

Perth & Kinross Council

Annual Audit Plan 2023/24



 AUDIT SCOTLAND

Prepared for Perth & Kinross Council
March 2024

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Introduction

Summary of planned audit work

1. This document summarises the work plan for our 2023/24 audit of Perth & Kinross Council (the council). The main elements of the audit include:

- evaluation of key controls within the main financial systems
- an audit of the financial statements and an opinion on whether they give a true and fair view and are free from material misstatement
- an audit opinion on other statutory information published in the annual accounts, including the Management Commentary, the Annual Governance Statement, and the Remuneration Report
- consideration of arrangements in relation to wider scope areas: financial management; financial sustainability; vision, leadership and governance; and use of resources to improve outcomes
- consideration of Best Value arrangements
- providing assurance on the Housing Benefit Subsidy Claim and Non-Domestic Rates Return
- review of the council's arrangements for preparing and publishing statutory performance information
- provision of an Independent Auditor's Report expressing opinions on the different elements of the annual accounts and an Annual Audit Report setting out conclusions on the wider scope areas.

Respective responsibilities of the auditor and the council

2. The [Code of Audit Practice](#) sets out in detail the respective responsibilities of the auditor and the council. Key responsibilities are summarised below.

Auditor responsibilities

3. Our responsibilities as independent auditors are established by the Local Government (Scotland) Act 1973 and the Code of Audit Practice (including [supplementary guidance](#)) and guided by the Financial Reporting Council's Ethical Standard.

4. Auditors in the public sector give an independent opinion on the financial statements and other information within the annual accounts. We also review and report on the wider scope arrangements in place at the council. In doing this, we aim to support improvement and accountability.

Council responsibilities

5. The council is responsible for maintaining adequate accounting records and internal controls and preparing financial statements for audit that give a true and fair view. It is also required to produce other reports in the annual accounts in accordance with statutory requirements.

6. The council has the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation, and establishing effective arrangements for governance, propriety, and regularity that enable them to deliver their objectives.

7. The audit of the annual accounts does not relieve management or the Audit and Risk Committee, as those charged with governance, of their responsibilities.

Communication of fraud or suspected fraud

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

Adding value

9. We aim to add value by tailoring audit work to the circumstances of the council and the audit risks identified; being constructive and forward looking; providing independent conclusions; attending meetings of the Audit and Risk Committee; and by recommending and encouraging good practice. In so doing, we will help the council promote improved standards of governance, better management and decision making, and more effective use of resources.

Annual accounts

Introduction

10. The annual accounts are an essential part of demonstrating the council's stewardship of resources and its performance in the use of those resources.

11. We are required to perform an audit of the financial statements, consider other information within the annual accounts, and express a number of audit opinions in an Independent Auditor's Report in accordance with International Standards on Auditing (ISAs) in the UK, Practice Note 10 from the Public Audit Forum which interprets the ISAs for the public sector, and guidance from Audit Scotland.

12. We focus our work on the areas of highest risk. As part of our planning process, we perform a risk assessment highlighting the audit risks relating to each of the main financial systems relevant to the production of the financial statements.

Materiality

13. The concept of materiality is applied by auditors in planning and performing the audit, and in evaluating the effect of any uncorrected misstatements on the financial statements. We plan our audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement.

Materiality levels for the 2023/24 audit

14. We assess materiality at different levels as described in [Exhibit 1](#). The materiality values for the council and its group are set out in [Exhibit 1](#).

Exhibit 1

2023/24 Materiality levels for Perth & Kinross Council and its group

Materiality	Council	Group
Planning materiality: this is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. Materiality has been set based on our assessment of the needs of the users of the financial statements and the nature of the council's operations. For the year ended 31 March 2024, we have set our materiality at 2% of gross expenditure based on the audited financial statements for 2022/23.	£13.8 million	£14 million

Performance materiality: this acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this could indicate that further audit procedures are required. Using our professional judgement, we have assessed performance materiality at 60% of planning materiality.	£8.3 million	£8.4 million
Reporting threshold (i.e. clearly trivial): we are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount.	£0.5 million	£0.5 million

Source: Audit Scotland

Significant risks of material misstatement to the financial statements

15. Our risk assessment draws on our cumulative knowledge of the council, its major transaction streams, key systems of internal control, and risk management processes. It is informed by our discussions with management, meetings with internal audit, attendance at committees, and review of supporting information.

16. Audit risk assessment is an iterative and dynamic process. Our assessment of risks set out in this plan may change as more information and evidence becomes available during the progress of the audit. Where such changes occur, we will advise management, and where relevant, report them to those charged with governance.

17. Based on our risk assessment process, we identified the following significant risks of material misstatement to the financial statements. These are risks which have the greatest impact on our planned audit procedures. [Exhibit 2](#) summarises the nature of the risks, management's sources of assurance over these risks, and the further audit procedures we plan to perform to gain assurance over the risks.

Exhibit 2

2023/24 Significant risks of material misstatement to the financial statements

Significant risk of material misstatement	Management's sources of assurance	Planned audit response
Significant risks of material misstatement		
<p>1. Risk of material misstatement due to fraud caused by management override of controls</p> <p>As stated in ISA (UK) 240, management is in a unique position to</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance</p>	<ul style="list-style-type: none"> Assess the design and implementation of controls over journal entry processing. Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of

Significant risk of material misstatement	Management's sources of assurance	Planned audit response
<p>perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p>		<p>journal entries and other adjustments.</p> <ul style="list-style-type: none"> • Use data analytics to consider, identify and test journals at the year-end and post-closing entries and focus on significant risk areas. • Consider the need to test journal entries and other adjustments throughout the year. • Evaluate significant transactions outside the normal course of business. • Assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year. • Substantively test income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year. • Test accounting accruals and prepayments focusing on significant risk areas.
<p>2. Estimation in the valuation of other land and buildings (OLB)</p> <p>There is a significant degree of subjectivity in the valuation of other land and buildings. Valuations are based on specialist assumptions, and changes in these can result in material changes to valuations.</p> <p>OLB are revalued on a five-year rolling basis. Values may change between periodic valuations. OLB are valued at 1 April and there is a risk of material movement between the date of</p>	<ul style="list-style-type: none"> • Other land and buildings (OLB) valuations are prepared by RICS qualified members of the council's Estates team. The annual revaluation process includes an impairment review by the valuers. • Selected sites are valued by an external RICS firm. • Building Cost Information Service (BCIS) data is provided by the council's Estates team to inform the Finance team's annual review of the potential 	<ul style="list-style-type: none"> • Review the information provided to the valuer to assess for completeness. • Evaluate the competence, capabilities, and objectivity of the professional valuer. • Review the reconciliation between the accounts, property asset register and valuers' reports. • Confirm a sample of asset valuations to valuers' reports including useful lives. • Test a sample of OLB subject to revaluation in 2023/24 and critically assess the appropriateness of estimates and assumptions. • Confirm our understanding of management's involvement in the valuation process for OLB to assess if appropriate oversight has occurred.

Significant risk of material misstatement	Management's sources of assurance	Planned audit response
<p>valuation and the balance sheet date.</p> <p>The council undertakes fair value assessments to ensure the financial statements accurately reflect the carrying value of the land and buildings at 31 March 2024. This resulted in a material adjustment to the accounts in 2022/23.</p>	<p>movement in asset values for OLB valued on a DRC basis. This review includes the potential movement between the last valuation for all sites and 31 March.</p> <ul style="list-style-type: none"> An impairment review for all OLB is completed by the Finance team at the financial year end. 	<ul style="list-style-type: none"> Examine management's assessment of fair value of OLB assets not revalued in 2023/24 and assess the appropriateness of any assumptions.

Other non-significant risks of material misstatement

3. Estimation in the valuation of pension assets and liabilities

Actuarial estimates are a complex combination of liabilities over significant future periods based on life expectancy, CPI growth and discounting (based on corporate bond rates).

Assets are based on an individual employer body's share of assets at the last triennial valuation. Roll forward adjustments are provided to members data and to asset valuations.

There is a risk that small changes in the assumptions used can lead to large changes in the resulting valuations resulting in material misstatement in the annual accounts.

- Use of professional actuaries appointed by the Pension Fund to value pension adjustments required by IAS19
- Actuarial valuations are reviewed by qualified finance staff for reasonableness including confirmation of the accuracy of the source data used to produce them.

- Assess the scope, independence and competence of the professionals engaged in providing estimates for pensions.
- Review the appropriateness of actuarial assumptions and results including comparison with other councils and the pension fund as a whole.
- Establish officers' arrangements for ensuring the reasonableness of professional estimations and the accuracy of information provided to the actuary by the council.

Source: Audit Scotland

18. As set out in ISA (UK) 240: *The auditor's responsibilities relating to fraud in an audit of financial statement*, there is a presumed risk of fraud over the recognition of revenue. There is a risk that revenue may be misstated resulting in a material misstatement in the financial statements. We have considered the risk over income recognition and the risk of fraud over expenditure (in accordance with *Practice Note 10 (Audit of Financial Statements and Regularity of Public Sector Bodies in the UK)*).

19. We have rebutted the presumption that a risk of material misstatement exists, with the exception of management override of controls. Our assessment is on the basis that:

- there are generally no incentives for staff to commit fraudulent financial reporting
- a significant portion of the council's income comes from government grants and contributions that can be readily agreed to funding letters
- most expenditure is in low-risk areas where individual transactions are well-controlled (for example salaried staff costs in a well-defined grading system) and individual transactions are relatively small in scale
- evidence of external fraud including the National Fraud Initiative does not indicate material risks
- experience in the sector, including a review of past misstatements, does not indicate a significant risk.

20. Our audit testing is directed towards testing significant and unusual transactions and towards assessing accounting estimates to address any residual risk, as part of our standard fraud procedures. We have not, therefore, incorporated specific work into our audit plan in these areas over and above our standard audit procedures.

Group consideration

21. As group auditors, we are required under ISA (UK) 600: *Audits of group financial statements (including the work of component auditors)* to obtain sufficient appropriate audit evidence on which to base our audit opinion on the group financial statements.

22. The council has a group which comprises component entities, including subsidiaries, associates, and joint ventures. Our planned audit approach for the components is informed by our assessment of risk and the significance of each component in terms of its assets, liabilities, and transaction streams.

23. We have not identified any risks of material misstatement for the group other than the significant risk of fraud due to management override of control. Our response to this risk is as detailed in [Exhibit 2](#). The IJB is the only significant component of the group. We will obtain our assurances for this component from

our audit of the IJB and the assurances provided by the auditors of its partner bodies (the council and NHS Tayside both of which are audited by Audit Scotland). We will perform analytical procedures on the non-significant components.

Audit of the trusts registered as Scottish charities

24. The Charities Accounts (Scotland) Regulations 2006 require charities to prepare annual accounts and require an accompanying auditor's report where any legislation requires an audit.

25. The council prepares connected charity accounts for six trusts registered as Scottish charities, with net assets of £2.25 million. The preparation and audit of financial statements of registered charities is regulated by the Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006.

26. Other than the significant risk of management override of controls, which has also been identified as a significant risk in respect of the council's annual accounts ([Exhibit 2](#)), no specific planning risks were identified in respect of the charitable trusts' accounts.

Materiality levels for the 2023/24 audit of trusts registered as Scottish charities

27. Materiality levels for the various trusts are set out in [Exhibit 3](#).

Exhibit 3

2023/24 Materiality levels for charitable trusts

Materiality	Amount
Planning materiality – this is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. For the year ended 31 March 2024 we have set our materiality at 2% of gross assets based on the audited financial statements for 2022/23.	£45,000
Performance materiality – this acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this could indicate that further audit procedures should be considered. Using our professional judgement, we have assessed performance materiality at 75% of planning materiality.	£35,000
Reporting threshold (i.e. clearly trivial) – we are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount.	£2,250

Source: Audit Scotland

Wider Scope and Best Value

Introduction

28. Reflecting the fact that public money is involved, public audit is planned and undertaken from a wider perspective than in the private sector. The Code of Audit Practice sets out the four areas that frame the wider scope of public sector audit and requires auditors to consider and conclude on the effectiveness and appropriateness of the arrangements in place for each wider scope area in audited bodies.

29. In summary, the four wider scope areas are:

- **Financial management** – this means having sound budgetary processes. We will consider the arrangements to secure sound financial management, including the strength of the financial management culture, accountability, and arrangements to prevent and detect fraud, error, and other irregularities.
- **Financial sustainability** – we will look ahead to consider whether the council is planning effectively to continue to deliver services, also comment on financial sustainability in the medium (two to five years) to longer term (longer than five years).
- **Vision, leadership, and governance** – we will conclude on the clarity of plans in place to deliver the vision, strategy, and priorities adopted by the council. We will also consider the effectiveness of the governance arrangements to support delivery.
- **Use of resources to improve outcomes** – we will consider how the council demonstrates economy, efficiency, and effectiveness through the use of financial and other resources.

Wider scope risks

30. Our planned work on our wider scope responsibilities is risk based and proportionate. We have not identified any wider scope audit risks for the 2023/24 audit of the council.

31. In addition, the Accounts Commission have not asked us to consider any specific risk areas as part of our 2023/24 audit. We will, however, remain cognisant of challenges identified in prior years such as climate change.

Best Value

32. Under the Code of Audit Practice, the audit of Best Value in councils is fully integrated within our annual audit work. Auditors are required to evaluate and report on the performance of councils in meeting their Best Value duties.

33. The arrangements to secure Best Value at the council will be assessed over the period of the audit appointment and will include an annual evaluation of risks and improvement areas and public performance reporting. We will also follow up findings reported previously on Best Value to assess the pace and depth of improvement. This work will be integrated with the wider scope audit areas discussed above.

34. As part of our annual work on Best Value, we conduct thematic reviews as directed by the Accounts Commission. In 2023/24, the thematic review across the sector will be on workforce innovation and will consider how councils are responding to the current workforce challenge through building capacity, increasing productivity, and innovation. Our conclusions and judgements will be reported in a separate report to management and summarised in our Annual Audit Report.

35. At least once every five years, the Controller of Audit will report to the Accounts Commission on the council's performance in meeting its Best Value duties. The first year of the programme is from October 2023 to August 2024. Perth & Kinross Council is not included in the first year of the programme.

Reporting arrangements, timetable, and audit fee

Reporting arrangements

36. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft reports will be shared with the relevant officers to confirm factual accuracy.

37. We will provide:

- an Independent Auditor's Report to the council and the Accounts Commission setting out our opinions on the annual accounts
- the council and the Accounts Commission with an Annual Audit Report containing observations and recommendations on significant matters which have arisen during the audit and conclusions on wider scope areas.

38. [Exhibit 4](#) outlines the target dates for our audit outputs set by the Accounts Commission.

39. We are unable to achieve the target date of 30 September 2024 for completion of the audit due to the legacy of the late completion of prior year audits due to the Covid-19 pandemic, ongoing resourcing challenges within Audit Scotland and the requirement to prioritise the delivery of high-quality audits over meeting target dates. This is consistent with messaging from the Financial Reporting Council which makes it clear that audit quality should take precedence.

40. We plan to certify the annual accounts following consideration of our Annual Audit Report and approval of the annual accounts for signature by the Audit and Risk Committee on 2 December 2024. This has been agreed with council officers. We will work towards delivering the audit and audit outputs by target dates over the period of the audit appointment.

Exhibit 4 2023/24 Audit outputs

Audit Output	Target date	Audit and Risk Committee date
Annual Audit Plan	31 March 2024	25 March 2024
Best Value Management Report	N/A	30 September 2024

Audit Output	Target date	Audit and Risk Committee date
Independent Auditor's Report	30 September 2024	2 December 2024
Annual Audit Report	30 September 2024	2 December 2024



Source: Audit Scotland

41. All Annual Audit Plans and the outputs detailed in [Exhibit 4](#), and any other outputs on matters of public interest, will be published on our website: www.audit-scotland.gov.uk.

Timetable

42. To support an efficient audit, it is critical that the timetable for producing the annual accounts for audit is achieved. We have included a timetable for the audit at [Exhibit 5](#) that has been discussed and agreed with management.

Exhibit 5 Annual accounts timetable

 Key stage	 Date
Consideration of the unaudited annual accounts by those charged with governance	24 June 2024
Latest submission date for the receipt of the unaudited annual accounts with complete working papers package.	28 June 2024
Latest date for final clearance meeting with the Strategic Lead – Finance and Business Support	4 November 2024
Agreement of audited and unsigned annual accounts	25 November 2024
Issue of Annual Audit Report including ISA 260 report to those charged with governance (Audit and Risk Committee)	
Audit and Risk Committee meeting to consider the Annual Audit Report and approve the audited annual accounts for signature	2 December 2024
Signed Independent Auditor's Report	2 December 2024

Source: Audit Scotland

Audit fee

43. In determining the audit fee, we have taken account of the risk exposure of the council and the planned management assurances in place. Fee levels are also impacted by inflation which increases the cost of audit delivery. The proposed audit fee for 2023/24 is £350,000 (2022/23: £330,000). We also propose a fee of £6,400 (2022/23: £6,000) for the charitable trusts.

44. In setting the fee for 2023/24, we have assumed that the council has effective governance arrangements and will prepare comprehensive and accurate annual accounts for audit in line with the agreed timetable for the audit. The audit fee assumes there will be no major change in respect of the scope of the audit during the year and where our audit cannot proceed as planned, a supplementary fee may be levied.

Other matters

Internal audit

45. It is the responsibility of the council to establish adequate internal audit arrangements. The council's internal audit function is provided by an in-house team. We have reviewed the internal audit plan as part of our planning process. While we are not planning to place formal reliance on the work of internal audit in 2023/24, we will review internal audit reports and assess the impact of the findings on our financial statements and wider scope audit responsibilities.

External audit team

46. There is a change in the engagement lead for the council audit this year as Brian Howarth, Audit Director, is retiring. The engagement lead (i.e. appointed auditor) for the 2023/24 audit of the council is Rachel Browne, Audit Director. Rachel has over 25 years of public sector audit experience in local government, central government and NHS audits. The incoming and outgoing engagement leads are holding handover discussions to ensure a smooth transition.

47. Pamela Bryan, Senior Auditor and Maggie Bruce, Senior Audit Manager will continue to lead and manage the external audit team on a day-to-day basis.

Independence and objectivity

48. We are independent of the council in accordance with relevant ethical requirements, including the Financial Reporting Council's Ethical Standard. This standard imposes stringent rules to ensure the independence and objectivity of auditors.

49. Audit Scotland has robust arrangements in place to ensure compliance with Ethical Standard including an annual '*fit and proper*' declaration for all members of staff. The arrangements are overseen by the Executive Director of Innovation and Quality, who serves as Audit Scotland's Ethics Partner.

50. The Ethical Standard requires auditors to communicate any relationships that may affect the independence and objectivity of the audit team. We are not aware of any such relationships pertaining to the audit of the council.

Audit quality

51. Audit Scotland is committed to the consistent delivery of high-quality public audit. Audit quality requires ongoing attention and improvement to keep pace with external and internal changes. A document explaining the arrangements for providing assurance on the delivery of high-quality audits is available from the [Audit Scotland website](#).

52. The International Standards on Quality Management (ISQM) applicable to Audit Scotland for 2023/24 audits are:

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

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

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

55. Audit Scotland may periodically seek your views on the quality of our service provision. The team would also welcome feedback more informally at any time.

Perth & Kinross Council

Annual Audit Plan 2023/24

Audit Scotland's published material is available for download on the website in a number of formats. For information on our accessibility principles, please visit:

www.audit-scotland.gov.uk/accessibility

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