KPMG

Perth and Kinross Council

Annual Audit Report to the Members of Perth and Kinross Council and the Controller of Audit for the year ended 31 March 2018

28 September 2018

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About this report

This report has been prepared in accordance with the responsibilities set out within the Audit Scotland's *Code of Audit Practice* ("the *Code*").

This report is for the benefit of Perth and Kinross Council ("the Council") and is made available to Audit Scotland and the Controller of Audit (together "the Beneficiaries"). This report has not been designed to be of benefit to anyone except the Beneficiaries. In preparing this report we have not taken into account the interests, needs or circumstances of anyone apart from the Beneficiaries, even though we may have been aware that others might read this report. We have prepared this report for the benefit of the Beneficiaries alone.

Nothing in this report constitutes an opinion on a valuation or legal advice.

We have not verified the reliability or accuracy of any information obtained in the course of our work, other than in the limited circumstances set out in the introduction and responsibilities sections of this report.

This report is not suitable to be relied on by any party wishing to acquire rights against KPMG LLP (other than the Beneficiaries) for any purpose or in any context. Any party other than the Beneficiaries that obtains access to this report or a copy (under the Freedom of Information Act 2000, the Freedom of Information (Scotland) Act 2002, through a Beneficiary's Publication Scheme or otherwise) and chooses to rely on this report (or any part of it) does so at its own risk. To the fullest extent permitted by law, KPMG LLP does not assume any responsibility and will not accept any liability in respect of this report to any party other than the Beneficiaries.

Complaints

If at any time you would like to discuss with us how our services can be improved or if you have a complaint about them, you are invited to contact Andy Shaw, who is the engagement leader for our services to the Council, telephone 0131 527 6673, email: andrew.shaw@kpmg.co.uk who will try to resolve your complaint. If your problem is not resolved, you should contact Hugh Harvie, our Head of Audit in Scotland, either by writing to him at Saltire Court, 20 Castle Terrace, Edinburgh, EH1 2EG or by telephoning 0131 527 6682 or email to hugh.harvie@kpmg.co.uk. We will investigate any complaint promptly and do what we can to resolve the difficulties. After this, if you are still dissatisfied with how your complaint has been handled you can refer the matter to Fiona Kordiak, Director of Audit Services, Audit Scotland, 4th Floor, 102 West Port, Edinburgh, EH3 9DN.

Executive summary

Significant risks

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The other focus area of capital expenditure is considered on page 11.

Audit differences

Adjusted Page 38

Understatement/(overstatement)

	£m	%
Deficit on provision of services	2.1	8.6
Net assets	(2.1)	(0.4)

There are no unadjusted audit differences.

Control deficiencies

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Significant control deficiencies	0
Other control deficiencies	6
Prior year control deficiencies – in progress	1

Wider scope focus areas

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We incorporate our views of the Best value areas of leadership, governance and scrutiny; and improvement within the wider scope sections.

Conclusion

We issued an unqualified opinion on the truth and fairness of the state of the Council's affairs as at 31 March 2018, and of the deficit for the year then ended. We also issued an unqualified opinion on the truth and fairness of the state of the Perth and Kinross Council Charitable Trusts' affairs as at 31 March 2018.

There are no matters identified on which we are required to report by exception.

Scope and responsibilities

Purpose of this report

The Accounts Commission has appointed KPMG LLP as auditor of Perth and Kinross Council ("the Council") under part VII of the Local Government (Scotland) Act 1973 ("the Act"). The period of appointment is 2016-17 to 2021-22, inclusive.

Our annual audit report is designed to summarise our opinions and conclusions on significant issues arising from our audit. It is addressed to both those charged with governance at the Council and the Controller of Audit. The scope and nature of our audit are set out in our audit strategy document which was presented to the audit committee on 28 March 2018.

Audit Scotland's Code of Audit Practice ("the Code") sets out the wider dimensions of public sector audit which involves not only the audit of the financial statements but also consideration of wider scope areas.

Accountable officer responsibilities

The Code sets out the Council's responsibilities in respect of:

- corporate governance;
- financial statements and related reports;
- standards of conduct for prevention and detection of fraud and error;
- financial position; and
- Best Value.

Auditor responsibilities

This report reflects our overall responsibility to carry out an audit in accordance with our statutory responsibilities under the Act and in accordance with International Standards on Auditing (UK and Ireland) ("ISA") issued by the Auditing Practices Board and the Code. Appendix one sets out how we have met each of the responsibilities set out in the Code.

Scope

An audit of the financial statements is not designed to identify all matters that may be relevant to those charged with governance.

Weaknesses or risks identified are only those which have come to our attention during our normal audit work in accordance with the Code, and may not be all that exist.

Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

Under the requirements of ISA 260 *Communication with those charged with governance*, we are required to communicate audit matters arising from the audit of financial statements to those charged with governance of an entity.

This report to those charged with governance and our presentation to the audit committee, together with previous reports to the audit committee throughout the year, discharges the requirements of ISA 260.

Audit conclusions

Audit opinion
We issued an unqualified opinion on the truth and fairness of the state of the Council's affairs as at 31 March 2018, and of the deficit for the year then ended. We also issued an unqualified opinion on the truth and fairness of the state of the Perth and Kinross Council Charitable Trusts' affairs as at 31 March 2018. There are no matters identified on which we are required to report by exception.
Financial reporting framework, legislation and other reporting requirements
The Council is required to prepare its annual accounts in accordance with International Financial Reporting Standards ("IFRS"), as interpreted by the Chartered Institute of Public Finance and Accountancy ("CIPFA") and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2017-18 ("the CIPFA Code"), and in accordance with the Local Authority Accounts (Scotland) Regulations 2014. Our audit confirmed that the financial statements have been prepared in accordance with the CIPFA Code and relevant legislation. The Perth and Kinross Council Charitable Trust's financial statements are prepared in accordance with the Charities SORP (FRS 102), the Charities and Trustee Investment (Scotland) Act 2005 and regulation 8 of the Charities Accounts (Scotland) Regulations 2006 (as amended). Our audit confirmed that the annual accounts have been prepared in accordance with the relevant charity accounting legislation.
Statutory reports
We have not identified any circumstances to notify the Controller of Audit that indicate a statutory report may be required.
Other communications
We did not encounter any significant difficulties during the audit. There were no other significant matters arising from the audit that were discussed, or subject to correspondence with management that have not been included within this report. There are no other matters arising from the audit, that, in our professional judgement, are significant to the oversight of the financial reporting process.
Audit misstatements
Three audit misstatements were identified during the audit, all of which have been adjusted as reported in appendix five. A number of presentational adjustments covering the remuneration report and the cash flow statement were identified and adjusted. There are no unadjusted audit misstatements.
Written representations
Our representation letters will not include any additional representations to those that are standard as required for our audits of Perth and Kinross Council, or Perth and Kinross Council Charitable Trusts.

Materiality and summary of risk areas

Materiality

We summarised our approach to materiality in our audit strategy document. On receipt of the financial statements and following completion of audit testing we reviewed our materiality levels and concluded that the level of materiality set at planning was still relevant.

We used a materiality of £8.7 million for the Council's standalone financial statements and £9.0 million for the consolidated financial statements. These equate to 2% of gross cost of services expenditure, adjusted for revaluation gains and losses recognised in the year. We designed our procedures to detect errors in specific accounts at a lower level of precision than our materiality. For the standalone and group accounts, our performance materiality was £6.5 million, and £6.7 million respectively. We report all misstatements greater than £250,000.

Forming our opinions and conclusions

In gathering the evidence for the above opinions and conclusions we:

— performed controls testing and substantive procedures to ensure that key risks to the annual accounts have been covered;

— communicated with the chief internal auditor and reviewed internal audit reports as issued to the audit committee to ensure all key risk areas which may be viewed to have an impact on the annual accounts had been considered;

— reviewed estimates and accounting judgments made by management and considered these for appropriateness;

— considered the potential effect of fraud on the annual accounts through discussions with senior management and internal audit to gain a better understanding of the work performed in relation to the prevention and detection of fraud; and

— attended audit committee meetings to communicate our findings to those charged with governance, and to update our understanding of the key governance processes.

Financial statements preparation

High quality working papers and draft financial statements were provided at the start of the audit fieldwork on 27 June 2018. This included the management commentary and annual governance statement.

In advance of our audit fieldwork we issued a 'prepared by client' request setting out a list of required analysis and supporting documentation. The standard of the documentation was good and there was evidence of accountability and ownership of working papers across the finance division.

Significant risks and other focus areas in relation to the audit of the financial statements

We summarise below the risks of material misstatement as reported within the audit strategy document.

Significant risks:

— fraud risk from management override of controls;

— fraud risk from income revenue recognition;

— revaluation of property, plant and equipment; and

— pension liability.

Other focus area:

— capital expenditure.

No further significant risks or other matters were identified during our audit work.

Significant risks

SIGNIFICANT RISK	OUR RESPONSE	AUDIT CONCLUSION
Fraudulent income recognition International Standards on Auditing require us to consider if the fraud risk from revenue recognition is significant. As set out in the audit strategy document, the only income stream we consider to have a significant risk is fees and charges income. Fees and charges income relates primarily to service income from varying different services and therefore we consider there to be judgement in recognising this income. There was no change to the planned audit work over income streams which did not contain a significant risk.	We performed the following testing: — We performed tests of controls, and substantive analytical procedures in our audit of these sources of income. We undertook data analytics over fees and charges income, identifying trends of income throughout the year. — We considered each source of income and analysed results against budgets and forecasts, and vouched sample income items to supporting documentation in the sales ledger, income processed through journals, and income processed through Pay360 by Capita's Income Management System. — We agreed significant grants to supporting documentation, such as Scottish Government grant letters.	No instances of error or fraud were identified. We are satisfied that income is recognised appropriately, in the correct financial year and in line with the CIPFA Code.
Fraud risk of management override of controls Management is typically in a position to perpetrate fraud owing to its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.	Our audit methodology incorporates the risk of management override as a default significant risk. We did not identify any specific additional risks of management override relating to the audit of the Council. Strong oversight of finances by management provides additional review of potential material errors caused by management override of controls. In line with our methodology, we carried out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the Council's normal course of business, or are otherwise unusual.	We did not identify any indicators of management bias or management fraud. No overrides were identified.

Significant risks (continued)

SIGNIFICANT RISK	OUR RESPONSE	AUDIT CONCLUSION
Revaluation of property plant and equipment As at 31 March 2018, the Council held £1,071 million of property plant and equipment and £13.9 million of investment property. In order to comply with the Code, the Council carries out a rolling programme that revalues all property, plant and equipment once every five years. Investment properties are revalued on an annual basis. In 2017-18 operational depots, car parks, tips, investment properties and shops were subject to revaluation. The Council uses a valuation date of the 1 April 2017 for the 31 March 2018 year end, therefore we consider there to be a risk of a material movement in valuation between this time. Given the quantum of the asset carrying values and the inherent use of assumptions in their valuation, we consider there to be a significant risk of misstatement.	Our procedures included: Control design: − We reviewed the approach that the Council has adopted to assess the risk that assets not subject to valuation are materially misstated and consider the robustness of that approach, including any indicators of impairment. − We evaluated management's assessment of the risk of the valuation changing materially during the year, or between the date of valuation and the year end. Assessing valuer's credentials: − In relation to those assets which have been revalued during the year we assessed the valuer's qualifications, objectivity and independence to carry out such valuations. Assessing methodology choice and benchmarking assumptions: − We reviewed management's assessment of impairment indicators. − We selected a sample of assets to agree to supporting evidence and consider in detail the revaluation calculations. − We challenged the use of depreciated replacement cost ("DRC") on a number of properties due to this being the "valuation of last resort", and income yield method for income generating investments or assets. − We considered the reliability of input data in revaluations such as income for car parks, and land or building sizes for DRC. − We utilised our internal valuation specialist to assess the methodology used, including testing the underlying data inputs and assessing the assumptions used in comparison to available market information. Other land and buildings A number of assets are revalued on an annual basis, including investment property and assets held for sale. We tested the accounting treatment for assets revalued to confirm whether the accounting treatment was appropriate. Given their value, we assessed that there is unlikely to be a material misstatement in relation to these assets.	We consider the overall revaluation of property, plant and equipment to be materially appropriate. We concur with management's assessment that there was no material movement in the valuations between 1 April 2017 and 31 March 2018. We identified issues as summarised below. − Although the corporate finance team performs a review of revaluations, the documentation and approach are not robust and we could not place reliance on this as a control. − We discussed with Council officers the benefits of engaging the services of an external valuation provider, in order to gain assurance over the skills and experience of the internal valuation team. This secondary evidence would provide additional assurance over the accuracy and appropriateness of valuations undertaken in year. − We did not identify concerns relating to the valuer's qualification, objectivity and independence to carry out valuations. We note that there will be a significant loss of experience and knowledge when the Senior Estates Surveyor retires towards the end of 2018. ***Recommendation one*** Our internal valuation specialist assessed the methodology choice, documentation and approach for four valuations, which are considered representative of the population of valuations. All four used the DRC valuation method. This methodology has the highest risk of misstatement due to the level of judgement involved and limited comparable market evidence. No significant issues were identified over the choice of the DRC valuation method. (continued…….)

Significant risks (continued)

SIGNIFICANT RISK	OUR RESPONSE	AUDIT CONCLUSION
Revaluation of property plant and equipment See previous page	See previous page.	…..continued. We also considered two further assets (a car park and investment asset) to determine whether the assets had been valued correctly, and tested the inputs. We identified a misstatement with respect to the rates used for Perth Theatre. We challenged the use of two specific rates, one for the existing asset which relied on Building Cost Information Service advised rates, and one for the extension based on the Council's cost of construction. Our specialist considered that the Royal Institution of Chartered Surveyors' ("RICS") guidance on DRC required the valuation to be carried out using the 'most cost-effective materials' to complete a replacement, and we requested management revalue the asset on this basis, resulting in an overstatement of £2.1 million as reported in appendix five. Our specialist highlighted the requirement to undertake detailed measurements where material changes occurred. Our testing highlighted for all four assets, there were no recent measurements carried out by the valuation team in respect of existing unwarranted structures or land plots. We discussed with management and recommended an overall improvement in the level of documentation held within valuation files, and that where material changes are made to an asset, new measurements be obtained. ***Recommendation two*** *Other land and buildings* We identified one asset at Arran Road that was not accounted for in accordance with the Code. This resulted in an £305,000 overstatement of the value, and an overstatement in the revaluation reserve. Management adjusted the annual accounts for this misstatement as per appendix five.

Significant risks (continued)

SIGNIFICANT RISK	OUR RESPONSE	AUDIT CONCLUSION
Pension liability The net pension liability (£98 million as at 31 March 2018, including assets of £756 million) represents a material element of the Council's balance sheet. The Council is an admitted body of Tayside Pension Fund, which had its last triennial valuation completed as at 31 March 2017. The valuation of the local government pension scheme relies on a number of assumptions, most notably around the actuarial assumptions, and actuarial methodology which results in the Council's overall valuation. There are financial assumptions and demographic assumptions used in the calculation of the Council's valuation, such as the discount rate, inflation rates, and mortality rates. The assumptions should also reflect the profile of the Council's employees, and should be based on appropriate data. The basis of the assumptions is derived on a consistent basis year to year, or updated to reflect any changes. There is a risk that the assumptions and methodology used in the valuation of the Council's pension obligation are not reasonable. This may have a material impact to net pension liability accounted for in the financial statements.	As set out in our audit strategy document, our audit approach includes: Control design: – Testing the design and operating effectiveness of controls over the provision of membership information to the actuary who uses it, together with the assumptions, to calculate the pension obligation. Benchmarking assumptions: – Challenging, with the support of our own actuarial specialists, the key assumptions applied, being: the discount rate; inflation rate; and mortality/life expectancy against externally derived data. – Challenging the rate of increase in pensionable salaries assumption, by comparing it to other evidence such as business and transformation plans and our understanding of Government and staff expectations. Assessing transparency: – Considering the adequacy of the disclosures in respect of the sensitivity of the deficit to these assumptions. – Testing the assets recorded and disclosed, using our actuarial team. – Assessing if the disclosures within the financial statements are in accordance with the CIPFA Code's requirements.	The net liability associated with the Tayside Pensions Fund in the balance sheet decreased from £250 million as at 31 March 2017 to £98 million as at 31 March 2018. We are satisfied that the controls over the provision of membership data to the actuary is appropriate. We are satisfied that the net pension liability: — is correctly recognised on the balance sheet as at 31 March 2018; — has been accounted for and disclosed correctly in line with IAS19 Retirement benefits; and — assumptions used in calculating this estimate and management's judgements are appropriate and within the acceptable KPMG range. We set out detailed information in respect of our assessment of the pension liability in appendix four. The disclosures in the annual accounts are in line with the Code's requirements, including relevant sensitivity analysis. During the audit we requested that management obtained an update in respect of the assets of the Tayside Pension Fund, as the actuary uses an estimate of the asset values when preparing the IAS 19 valuation. Our experience from other audits is that market volatility in the last month of the financial year can give rise to material movements in asset values. The actuary provided an updated estimate of asset values which gave rise to an £8.3 million increase in the net pension liability. We highlight that this represents a revised estimate which was not available for management to apply when it prepared the draft financial statements.

Other focus area

SIGNIFICANT RISK	OUR RESPONSE	AUDIT CONCLUSION
Capital expenditure The Council has a £678 million capital plan covering 2018-19 to 2027-28. This is split between £608 million for the composite budget and £70 million for the housing investment programme. The actual spend for 2017-18 was £81.5 million with £58.4 million for the composite budget and £23.1 million for the housing investment programme. Due to the significance of this capital investment programme and inherent risk of delivering it in line with budget, we consider it to be another focus area for our audit work to ensure the classification of costs between operating and capital expenditure is appropriate.	As set out in our audit strategy document, we completed the following work: Control design: — Testing the design and implementation of controls in respect of the review of expenditure incurred to capital projects. Tests of detail: — Use of substantive sampling methods to evaluate the appropriateness of capital or revenue accounting classification by reference to supporting documentation. — Assessing a sample of items allocated to revenue expenditure to determine whether they are correctly classified. — Agreement of proposed capital journals to working papers audited. There was ongoing development in the implementation of gateway reviews, this was considered as part of our wider scope and Best Value work.	Our testing found capital expenditure to be accurate and appropriately classified. We tested capital additions and revenue expenditure through sampling techniques and found no classification errors. We reviewed the manual journal entries posted in respect of capital accounting in order to confirm they were supported by appropriate supporting documentation, and were satisfied that journals were appropriately supported. During our interim audit, we tested the capital monitoring report presented to the Strategic Policy and Resources Committee (“SP&R Committee”) and reported a satisfactory conclusion. Notwithstanding this, we recommend that management introduces a defined level of precision to the monitoring report. This would result in all variances in excess of this level being reported, and increases the level of transparency in reporting to members. ***Recommendation three*** We report on the ongoing development of the gateway reviews in our wider scope and Best Value section on page 32.

Going concern

Going concern

The Council had net assets of £558.2 million *(2016-17 £400.3 million)* as at 31 March 2018, primarily due to the reduction in the IAS 19 pension liability which is a long term liability. Net current liabilities were £3.1 million as at 31 March 2018.

Management considers it appropriate to continue to adopt the going concern assumption for the preparation of the annual accounts. The Council is in a net asset position, and it considers that the confirmed 2018-19 revenue support grant (which includes non-domestic rates income) of £239 million is sufficient to meet debts as they fall due, although amounts for funding periods after the 2018-19 financial year are unknown.

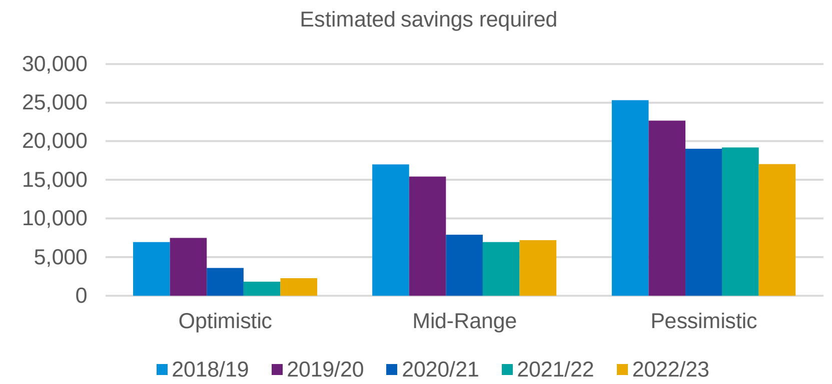
The Council recognised a planned deficit on the provision of services in the year, although this did not result in an overall reduction of the general fund reserve. Over the past few years there has been a reduction in the overall cost base and further efficiency savings are incorporated into budgets.

As part of the October 2017 medium term financial plan, the Council identified efficiency savings requirements ranging from an 'optimistic' £22.2 million to 'pessimistic' £103.2 million over the next five years. The estimated savings required are presented in the diagram opposite.

Savings are required to proactively respond to a range of areas such as decreasing revenue funding, inflation, welfare reform, apprenticeship levy and demographic changes. There is a rising number of older people within Perth and Kinross, as well as an increasing number of young people, with each growing demographic providing unique challenges.

Identified savings in the 2015-20 transformation programme come from:

- procurement reform review; closer management of suppliers and collaborative working between other public sector entities;
- corporate digital service review; moving services online;
- property asset management reviews; and
- voluntary severance schemes.



Source: Medium Term Financial Plan 2018 - 2023

Conclusion

The Council has a strong net assets position supported by £11 million uncommitted reserves and a positive forecast cash flow for 2018-19.

The Council has prepared short and medium term financial forecasts which are inherently dependant on a number of assumptions out with the Council's control. We note that management has identified potential savings and has demonstrated strong leadership in taking action on overspends to ensure tight budgetary control.

We are content that the going concern assumption is appropriate for the Council in light of the above.

Management reporting in financial statements

REPORT	SUMMARY OBSERVATIONS	AUDIT CONCLUSION
Management commentary	The Local Authority Accounts (Scotland) Regulations 2014 require the inclusion of a management commentary within the annual accounts, similar to the Companies Act requirements for listed entity financial statements. The requirements are outlined in the local government finance circular 5/2015. We are required to read the management commentary and express an opinion as to whether it is consistent with the information provided in the annual accounts. We also review the contents of the management commentary against the guidance contained in the finance circular.	We reviewed the contents of the management commentary against the guidance contained in the local government finance circular 5/2015 and are content with the proposed report. We are satisfied that the information contained within the management commentary is consistent with the annual accounts.
Remuneration report	The remuneration report was included within the unaudited annual accounts and supporting reports and satisfactory working papers were provided.	We discussed some minor presentational changes to the remuneration report with management. We are now satisfied that the information contained within the remuneration report is consistent with the underlying records and the annual accounts and all required disclosures have been made. Our independent auditor's report confirms that the part of the remuneration report subject to audit has been properly prepared.
Annual governance statement	The statement for 2017-18 outlines the corporate governance and risk management arrangements in operation in the financial year. It provides detail on the Council's governance framework, review of effectiveness, continuous improvement agenda and group entities and analyses the efficiency and effectiveness of these elements of the framework. The CIPFA *Delivering Good Governance in Local Government: Framework 2016* outlines the disclosure requirements for the annual governance statement.	We consider the governance framework and annual governance statement to be appropriate for the Council and that it is in accordance with guidance and reflects our understanding of the Council.

Group financial statements

Our audit appointment of the Council extends to the audit of the Perth and Kinross Council Charitable Trusts and Perth and Kinross Council Common Good. We are also appointed to audit the Tayside and Central Scotland Regional Transport Partnership ("Tactran"), and the Perth and Kinross Integration Joint Board ("IJB")

Per the group structure in appendix eight, we concur that Tactran is not consolidated on the grounds of materiality and as auditor of the Perth and Kinross Council group, obtained sufficient evidence over the consolidation of the IJB.

ENTITY	WORK PERFORMED	AUDIT CONCLUSION
Charitable Trusts	We assessed materiality based on our knowledge and understanding of the charities' risk profile and annual accounts balances. Materiality was determined at 10% of net assets. There were no audit adjustments required to the draft accounts which impacted on the net assets and income and expenditure for the year. We considered and confirm our independence as auditor and our quality procedures, together with the objectivity of the audit director and audit staff.	We issued an unqualified audit opinion on the charitable trusts.
Common Good	Perth and Kinross Council Common Good does not prepare separate financial statements, and is incorporated as disclosure notes within the Council's financial statements. Common Good holds investment properties as well as other assets. Our findings in relation to the valuation of investment properties across the Council and Common Good are reported on pages eight and nine.	The Common Good amounts are included within the Group financial statements, for which we issued an unqualified opinion.
Perth and Kinross Integration Joint Board ("the IJB")	The IJB is a joint venture between Perth and Kinross Council and NHS Tayside. As part of our engagement as auditor of the Council and its group, we confirmed that the disclosures held within the Annual Accounts for the Council reflected transactions with the IJB.	We did not identify any erroneous consolidation adjustments with respect to the IJB. We issued an unqualified audit opinion on the financial statements of the IJB.

Future developments and qualitative aspects

Future accounting and audit developments

CIPFA / LASAAC consulted on amendments to the CIPFA code for IFRS 9 *Financial instruments* and IFRS 15 *Revenue from contracts with customers.* A separate publication *Forthcoming Provisions for IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers in the Code of Local Practice on Local Authority Accounting in the United Kingdom 2018/19* will be issued as a companion publication to the Code setting out the approach to these two standards.

IFRS 16 Leases will bring a significant number of operating leases onto the balance sheet unless they are low value or have less than a year to run.

There are also minor disclosure changes that will come into effect as a result of amendments to *IAS 7 Statement of Cash Flows:* Disclosure Initiative.

CIPFA/LASAAC will revisit accounting for private finance initiative liabilities which are currently under finance lease accounting rules of IAS 17, which is being replaced by the new standard.

Qualitative aspects

ISA 260 requires us to report to those charged with governance our views about significant qualitative aspects of the Council's accounting practices, including accounting policies, accounting estimates and financial statement disclosures.

We consider the accounting policies adopted by the Council to be appropriate. There are no significant accounting practices which depart from what is acceptable under IFRS or the CIPFA Code.

Significant accounting estimates relate to the present value of defined benefit obligations and valuation of non-current assets. For defined benefit obligations, the estimate is calculated under IAS 19 (as calculated by the Council's actuary, Barnett Waddingham using agreed financial assumptions). We found the assumptions and accounting for pensions to be appropriate (page 37). Non-current asset impairment is considered by the Council's valuation team. We used our internal valuation specialists to assess the assumptions used in these reports. We did not identify indications of management bias although requested an update on the asset valuation as described on page ten.

Financial statement disclosures were considered against requirements of the CIPFA Code, relevant legislation and IFRS. No departures from these requirements were identified.

Financial position

Comprehensive income and expenditure statement

The Council set a balanced budget for 2017-18, excluding the use of earmarked reserves and statutory adjustments. The key movements in the CIES compared to 2016-17 relate to:

- Increased cost of services associated with additional costs of corporate and democratic services (£3.7 million); education and children services (£24.5 million); housing & community safety (£3.8 million); and culture services (£5.6 million).
- Increased finance and investment net expenditure, primarily due to premiums incurred on repayment of long term borrowings (£10.0 million)
- Other comprehensive income, associated with the surplus on revaluation of property (£7.6 million) and actuarial gain on pension assets (£177.8 million).

Comprehensive income and expenditure statement

	2017-18 £000	2016-17 £000	Variance £000
Cost of services	344,278	303,237	(41,041)
Other operating expenditure	(808)	(635)	(173)
Financing and investment income and expenditure	34,013	22,945	11,068
Taxation and non specific grant income	(351,086)	(334,579)	(16,507)
Deficit/(Surplus) on the provision of services	**26,397**	**(9,032)**	**(35,429)**
Other comprehensive (income) and expenditure	(184,322)	46,966	(231,288)
Total comprehensive (income) and expenditure	**(157,925)**	**37,934**	**(195,859)**

Source: 2017-18 financial statements

Deficit on provision of services

£26 million

2016-17: Surplus £9 million

Deficit on general fund

£0.3 million

2016-17: £3.5 million

Total reserves

£558 million

2016-17: £400 million

Total long term borrowing

£345 million

2016-17: £280 million

Net defined benefit liability

£98 million

2016-17 £250 million

Capital financing requirement

£513 million

2016-17 £455 million

Financial position (continued)

We have considered the financial performance of the Council against budget in *financial management* on page 20.

Housing Revenue Account

The Council is required by legislation to maintain a separate Housing Revenue Account and to ensure that rents are set to cover the costs of its social housing provision. Rent levels are set in order to achieve a breakeven position based on forecast expenditure.

The Housing Revenue Account had a £0.4 million deficit on the provision of services on a funding basis in 2017-18, and had transfers from other reserves of £0.6 million. This resulted in a closing reserve of £1 million for use in future years.

Capital outturn against budget and financial performance

The Council continues to invest heavily in its capital programme and reports four times a year to the SP&R Committee. Key projects including the A9/A85 road junction improvement project, Bertha Park development, Almondbank Flood Prevention Scheme and Perth City Hall upgrade continue to progress through 2017-18 into 2018-19. The Tulloch and Kinross Primary School upgrades were completed in early 2018-19. The final outturn shows that the Council defrayed its budget in line with expectations.

Balance Sheet

The Council continues to maintain a strong balance sheet, recording net assets of £558.2 million as at 31 March 2018.

A large movement in the pension liability of £151.5 million is discussed in detail on page 10, and other movements in key balance sheet accounts include significant increase in property, plant and equipment (£74.8 million), and decreases in the levels of cash and short term investments (£12.9 million).

Balance sheet

	2017-18 £000	2016-17 £000	Variance £000
Long term assets	1,115,297	1,040,482	74,815
Current assets	68,003	79,139	(11,136)
Current liabilities	(71,123)	(73,818)	2,695
Long term liabilities	(553,999)	(645,550)	91,551
Net assets	**558,178**	**400,253**	**157,925**
Useable reserves	80,081	80,357	(276)
Unusable reserves	478,097	319,896	158,201
Total reserves	**558,178**	**400,253**	**157,925**

Source: 2017-18 financial statements

Wider scope introduction

Audit dimensions introduction

The Code sets out four audit dimensions which, alongside Best Value, set a common framework for all the audit work conducted for the Controller of Audit and for the Accounts Commission. The dimensions are financial sustainability; financial management; governance and transparency; and value for money.

It remains the responsibility of the audited body to ensure that it makes proper arrangements across each of these audit dimensions. These arrangements should be appropriate to the nature of the audited body and the services and functions that it has been created to deliver. We review and come to a conclusion on these arrangements.

During our work on the audit dimensions we considered work carried out by internal audit and other scrutiny bodies to ensure our work meets the proportionate and integrated principles contained within the CIPFA Code.

Best Value

The Accounts Commission agreed the overall framework for a new approach to auditing best value in June 2016. Best Value is assessed over the five year audit appointment, as part of the annual audit work. There are seven areas considered over the five years. In addition a best value assurance report ("BVAR") for each council will be considered by the Accounts Commission at least once in the five year period. The BVAR report for the Council is planned for 2018-19 and planning for this has commenced.

The Best Value audit work integrated into our audit in 2017-18 focused on two of the seven areas: improvement; and leadership, governance and scrutiny. The findings of this work are reported within the audit dimensions on pages 18-32.

Strategic Audit Priorities

The Accounts Commission agreed five strategic audit priorities:

— the clarity of Council priorities and quality of long-term planning to achieve these;

— how effectively councils are evaluating and implementing options for significant changes in delivering services;

— how effectively councils are ensuring that members and officers have the right knowledge, skills and time to lead and manage delivery of council priorities;

— how effectively councils are involving citizens in decisions about services; and

— the quality of council public performance reporting to help citizens gauge improvements.

We consider the strategic audit priorities when performing the wider scope work over the five year appointment.

Our approach

We performed a range of procedures to inform our work over best value;

— interviews with senior officers including the Head of Legal and Governance Services, Head of Democratic Services, Depute Director – Housing and Environment and Head of Finance;

— review of various committee papers and reports;

— attending committee meetings;

— discussion with officers throughout the Council; and

— consideration of Audit Scotland guidance to draw conclusions on good practice.

Audit dimensions conclusions

Financial sustainability

The Council has identified savings requirements over the next five years in order to continue to deliver services as part of the medium term financial plan ("MTFP").

The 2015-20 transformation programme supports achievement of these savings through redesigning the way services are delivered to maximise efficiencies and support change. The Council is performing broadly in line with the milestones set out in the programme.

We consider that the Council has effective arrangements to monitor savings and secure financial sustainability, alongside its relatively strong reserves position.

Financial management

The Council has sound processes to manage its finances and resources which aids effective financial planning and budget setting. This includes a three year revenue budget, five year MTFP, and a ten year capital budget. This is good practice.

During budget setting there is ongoing consultation with members, service users and other key stakeholders. This allows open and transparent budget setting and supports effective financial management.

Risks to Perth and Kinross Council

- Demand pressures
- Uncertainty over future funding levels
- Financial forecasting
- Financial capacity
- New elected members
- Reduced leadership capacity
- Delivery of projects to achieve VfM
- Improvement

Best Value focus area: leadership, governance and scrutiny

Governance and transparency

We consider that continued high standards of governance and accountability were in place during 2017-18, which was an election year. This was achieved through an effective governance framework of committees. Transparency is attained through the committee structure and open nature of discussions.

There were 22 new elected members. There was appropriate training and induction for members.

We note that there is significant change in senior management during 2018-19.

Value for money

We consider that the Council has appropriate arrangements for achieving value for money, with improvement opportunities identified in respect of an assessment of compliance with the Following the Public Pound code – see page 30.

Options appraisals and business cases are developed to support key decisions and are appropriately scrutinised.

Capital programme management is an area which is evolving, with significant progress made in 2017-18 - see page 31.

Best Value focus area: improvement

Financial management

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

In undertaking our work on this audit dimension, at a high level we consider the following aspects:

- Budgetary control system.
- Stakeholder consultation and its impact on budget setting.
- Control environment and internal controls.

Budgetary control system

The Council recognised a deficit on the provision of services of £26.4 million in 2017-18 and delivered an underspend of £8.7 million against budget. A summary of underspends is provided in the table opposite.

We note that the Council has reported underspends for the last few years (including £7.0 million in 2016-17). We continue to conclude that the Council's budget setting process is satisfactory, and that the processes in place demonstrate good financial management. We also note that in 2018-19, the Council has identified budgetary pressures in respect of social care, reducing the likelihood of an overall Council underspend being delivered.

We considered the impact of service delivery from underspends and conclude there has been no clear negative impact on service delivery. This is evidenced through performance management information and the use of the budget flexibility scheme which allocates resource into 2018-19 with Council approval. The three year revenue incorporates the budget flexibilities, and is approved in February before the start of the financial year.

Service/Area	(Under)/over spend (£m)	Reason(s) for variance
Education & Children's Services	(4.7)	Reduced staff costs as a result of vacancies, and pupil equity funding income.
Health and Social Care	-	There was an underlying underspend of £2.5 million. This was transferred to earmarked reserves for use by the IJB.
Environment	(1.5)	Represents staff slippage, additional income from planning fees and also includes overspend on winter maintenance.
Housing & Community Safety	(1.5)	Staff costs reduction due to vacancies and accelerated savings delivery.
Corporate & Democratic	(0.8)	Staff costs reduction due to vacancies, and write on of historic credit balances.
Taxation/Finance & Investment	(0.2)	Additional council tax income and 2018/19 funding from Scottish Government

The Council delegates primary scrutiny of overall financial performance to the SP&R Committee. We reviewed each of the five (four to this committee, and one through the Management Commentary in the annual accounts) monitoring updates reported by management throughout the financial year, and observed finance staff in attendance in order to support effective scrutiny. We conclude that the Council has robust monitoring arrangements throughout the year, which allow members to consider pressing issues when identified by management.

In order to improve the operating effectiveness of the control, we consider that its accuracy could be further strengthened through setting a determined variance level at which explanations are provided to elected members.

Recommendation three

Financial management (continued)

Internal control

We consider that the Council has a generally robust control environment, with few exceptions identified from testing of key controls. We reported the results of the interim audit controls testing within our Interim Report presented to the Audit Committee on 23 May 2018. The annual conclusions for those controls tested are set out opposite.

We tested general IT controls over Northgate, which supports the Council's payroll, non-domestic rates and council tax billing processes. We undertook additional testing over the Council's general ledger system, Integra.

General IT controls cover number of activities, ranging from adequate password controls, management and monitoring of privileged user access and leavers removed from the IT system in a timely manner. Although the Council demonstrates a good level of control over a number of general IT controls, we were unable to place reliance on general IT controls in the audit. The primary reason for this is a lack of system logging and monitoring in place for IT privileged users.

This impacts on our ability to rely on system generated reports (for the purposes of audit testing or the basis of a management review control) and automated controls. We therefore perform additional "integrity testing" over any such reports that we intend to use to form audit conclusions.

We recommend that management puts in place a formal management and monitoring control over privilege users of IT systems.

Recommendation four

This recommendation is not uncommon for large organisations, and we note that the Council has mitigating controls within its processes.

Control tested	Effective
Bank reconciliations: three months bank reconciliations were tested for each bank account.	✓
BACS authorisation: 15 weekly BACS runs were tested to verify they had been approved by an authorised signatory.	✓
Payroll controls: two monthly control sheets were reviewed to confirm completion of required stages for payroll authorisation. The annual Service Establishment report was reviewed to confirm it was signed off by each service.	✓
Council tax and NDR discounts and reliefs: a sample of 15 reliefs for each were reviewed to confirm appropriate authorisation took place before the relief was awarded. We also tested reconciliations between the valuation joint board and the system to verify that all were properties listed and billed.	✓
Expenditure controls: A sample of 25 purchase orders were tested and agreed to invoice. Procurement testing covered a sample of five contracts. These were checked to verify they had followed the correct tender route based on value. The tender evaluation was also considered.	✓
Housing rents income; We tested two months' income reconciliations between the housing rents system (Northgate) and the general ledger (Integra). We also tested two quarterly reconciliations of the housing stock.	✓
Budget monitoring; Three monthly reports were considered to confirm a sufficient level of detail was presented to and considered by the SP&R Committee.	Recommendation two made, but generally robust.
Capital monitoring reports: Two reports reviewed to confirm a sufficient level of scrutiny took place over variances and reasons were given for slippage and movements from budget.	Recommendation two made, but generally robust.
General IT controls: over key IT systems, Integra and Northgate.	Recommendation four made
Pensions uploads: We tested three months' uploads to the pension scheme administrator.	✓

Financial management (continued)

Arrangements for the prevention and detection of fraud

We have responsibility for reviewing the arrangements put in place by management for the prevention and detection of fraud. We reviewed the Council's arrangements including policies and codes of conduct for council staff and elected members, whistleblowing, fraud prevention and fraud response plan. We note that a number of key policies have not been updated as previously agreed.

Recommendation five

Based on the evidence reviewed by us, we concluded that the Council has adequate arrangements in place for the prevention and detection of fraud.

Annual accounts audit

We note that, in common with the previous year, the draft annual accounts were prepared by management to a high quality standard. Management has also demonstrated rigour through its responses to our audit queries and challenge. Only one audit adjustment was identified through the external audit and this reflects management's preparedness for audit.

Capacity of finance and standing in the organisation

The Council's section 95 officer is the Head of Finance. We considered the status of the section 95 officer and are satisfied that the Council adheres to the principles laid out within CIPFA's statement on the role of the chief financial officer in local government. We consider that the finance function is appropriate for the organisation and members have a sound understanding of the Code.

Budget consultation with services and service users

Services are consulted at the initial budget setting stage in October. The finance team meets with services to discuss the prior year budget as a benchmark, and consider areas they feel need more or less budget allocated in the year in line with allocations from the interim finance plan.

The Executive Officer Team ("EOT") oversees the budget setting process, it is not a decentralised decision in each service. The Chief Accountant met with senior Councillors and service directors during the year to review the concluded budget process in June 2017. The findings from this exercise were reported to the EOT and improvements made to the budget setting process as appropriate.

A residents' survey is conducted every two years, with the latest in Spring 2017. Council consultations are advertised on the website, with events in 2016-17 being; budget consultation (between December 2016 and January 2017); and rent restructure review, which is ongoing.

A number of participatory budget events are held in March and April each year to involve the community in deciding how the budget is spent. Participatory budgeting allows residents to engage with the Council and discuss their spending priorities. The Council recognises the importance of this being a repeated exercise rather than a one-off scheme to allow the process to improve and refine.

There are five action partnerships in each locality within Perth and Kinross. Each partnership identifies areas where people experience higher levels of inequality. These areas are supported through locality action plans to improve outcomes and this feeds into the budget setting process.

Our view – financial management

We consider the financial management processes to be strong. The Council shows clear commitment to improving the services provided by relying on stakeholder input, both externally and internally generated.

The Council maintains a solid financial foundation that will be used in managing long term cost pressures, built upon the three year revenue budget. These processes include a generally effective budgetary control which facilitates robust scrutiny of the Council's financial position.

Financial sustainability

Financial sustainability looks forward to the medium (three to five years) and longer (five to ten years) term to consider whether the Council is planning effectively to continue to deliver its services or the way in which they should be delivered.

We considered the following key areas:

- the medium term financial plan;
- the progress of the transformation programme; and
- the management of reserves.

Financial planning

The Council continues to produce a MTFP for presentation to, and approval by, the elected members. The five year plan gives senior officers the ability to begin implementing the priorities that may take time to develop, a significant benefit over short term planning which may restrict the ability to allocate funds for investment in efficiency saving targets. The MTFP is refreshed year on year, primarily as a result of future funding levels, increasing costs and risks demands on services. In October 2017, an update on the 2018-2023 MTFP was presented to elected members. More details are included in the opposite table.

We consider this process to be effective in securing resources to deliver on improvement plans, and supports our view that the record of improvement is strong partially based on this budget process.

Transformation programme

The Council developed the Transformation Programme 2015-2020 as part of its strategy to implement savings and transformation to support financial sustainability.

At each meeting of the SP&R Committee officers present an update on the transformation programme. SP&R Committee considered the final update for the transformation programme for 2017-18 on 18 April 2018, where officers reported good process, with nine projects on target, six with 'some issues', two at risk, and one project being re-scoped.

Management regularly updates members on completed projects throughout the year. The reporting to elected members, which details the amount invested in the project and the level of recurring/non-recurring savings, is good practice

Management reports cumulative savings of £1.8 million. We note that the fiscal pressures so far identified in 2018-19 will require an increased focus on delivery of savings in order to develop a balanced budget. As noted in our going concern on page 12, the Council needs to identify savings to support a funding gap of £54.5 million.

Good practice – Longer Term Financial Planning

The budget process starts by updating the MTFP, which covers the following five years.

The MTFP includes key assumptions including staffing costs, funding changes and other risks on service delivery. This allows the Council to identify any potential funding gap, which drives the corporate savings target for the five year plan, with significant service level involvement in identifying savings.

The MTFP is reviewed by senior management in corporate finance and legal teams to identify any potential risks and accuracy issues over assumptions. After completion, the MTFP is presented to elected members from the administration and opposition in order to give early oversight and challenge to savings and cost pressures identified.

Full Council is presented with the MTFP in October preceding the financial year. Approval allows management to begin the process of formally drafting the Council's three year revenue budget.

This budget is a rolling three year plan, and the draft budget for 2018-19 was first considered by elected members and management in 2016-17, and has been updated on an annual basis. The current three year revenue budget covers agreed budgets for 2018-19 and provisional budgets for 2019-20 and 2020-21.

The administration and opposition groups, through discussion with senior officers, prepare three year revenue budgets for full Council consideration. Officers hold sessions with elected members in order to assist with understanding any implications in delivering savings.

We considered this budget setting process, and how it impacts on the Council's financial sustainability. We conclude that by having long term plans in place, the Council has oversight to effectively plan and prepare for future years.

Financial sustainability (continued)

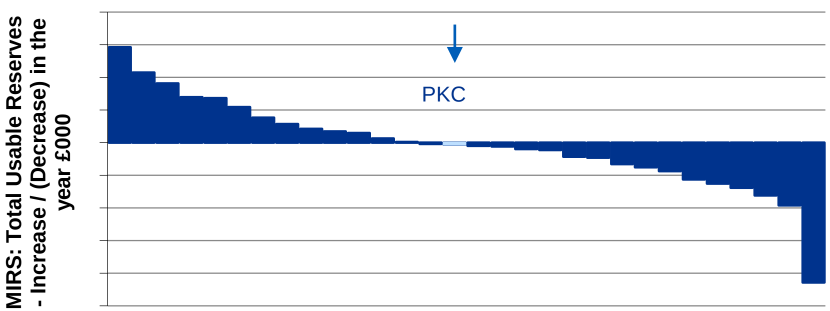
Reserves

The Council reserves policy was approved at Council in 2017, and updated on 22 February 2018. In common with other local authorities the Council earmarks general reserves for specific activities, leaving an uncommitted general fund balance.

The uncommitted general fund balance was £12.1 million as at 31 March 2018, representing 3.6% of the revenue budget. The reserves policy states that uncommitted reserves should be between two and four percent of the revenue budget for the following year. By maintaining uncommitted reserves, the Council reduces the impact of unexpected future cost pressures or service developments.

The changes the quantum of total usable reserves were limited in 2017-18, primarily due to underspends delivered in the year. This aids the Council in managing future pressures expected as demand on services increases.

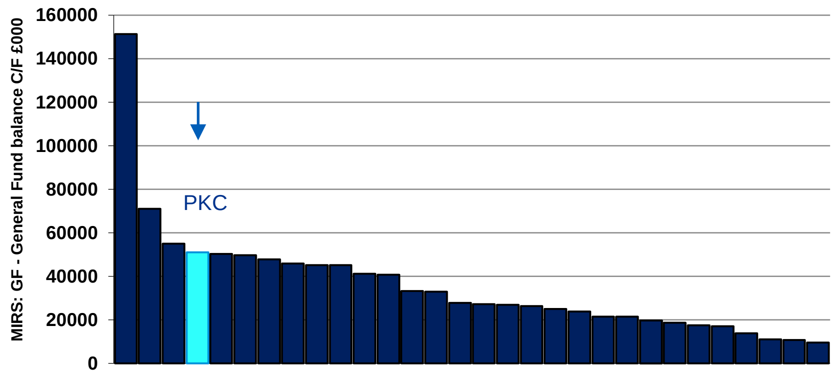
Total usable reserves increases/decreases in 2017-18 – a comparison across local authorities



Source: Audit Scotland's unaudited technical database 2017-18

We considered the reserves position of the Council compared to local authorities in Scotland. The Council has the fourth largest general fund reserve, which management intends to use to manage future financial pressures.

Total general fund balance 2017-18 – a comparison across local authorities



Source: Audit Scotland's unaudited technical database 2017-18

Whilst there are clear financial pressures in 2018-19 and future years, the reserves position of Perth and Kinross Council is strong, providing comfort that it can support transformation and manage unexpected overspends in the short term.

Financial sustainability (continued)

Perth and Kinross Integration Joint Board ("the IJB")

The IJB is a joint venture between the Council and NHS Tayside, with an expenditure budget of £190 million in 2018-19 and an identified £12.3 million savings requirement for that year. The integration scheme sets out that, from 2018-19 onwards, any overspends may be allocated based on each partner body's proportionate contribution to the IJB's Budget Requisition for that financial year on a like for like basis.

Through discussions with senior management of the IJB we identified concern in the IJB's ability to deliver a balanced budget, given demand pressures in hospital services (NHS Tayside) and social care (PKC). The IJB has no reserves from which to absorb overspends.

We note that NHS Tayside recognised a significant loss in 2017-18 and received brokerage of £12.7 million. The annual accounts for the year to 31 March 2018 state that £45.9 million was outstanding at the year end. Notwithstanding this financial position, we consider that Scottish Government can reasonably be assumed to continue to support NHS Tayside.

We consider that the IJB's financial position requires continued monitoring by Council officers, and any additional funding is incorporated into financial plans.

EU withdrawal

This represents an Accounts Commission area of focus.

A paper on EU funding was considered by the Executive Officer Team in July 2016, and identified £8.4 million in funding received from the EU. In addition, the MTFP considered by the Council on 4 October 2017 included funding implications from EU withdrawal, with an update to be provided in October 2018.

The Westminster Government and Scottish Government announced a guarantee that all UK projects that are approved before the UK officially leaves the EU will receive the funding to which they were awarded. No additional specific guarantees have been received, but the Council considers that this guarantee means there is limited additional financial risk attached to existing projects, and any agreed ahead of the official leave date.

Scotland's New Financial Powers

This represents an Accounts Commission area of focus.

The Scottish Government's Local Government Finance (Scotland) Settlement 2018-19 includes the continued flexibility to increase Council Tax by up to 3%. The Council has used this flexibility.

Public sector pay policy

This represents an Accounts Commission area of focus.

As part of the MFTP, the Council considered the implications of public sector pay policy, which poses fiscal challenges on future budgets. The Council considered a 2% pay rise assumption to be prudent in the plan, which was updated to 3% on 22 February 2018 in line with Scottish Government's guidance on the pay award for 2018-19. Management has considered the impact of this increase, and will report in October 2018 any need for future savings.

Negotiations are ongoing between trade unions and negotiating bodies on the 2018-19 pay award which could impact upon the three year revenue budget.

Our view – financial sustainability

A clear assessment of the future savings need has been identified and reported to Council on a consistent basis and appropriate action taken, in approving the transformation programme designed to deliver the required savings.

There remains an inherent risk that in the medium to long term, transformation does not deliver the benefits and savings expected, or does not deliver them at the pace required to deliver a balanced budget without impacting services. However we consider that the Council is financially sustainable in the short term, with well monitored plans to ensure longer time financial balance.

Governance and transparency

Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.

We considered whether the Council demonstrates:

- sufficient openness and transparency;
- scrutiny, challenge and transparency in decision making and financial and performance reports; and
- quality and timeliness of financial and performance reporting.

Reporting of financial and performance information

Management reports four times to the SP&R Committee throughout the year on the revenue and capital budgets, with update five shown through the annual accounts. In addition, an annual performance report is published after the year end to set out how the Council has performed against national objectives. Whilst in draft, we discussed with management and understand that 19 performance indicators ("PI") are improving (45%), eight PIs are remain steady (19%), three PIs need attention (7%) and 12 PIs data for 2017-18 is not yet available (29%).

This report is expected to be presented to committee on 4 October 2018.

Case study – Putting the LOIP and the centre of the Council's plans

The Council is a statutory partner in the Perth and Kinross Local Outcome Improvement Plan ('LOIP'). This plan involves input from a number of agencies including NHS Tayside, Scottish Fire and Rescue Service, Police Scotland, Skills Development Scotland and the Council. It is an example of how the Council has collaborated with other entities to support delivery of the strategic objectives agreed upon, which feeds into the corporate plan below.

In order to deliver on the LOIP, management prepares a corporate plan (see *improvements, value for money)*. The corporate plan was recently approved for 2018-22 and sets out how the Council will support the vision, and the five strategic objectives agreed within the LOIP.

There is strong communication from those in leadership, through the 'golden thread' approach, which is incorporated into all levels of council planning. In order to monitor improvements, the business management improvement plans ("BMIP") are reported to full Council on an annual basis, comparing performance of each individual service against the corporate plan. This allows members to appropriately challenge on progress and delivery on improvements and objectives. The Council is committed to this vision, which is demonstrated through the development of a plan, and the use of a golden thread approach throughout the short and medium term plans within each service's BMIPs.

Governance and transparency (continued)

Best Value focus area: leadership, governance and scrutiny

Leadership

We consider that Perth and Kinross Council exhibits strong member and officer leadership. The Conservative and Liberal Democrats form the administration. During 2017-18, it had an effective majority of four, and we note that there is an appropriate level of challenge and scrutiny within all aspects of Council business.

We noted in the 2016-17 annual audit report that there are a range of approaches the leadership team uses to share its vision across the Council, for example:

- business breakfasts: the chief executive and directors meet with services on a rotational basis to discuss emerging issues;
- elected member discussions: the chief executive meets with the leader of each party on a weekly basis to discuss Council performance and key issues; and
- future thinking sessions: staff are invited to share their thoughts and ideas on the future of the Council and what challenges and opportunities they face.

Bernadette Malone retired on 30 June 2018, after 15 years in post as the chief executive of the Council. John Fyffe retired on 31 March 2018, after six years in post as a depute chief executive of the Council. Together with other EOT members, they exhibited strong leadership and had regular engagement with staff and wider stakeholders to support delivery of the Council’s vision.

A leadership strategy programme has been developed along with a training needs assessment for members and induction programme. Management discusses with elected members to identify developments and training needs, which forms each members personal development plan, and each newly elected member is given induction training.

The Council organises weekly sessions for elected members based on their identified needs or wishes. Recent workshops included planning and development management, general data protection regulation briefing, Cross Tay link road consultation and housing services. Whilst recognising that elected members have a variety of skills and experience, we consider the attendance rate to be sufficient in that elected members are gaining key knowledge to assist in the effective leadership of the Council.

Governance

Revised Scheme of Administration and Standing Orders were implemented in April 2018 and March 2018 respectively.

During 2017-18, other key governance developments included:

- Review and improvement of contract management to improve legal compliance and delivery of best value.
- Improvements in risk management, and targeting of high risks.
- Direct scrutiny of council arm's length external organisations by scrutiny committee.
- Information management in respect of the general data protection regulations.

We consider that these developments were methodically planned and delivered they represent positive improvements in governance. During the year officers refreshed the Council’s governance statement for inclusion in the annual accounts, identifying improvement opportunities. These were reported to Council committees together with proposed improvement actions.

Scrutiny

There is a high degree of scrutiny and challenge exercised by officers and members deriving from a political constitution which allows robust scrutiny of proposals and reports.

The Council has a dedicated Scrutiny Committee, which is charged with overseeing the implementation of the Council’s policies in relation to achieving Best Value.

Key aspects of financial and project management are subject to regular oversight and appropriate level. Performance against the LOIP and other plans and objectives are also publically reported.

We attended a number of meetings of the audit committee during 2017-18 at which we observed member / officer relations, scrutiny and challenge.

Governance and transparency (continued)

Leadership capacity

The chief executive retired effective from 30 June 2018 and Karen Reid assumed the role on 1 September 2018.

Consequently, during July and August, there was a temporary reduction in leadership capacity and experience. Officers put in place an interim management structure to ensure continuation of decision-making pending the new chief executive joining, and from our inquiries we understand that no significant matters arose which caused delivery concerns for the Council.

The SP&R Committee approved a change to the management structure on 7 February 2018, which came into effect from 1 April 2018. This resulted in the removal of the post of Senior Depute Chief Executive. In addition, the responsibilities of Housing and Community Safety were realigned from the Senior Depute Chief Executive to the Executive Director (Housing and Environment).

The leader of the Council, Ian Campbell, died suddenly on 6 February 2018 and Murray Lyle was appointed leader on 27 February 2018.

Openness and transparency

The Council discloses agendas, papers and minutes on its website, providing transparency to stakeholders, which enables members of the public to obtain information on key decisions made by the elected members. We note that the Council reported a 93.8% success rate against 95% target in responding to freedom of information requests within the statutory 20 working days. This is down from full compliance over the previous four years, and management indicated an increase in the frequency and complexity of requests.

The Council has Codes of Conduct for officers and elected members. The members' code is based on the Ethical Standards in Public Life (Scotland) Act 2000, which encourages transparency and high standards of ethics. These codes include best practice covering the completion of registerable interests by members, and upfront disclosure of potential conflicts of interests in Council and its committees. We are satisfied that the elected members interests are appropriately reported.

Internal Audit

During 2017-18 Internal Audit was realigned to report to the Head of Legal and Governance Services, which we consider to be appropriate. We discussed this with the Head of Legal and Governance Services, and noted the intent to have a risk based approach which will report on wider matters of Council operations. In addition, it was reported that a number of Council staff have undertaken risk assessment training during the year, which will better shape the risks identified by services. By prioritising focus on higher risk operations, Internal Audit can assist in delivering improvements on a council-wide basis.

We reviewed internal audit reports issued throughout 2017-18 and found no significant issues were reported to those charged with governance.

Internal audit's work during the year is summarised below:

- Agreed plan completed for the year with 33 approved reports finalised, as well as two planned reports removed, one near completion and three ongoing into 2018-19.
- Out of a total of 92 agreed actions, none were categorised as 'critical' risk findings. Two were classed as high risk.
- Controls assurance statement provides reasonable assurance on the overall adequacy and effectiveness of the Council's governance framework, risk management and controls.

We reviewed the Internal Audit Charter to test for compliance with Public Sector Internal Audit Standards ("PSIAS"), and identified some minor differences which did not negatively impact on our opinion of internal audit during the year. We note that there was a reduction in staffing levels within Internal Audit during 2017-18 which has resulted in some slippage in the 2017-18 timetable. In order to manage workload, all high risk audits were prioritised for the first quarter of 2018-19.

We agreed with the Chief Internal Auditor's conclusion that the overall system of internal controls is satisfactory. We consider internal audit to operate effectively, covering a range of areas and delivering reports within agreed timescales. We note a three month plan for April 2018 to June 2018 was approved in March 2018, with the full year plan approved on 23 June 2018.

Governance and transparency (continued)

Local scrutiny plan

The 2018-19 Local Scrutiny Plan ("LSP") prepared by the Local Area Network ("LAN") of scrutiny partners for the Council was issued to Perth and Kinross Council in April 2018, and considered by the full Council following engagement with management. The LAN did not identify any new scrutiny risks in the year which would require specific scrutiny work during 2018-19 although a range of nationally driven scrutiny activity will be carried out.

Risk management

The Council's risk management processes have undergone a significant redesign over the last two years, as set out in our 2016-17 annual audit report.

As part of the introduction to the General Data Protection Regulations, the Council introduced internal guidance and changes to facilitate compliance. The Council identified that it was not fully compliant on the "go-live" date of 25 May 2018, in common with most other public sector bodies due to delayed publication of guidance. The Council focussed on the high impact sections of the legislation initially, particularly in services such as Education and Children, where information was held about vulnerable persons. We are broadly satisfied with the approach taken by the Council given the timescales imposed.

The training and governance proposals will better shape the risk register, which will improve the ability of management to appropriately respond to perceived risks.

National Fraud Initiative ("NFI")

NFI Scotland is a counter-fraud exercise completed across the public sector. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify 'matches' that might suggest the existence of fraud or error.

NFI activity for the 2016-17 exercise identified 5,314 matches, of which 2,144 were identified as being high risk and subsequently investigated. The Council recognises that the NFI is an important tool forming part of their fraud strategy and progress and outcomes are reported as applicable to the Audit Committee.

The Council completed all investigations, and to date cases with a cumulative value of £33,457 have been identified for recovery. The Council considered each case to be an error rather than any indication of fraud, on which we concur.

Cyber security

This represents an Accounts Commission area of focus.

Officers presented an annual review of cyber security to the strategic, policy and resources committee on 18 April 2018. It concluded that it has an assured, secure, government-accredited network and its security posture is robust in many areas. We note that the Council became Public Secure Network and Cyber Essentials accredited in May 2018.

Our view – governance and transparency

We consider the Council to have high standards of governance and accountability. This is provided through an effective governance framework of committees, internal audit, and internal controls. Transparency is achieved through the committee structure and open nature of discussions.

The Council's leadership has clear objectives, focussing on outcomes which are summarised in the LOIP. The corporate plan and BMIPs are designed to align with the LOIP, which is also based on stakeholder engagement through consultation, resident surveys and staff feedback. Together this results in a clear strategic direction which is consistently pursued by members and officers. It is a time of change for the Council, with a new chief executive assuming her post in September 2018.

We consider that scrutiny is effective. Members robustly challenge management with a clear focus on the communities and citizens they represent, in respect of governance, process and matters presented for decision.

Value for money

Value for money is concerned with using resources effectively and continually improving services.

We consider the Council's activities with respect to:

- **following the public pound**
- **management over arm's length external organisations**
- **procurement;**
- **capital management and options appraisal; and**
- **improvement.**

Following the public pound

We are required to consider the Council's arrangements for compliance with the Code of Guidance on Funding External Bodies and Following the Public Pound ("the FtPP Code"). In order to discharge our responsibilities, we discussed with management the reporting arrangements for 2017-18. We were unable to determine whether management had carried out a robust exercise over its compliance with its own local FtPP Code. We noted that responsibilities for discharging these requirements had changed in year, and there was a loss of experience with the former officer responsible retiring during 2017-18.

Recommendation six

Arm's length external organisations

As part of the Council's management of Arm's Length External Organisations ("ALEOs"), there is a consultation covering the most efficient set up for delivery of delegated services. There are a number of options surrounding delivery of cultural services with a savings target of £150,000. As part of this transformation review, the Council sought feedback from customer's experience, and other external stakeholders. The elected members have direct oversight with the final recommendations and reports will be presented to the SP&R Committee, expected in November 2018.

Procurement

We consider the effective procurement of Council supplies to be key in achieving value for money. The Procurement Annual Report was presented to the SP&R Committee in June 2018, and outlined the overall performance and ongoing improvement plan for the procurement service during the year. The procurement service delivered additional savings in year, with a combined savings total of £1.9 million since 2015, against a budgeted target of £2.5 million by 2018-19. The status of the improvement plan was also reported, showing many key actions being marked as complete.

The procurement service has also increased usage of tenders being issued through the Public Contract Scotland Tender ("PCS-Tender"), up from 50% to 80% in 2017-18. By using a national government-backed system, the Council are transparent and open with tenders issued, which allows increased competition between suppliers.

In addition, the annual report identified a number of collaborative contracts issued in partnership with other bodies. The Council view the use of collaborative tenders as an opportunity to increase efficiency, which increases the level of savings generated by using the collective buying power of Scotland's public sector.

Overall we conclude that the Council is committed to continuous improvement through its investment in developing efficient procurement processes.

Value for money (continued)

Best Value focus area: improvement

Improvement

The Council uses regular feedback from external stakeholders in order to identify priority areas for improvement. Stakeholders include members of the local area network, members of the community partnership board and residents. There is also use of self-evaluation through the 'How good is our Council' tool, comparison against other local authorities using the Local Government Benchmarking Framework and consideration of external regulatory feedback through comparison of performance against other best value annual reports.

Under the LOIP, the Council and community planning partners are committed to delivering three outcomes for the people of Perth and Kinross, which are: positive outcomes for everyone in Perth and Kinross; prioritising preventive approaches; and tackling stubborn inequalities where they exist.

The LOIP is supported by feedback from employees. As discussed in financial management, feedback from employees covers a range of key areas including budget setting and overall areas for improvements. This process is considered good practice in supporting continuous monitoring and driving improvement.

A large stakeholder base gives the Council the opportunity to receive and consider a wide range priorities. We consider this input from stakeholders to be important and effective in assisting leadership in identifying improvement priorities.

By using self-evaluation tools and comparisons, the Council obtains an understanding of relative performance against other local authorities and where focus is required to improve.

Improvement plans

Each service produces an annual BMIP. These tie in the services and performances achieved against the LOIP. In relation to service-led improvements, each BMIP has a section focussing on the performance of improvements identified in the prior year, and the action plan for the following year.

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Improvement reporting

The Council is able to demonstrate performance against the objectives through a number of outputs. These include regular reports to the Strategic, Policy and Resources Committee and the production of an annual performance report. These show that despite reduced resources, and increased service demand, the Council on the whole is improving in its ability to deliver satisfactory services to users.

The 2016-17 annual performance report reported across a high number of local government benchmarking factors and demonstrate improving outcomes on the whole. In addition, a report was presented to the scrutiny committee in February 2018 to examine the position of the Council against the key themes raised in year one Best Value Annual Reports presented to the Accounts Commission. There are a number of national networks of colleagues who hold similar roles in public sector, such as the local government directors of finance group, which provide opportunities to share good practice and discuss common issues.

Benchmarking also takes place through other organisations such as the Association of Public Service Excellence and Scottish Housing Best Value Network. The base level indicators used by the Council are built upon the local government benchmarking framework, which allows the Council to compare performance against similar councils.

By using factors and reports which are directly comparable across other local authorities in Scotland, the Council has the ability to understand its own pace of change and performance.

Value for money (continued)

Capital management and oversight

As part of our consideration of value for money, we discussed with key officers the management and oversight of capital expenditure. This included documenting the individual project cycle discussion over the development of a lessons learned review and gateway reviews.

We reviewed the process over which a significant capital project is managed and tracked by the Council. We considered the process to have achieved good levels of management and scrutiny.

Project management and leadership

Each capital project starts with a HM Treasury Green Book compliant business case. This summarises the rationale, need and involvement of the Council in the project. After approval, a project board is set up which involves officers from services including finance, legal, procurement and the project manager.

On a monthly basis, the project manager presents a highlights report, which contains ongoing risks and issues relevant to the project. This gives management oversight over the project status.

Financial information is reported as part of the capital monitoring report presented throughout the year to the SP&R Committee, which has approval and scrutiny over a project's development. Where cost increases occur updates are provided, and the amended budget is considered by the committee. The committee relies on the knowledge and technical expertise of the project board to determine whether costs are appropriate.

The Strategic Investment Group, which meets once every two months, reviews detailed capital investment information, and during discussion of capital projects, key members of the administration are present to consider. The Capital Programme Manager also highlights any significant issues to the Senior Management Team through a red/amber/green monthly report.

We consider that these arrangements are robust and appropriate.

Gateway reviews

We noted a development area of gateway reviews in the 2016-17 annual audit report. Gateway reviews continue to progress; a governance document has been drafted that formalises timescales or milestones for when projects should have gateway reviews, although this is not yet agreed with management.

Lessons learned

Management recognises the need to introduce a lessons learned review. This is planned to start from the governance framework, with input from all stages of the process to form improved processes for capital management.

Our view – value for money and improvement

We consider that the Council has appropriate arrangements for achieving value for money, although the Council was not able to demonstrate compliance with the FtPP code for 2017-18.

Options appraisals and business cases are developed to support key decisions and these are appropriately scrutinised. From our testing, planned advantages and justifications are being realised or plans are in place to do so.

Capital programme management is an area which is evolving and would benefit from further development by implementing gateway reviews and a lessons learned evaluation, and we recognise management's challenges in implementing these effectively.

The Council has developed clear processes for developing, communicating and implementing its vision and objectives, and how this directly relates to delivery of council services.

Appendices

Appointed auditor's responsibilities

AREA	APPOINTED AUDITOR'S RESPONSIBILTIES	HOW WE HAVE MET OUR RESPONSIBILITIES
Statutory duties	Undertake statutory duties, and comply with professional engagement and ethical standards.	Appendix two outlines our approach to independence.
Financial statements and related reports	Provide an opinion on audited bodies' financial statements and, where appropriate, the regularity of transactions. Review and report on, as appropriate, other information such as annual governance statements, management commentaries, and remuneration report.	Page five summarises the opinions we have provided. Page 13 reports on the other information contained in the financial statements, covering the annual governance statement, management commentary and remuneration report.
Financial statements and related reports	Notify the Auditor General or Controller of Audit when circumstances indicate that a statutory report may be required.	Reviewed and concluded on the effectiveness and appropriateness of arrangements and systems of internal control, including risk management, internal audit, financial, operational and compliance controls.
Wider audit dimensions	Demonstrate compliance with the wider public audit scope by reviewing and providing judgements and conclusions on the audited bodies': - Effectiveness in the use of public money and assets; - Suitability and effectiveness of corporate governance arrangements; - Financial position and arrangements for securing financial sustainability; - Effectiveness of arrangements to achieve best value; and - Suitability of arrangements for preparing and publishing statutory performance information.	We have set our conclusions over the audit dimensions from page 19.

Auditor independence

Assessment of our objectivity and independence as auditor of Perth and Kinross Council ("the Council")

Professional ethical standards require us to provide to you at the conclusion of the audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed.

This letter is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses:

- general procedures to safeguard independence and objectivity;
- independence and objectivity considerations relating to the provision of non-audit services; and
- independence and objectivity considerations relating to other matters.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP partners and staff annually confirm their compliance with our ethics and independence policies and procedures including in particular that they have no prohibited shareholdings. Our ethics and independence policies and procedures are fully consistent with the requirements of the FRC Ethical Standard. As a result we have underlying safeguards in place to maintain independence through:

- instilling professional values;
- communications;
- internal accountability;
- risk management; and
- independent reviews.

We are satisfied that our general procedures support our independence and objectivity.

Summary of fees

We have considered the fees charged by us to the company and its affiliates for professional services provided by us during the reporting period.

We have submitted written proposals for the following services which have not yet been awarded for 2018-19:

- Assistance relating to VAT; and
- Advice relating to VAT.

Confirmation of audit independence

We confirm that as of the date of this report, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the partner and audit staff is not impaired

This report is intended solely for the information of the Audit Committee and should not be used for any other purposes.

We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

Yours faithfully

KPMG LLP

Required communications with the Audit Committee

Type	Response
Our draft management representation letter	We have not requested any specific representations in addition to those areas normally covered by our standard representation letter for the year ended 31 March 2018
Adjusted audit differences	There were three adjusted audit differences. See appendix five
Unadjusted audit differences	There were no unadjusted audit differences
Related parties	There were no significant matters that arose during the audit in connection with the entity's related parties.
Other matters warranting attention by the Audit Committee	There were no matters to report arising from the audit that, in our professional judgment, are significant to the oversight of the financial reporting process.
Control deficiencies	All identified deficiencies in controls have been reported in this report or the interim report.
Actual or suspected fraud, noncompliance with laws or regulations or illegal acts	No actual or suspected fraud involving group or component management, employees with significant roles in internal control, or where fraud results in a material misstatement in the financial statements were identified during the audit.

Type	Response
Significant difficulties	No significant difficulties were encountered during the audit.
Modifications to auditor's report	There are no modifications to the auditor's report.
Disagreements with management or scope limitations	The engagement team had no disagreements with management and no scope limitations were imposed by management during the audit.
Other information	No material inconsistencies were identified related to other information in the annual accounts, remuneration report, management commentary and annual governance statement. The management commentary is fair, balanced and comprehensive, and complies with the law.
Breaches of independence	No matters to report.
Accounting practices	Over the course of our audit, we have evaluated the appropriateness of Perth and Kinross Council's accounting policies, accounting estimates and financial statement disclosures. In general, we consider these are appropriate.
Key audit matters discussed or subject to correspond-dence with management	The key audit matters (summarised on pages seven through eleven) from the audit were discussed with management.

Defined benefit obligations

Level of prudence compared to KPMG central assumptions

Outside normally acceptable range | *Cautious* | *Balanced* | *Optimistic* | *Outside normally acceptable range*

Acceptable range

Employer: Perth and Kinross Council **Fund: Tayside Pension Fund** **Fund Actuary: Barnett Waddingham**	**OVERALL ASSESSMENT OF ASSUMPTIONS FOR IAS 19** The overall set of assumptions proposed by the Employer can be considered to be balanced relative to our central rates for a UK scheme with a duration of 20 years and within our normally acceptable range.			*Balanced*
Assumption	**Council**	**KPMG central**	**Commentary**	**Assessment vs. KPMG central**
Discount rate	2.55%	2.51%	The assumption is considered to be balanced and within our normally acceptable range.	
Pension Increase Rate	2.30%	2.15%	The assumption is considered to be cautious but within our normally acceptable range.	
Salary increases	CPI plus 1%	CPI plus 0% to 2%	We typically expect salary increases to fall in the range of CPI plus 0% to 2%. Salary increase assumptions have been derived consistently with the approach taken at the most recent LGPS valuation. We consider this approach to be reasonable provided it is reflective of the Council's expectations, which we understand it is.	
Life expectancy at retirement Males currently aged 45 / 65 Females currently aged 45 / 65	 22.1 / 20.3 24.1 / 22.2	 23.5 / 22.1 25.4 / 23.9	The life expectancies are consistent with those used in the most recent LGPS valuation and can be considered acceptable.	

Appendix five

Audit differences

The table below lists the adjusted audit differences identified during the course of our 2017-18 audit procedures.

There are no unadjusted audit differences to report.

	Balance sheet		Income and expenditure account	
Nature of adjustment	**£’000 DR**	**£’000 CR**	**£’000 DR**	**£’000 CR**
Recognition of revaluation gain in assets held for sale				
Property, Plant and Equipment		305		
Revaluation Reserve	305			
The reversal of an incorrect gain on revaluation on the Arran Road asset.				
Misclassification of ring fenced grant income				
Non-Ringfenced Grant Income			3,350	
Net Cost of Services				3,350
The reclassification of additional Scottish Government funding.				
Adjustment to property valuation				
Property, Plant and Equipment		2,101		
Cultural services expenditure			2,101	
Capital Adjustment Account	2,101			
General Fund Account		2,101		
The adjustment to 2017-18 revaluation of Perth Theatre, and resulting adjustment due to accounting requirements in the CIPFA Code which does not impact on the overall general fund reserves available for use.				
Total	**2,406**	**(4,507)**	**5,451**	**(3,350)**

In addition, an updated pension scheme asset valuation was provided by the scheme actuary at our request, showing an £8.3 million decrease in the asset valuation. Management reflected this in updated annual accounts and it represents information not available at the time the draft accounts were prepared.

Action plan

The action plan summarised specific recommendations arising from our work, together with related risks and management's responses.

We present the identified findings across four audit dimensions:

— financial sustainability;

— financial management;

— governance and transparency; and

— value for money.

Priority rating for recommendation		
Grade one (significant) observations are those relating to business issues, high level or other important internal controls. These are significant matters relating to factors critical to the success of the organisation or systems under consideration. The weaknesses may therefore give rise to loss or error.	**Grade two** (material) observations are those on less important control systems, one-off items subsequently corrected, improvements to the efficiency and effectiveness of controls and items which may be significant in the future. The weakness is not necessarily great, but the risk of error would be significantly reduced if it were rectified.	**Grade three** (minor) observations are those recommendations to improve the efficiency and effectiveness of controls and recommendations which would assist us as auditors. The weakness does not appear to affect the availability of the control to meet their objectives in any significant way. These are less significant observations than grades one or two, but we still consider they merit attention.

Finding(s) and risk(s)	Recommendation	Agreed management actions
1. Valuation of property, plant and equipment (page eight) *Audit dimension: financial management*		**Grade two**
We could not identify a control over the revaluation process for property plant and equipment. This gives rise to a risk that the valuations are misstated. One misstatement was identified in the valuations tested as at 31 March 2018. In addition, there is a risk of loss of expertise and continuity in the team due to the retiral of the Senior Estates Surveyor.	We recommend that management engages an external valuation provider to reperform a sample of high risk valuations, or to review and challenge the valuations	**Management response:** The Council will engage an external valuation provider to re-perform a sample of high risk valuations. **Implementation date**: 30 May 2019 **Responsible officer**: Investment Manager

Action plan (continued)

Finding(s) and risk(s)	Recommendation	Agreed management actions
2. Valuation documentation and compliance (page nine**)** *Audit dimension: financial management*		**Grade two**
During the course of our audit, we tested a sample of revaluations undertaken by the internal valuation team. Our internal valuation specialist expected the valuation file to contain back-up for any assumptions, however documentation was not robust and several clarifications were sought on the inputs to the valuations. Our internal valuation specialist highlighted the RICS requirements to remeasure any land or building asset prior to revaluation if there has been a material change to the asset. Whilst we understand many Council assets have not undergone a material change, we could not obtain the level of documentation expected for asset measurements.	We recommend that management ensures valuations are carried out in compliance with all appropriate RICS standards, including documentation, judgements and measurements.	**Management response:** The Council will ensure that valuations are carried out in compliance with all appropriate RICS standards. Documentation and measurements will be stored on the new Corporate Property system (Concerto) **Implementation date**: 31 March 2019 **Responsible officer**: Investment Manager
3. Revenue and capital monitoring (pages 11 and 20) *Audit dimension: financial management*		**Grade three**
During our review of the revenue and capital monitoring reports, we were unable to identify a defined 'level of precision'. This level of precision acts as a cut-off for those reading the report, and sets a variance that for all differences in excess, management explain the reasons. In this way, where there is no explicit commentary, members can assume there is no variance above the defined precision. We recognise that management's monitoring reports are detailed and that variances are discussed at SP&R Committee meeting. Setting a level of precision strengthens this control which is already operating effectively. There is a risk that variances may not be given sufficient prominence, or that variances are not reported.	We recommend that management introduces a set threshold for which any variances against budget in excess are reported.	**Management response:** The Council will update the financial regulations to explicitly set out a level of precision of £50,000, whereby all variances (Revenue & Capital) in excess of this will be reported to the SP&R Committee. However there will be many instances whereby the Committee reports will discuss variances that are less than this amount in order to recognise the importance of elected member scrutiny of Council finances. **Implementation date**: 31 December 2018 **Responsible officer**: Chief Accountant

Action plan (continued)

Finding(s) and risk(s)	Recommendation	Agreed management actions
4. General IT controls (page 21) *Audit dimension: financial management*		**Grade two**
Certain IT and business staff are assigned highly privileged access to the Council's IT systems (Integra, ResourceLink and Northgate), and are required to perform user administration activities (e.g. assigning and changing user access rights), system development and configuration, and to ensure ongoing support and maintenance activities. We note that the Council does not monitor the activities performed by these accounts; security and event log auditing is either not enabled or not reviewed. For the purpose of relying on system generated reports for the external audit, we could not establish if the activities performed by these users were appropriate during the year. The weaknesses in the access assigned includes, but is not limited to: – the privileged access assigned allows users within the business to perform activities that should be segregated and/or pro-actively logged and reviewed to ensure appropriate; and – review of privileged users is not undertaken or documented in a robust manner. Where privileged user access is not robustly controlled, the risk is increased that: – unauthorised access is gained to process erroneous or fraudulent transactions, – make changes to data, and system settings; – unauthorised changes are not detected and appropriate action taken; – IT / operational system downtime is experienced; and – the system does not function as intended by management. During testing over key systems, we did not identify any specific issues or errors.	Management should ensure that: — a formal, documented and agreed policy is established that guides the Council's management of highly privileged access. — user accounts are only used by the approved and appropriate persons. — each time the highly privileged accounts are used there should be a requirement that a supporting and approved incident ticket or change request is logged and retained. — the feasibility of implementing system audit logging for these highly privileged accounts is assessed, and if this is possible, a periodic review is performed over a sample of higher risk activity to ensure this was authorised and appropriate. — the logs are secured and retained in a segregated area that cannot be accessed by the users of the IT systems.	**Management response:** The current policy will be developed to increase the level of monitoring and governance associated with highly privileged access. IT will investigate the feasibility of audit logging for highly privileged accounts and where feasible, a secure segregated storage area will be identified and a sample review of higher risk activity will be implemented. **Implementation date**: 30 June 2019 **Responsible officer**: Information Security Manager

Action plan (continued)

Finding(s) and risk(s)	Recommendation	Agreed management actions
5. Internal policy updates (page 22**)** *Audit dimension: financial management*		**Grade three**
Policies and procedures are held on the Council's intranet which is available to all staff. From a review of key policies we identified that a number have not been updated on a timely basis. Two versions of the communications security policy were found. The most up to date version of this policy was dated 2010, however it states it is required to be reviewed every three years. The most up to date whistleblowing policy does not contain all information outlined in Protect's whistleblowing code of practice. There is a risk employees access policies and procedures which are not relevant to the current risk environment or contain out of date information therefore causing error or breach of laws and regulations.	It is recommended that: – a review is carried out of existing polices on the intranet and any old or superseded policies are removed; – the whistleblowing policy is updated to contain all items required by the whistleblowing code of practice; and – a checklist should be kept of the key polices and when these were last updated, with evidence of review within the required timescale.	**Management response:** Noted. The Council is satisfied that all key policies and procedures in respect of financial and workforce management, regulatory controls and compliance and general governance are fit for purpose and reviewed appropriately. The Council does not have the resources to undertake a comprehensive review of all existing policies however any changes in legislation, national policy or where applicable industry best practice is reflected as a matter of course. The existing Whistleblowing policy will be refreshed to incorporate the Protect Code of Practice (formally Public Concern at Work). **Implementation date**: ongoing, with whistleblowing updated for 31 March 2019 **Responsible officer**: Information Compliance Manager, with whistleblowing the Chief Internal Auditor.
6. Following the public pound (page 30) *Audit dimension: value for money*		**Grade two**
We discussed with management the approach undertaken for ensuring Council's compliance with its FtPP code. In prior years, the Council presented annually to the SP&R Committee to ensure value for money and best practice arrangements are in place in relation to the Council's use of companies, trusts and other arm's length bodies. We were unable to verify that such an exercise had been undertaken during 2017-18. There is a risk that the Council may not be complying with the FtPP Code, and may not be demonstrating its value for money in the use in other external parties.	We recommend that management reverts to the FtPP reporting undertaken in prior years, whereby the results are communicated to the relevant committee of the Council, or consider an alternative in order to provide assurance over use of public funds.	**Management response: :** For 2017/18, detailed information in respect of FtPP activities was available on the Elected Members internal intraweb site. This will now be made publicly available. For 2018/19, the Council will revert to providing a comprehensive update to the SP&R Committee on the Council's FtPP code. **Implementation date**: 30 June 2019 **Responsible officer**: Corporate Procurement Manager

Prior year recommendations

We follow up prior-year audit recommendations to determine whether these have been addressed by management. The table below summarised the recommendations made during the 2016-17 final audit and their current status.

Grade	Number recommendations raised	Implemented	In progress	Overdue
Final	3	2	1	-

We have provided a summary of the current status of our findings below:

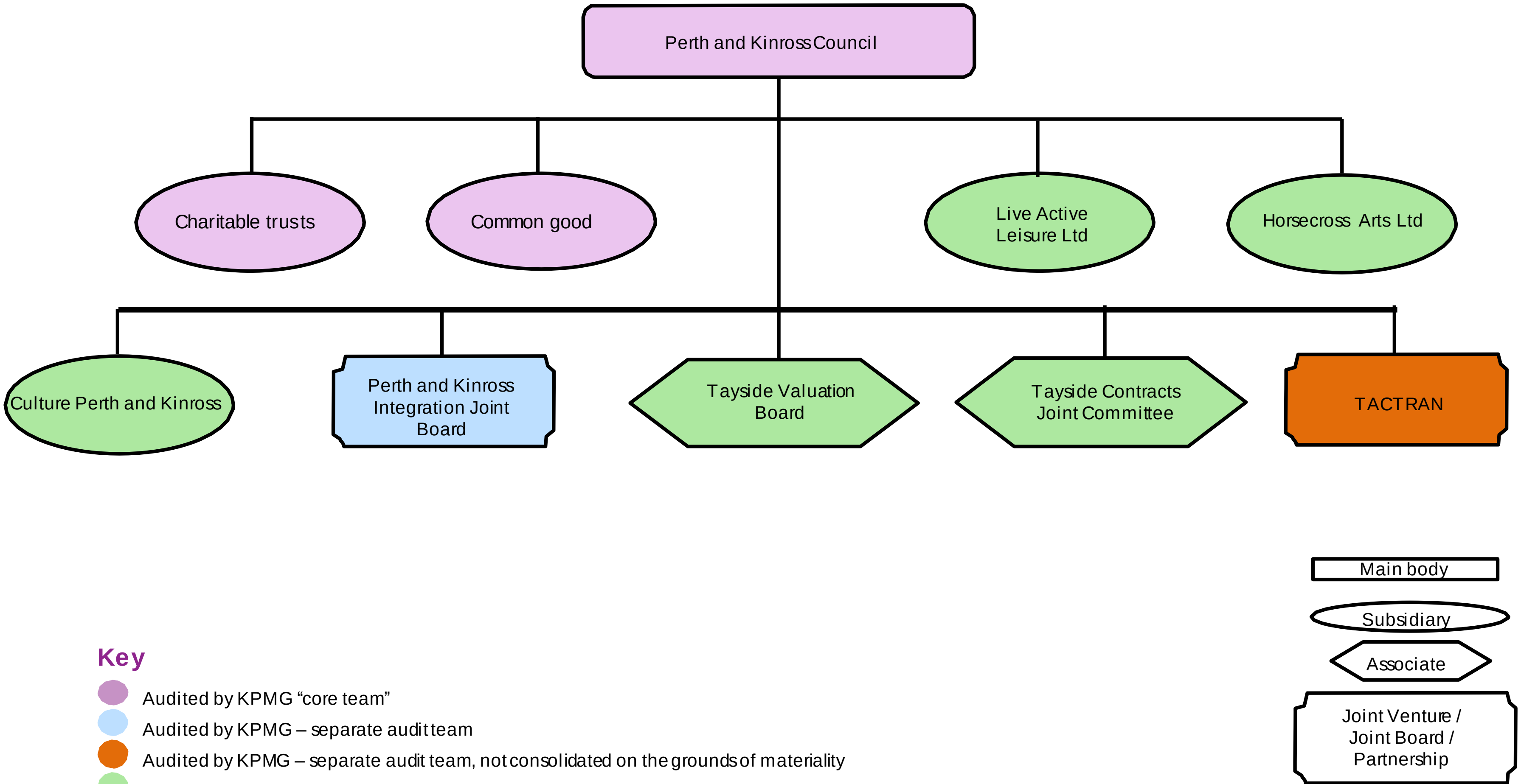
Finding(s) and risk(s)	Recommendation(s)	Agreed management actions	Status
Journals back up			**Grade three**
Two journals from our sample of 30 could not be agreed to back up as an audit trail had not been kept to agree the figures. There is a risk journals are posted with no clear audit trail kept to allow subsequent checking of the journal.	All officers should be reminded of the importance of maintaining back up for journals and keeping appropriate records	**Management response** Services will be reminded of the need to keep back up for journals by updating the guidance on inputting journals available on the Integra Information Zone. The issue will also be raised with Financial Controllers at their next meeting for cascade to their teams **Implementation date**: 31 October 2017 **Responsible officer**: Corporate Accounting Manager	**Implemented** During our testing of journals, we did not identify any that did not have sufficient back up.

Prior year recommendations (continued)

Finding(s) and risk(s)	Recommendation(s)	Agreed management actions	Status
Related parties			**Grade three**
Local authorities shall identify all related party relationships and transactions, including those relationships of close family members. Register of interests have an area for declaring non-financial interests. Currently the Council does not review this section for audit purposes There is a risk related party disclosures are not complete.	A log of members non financial interests should be kept and narrative added to the financial statements to explain that these types of relationship exist.	**Management response** Non-financial interests will be reviewed and collated as part of the Related Parties process within the Annual Accounts. The 2016-17 Financial Statements were updated to disclose that these relationships exist. **Implementation date** 30 June 2018 **Responsible officer** Corporate Accounting Manager	**Implemented** During our work covering related parties, we were satisfied that non-financial interests were included as part of the member's returns. The unaudited annual accounts included appropriate disclosure as recommended in the prior year.
Project Review			**Grade three**
Historically, the Council has not conducted Gateway reviews at key milestones in a project, nor carried out post implementation reviews to learn from and improve on previous projects. There is a risk issues with previous projects are encountered again and review does note take place at key points in a project.	For long term capital projects it is recommended Gateway reviews are undertaken at each key milestone to identify any overruns and allow decisions to be made on the best route forward based on up to date facts. After a project has been completed a post implementation review should be carried out and lessons learned carried forward.	**Management response** The Capital Programme office will continue to consult with senior management to develop an appropriate Gateway Review process. Once formally agreed, this will be incorporated into the Capital Programme Governance framework and relevant training will be provide for all stakeholders. The Capital Programme Office will continue to develop a template benefits realisation report and agree the process and format for reporting which will be linked to the initial stages of future programmes. **Implementation date** 31 March 2018 **Responsible officer** Capital Programme Manager	**In progress** We considered the status of a project review as part of our wider scope reporting on page 32. We noted the challenges management face in adequately implementing the gateway review, and will continue to consider.

Perth and Kinross Council group structure

The below diagram sets out our scoping of group entities in relation to the group financial statements, and related group audit instructions.



Key

- Audited by KPMG "core team"
- Audited by KPMG – separate audit team
- Audited by KPMG – separate audit team, not consolidated on the grounds of materiality
- Audited by component auditor – group audit instructions to be issued where considered significant components

Appendix nine

Grant claims and WGA return

RETURN	DESCRIPTION	CONCLUSION
Whole of Government Accounts ("WGA")	WGA is the consolidated financial statements for all components of government in the UK. Most public bodies are required to provide information for the preparation of WGA. External auditors are required to review and provide assurance on WGA returns over a prescribed threshold.	We did not identify any exceptions in our testing and issued an unqualified opinion on the WGA return.
Non Domestic Rates ("NDR")	NDR in Scotland is collected by local authorities on an agency basis and notionally placed in a national 'pool', which is then redistributed among authorities based on each authority's estimated collection levels. In April each year, authorities submit an estimate of their expected NDRI following the year end, authorities are required to submit their actual NDR yield, known as 'the notified amount' in a final return to the Scottish Government	We did not identify any exceptions in our testing and issued an unqualified opinion on the NDR return.
Housing Benefits ("HB")	The HB subsidy scheme is the means by which local authorities claim subsidy from the Department for Work and Pensions ("DWP") towards the cost of paying HB in their local areas. Claimants benefits either by direct application to the authority or by applying simultaneously for income support/jobseekers allowance and HB to the DWP. Eligibility for, and the amount of, HB is determined in all cases solely by the local authority. Monthly instalments of subsidy are made by the DWP on the basis of authorities' estimates in March and August. Final subsidy claims are made on claim form MPF720B which requires to be certified by the external auditor.	We did not identify any exceptions in our testing and expect to issue an unqualified opinion on the HB return in advance of the 30 November deadline.
Education Maintenance Allowance ("EMA")	EMA is a means tested weekly allowance payable to young people from low income families to encourage them to remain in education beyond the compulsory school leaving age. Local authorities manage the delivery of the EMA programme in respect of schools, home education, and all other learning other than college provision. EMA payments comprise a weekly allowance of £30 and are made by local authorities to eligible young people. The Scottish Government reimburses the costs incurred by authorities through monthly payments of grant. An allowance for the costs of administering the programme is also paid by the Scottish Government.	We did not identify any exceptions in our testing and issued an unqualified opinion on the EMA return.

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