Perth & Kinross Council

2022/23 Annual Audit Report

AUDIT SCOTLAND

Prepared for the Members of Perth & Kinross Council and the Controller of Audit

11 December 2023

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2 The Council's budget setting and financial management arrangements operated effectively during 2022/23.

3 The budget included a planned draw on reserves of £32.3 million and the actual outturn was £16.1 million less than this.

4 There are clear links to Corporate Plan priorities within the Medium-Term Financial Plan and cumulative funding gaps of up to £192 million are projected over the next six years.

5 One of the Council's major capital projects has been paused due to inflationary cost pressures and the Council is developing an asset management strategy.

Other wider scope audit work

6 The Council continues to have a clear vision and a transformation and change strategy that is extensive and ambitious.

7 Reporting of performance has improved although further work is required to monitor actions against previous Best Value recommendations.

Introduction

1. This report summarises the findings from the 2022/23 annual audit of Perth & Kinross Council (the Council) and will be published on Audit Scotland's website: www.audit-scotland.gov.uk.

2. The scope of the audit was set out in an annual audit plan presented to the March 2023 meeting of the Audit and Risk Committee. This annual audit report comprises significant matters arising from the audit of Perth & Kinross Council's 2022/23 Annual Accounts and conclusions on the wider scope areas, as set out in the *Code of Audit Practice 2021*.

3. We would like to thank elected members, management and staff, particularly those in finance, for their co-operation and assistance and we look forward to continuing to work together constructively over the five-year appointment.

Adding value through the audit

4. We aim to help the Council promote improved standards of governance, better management and decision-making and more effective use of resources. We do this by sharing intelligence and good practice, by identifying and providing insight on significant risks, and making clear recommendations for improvement.

Responsibilities and reporting

5. Perth & Kinross Council has responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual accounts that are in accordance with proper accounting practices. Perth & Kinross Council is also responsible for compliance with legislation and establishing appropriate arrangements for governance and propriety.

6. The responsibilities of the independent auditor are established by the Local Government (Scotland) Act 1973, the Code of Audit Practice 2021, and supplementary guidance and International Standards on Auditing in the UK.

7. This report contains an agreed action plan at the Appendix setting out specific recommendations, responsible officers and dates for implementation. Weaknesses or risks identified in this report are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management of its responsibility to address the issues we raise and from maintaining adequate systems of control.

Auditor Independence

8. We confirm that we comply with the Financial Reporting Council's Ethical Standard and that we have not undertaken any non-audit related services. We are not aware of any relationships that could compromise our objectivity or our independence.

1. Audit of 2022/23 annual accounts

Public bodies are required to prepare annual accounts comprising financial statements and other related reports. These are the principal means of accounting for the stewardship public funds.

Audit opinions on Perth & Kinross Council's 2022/23 Annual Accounts and the statement of accounts of the connected charities are unmodified.

Audit opinions on the annual accounts are unmodified

9. The independent auditor's report included the following audit opinions on the annual accounts:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework
- the audited part of the Remuneration Report was prepared in accordance with the financial reporting framework
- the Management Commentary and Annual Governance Statement were consistent with the financial statements and properly prepared in accordance with the applicable requirements.

The accounts were certified on 11 December 2023, later than planned due to the availability of audit resources

10. We received the unaudited annual accounts on 26 June 2023, in line with the agreed audit timetable. The accounts presented for audit were of a good standard and officers provided good support to the audit team during the audit.

11. The 2022/23 annual accounts were certified on 11 December 2023 which is later than planned due to the availability of audit resources. We are working hard to return to pre-Covid reporting timescales for all of our audits over this current appointment period, but there are a number of challenges to achieving this including the need to maintain quality standards and the wellbeing of audit staff.

Our audit approach and testing was informed by the overall materiality level of £14 million

12. The concept of materiality is applied by auditors to determine whether misstatements identified during the audit could reasonably be expected to influence the economic decisions of users of the financial statements, and impact the opinion set out in the independent auditor's report. Auditors set a monetary threshold when considering materiality, although some issues may be considered material by their nature. It is ultimately a matter of the auditor's professional judgement.

13. Our initial assessment of materiality was carried out during the planning phase of the audit and was based on the financial results reported in the audited 2021/22 annual accounts. These materiality levels were reported in our annual audit plan to the March 2023 meeting of the Audit and Risk Committee.

14. On receipt of the unaudited 2022/23 annual accounts we reconsidered our materiality levels based on the financial results for the year ended 31 March 2023, and decided to amend our planned amounts to reflect the increase in gross expenditure. Materiality amounts are detailed in Exhibit 1.

Exhibit 1
Materiality values

Materiality level	Council	Group
Overall materiality	£14.0 million	£14.2 million
Performance materiality	£8.4 million	£8.5 million
Reporting threshold	£0.250 million	£0.250 million

Source: Audit Scotland

15. Performance materiality is used by auditors when undertaking work on individual areas of the financial statements. It is a lower materiality threshold, set to reduce the probability of aggregated misstatements exceeding overall materiality. Performance materiality was set at 60 percent of overall materiality, reflecting the scale of previous year's adjustments, the extent of estimation in the accounts and the planned testing in proportion to the scale of the organisation.

Our audit identified and addressed the risks of material misstatement

16. Exhibit 2 sets out the significant and non-significant risks of material misstatement to the financial statements. It also summarises the further audit procedures we performed during the year to obtain assurances over these risks and the conclusions from the work completed.

Exhibit 2

Significant and non-significant risks of material misstatement

Nature of risk	Audit response	Conclusion
Significant risks of material misstatement		
1. Risk of material misstatement due to fraud caused by management override of controls As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.	Assess the design and implementation of controls over journal entry processing. Make enquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments. 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 during the period. 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.	The completion of the assurance procedures did not identify any evidence of management override of controls.
2. Estimation in the valuation of council dwellings The Council's housing stock was last revalued in	Examine management's assessment of fair value of council dwellings not subject to full revaluation in 2022/23. We will critically assess if this is based on expert valuer's opinion and assess the	We reviewed and critically assessed management's assessment of the movement in council dwelling valuations based on average house prices in Perth and Kinross.

Nature of risk	Audit response	Conclusion
2019/20 by the District Valuer Service (DVS). Valuations are based on specialist assumptions including the discount factor to apply for social housing. Changes in these assumptions can result in material changes to valuations. There has been limited adjustment to the valuation of council dwellings since the 2019/20 valuation exercise. There is a risk that the carrying amount in the accounts at 31 March 2023 does not appropriately reflect movements and changes in assumptions since the last revaluation.	appropriateness of any assumptions. If undertaken, we will review the information provided to the external valuer and complete a walkthrough of the valuation process for council dwellings to obtain an understanding of the process, including the methodologies and assumptions applied. Test the reconciliation between the financial ledger and the property asset register and any valuation reports to check asset valuations and useful lives.	We performed our own analysis using buy-back data and derived an auditor's estimate range based on this information. The carrying value of council dwellings at 31 March 2023 sits within this range therefore no adjustment was made in the accounts. We are holding separate discussions with the Council to agree a way forward to regularly review (and, if necessary, adjust) the carrying value of council dwellings in the years between formal valuations. These will include how the Council obtains the valuer's input to these reviews. **Recommendation 1**
3. Estimation in the valuation of other land and buildings (OLB) 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. OLB are revalued on a five-year rolling basis. Values may change between periodic valuations and recently have resulted in increases of between 3 and 6 percent each year. OLB are valued at 1 April and there is a risk of material movement	Review the information provided to the external valuer to assess for completeness. Evaluate the competence, capabilities, and objectivity of the professional valuer. Complete a walkthrough of the valuation process for OLB to obtain an understanding of the process, including the methodologies and assumptions applied. Review reports from the valuer to confirm overall asset valuation. Obtain an understanding of management's involvement in the valuation process for OLB to assess if appropriate oversight has occurred. Examine management's assessment of fair value of OLB assets not revalued in	Shops, depots, tips and car parks were subject to a full valuation process in 2022/23. The date of valuation was 1 April or 1 August. We reviewed and tested the outcome of the valuation process and did not identify any material issues. The unaudited accounts did not include a current value assessment at 31 March 2023, as this was not considered material by management. However audit review of schools and PFI campuses identified these had moved by a material amount since the last formal valuation. This resulted in an adjustment being applied to increase the carrying value of other land and buildings in the audited financial statements by £90 million.

Nature of risk	Audit response	Conclusion
between the date of valuation and the balance sheet date. It is important that the Council undertakes fair value assessments to ensure the financial statements accurately reflect the carrying value of the land and buildings at 31 March 2023.	2022/23. We will critically assess if this is based on expert valuer's opinion/ and assess the appropriateness of any assumptions. Test the reconciliation between the financial ledger and the property asset register and any valuation report to check asset valuations and useful lives.	There is no impact on the General Fund. Refer to Item 1 in Exhibit 3. Our work also identified a control weakness in this area, as the Council does not prepare a reconciliation between the financial ledger and the fixed asset register or between the valuation report and the asset register. We compared the valuer's report with the asset register and did not identify any material omissions. **Recommendation 2**
4. Changes to core financial systems The Council is implementing a new cash management system during the 2022/23, with a 'go-live' date very close to the year-end. There has also been a significant upgrade to the main financial ledger system during the year. Information required for the financial systems is at risk of material error if the system does not operate as planned, or inadequate control processes are in place to ensure the integrity of data transfer between old and new systems.	Review and assess the adequacy of controls put in place by management to ensure the integrity of data transfer between systems Perform checks on the completeness and accuracy of opening balances transferred to the new system Ensure early bank reconciliations are prepared following the introduction of the new system, assess the volume of reconciling items compared to the previous system and test any significant reconciling items.	**Cash management system (Pay360):** Our audit confirmed the new system was a migration to a cloud-based version of the previous system, rather than a full replacement. Only historic data was migrated, and controls and exception reports were generated and checked to ensure there was no missing data. We did not identify any issues with the controls put in place by management to ensure a seamless transition between systems. **Integra upgrade:** The upgrade only changed the overlying software structure, the underlying data were unaltered. Officers produced a trial balance before and after the upgrade. This was checked to ensure the new system was reading and interpreting the data consistently. We did not identify any issues with the controls put in place by management to ensure the integrity of ledger

Nature of risk	Audit response	Conclusion
		data before and after the upgrade.
Other non-significant risks of material misstatement		
5. 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.	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.	A review of other councils' actuarial reports identified that Tayside Pension Fund had an unusually high assessment of pension assets under IFRIC14. The inferred value of the asset was 11 times the Council's annual employer contribution. The actuarial method used to determine this value was considered, and we identified that the valuation of costs and contributions were assessed over very different timeframes. A revised IAS19 actuarial report was obtained, and the annual accounts were amended to reflect the revised valuation. Refer to Items 2 and 3 in Exhibit 3.
6. Estimation in PFI/DBFM models The Council has acquired assets under PFI and DBFM contracts with a fair value of £164 million at 31 March 2022. The accounts also include amounts due to contractors under these contracts totalling £127 million. Unitary charge payments to contractors require to be divided into the service and construction elements	Obtain financial models and assess them for reasonableness, based on whether they have been updated to reflect current unitary charges. Determine management's processes for updating the models to reflect the future impact of recent changes in RPI/CPI, based on the requirements of the original contract indexation terms. Confirm the impact of the financial flexibilities on the	We did not identify any material errors in the liability attributable to PFI/DBFM assets. The Council is not implementing the financial flexibility set out in finance circular 10/2022 until the 2023/24 financial year. Our planned audit work in this area was therefore not carried out and will be reconsidered when planning our 2023/24 audit procedures.

Nature of risk	Audit response	Conclusion
using estimation techniques. In addition, the Council has agreed to adopt the financial flexibilities set out in finance circular 10/2022 within its 2022/23 accounts. There is a risk of misstatement in the associated liability if inappropriate assumptions have been made, particularly given recent changes to RPI/CPI and associated indices.	PFI and DBFM loans fund repayments.	

We report significant findings from the audit

17. Under International Standard on Auditing (UK) 260 we communicate significant findings from the audit including our view about the qualitative aspects of the body's accounting practices.

18. The significant findings are summarised in Exhibit 3. Our audit also identified other presentation and disclosure issues which were discussed with management. These were all adjusted in the audited annual accounts, and none were significant enough to require to be separately reported under ISA260.

Exhibit 3
Significant findings and key matters from the audit of the annual accounts

Issue	Resolution
1. Valuation of other land and buildings The carrying amount of an item of property, plant and equipment should reflect its current value. However, the Code of Practice on Local Authority Accounting (the Code) does not explicitly require an annual revaluation. Instead, revaluations are required to be made with sufficient regularity to ensure that the carrying amount does not differ materially from the current value. The Code permits a maximum interval of five years between valuations but that is only appropriate where the change in value in the intervening period is not significant. Therefore, more frequent valuations are required for assets that experience significant annual changes in value. The unaudited annual accounts reported an overall carrying value for Other Land and Buildings (OLB) of £629 million, which included	The audited financial statements have been adjusted to reflect current valuations of land and buildings. **Recommendation 1**

Issue	Resolution
£51 million of shops, depots, tips and car parks revalued fully during 2022/23. Some elements of OLB had not been valued for up to 4 years. This is in accordance with the Council's accounting policy. Part way through the previous appointment round, and at the request of the previous auditor, the Council introduced a process for monitoring land and property asset valuation movements. This covered OLB assets valued on a depreciated replacement cost (DRC) basis to identify whether revisions are required to the planned rolling revaluation programme and to undertake additional revaluations of any asset categories. Historically, this has not resulted in any adjustments to the carrying value of other land and buildings due to the movement not being deemed material, by management, in the context of PPE as a whole. We discussed this view with the Council over the course of the 2022/23 audit. The review undertaken by the Council identified that the potential movement in gross book value (GBV) of other land and buildings could be understated by as much as £76 million. The Council did not consider this to be material as it represented a 5 percent movement in the carrying value of PPE (worth £1.3 billion in the unaudited accounts). The bulk of the movement was in PFI campuses and schools, and the Council proposed to bring forward the revaluation of these assets to 2023/24. The calculated movement was more than 5 times our audit materiality threshold of £14m and represented a 12 percent movement in the value of OLB. We were therefore unable to accept the Council's proposal to resolve this in 2023/24. We requested that an adjustment be processed for the audited accounts. It was agreed to apply the adjustment to PFI campuses (£43 million), primary schools (£16 million) and secondary schools (£15 million), as movements in other categories of OLB were immaterial. The Council agreed to make the requested amendments including writing back accumulated depreciation of £16 million.	
2. Valuation of pension asset The 2022/23 unaudited annual accounts included a pension asset of £229 million. The pension accounting standard (IAS 19) limits any pension asset to the lower of the surplus and what is described as an asset ceiling. The asset ceiling is defined as the present value of any economic benefits available in the form of refunds from the pension fund or reductions in future contributions to the fund. Further guidance on calculating the asset ceiling is provided in IFRIC 14. It refers to the impact of a 'minimum funding requirement' which stipulates a minimum amount of contributions that must be paid over a given period. The existence of a minimum	The actuary provided a revised IFRIC14 calculation that reflected a pension asset ceiling calculation based on an assessment of all future service costs and contributions. The audited financial statements have been adjusted to reflect a pension asset of zero for the Council's funded

Issue	Resolution
funding requirement limits the ability of a body to reduce future contributions. Where there is a minimum funding requirement for contributions relating to future service, IFRIC 14 explains that the asset ceiling is the present value of the future service cost less the present value of the minimum funding requirement contributions. Where the present value of the minimum funding requirement contributions exceeds the future service cost, IFRIC 14 advises that no asset should be recognised. Our review of the methodology used by the Council's actuary identified that the calculation of the asset ceiling had only considered the minimum funding requirement contributions up to the date of the next triennial valuation, rather than all future service costs and contributions. As a result the pension asset was overstated in the unaudited annual accounts.	obligations, and a pension liability of £21 million for its unfunded obligations, for which the IFRIC 14 calculation does not apply.
3. Group bodies pension assets As explained at Item 2 above, the Council's pension asset was overstated in the unaudited annual accounts due to the calculation methodology used by the actuary. As the same methodology was used to calculate the pension assets for the Tayside Valuation Joint Board (TVJB), Live Active Leisure Limited (LAL), Culture Perth and Kinross (CPK), Perth Theatre and Concert Hall (PT), and Tayside Contracts Joint Committee (TCJC) then these were also overstated in their unaudited annual accounts. LAL, CPK and PT are consolidated within the Council's group financial statements as subsidiaries. The LAL, CPK and PT 2022/23 unaudited accounts included pension assets valued at £8.5 million, £3.5 million and £1.9 million respectively. If this was recalculated by the actuary using the revised methodology described at Item 2 above, then we would expect the asset for the funded element to reduce to zero for each of these. Therefore, there was a £14 million error in the pension asset figure in the group balance sheet in the Council's unaudited annual accounts. TCJC and TVJB are consolidated within the Council's group financial statements as associates with Perth & Kinross Council consolidating a 34 percent share of TCJC's year-end reserves balances and a 42.68 percent share of TVJB's. The TCJC unaudited accounts included a pension asset valued at £55 million, with the Council consolidating a £18 million share within the group balance sheet. The TVJB unaudited accounts included a pension asset valued at £5.2 million, with the Council consolidating a £2.2 million share within the group balance sheet. A recalculation by the	Management amended the group accounts to correct the overstatement of its subsidiaries' (LAL, CPK and PT) pension assets and its share of its associates' (TCJC and TVJB) pension assets.

Issue	Resolution
actuary using the revised methodology described at Item 2 also reduced these pension assets to zero. The revised TCJC accounts also reflect a pension liability for unfunded benefits of £2m, of which £0.6m is to be consolidated by the Council. The revised TVJB accounts reflect a pension liability for unfunded benefits of £0.2m, of which £0.1m is to be consolidated by the Council. Therefore, there was an £21 million error in the pension asset figure in the group balance sheet in the Council's unaudited annual accounts.	
4. Misclassification of investments in group accounts The accounts of the Connected Charities include £3.1 million of long-term investments which were incorrectly classified as short-term in the group accounts.	The audited financial statements have been amended to correct this misclassification of investments.
5. Valuation of Common Good Assets We verified a sample of significant Common Good asset valuations to supporting documentation and identified that the Common Good balance sheet in the unaudited accounts had been prepared using draft valuation information obtained from the Council's valuer rather than final valuation information. This resulted in one asset being subject to a downward valuation of £0.565 million in the unaudited accounts when the final valuation reduction was only £0.005 million. Non-current assets in the Common Good accounts were, therefore, understated by £0.560 million.	The audited financial statements have been adjusted to reflect the current value of Common Good assets.
6. Errors in debtor and creditor balances The Council collects monies owed to Scottish Water for water and sewerage charges via its council tax charging service. These amounts do not appear in the Council's accounts, as they are collected under an agency arrangement. Due to an error in compiling the workings for the Council Tax debtors and creditors, the Scottish Water debtor and creditor were not fully eliminated. The Council Tax debtor and creditor figures were overstated by £1.4 million as a result. There was no net impact on the balance sheet. Our audit testing of grant income identified an over-accrual of £0.3 million within Cost of Services due to an error in the calculation of the amount still to be received at the year end. Short-term debtors were overstated by the same amount. We reviewed the remaining balance of debtors related to grant income and were satisfied there	The audited financial statements have been adjusted to correct the overstatements in debtors, creditors and grant income.

Issue	Resolution
was no risk of material misstatement in the remaining population. No further audit testing was carried out.	
7. Miscoding of investment property revaluation gains £0.955 million of investment property revaluation gains were incorrectly credited against gross expenditure in the finance and investment income line of the CIES, rather than being credited to gross income. There was no impact on the net expenditure figure.	The audited financial statements have been adjusted to correct the miscoding.
8. Cost of living payment incorrectly treated as principal The Council administered the £150 cost of living award on behalf of the Scottish Government as detailed in Finance Circular 2/2022 which should have been treated as an agency arrangement. We found that the Council Tax Income Account had treated this as a new council tax deduction (£6.6 million) called 'Cost of Living Allowance', with the associated funding recognised as income.	Management does not agree with our view that the cost-of-living award should be treated as agency but have amended the treatment in the audited accounts.

Source: Audit Scotland

Total misstatements identified during the audit were £381 million and these have been adjusted

19. It is our responsibility to request that all misstatements, other than those below our reporting threshold, are corrected, although the final decision on making the correction lies with those charged with governance.

20. Total misstatements identified were £381 million which exceeds our performance materiality threshold. We considered whether further audit procedures were required and reviewed the nature and causes of these misstatements, which mainly related to non-current asset valuation adjustments and the reassessment of the IAS19 pension asset (£375 million relates to Items 1-3 in Exhibit 3). We have concluded that most arose from issues that have been isolated and identified in their entirety and do not indicate further systemic error. We considered whether other misstatements presented material risks of misstatement in the relevant account area and concluded they did not.

21. There are no unadjusted misstatements to report.

Clearer linkages are needed between the financial statements and the underlying records used in their preparation

22. ISA (UK) 315 *Identifying and Assessing the Risks of Material Misstatement* was revised in July 2020 and places increased emphasis on the requirement for auditors to consider the risks arising from the use of IT. Where audited bodies make use of end-user computing to adapt the trial balance to prepare the financial statements, auditors must ensure that the flow of information from the trial balance to the financial statements is complete and accurate.

23. The Council use a mixture of ‘crystal’ reports, exported from the ledger system, and Excel spreadsheets to transform the trial balance into a series of working papers which are then combined to create the financial statements. There is limited cross referencing or linking between the working papers. This makes it difficult to prove the link between the financial statements, working papers and ledger data, and has implications for accuracy as well as audit efficiency.

24. A significant amount of manual input is required by officers in preparing the accounts working papers. Whilst we only identified one error arising from this process (Exhibit 3, Item 6), there is a risk of material misstatement if manually typed figures are entered incorrectly.

Recommendation 3

Management should review processes for generating the financial statements, providing clear cross references and links between (and within) working papers, and the source data used to create them.

The Management Commentary is well presented

25. The Management Commentary contained within the 2022/23 annual accounts is well presented, easy to read and provides clear linkages between the amounts disclosed in the Management Commentary and those elsewhere within the accounts. We noted, however, there is scope to further enhance readability through reducing the volume of variance analysis disclosures. We also note that there is an expectation that bodies will, in future, report on climate change within their Management Commentary.

Our audit opinion on the connected charities’ financial statements is unmodified

26. The Council prepares connected charity accounts for six trusts registered as Scottish charities, with net assets of £2.3 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.

27. At the audit planning stage we identified one significant risk of material misstatement in relation to the audit of the connected charities. As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of management’s ability to override controls that otherwise appear to be operating effectively.

28. We undertook audit procedures designed to provide an appropriate level of assurance over the transactions relating to the connected charities and did not identify any material misstatements due to management override of controls. As a result, our audit opinion on the connected charities’ financial statements is unmodified.

Good progress was made on prior year recommendations

29. The Council has made good progress in implementing the audit recommendations identified by the previous external auditor. Three of the five brought forward recommendations are complete with the remainder outstanding, one of which has not yet reached its implementation date. For actions not yet fully implemented, revised responses and timescales have been agreed with management, and are set out in the Appendix.

2. Financial management

Financial management means having sound budgetary processes, and the ability to understand the financial environment and whether internal controls are operating effectively.

The Council's budget setting and financial management arrangements operated effectively during 2022/23.

The 2022/23 general services budget included a planned draw on reserves of £32.3 million and the actual outturn was £16.1 million less than this.

The Council's financial management operated effectively during 2022/23. The final general services budget included a planned draw on reserves of £32.3 million

30. The Council has a well-established budget setting process that supports councillors to develop and scrutinise savings plans and understand the impact of proposed service changes.

31. In February 2022, the Council approved its 2022/23 general services net revenue budget at £417.6 million. Subsequent adjustments throughout the year resulted in a revised net budget at the year-end of £449.2 million. This was based on raising council tax by 2.5 percent and a planned contribution from reserves of £32.3 million.

The actual draw on reserves (excluding HRA) was £16.1 million less than budget

32. The Council spent a total of £433.1 million on the provision of general fund services in 2022/23, £16.1 million less than anticipated resulting in a lower than planned draw on reserves (£16.2 million). This was mainly due to additional income and underspends across general services. The most significant underspends are detailed in Exhibit 4.

Exhibit 4
Summary of most significant underspends against budget

Service area	Main reasons for underspend / additional income
Communities	**£9.9 million underspend** Mainly attributable to grant funding of approximately £7.6 million which was unspent and carried forward to spend on initiatives in 2023/24.
Education and Children's Services	**£5.6 million underspend** Due to various underspends in business and resources, nursery, primary, secondary and additional needs schools – mainly due to staff vacancies.

Source: Perth & Kinross Council 2022/23 Annual Accounts and revenue monitoring reports to Finance & Resources Committee

Housing Revenue Account balance reduced by £0.6 million during 2022/23 due to the planned use of Covid reserves

33. The Council is required by legislation to maintain a separate housing revenue account and to ensure that rents are set at a level which will at least cover the costs of its social housing provision. Rent levels are therefore a direct consequence of the budget set for the year. In January 2022 the Council approved a 3 percent increase in the average weekly rent levels for tenants for 2022/23. The rent level set reflected the income required to fund the annual HRA budget of £32.8 million.

34. The 30-year HRA Business Plan is updated each year to reflect the budgets, rent strategies and current economic climate. The HRA budget is approved by the Housing and Communities Committee (renamed to the Housing and Social Wellbeing committee following the local government elections in May 2022).

35. The HRA balance reduced by £0.6 million during 2022/23 due to the planned use of Covid reserves resulting in a balance of £2.6 million as at 31 March 2023.

The Council has taken advantage of low borrowing rates in previous years

36. The Capital Financing Requirement identifies the borrowing required to support the Council's capital investment plans. Actual borrowing may differ from CFR if, for example, the Council decides to borrow early to take advantage of low interest rates on new borrowing. Any difference is managed within working capital, and this may mean the Council invests in short term investments.

37. The Council's capital debt (£724 million) exceeded its Capital Financing Requirement (CFR) (£679 million) by £45 million as at 31 March 2023. The Council did not take out any new long-term borrowing in 2022/23 and so the ratio of borrowing to CFR reduced to 106.7 percent in 2022/23 from 119.4 percent last year. As at 31 March 2023 the Council held £155 million of short-term investments as part of its treasury management approach.

Key financial controls generally operated effectively during 2022/23

38. As required by Audit Scotland's Code of Audit Practice, as part of our audit we identified and evaluated the key internal controls in the accounting systems. Our objective was to gain assurance that it has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements.

39. We concluded that the key controls in the main financial systems were generally operating as specified. However, we did identify one control that could be strengthened (see Exhibit 5 for details). We adapted our approach to auditing the existence of employees within Education and Children's services to reflect the control weakness identified.

Exhibit 5
We identified one control that could be strengthened

Audit finding	Additional audit procedures and recommendation
1. Establishment checks – Education and Children Services The Council undertakes an annual employee validation exercise. Responses to the October 2022 exercise were received from all services, except for Education and Children's.	We contacted line managers of a sample of employees within Education and Children's Services and asked them to confirm the existence, job titles, and working hours of the employees. No issues were identified. We also increased our testing of changes to payroll data for Education and Children's Services' employees. No issues were identified. **Recommendation 4**

Internal audit provided reasonable assurance on the Council's framework of governance, risk management and control

40. We considered internal audit's annual report, presented to the August 2023 Audit and Risk Committee, as part of our review of the Annual Governance Statement included within the 2022/23 annual accounts. This included internal audit's opinion that reasonable assurance can be placed upon the adequacy and effectiveness of the Council's framework of governance, risk management and control for the year to 31 March 2023.

Procurement regulations were not followed when the value of a contract for agency workers was exceeded by 50 percent

41. Internal audit reviewed the controls over the management of the contract for agency workers within the Communities Service in 2023. This work concluded that limited assurance could be placed on the management of this contract. In particular, the report noted that the Service Manager was unaware of the Council's procurement regulations which require contracts to be retendered when a contract exceeds its value by 50 percent. We have been advised that this contract is to be retendered in December 2023 and that the contract strategy will include a more realistic contract value. The report included two additional recommendations to improve contract management, both of which have been accepted by management.

Standards of conduct and arrangements for the prevention and detection of fraud and error are appropriate

42. The Council has a range of established procedures for preventing and detecting fraud and irregularity including a whistleblowing policy, fraud and corruption policy and codes of conduct for councillors and officers. We assessed these arrangements to ensure that they were appropriate and that documents are readily available to staff and regularly reviewed to ensure they remain relevant and current. Overall, we concluded that the Council's arrangements are appropriate.

Good progress has been made in following up data matches identified by NFI

43. The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise coordinated by Audit Scotland which aims to prevent and detect fraud. 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 irregularity.

44. The current NFI exercise runs over 2022/23 and 2023/24 and participating bodies began to receive matches for investigation in January 2023. These matches are categorised by risk and all recommended matches, plus any further matches based on findings, should be investigated.

45. The Council has participated in the initiative for a number of years and has well-established processes in place for investigating the data matches identified by the NFI and reporting the results to the Audit and Risk Committee. Good progress has been made by the Council in investigating the matches from the current NFI exercise and the results of this will be reported to the Audit and Risk Committee during 2023/24.

3. Financial sustainability

Financial Sustainability means being able to meet the needs of the present without compromising the ability of future generations to meet their own needs.

The 2023/24 budget included a planned use of reserves of £27 million, but subsequent updates increased this to £42 million.

There are clear links to Corporate Plan priorities within the Medium-Term Financial Plan and cumulative funding gaps of up to £192 million are projected over the next six years.

One of the Council's major capital projects has been paused due to inflationary cost pressures and the Council is developing an asset management strategy.

The Council's general fund balance decreased to £70 million at 31 March 2023, with £52 million earmarked for future spending

46. As shown in Exhibit 6, the level of usable reserves held by Perth & Kinross Council decreased by £16 million during 2022/23, from £118 million at 31 March 2022 to £102 million at 31 March 2023. The general fund balance, which forms part of total usable reserves, decreased by £16 million during 2022/23.

47. £52 million (74%) of this general fund balance has been earmarked by the Council for specific areas of future spending including: £16 million of expenditure to be funded from Revenue Grants, £9.5 million for expenditure on workforce management including transformation, £5.5 million of expenditure on infrastructure and affordable housing funded from developers' contributions and £4.4 million on affordable housing funded from council tax on second homes.

48. The unallocated general fund balance at 31 March 2023 was £18.2 million which is in line with the Council's reserves strategy of holding between 2% and 4% of its net revenue budget as uncommitted reserves.

Exhibit 6
Perth & Kinross Council usable reserves

Reserve	31 March 2021 (£m)	31 March 2022 (£m)	31 March 2023 (£m)
General fund – uncommitted	8.2	16.6	18.2
General fund – committed	64.3	69.3	51.6
Total General fund balance	**72.5**	**85.9**	**69.8**
Housing Revenue Account	3.0	3.3	2.6
Insurance fund	2.4	1.4	1.3
Capital grants unapplied account	2.7	0.1	0.1
Capital fund (including Capital Receipts Reserve)	30.5	27.3	28.6
Total usable reserves	**111.1**	**118.0**	**102.4**

Source: Perth & Kinross Council Annual Accounts

The 2023/24 budget included a planned use of reserves of £27 million, but subsequent updates increased this to £42 million

49. On 1 March 2023, the Council approved its 2023/24 general services revenue budget. Budgeted net expenditure of £450.5 million was approved after inclusion of budget pressures totalling £17.7 million and deduction of savings totalling £6 million. The Council used the following measures to balance its budget:

- increase Council Tax by 3.9% or £3.8 million.
- use of service concessions fiscal flexibility of £17 million.
- use of reserves, including earmarked reserves, of £9.9 million.

50. The Council has subsequently updated its 2023/24 budget to reflect additional budget pressures (£1.7 million), increased expenditure funded from additional government grant (£9.4 million), the impact of the 2022/23 outturn (£9.2 million) and additional expenditure to be funded from earmarked reserves (£3.9 million). The revised budget totals £474.7 million, of which £41.7 million will be funded from reserves (including service concessions fiscal flexibility).

51. The approved budget reflected the results of the budget consultation survey with savings proposals being included in almost all service areas that participants indicated were of lowest priority for investment. This included Council-run events, Customer Service Centre efficiencies, and Council-owned buildings.

Budget reports indicate an overspend of £1.6 million (0.3 percent) against 2023/24 budget

52. The latest budget monitoring report (as at 31 August 2023) notes that the Council is projecting a small overspend of £1.6 million (0.3 percent) against its budget).

The Council approved a 2.2 percent increase in rent levels for 2023/24

53. In January 2023 the Council approved a 2.2 percent increase in the average weekly rent levels for tenants for 2023/24. The rent level set reflected the income required to fund the annual HRA budget of £33.8 million.

54. The approved budget included an allowance for public sector pay increases of 3 percent for 2023/24 and a further 2 percent for the shortfall from 2022/23 as the prior year HRA budget was set based on an assumed pay uplift of 3 percent rather than the eventual pay award agreed of 5 percent.

There are clear links to Corporate Plan priorities within the Medium-Term Financial Plan

55. The Council approved a Financial Strategy in June 2022 which set out the scale of the financial challenges facing the Council over the short to medium term. These include real-term reductions in funding, significant cost increases due to inflation and an increasing demand for services. These result in a recurring funding gap which has been funded from reserves for a number of years.

56. The Council acknowledges that this is unsustainable and that it needs to take corrective action to return to a position of long-term financial sustainability. It aims to do this through a number of strategies including its Transformation and Change Strategy but recognises transformation alone will not be sufficient to address the funding gap so budget cuts and service reductions will still be required.

57. The Financial Strategy aims to provide the link between the Council's long-term strategic objectives and its financial capacity but does not make specific reference to the Corporate Plan approved in December 2022. We have been advised that it was written this way so that it would be sustainable and transcend multiple plans. The Council's expenditure pressures, and savings proposals are clearly linked to Corporate Plan priorities within the Medium-Term Financial Plan and the three-year budget paper.

Cumulative funding gaps of up to £192 million are projected over the next six years

58. The Financial Strategy is supported by the updated Medium-Term Financial Plan, approved in October 2023, covering the six years to 31 March 2030. The plan considers a range of key financial variables that impact on the Council's financial planning including funding levels, inflation and pay awards. These are grouped together under three scenarios: optimistic, mid-range and pessimistic and show that the Council needs to make cumulative budget reductions of between £7.6 million and £192 million by 31 March 2030.

59. The level of financial challenge varies between years with the Council currently projecting budget gaps of £27.6 million in 2024/25, £11.5 million in 2025/26 and £12 million in 2026/27 based on the mid-range scenario. The report notes that there are significant variances between the optimistic and pessimistic scenarios for pay inflation (£35 million), non-staff inflation (£53 million) and Scottish Government funding (£36 million).

The Council's capital investment programme totals £702 million over the next five years

60. The approved capital programme for 2023/24 to 2027/28 is £702 million, split between £614 million of general fund projects and £88 million of housing revenue account projects, with expenditure of £219 million (£199 million general fund projects and £20 million HRA projects) scheduled for 2023/24.

One of the Council's major capital projects has been paused due to inflationary cost pressures

61. The Council estimates that inflationary pressures increased the forecast cost of its future capital programme by £34 million during 2022/23. As a result, the capital programme previously approved by members was no longer affordable. In response, the Council agreed to pause development and delivery of one of its major capital projects (PH2O) which was originally estimated at £90 million in February 2023. This project, a combined leisure facility for Perth, is being developed using a Passivhaus design (to ensure the building meets the highest standards in sustainable construction and energy efficiency). Most recent estimates are that this project will cost in excess of £110 million to deliver. The estimated operating costs for the new facility have also been impacted by the rising energy and maintenance costs. The future of this project will be reviewed as part of the Council's review of its Corporate Asset Management Strategy.

The Council is developing an asset management strategy

62. The Council's transformation programme identifies the need to develop a corporate asset management strategy and review its estate to generate savings through reducing the number and size of buildings. A revised Corporate Asset Management Strategy and plan is currently being drafted and is scheduled to be presented to the Council in December 2023. This will include a high-level 30-Year Investment Plan providing a breakdown of estimated long-term investment requirements for the existing asset base and will inform long-term financial planning.

Visual inspections of all schools identified one that contained RAAC which has since been replaced with alternative materials

63. Reinforced autoclaved aerated concrete (RAAC) is a lightweight construction material that was used in the construction of some public buildings like schools and hospitals between the 1950s and 1990s. It was used mostly in flat roofing, but also in some pitched roofs, floors and walls.

64. The Council has completed visual inspections of all its schools and is on target to complete visual inspections across its entire estate by the end of the calendar year. The Council will follow-up with more detailed inspections of properties where RAAC is identified as being present.

65. To date, one secondary school (Perth Grammar) has been found to contain this form of concrete. Remedial action to remove the RAAC and replace it with alternative material was undertaken during the summer holidays and so did not impact on the delivery of educational services.

4. Other wider scope audit work

During 2022/23 our other wider scope audit work included a Best Value thematic review of leadership and priorities, and consideration of the Council's performance management and reporting arrangements, governance, and its use of resources to improve outcomes.

The Council continues to have a clear vision and a transformation and change strategy that is extensive and ambitious.

Reporting of performance has improved although further work is required to monitor actions against previous Best Value recommendations.

Best Value audit work is now fully integrated within our annual audit work

66. Councils have a statutory duty to make arrangements to secure continuous improvement in the performance of their functions. Expectations are laid out in the Best Value Revised Statutory Guidance 2020.

67. Over the previous external audit appointment period (2016/17-2021/22), each of the 32 councils in Scotland were the subject of a separate Best Value Assurance Report (BVAR) published by the Accounts Commission. The Perth & Kinross Council BVAR was published in August 2019.

68. Under the Code of Audit Practice 2021, the audit of Best Value in councils is now fully integrated within our annual audit work. Best Value at the Council will be assessed comprehensively over the period of the audit appointment and will include an annual evaluation of the Council's approach to demonstrating improvement in its services and public performance reporting. We will also follow up findings reported previously on Best Value to assess the pace and depth of improvement.

69. As part of the new reporting arrangements, the Controller of Audit will report to the Accounts Commission on the Council's performance in meeting its Best Value duties at least once every five years. The first year of the programme will be from October 2023 to August 2024 and will cover the councils listed in Exhibit 7.

Exhibit 7
Schedule of Controller of Audit reports to the Accounts Commission for 2023 and 2024

South Ayrshire Council (October 2023)	**Dundee City Council** (November 2023)
Dumfries & Galloway Council (December 2023)	**Orkney Islands Council** (January 2024)
West Dunbartonshire Council (February 2024)	**Clackmannanshire Council** (May 2024)
Moray Council (June 2024)	**Falkirk Council** (August 2024)

Source: Audit Scotland

The Council continues to have a clear vision and a transformation and change strategy that is extensive and ambitious. Reporting of performance has improved although further work is required to monitor actions against previous Best Value recommendations

70. For 2022/23 the Accounts Commission directed auditors to report on the effectiveness of the Council's leadership and the development of the Council's strategic priorities. In carrying out the thematic work auditors considered the following questions:

- How clear is the new Council vision and its priorities?
- How effectively have the views of citizens and communities been reflected in the priorities and decisions taken by the Council?
- How effectively do the Council priorities reflect the need to reduce inequalities and climate change?
- How good are the delivery plans and is there alignment of financial, workforce, asset and digital plans with the Council's priorities?

71. Our report on the Best Value Thematic Review 2022/23 was considered by the Audit and Risk Committee in December 2023. It includes findings from our review of performance reporting arrangements and analysis of recent performance data and an update on the areas covered by the recommendations in the BVAR. The key messages in the report highlighted the following:

(1) The Council's leadership continues to set out a clear vision and priorities in the revised Corporate Plan. Each Plan priority has a series of actions which are being monitored through performance indicators, but targets have not been set in all of these, with many of these to be determined when appropriate strategies are revised

(2) Performance Reporting has been revised in August 2023 following approval of the new Corporate Plan and provides a good overview of performance. A Corporate Delivery Improvement Plan has been introduced which sets out improvements for the year ahead

(3) Based on Local Government Benchmarking Framework data, Perth & Kinross Council's performance has improved since 2018/19, but its relative ranking compared to other councils has deteriorated. This includes grading of care service inspections

(4) The Council is working with its community planning partners to reduce inequalities through delivery of the Community Plan, which was developed with the revised Corporate Plan

(5) The previous BV identified that the Council could do more to involve communities in strategic planning. We found that it was committed to community engagement and had built on experiences during Covid-19

(6) The Council's Transformation and Change Strategy 2022/23-2027/28 is extensive and ambitious. A council-wide workforce plan exists but lacks context and detail and an asset management strategy is being developed

(7) We note that there was no formal reporting to committee of progress against the previous Best Value recommendations, and that reporting to management on progress has not been completed since June 2021. There has been slow progress in implementing some of these actions, with Covid-19 and revisions to Corporate Plans affecting this

72. The report also included two recommendations for improvement which are replicated in the Appendix of this report along with the Council's planned response, responsible officers and dates for implementation.

The Council demonstrates full compliance with the SPI direction for 2022/23

73. The Accounts Commission issued a new Statutory Performance Information Direction in December 2021 which applies for the three years from 2022/23. It requires a council to report its:

- performance in improving local public services (including those provided with its partners and communities), and progress against agreed desired outcomes (SPI 1). The Commission expects this reporting to allow comparison both over time and with other similar bodies (drawing on Local Government Benchmarking Framework and/or other benchmarking activities)

- own assessment and audit, scrutiny and inspection body assessments of how it is performing against its duty of Best Value, and how it has responded to these assessments (SPI 2).

74. We reviewed performance against the SPI direction in our Best Value Thematic Review report this year and have concluded that the Council has fully complied with the Direction. The Corporate Annual Performance Report provides a balanced overview of performance and Perth and Kinross Performs provides an accessible analysis which allows the public to determine performance.

Governance arrangements are appropriate and support effective scrutiny, challenge and informed decision-making

75. We reviewed the Council's governance arrangements during the course of the year and concluded that they are appropriate and support effective scrutiny, challenge and informed decision-making.

The Council is open and transparent

76. The Council continues to be open and transparent, with all agendas, reports and minutes published on the Council website. In addition, there is livestreaming of Council meetings.

77. The Council's website allows the public access to a wide range of information including the register of councillors' interests, current consultations and service performance data. In addition, the home page provides links to useful information, including how to access benefits and advice.

78. The Council makes its annual accounts available on its website. These include a Management Commentary which adequately explains the Council's financial performance for the year.

Council targets for carbon reduction are clear but the impact has not yet been reflected in financial planning or reporting

79. The Council recognised a climate emergency in June 2019 and set a target to decarbonise operations in-line with Scottish Government targets. These include a commitment to achieving a 75 percent reduction in emissions by 2030 and reaching net zero by no later than 2045.

80. A Climate Change and Sustainability Committee has been set up to ensure that the Council's plans, programmes and strategies deliver on its obligations and duties towards climate change, sustainable development, and biodiversity. An annual performance report is provided to the Council to update on progress made on the Climate Strategy and Action Plan.

81. The Council has yet to fully cost the Climate Strategy and Action Plan but has been clear that funding will be the most significant challenge to becoming net zero, "given the current absence of further external funding sources, the achievement of net zero will not be possible, at the required pace". Early indications are that the cost of adaptation and mitigation for buildings, fleet and infrastructure will be around £1 billion.

Appendix. Action plan 2022/23

2022/23 recommendations

Issue/risk	Recommendation	Agreed management action/timing
1. Non-current asset valuations Our review identified that as a result of the Council's policy to revalue assets every five years there is a risk that the valuation of major asset classes (e.g. council dwellings, and other land and buildings) may have changed materially since their last full valuation. There is a risk that non-current asset carrying values are significantly different to the current value.	We recommend that the Council reviews its approach to the rolling programme of asset valuations and refines its process for considering the current valuation of assets (OLB and Housing) not subject to a full valuation process at each year end. The current process for other land and buildings is highly detailed and labour intensive and could benefit from simplification.	Officers have agreed to meet with audit to review arrangements for asset valuations and those not included in the rolling programme to provide a robust position for the 2023/24 accounts. **Responsible officer:** Corporate Accounting Manager **Agreed date:** 31 December 2023
2. Completeness of non-current assets The Council does not prepare a reconciliation between the financial ledger and the fixed asset register or between the valuation report and the asset register. We compared the valuer's report with the asset register and did not identify any material omissions. There is a risk that all revalued assets are not included in the annual accounts.	We recommend that the Council prepares a reconciliation between the financial ledger, asset register and valuer's report as part of the working papers package in future years.	Officers will reconcile the financial ledger at 1 April annually and reconcile the valuer's report to asset register as part of the working papers. **Responsible officer:** Corporate Accounting Manager **Agreed date:** 30 June 2024
3. Working papers A significant amount of manual input is required by officers in preparing the accounts working papers.	Management should review processes for generating the financial statements, providing clear cross references and links between (and within) working papers, and the	Officers will meet with auditors to review the simplification of working papers to improve audit efficiency. **Responsible officer:** Corporate Accounting Manager

Issue/risk	Recommendation	Agreed management action/timing
There is a risk of material misstatement if manually typed figures are entered incorrectly.	source data used to create them.	**Agreed date:** 31 January 2024
4. Establishment checks The Council undertakes an annual employee validation exercise. Responses to the October 2022 exercise were received from all services, except for Education and Children's Services. There is a risk that changes to terms and conditions have not been correctly reflected on the payroll system.	Establishment checks are an important anti-fraud control and are carried out annually. Management within services should ensure they respond in timely fashion to the request for confirmation.	Officers will ensure that all returns not completed are highlighted to appropriate line managers for action. Any outstanding returns post December will be escalated to Strategic Lead Finance & Business Support for action. **Responsible officer:** Corporate HR Manger **Agreed date:** 31 December 2023

Recommendations from Best Value Thematic Review 2022/23

Issue/risk	Recommendation	Agreed management action/timing
BV1. Workforce planning	The Council should revise the workforce plan. This should set out the challenges facing the Council workforce; data in terms of workforce numbers, deployment, age profile; and risks and actions in individual employment groups.	A detailed People and Culture Plan will be taken to the Finance and Resources Committee by June 2024. **Responsible Officer:** Strategic Lead – Strategic Planning, People and Performance **Target date:** 30 June 2024
BV2. Best Value Reporting	The Council should implement a process for routinely reporting Best Value action plan progress to committee.	An annual update will be provided through the Corporate Annual Performance Report which is reported to the Scrutiny and Performance Committee and the Council in September. This will also sit on our website as part of the supporting information which is accessible to the public. In addition, we will report six monthly to the Executive Leadership Team. **Responsible Officer:** Strategic Lead – Strategic Planning, People and Performance **Target date:** 30 September 2024

Follow-up of prior year recommendations

Issue	Recommendation	Progress during 2022/23
PY1. Significant capital projects	It is recommended that there is continued review and scrutiny of planned capital projects in general. This should include consideration against corporate asset strategies, strategic priorities and include public consultation and identification or risks. This is particularly important during the current economic climate, increased construction inflation and wider economic uncertainty. **Responsible officer:** Executive Director - Communities **Agreed date:** by December 2022	**Complete** As part of the capital monitoring process, the Finance & Resources Committee receive quarterly updates on significant capital projects.
PY2. Componentisation of infrastructure assets	The Council needs to revise its processes for the recording and componentisation of Infrastructure assets before March 2024 in order to comply with the requirements of the Code in advance of expiry of the statutory override. It is likely that this issue will be considered by the sector as a whole. **Responsible officer:** Chief Accountant **Agreed date:** 31 March 2024	**Outstanding** Not yet due for implementation.
PY3. Timing of bank reconciliations	It is a key anti-fraud control for bank balances to be fully reconciled and reviewed on a regular basis. It is recommended that management ensures the timely review of all bank account reconciliations. **Responsible officer:** Chief Accountant **Agreed date:** 30 September 2022	**Complete** Our audit did not identify any instances where bank reconciliations had not been completed and reviewed in an appropriate timeframe.
PY4. Capital commitment disclosure	We recommend that management should enhance the assessment of capital commitments recorded in the accounts to include checks on whether a legal/contractual commitment existed as at the end of the year.	**Complete** Our audit did not identify any issues with the capital commitment disclosures in the 2022/23 accounts.

Issue	Recommendation	Progress during 2022/23
	Responsible officer: Chief Accountant **Agreed date:** 31 March 2023	
PY5. Valuation of Heritage assets (b/f from 2020/21)	We recommend that the Council ensures that recognition and valuation of heritage assets is set out in a clear and concise manner, explaining the key decisions and judgements made in forming a conclusion. **Responsible officer:** Chief Accountant **Agreed date:** 30 June 2022	**Outstanding** Our audit identified some inconsistencies in the accounting policy disclosed for the valuation of Heritage assets between Notes 1 and 22. These inconsistencies were resolved for the audited accounts. We noted that whilst the Culture, Perth and Kinross curators complete an annual review of heritage assets for possible impairment, the outcome of this review for 2022/23 was not obtained by the Council until requested by audit. Whilst there were no material findings, we agree that the Council needs to be clearer on what its policy is for recognising and valuing heritage assets. **Revised response:** A comprehensive update to Heritage Asset values included in the Council's Balance Sheet was completed in 2020/21. Culture Perth & Kinross curators are contacted annually to ensure there are no significant additions to the Fine & Applied Art collection, and there has been no loss or damage to individual items within the collection. The existing policy for Accounting for Heritage Assets will be reviewed during 2024/25 to ensure it remains fit for purpose.

Issue	Recommendation	Progress during 2022/23
		Responsible officer: Corporate Accounting Manager **Agreed date:** 31 March 2025

Perth & Kinross Council

2022/23 Annual Audit Report

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