was an increase of 10.3% on the 2013 figure of 1,249 and represented the highest number of requests received to date. Requests from individuals remain the largest category (43%) followed by requests from the media (24%) and businesses (14%). Officers anticipate that the number of requests will continue to grow.

127. The committee was advised that the statutory requirement to respond within 20 working days was met for 96.5% of requests and 84% of cases received at least some of the information requested. 49 requests for a review of the decision were received which equated to 3.5% of the total requests received. Three requestors subsequently withdrew and the council's decision on 31 of the remaining requests was upheld.

128. Overall the council's approach to managing the FOI requests it receives, is effective.

Integration of health and social care

129. The Public Bodies (Joint Working) (Scotland) Act received royal assent on 1 April 2014. The Act provides the framework for the integration of health and social care services in Scotland.

130. In Perth and Kinross Council, a Pathfinder Board was set up to lead on and oversee the transition to integrated services. The Board submitted the integration scheme to Scottish Ministers in March 2015 and received initial feedback. An amended scheme reflecting the feedback was approved by the Cabinet Secretary for Health Wellbeing and Sport on 27 August and laid before the Scottish Parliament on 4 September 2015. It is expected to be passed on 3 October at which point the Pathfinder Board will become the Perth and Kinross Integration Joint Board for Health and Social Care (IJB) with responsibility for delivering services that meet local and national outcomes.

- 131.** The Chief Officer for the IJB took up post in September 2015 and will be responsible for a single budget to deliver a wide range of health and social care services in the area. A Chief Financial Officer is expected to be in post by November 2015. The Scottish Government has confirmed that IJBs will be expected to prepare annual accounts for 2015/16 and these will be subject to audit.
- 132.** Overall the board is making progress in developing its integration arrangements across the area.

Welfare Reform

- 133.** The council recognises the impact that the changes to the UK welfare system could have on resources and service provision. In previous years we have highlighted that the council has been effectively monitoring and planning ahead to mitigate against the impact of the reforms. Welfare reform changes have been well communicated through an extensive programme of awareness sessions which set out the changes and the financial impact on local residents. A virtual hub was developed on its website to help provide a single point of reference for those residents in need and to guide them on a wide range of welfare reform and welfare rights issues.
- 134.** The further roll out of welfare reform, particularly around the implementation of universal credit, presents a significant risk to the council, particularly in relation to its charging policy. The roll out within selected areas has recently been expanded to cover different types of claim. However, at this stage there remains limited

information as to how universal credit might be rolled out within Perth and Kinross.

- 135.** As a result there is uncertainty for the council in terms of both the timing and the financial consequences of universal credit. The latest medium term financial plan approved in July 2015 included an additional £1.5 million for this cost but highlights the uncertainty of the implementation date will impact on the plan.

Local scrutiny plan

- 136.** The 2015/16 Local Scrutiny Plan (LSP) prepared by the Local Area Network of scrutiny partners was submitted to the council on 13 May 2015.
- 137.** The LSP identified nationally driven scrutiny work as well as the routine, scheduled audit and inspection work taking place through the annual audit process and the ongoing inspection of school and care establishments by Education Scotland and the Care Inspectorate respectively. Audit Scotland will carry out a programme of performance audits during 2015/16 and individual audit and inspection agencies will continue to monitor developments in key areas of council activity and will provide support and challenge as appropriate. This will help to inform future assessment of scrutiny risk.
- 138.** On behalf of the Local Government Strategic Scrutiny Coordination Group, national scrutiny partners carried out a collaborative piece of work in partnership with Perth and Kinross Council and its community planning partners during 2015/16. This work aimed to

devise and assess a potential methodology for the evaluation and scrutiny of how community planning is operating at a local level, known as place-based scrutiny. This methodology focussed on the four pillars of public service reform – prevention, partnership, people and performance. The pilot was designed to address two specific questions

- what it's like to live in the local community?
- how well do public services collaborate to improve outcomes for people living there?

139. The fieldwork for this place-based scrutiny pilot was carried out in March/April 2015 and a presentation on the initial findings was presented to the Strategic Scrutiny Group in May 2015 and we understand it will be considered by the council in October 2015.

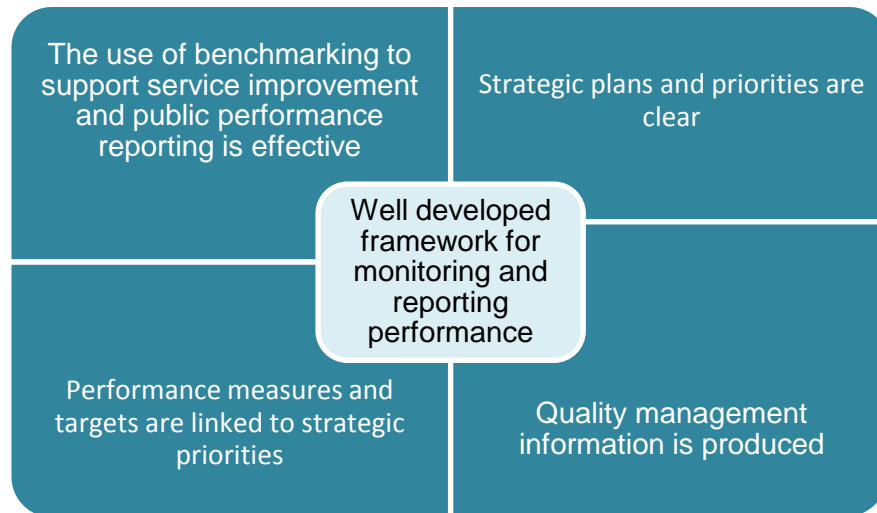
Outlook

140. Councils will continue to operate in a changing environment within continuing financial constraints. Under these circumstances councils will be obliged to consider the delivery of services by different means. Good governance will be particularly important where council resources and service delivery are devolved to third party organisations.

141. Partnership, joint working and arms length organisations have become increasingly popular vehicles for planning and delivering council services and there is a sustained national focus on their use. Where council services are being delivered by third party organisations it will be crucial that the council implements robust

assurance and governance arrangements to deliver best value while at the same time ensuring an appropriate level of accountability for public money. Community planning and health and social care integration will require an ongoing focus on governance and assurance to ensure that the council's priorities are being achieved.

Best Value



142. Best value is a key factor to consider when planning policies, programmes and projects and when taking any spending decisions. The council should have systems and processes to ensure that it can demonstrate that it is delivering best value by assessing and reporting on the economy, efficiency, effectiveness and equality in service provision.
143. The council has a strong track record of partnership working and the *Community Plan/Single Outcome Agreement 2013-2023* aims to continue this outlining an ambitious vision for the area centred around the five strategic objectives:
- Giving every child the best start in life

- Developing educated, responsible and informed citizens
- Promoting a prosperous, inclusive and sustainable economy
- Supporting people to lead independent, healthy and active lives
- Creating a safe and sustainable place for future generations.

144. The *Corporate Plan 2013-2018* sets out how the council will support the Community Plan and identifies the high-level strategic objectives the council is working towards to meet local needs.
145. The *Building Ambition: The Council's Transformation Strategy 2015-2020* was approved by the council in July 2015. This identified 39 transformation reviews designed to help address the continuing financial pressures.
146. The transformation programme is underpinned by the Medium Term Financial Plan, the latest update to which was approved by the council in July 2015. The plan sets out the likely savings targets over 5 years to 2020/21 using three scenarios low, mid-range and high level changes in the assumptions used (e.g. pay award, demographics, government settlements, council tax increases, fees and charges). The mid-range assumptions highlight that cumulative savings of approximately £53 million may be required in the next five years (low: £13 million; high: £92 million). This is put in the context of the cumulative savings achieved in the 5 years to 2014/15, which are estimated to be £56 million. (see also paragraph 55)

147. We will review progress against the transformation programme during 2015/16 and report our findings in next year's annual audit report.

Procurement

148. In 2009 the Scottish Government introduced an annual evidence-based assessment, the procurement capability assessment (PCA), to monitor public bodies' adoption of good purchasing practice and as a basis for sharing best practice.
149. The council did not take part in the December 2014 PCA assessment opting to focus on continuing to address the two lowest scoring areas in the 2013 PCA - contract & supplier management (38%) and key purchasing processes & systems (40%) whilst at the same time preparing a business case for the new transformation programme.
150. Due to legislative changes around procurement the assessment is in need of updating and a new assessment regime – the Procurement & Commercial Improvement Plan (PCIP) – will replace the PCA in 2015. PCIP focuses on policies and procedures driving procurement performance and the results delivered. As this approach adopts new assessment methods and scoring the results will not be comparable to the previous PCA. It is expected that all councils will be assessed in 2015/16 under the PCIP and then every two years thereafter. The council's first assessment is scheduled for June 2016.

Performance management

151. The council has a strong focus on performance management and has a sound framework for monitoring and reporting performance against the council's priorities.
152. There is good alignment between the *Community Plan/Single Outcome Agreement 2013-2023* and the council's corporate plan. The *Corporate Plan 2013-2018* is supported by services' *Business Management and Improvement Plans* (BMIPs). This is a well established approach to planning and performance management within the council.
153. The council produces an Annual Performance Report based around the council's Corporate Plan and the Community Plan/Single Outcome Agreement (SOA) outcomes. The council's website also provides links to further details on specific performance at a service-level. The 2014/15 Annual Performance Report is expected to be considered by the Council in October 2015.
154. The council participates in the Local Government Benchmarking Framework (LGBF). It includes a checklist of these within its corporate guidance for BMIPs. The council provides comparison over time and against targets within its services annual performance reports, SOA performance reports and LGBF.

Overview of performance targets in 2014/15

- 155.** The Annual Performance Report 2014/15 summarises the council performance against the Community Plan/SOA 2013/23. The report showed performance improvements in 40 of the local outcome areas with 15 demonstrating consistent performance and seven highlighted as needing attention. The report explains the reasons for the decline in performance and any remedial action being taken to address these areas.
- 156.** The council reports the Scottish Local Government Benchmarking Framework (LGBF) indicators. It includes a checklist of these within its corporate guidance for BMIPs. The council provides comparison over time and against targets within its services' annual performance reports, SOA performance reports and LGBF.
- 157.** In February 2015 the council considered its performance during 2013/14 against the LGBF indicators published by the Improvement Service in January 2015. Using the Improvement Service data the council has analysed its performance, across the thirty-one LGBF benchmarking indicators, when compared to Scotland:
- 29% are in the upper quartile (2012/13: 30%)
 - 45% are in the upper middle quartile (2012/13: 30%)
 - 19% are in the lower middle quartile (2012/13: 28%)
 - 6% are in the lower quartile (2012/13: 12%)
- 158.** The two areas where the council is classified in the lower quartile were the percentage of: A class roads that should be considered for maintenance treatment; people aged 65 or over with intensive

needs receiving care at home. The council as part of its consideration of the LGBF indicators commented on the reasons the council were in the lower quartile and the improvements required and actioned.

- 159.** A further comparison has also been undertaken of the movement in performance since 2011/12. This comparison allowed coverage of forty five indicators where data was comparable and highlighted that:
- 7 indicators have increased costs, 6 of which by more than 5%;
 - 9 indicators have decreased costs, 6 of which by more than 5%;
 - 20 indicators have improved performance, 4 of which by more than 5%;
 - 8 indicators have declined performance, 1 of which by more than 5%;
 - 1 indicator has remained the same

Statutory performance indicators (SPIs)

160. The Accounts Commission places great emphasis on councils' responsibility for public performance reporting. The Commission does not prescribe how councils should report but expects councils to provide citizens with fair, balanced and engaging performance information reporting.
161. For 2014/15 three (SPIs) were prescribed:
- SPI 1: covering a range of information relating to areas of corporate management such as employees, assets and equalities and diversity
 - SPI 2: covering a range of information relating to service performance
 - SPI 3: relates to the reporting of performance information as required by the Local Government Benchmarking Framework.
162. Overall we are satisfied that appropriate SPI arrangements were in place within the council for 2014/15
163. An evaluation of all Scottish councils' approaches to public performance reporting was carried out by Audit Scotland's Performance Audit and Best Value group during 2014/15 and reported to the Accounts Commission in June 2015. An individual assessment for Perth & Kinross Council was issued to the Leader and Chief Executive on 28 July 2015 and considered by the Scrutiny Committee in September 2015.
164. The results for the council were generally very positive with only one indicator – *Responsiveness to communities* – classed as an area for improvement. Improvements could be made by updating some of the information on the council's website which dated from before 2013/14. The website provides contextual information on how the council engages with communities and how the public can make complaints or FOI requests but it is difficult for the public to see how the council has reacted to feedback from communities to improve the design and delivery of front line services. In addition, some members of the public may be reluctant to search for performance information in committee reports. All other indicators met the requirements.
165. The review also highlighted areas of interesting practice that may be useful to other councils. Two examples were cited for Perth & Kinross Council:
- Structured approach to PPR, with clear presentation of information: a comprehensive approach to performance information incorporating a range of material for different audiences, for example there is a high-level newsletter and more detailed Annual Report and service-level reports should the reader require detailed information.
 - Dialogue with the public: the council makes extensive use of social media, uses nine Twitter accounts – covering topics including libraries, sport and council jobs – and publicly reports its performance by publishing statistics under a dedicated hashtag #pkperforms.

National performance audit reports

- 166.** Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2014/15, a number of reports were issued which are of direct interest to the council. These are outlined in appendix III.
- 167.** The council regularly report the findings from our national reports to members including an assessment of current practices against good practices and the agreement of actions to ensure further improvements.

Equalities

- 168.** The Equality Act 2010 introduced a new public sector 'general duty' which encourages equality to be mainstreamed into public bodies' core work. The Act requires that by no later than 30 April 2015 and every two years thereafter, public bodies must publish a report on the progress made to achieve the quality of outcomes it has set. The council's 2015 report is available on its website. We

understand that the council will be piloting an Innovation Forum which will inform a national action plan involving local communities. This is part of a Scottish Human Rights Commission and Scottish Government initiative to explore what a better human rights culture would look like in a local authority area.

Outlook

- 169.** In common with other councils, Perth & Kinross Council faces the key challenges of reducing budgets, an aging population with higher levels of need and the public expectation of high quality services. Savings have been made in recent years largely by reductions in the workforce. However, as choices on how to address funding gaps become increasingly difficult, councils will have to focus on making the very best use of all available resources and to challenge existing ways of doing things. Maintaining a strong and effective performance management framework will be critical to the success of the council achieving its key priorities and achieving best value.

Appendix I – Significant audit risks

The table below sets out the financial statement audit risks we identified during the course of the audit and how we addressed each risk in arriving at our opinion on the financial statements.

Audit Risk	Assurance procedure	Results and conclusions
Risk of material misstatement in financial statements		
<p>The Local Authority Accounts (Scotland) Regulations 2014</p> <p>The regulations introduce new requirements for inclusion in the financial statements of a management commentary prepared in accordance with proper accounting practices and recognised guidance.</p> <p>Risk: Appropriate disclosures are not detailed in the financial statements.</p>	<ul style="list-style-type: none"> Officers are aware of the requirements of the regulations with a report considered by Council in February. Officers will work with auditors to ensure all relevant information is prepared timeously to ensure that deadlines are met. 	<p>Draft accounts including management commentary received 23rd June 2015. The audited accounts comply with the new requirements</p>
<p>Control environment</p> <p>The council's processes to review its governance framework include a number of self assessments to inform the Annual Governance Statement (AGS). In 2013/14 this process was not followed and the council has agreed to revise its processes for 2014/15.</p> <p>Risk: The governance framework is not operating effectively to provide adequate assurance to members.</p>	<ul style="list-style-type: none"> Annual Governance Statement to be approved by the Scrutiny Committee in June 2015 	<p>AGS approved by Scrutiny Committee 17 June 2015.</p> <p>2 of the 16 self assessment forms were outstanding when the AGS was approved.</p> <p>Draft versions of the outstanding assessments were available during the audit.</p>

Audit Risk	Assurance procedure	Results and conclusions
<p>Internal financial controls</p> <p>A robust system of internal financial controls is essential to reduce the risk of material error in the financial statements. In times of economic challenge, the council's financial systems may be exposed to increased risk of fraud or manipulation. For example:</p> <p>Auditing standards (ISA 240 <i>The auditor's responsibility to consider fraud in an audit of financial statements</i>) requires auditors to presume a risk of fraud where income streams are significant. The council receive a significant amount of income in addition to Scottish Government funding (approx. £166 million). The extent and complexity of these income streams introduces an increased risk of fraud.</p> <p>Risk: the council's financial position is exposed to error. Fraud and manipulation may not be detected.</p>	<ul style="list-style-type: none"> • Regular budget monitoring and reporting. • Robust internal controls in financial systems to mitigate risks of error or manipulation. • Internal audit coverage of internal controls. • Participation in the National Fraud Initiative. • Annual Governance Statement and Local Code of Corporate Governance. 	<p>No significant issues were found in relation to controls in place across the key financial systems</p> <p>Audit testing also confirmed that income was properly accounted for in the financial year.</p>

Audit Risk	Assurance procedure	Results and conclusions
<p>Management override of controls</p> <p>As stated in ISA 240, management has the ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p> <p>Risk: The accounts are materially misstated.</p>	<ul style="list-style-type: none"> Submission of a set of compliant Annual Accounts. 	<p>Satisfactory explanations for variances between income and expenditure were provided by officers. No outstanding issues.</p> <p>Significant journal adjustments were subject to specific testing and no issues were found.</p> <p>Random testing of lower value journals was also undertaken and no indications of management override of controls were found.</p> <p>Judgements and estimations applied in 2014/15 relating to accruals were tested to confirm they were appropriate and reasonable. Figures used were agreed to supporting documentation. No issues with the amounts applied were found.</p>

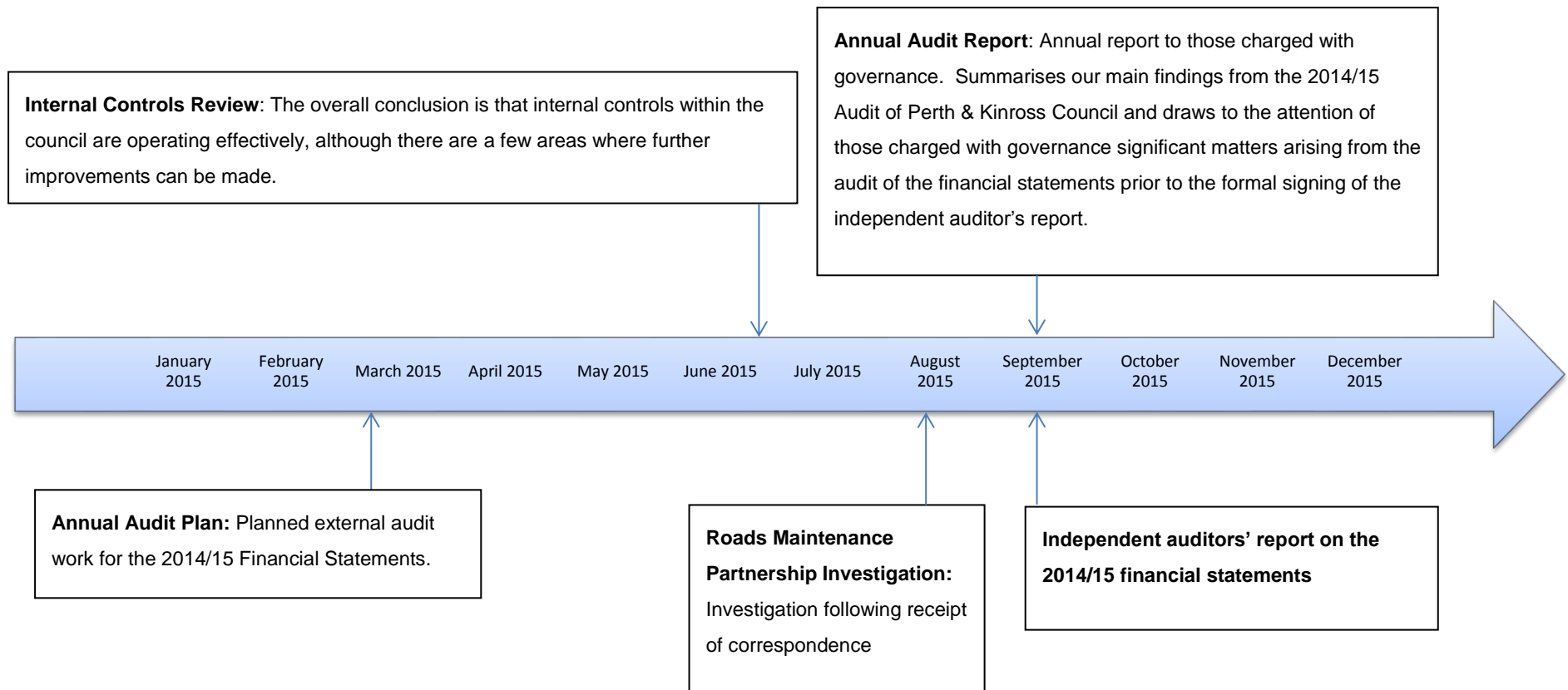
Audit Risk	Assurance procedure	Results and conclusions
<p>Charities governance documentation</p> <p>The governance documentation for several trusts could not be located as a consequence of the age of the trust, in some cases dating back over 100 years. Therefore in 2013/14 we reported that we were unable to verify whether:</p> <ul style="list-style-type: none"> the classification of these funds between restricted, unrestricted and endowment funds was accurate spend in these areas was in line with the original stated purpose for these individual trusts. <p>Risk: The funds are not accounted for accurately or used for the appropriate purpose.</p>	<ul style="list-style-type: none"> All funds are treated as endowments and where there is an absence of governance documentation the council rely on custom and practice to inform any decisions by the trustees in respect of the trusts' expenditure and use of assets. The Council is continuing to amalgamate smaller charities with a view to streamlining the administrative requirements and establishing clearer governance arrangements. 	<p>The 2014/15 accounts reflected which trusts have/do not have governance documentation and that all trusts are treated as endowments.</p> <p>A further three trusts were amalgamated into the Welfare Trust in 2014/15</p>

Audit Risk	Assurance procedure	Results and conclusions
Risks identified from the auditor's wider responsibility under the Code of Audit Practice		
<p>Financial management</p> <p>Along with all other public bodies in Scotland, the council is facing the prospect of having to make significant budget savings. At the same time as the council aims to support the local economy and maintain service provision, it is likely to face a reduction in resources.</p> <p>Risk: the council may not be able to secure the efficiencies required without impacting on services.</p>	<ul style="list-style-type: none"> • The council's transformation programme Securing the Future Toward 2015 and Beyond sets out the path which will allow it to achieve the required modernisation and efficiencies to meet the financial challenges and future service demand. It is proposed that the transformation programme will be updated by the council in July 2015. • The medium term financial plan is updated on an on-going basis and used to inform the annual budget setting process. • The council's Workforce Plan 2013-18 is to be used to inform a review of the actions in support of the objectives set out in 'Our People Strategy (2010-2015)', and to support the council's transformation approach. There is an Annual workforce report to the Council each December. • IT & digital strategy to be agreed. • Budget monitoring reports are presented to members on a regular basis. 	<p>Updated transformation programme and medium term financial plan approved in July 2015.</p> <p>Promotion of the council's voluntary severance scheme began in August 2015</p> <p>Digital strategy currently being considered by Executive Officer Team</p> <p>Four budget monitoring reports considered by members each year (refer paragraph 38).</p>

Audit Risk	Assurance procedure	Results and conclusions
<p>Performance management</p> <p>The council's performance indicates a relatively positive picture overall with only a few areas of performance declining. However, effectively managing performance will remain a key challenge as financial pressures increase. The council will need to use its performance information to understand and manage the impact of spending decisions.</p> <p>Risk: the council's resources are not directed at priority areas and outcomes are not demonstrated.</p>	<ul style="list-style-type: none"> A robust approach to performance management is in place and performance indicators which cover the wider community planning partnership area are regularly monitored. 	<p>The 2014/15 performance report provides a balanced view of the council's performance against key indicators in the year and highlights areas in need of attention along with priorities to be addressed in 2015/16.</p>

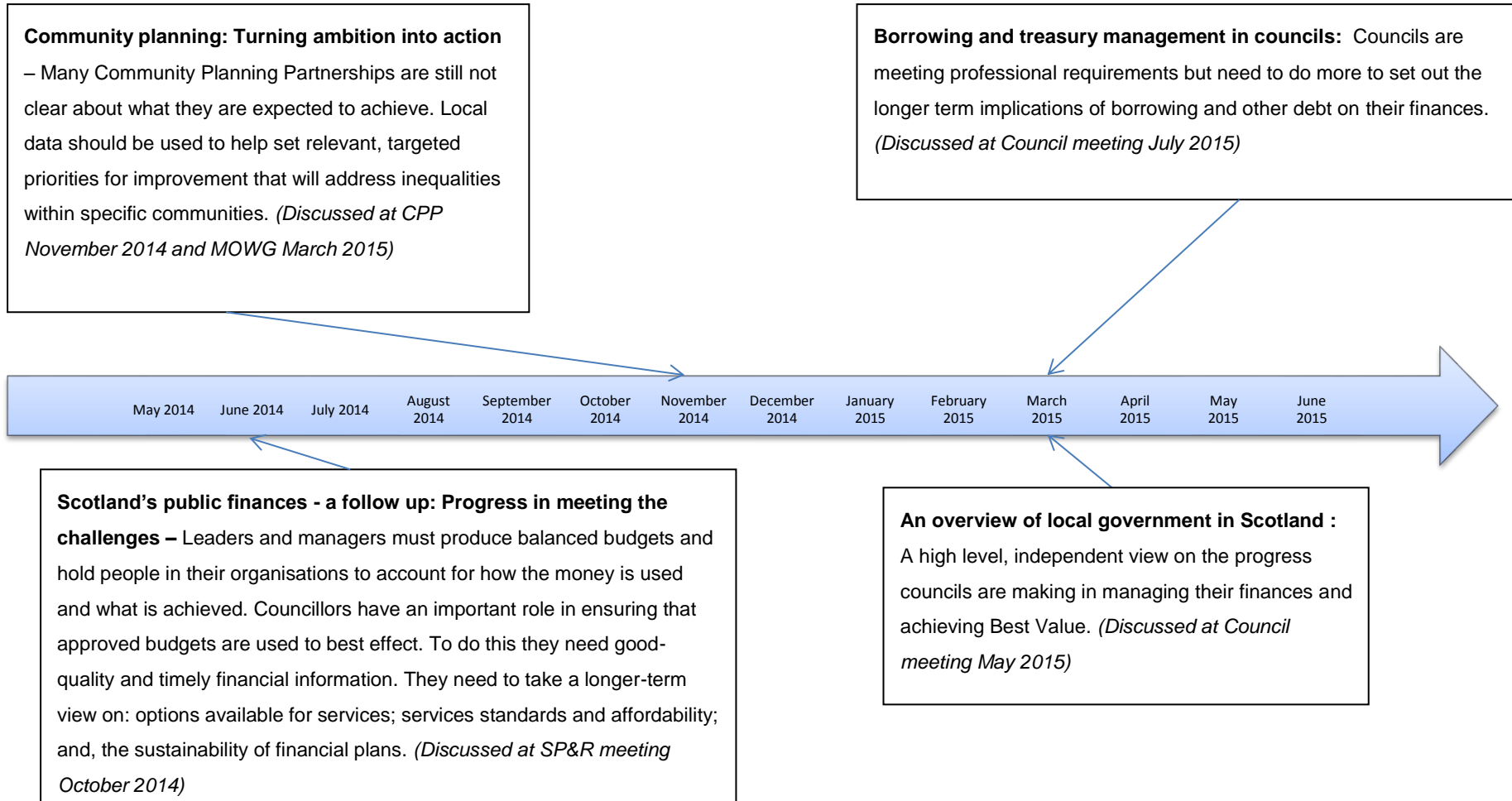
Appendix II – Local reports

Summary of Perth & Kinross Council local audit reports 2014/15



Appendix III – National reports

Summary of Audit Scotland national reports 2014/15



Appendix IV – Action Plan

Action plan

No. Page/para	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
1 19/51	<p>Issue: The council’s medium term financial plan identifies that it needs to make an estimated £53 million of savings over the next five years to maintain its financial balance. To support it in making these savings, the council has earmarked £12.9 million for the delivery of a transformation programme, some of which will be used to fund an extended voluntary severance scheme.</p> <p>Risk: The savings required over the next five years are not achieved and the medium term financial plan can not be delivered.</p> <p>Recommendation: The council should continually monitor and report on progress as it progresses through the transformation programme to evidence it is on target to deliver the medium term financial plan.</p>	<p>Progress with the transformation programme will be reported to: the Executive Officer Team (EOT) six weekly; the Modernising Governance Member Officer Working Group at each meeting; and annually to Council. In addition to these overall governance arrangements, individual project managers will report to their project board and relevant Service Committee at an agreed interval.</p>	<p>Head of Strategic Commissioning and Organisational Development</p>	<p>As per frequencies detailed in the Management Actions</p>

No. Page/para	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
2 29/93	<p>Issue: The current committee structure reflects the themes of the Perth & Kinross Community Plan and the council's Corporate Plan. This can result in individual reports being discussed by several committees.</p> <p>Risk: The current committee structure results in duplication of effort and inefficient use of member and officer time.</p> <p>Recommendation: Governance arrangements should be reviewed to ensure they continue to remain fit for purpose and avoid unnecessary duplication of reporting wherever possible.</p>	<p>The Council's decision-making arrangements are kept under review to ensure that it reflects changes required by new legislation etc. – a review of the entire decision-making structure will be undertaken in preparation for the local government elections in May 2017.</p>	<p>Chief Executive/Head of Democratic Services</p>	<p>November 2016</p>
3 30/102	<p>Issue: External audit reports generally contain an action plan for further improvements which are agreed with officers and include target implementation dates. We noted that not all target dates are being met and in some cases revised dates may be a year later than initially agreed.</p> <p>Risk: The council continues to carry a degree of unnecessary risk in its control environment.</p> <p>Recommendation: Realistic implementation dates should be agreed and all efforts made to deliver these to ensure weaknesses in the council's control environment are addressed timeously.</p>	<p>The Council takes a very proactive approach to all external audit reports. These are reported to the relevant committees with the Council's position against the findings of each report analysed with improvement areas and timescales agreed. Further work will be undertaken to ensure that the timescales are realistic and that all actions are delivered.</p>	<p>Head of Strategic Commissioning and Organisational Development</p>	<p>March 2016</p>

