

PERTH AND KINROSS COUNCIL

Audit Committee – 27 March 2013

PERTH AND KINROSS COUNCIL ANNUAL AUDIT PLAN 2012/13

Report by Chief Internal Auditor

ABSTRACT

This report accompanies the External Auditor's Annual Audit Plan for 2012/13

1. RECOMMENDATION

- 1.1 The Audit Committee is asked to consider the External Auditor's Annual Audit Plan 2012/13 for the Council.

2. INTRODUCTION

- 2.1 The attached report was received by the Council in February 2013 and details the approach to be taken by Audit Scotland, the External Auditor, in undertaking their statutory duties.

3. CONSULTATION

- 3.1 The Depute Director of Housing & Community Care, the Head of Finance and the Chief Executive have been consulted in the preparation of this report.

4. RESOURCE IMPLICATIONS

- 4.1 There are no resource implications arising from this report.

5. COUNCIL CORPORATE PLAN OBJECTIVES 2009-2012

- 5.1 The Council's Corporate Plan 2009-2012 lays out five Objectives which provide clear strategic direction, inform decisions at a corporate and service level and shape resources allocation. They are as follows:-
- (i) A Safe, Secure and Welcoming Environment
 - (ii) Healthy, Caring Communities
 - (iii) A Prosperous, Sustainable and Inclusive Economy
 - (iv) Educated, Responsible and Informed Citizens
 - (v) Confident, Active and Inclusive Communities
- 5.2 The Chief Executive's Service provides a range of functions for internal and front-line customers alike. These functions support the work of the whole Council by assisting them in the delivery of the Council's Corporate Objectives. As a consequence, this report does not specifically relate to one of the objectives, but assists with the delivery of all five.

6. EQUALITIES ASSESSMENT

- 6.1 An equality impact assessment needs to be carried out for functions, policies, procedures or strategies in relation to race, gender and disability and other relevant protected characteristics. This supports the Council's legal requirement to comply with the duty to assess and consult on relevant new and existing policies.
- 6.2 The function, policy, procedure or strategy presented in this report was considered under the Corporate Equalities Impact Assessment process (EqIA) and was assessed as not relevant for the purposes of EqIA

7. STRATEGIC ENVIRONMENTAL ASSESSMENT

- 7.1 Strategic Environmental Assessment (SEA) is a legal requirement under the Environmental Assessment (Scotland) Act 2005 that applies to all qualifying plans, programmes and strategies, including policies (PPS).
- 7.2 However, no action is required as the Act does not apply to the matters presented in this report. This is because the Committee are requested to note the contents of the report only and the Committee are not being requested to approve, adopt or agree to an action or to set the framework for future decisions.

8. CONCLUSION

- 8.1 The Audit Committee is asked to consider the External Auditor's Annual Audit Plan 2012/13 for the Council.

J CLARK
Chief Internal Auditor

Note: No background papers, as defined by Section 50D of the Local Government (Scotland) Act 1973 (other than any containing confidential or exempt information) were relied on to any material extent in preparing the above report.

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Date: March 2013

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Perth & Kinross Council

Annual Audit Plan 2012/13



Prepared for Members of Perth & Kinross Council
February 2013

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

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Summary Plan

Summary of planned audit activity

Based on our analysis of the risks facing Perth & Kinross Council (the council), our planned work in 2012/13 includes:

- an audit of the financial statements and provision of an opinion on whether:
 - they give a true and fair view of the financial position of the council as at 31 March 2013 and its income and expenditure for the year then ended
 - the accounts have been properly prepared in accordance with the Local Government (Scotland) Act 1973 and the 2012 Code of Practice on Local Authority Accounting in the United Kingdom (the Code)
- reporting the findings of the shared risk assessment process in an Assurance and Improvement Plan Update. This exercise consists of the Local Area Network (LAN) examining new evidence in terms of its impact on existing risk assessments and will include updated scrutiny plans for the period 2013/14 to 2015/16
- provision of the annual report on the audit addressed to the members of the council and the Controller of Audit
- a review and assessment of the council's governance and performance arrangements in a number of key areas including a review of: internal controls; the adequacy of internal audit; Statutory Performance Indicators and national study follow-up work
- provision of an opinion on a number of grant claims and returns, including Whole of Government Accounts
- review of National Fraud Initiative arrangements throughout 2012/13.

Introduction

1. Our audit is focused on the identification and assessment of the key challenges and risks to the council in achieving its business objectives. We also assess the risk of material misstatement or irregularity in the council's financial statements. This report summarises specific governance and other risks that may affect the financial statements of the council, and sets out the audit work that we propose to undertake in 2012/13 to address these. Our annual audit plan reflects:
 - the risks and priorities facing the council
 - current national risks relevant to local circumstances
 - the impact of changing international auditing and accounting standards

- our responsibilities under the Code of Audit Practice as approved by the Auditor General for Scotland and the Accounts Commission
 - issues brought forward from previous audit reports.
2. In addition to this annual audit plan which focuses on those risks which may impact on the financial statements, we will issue, on behalf of the Local Area Network (LAN), an Assurance and Improvement Plan Update which will update the LAN's joint assessment of the strategic and performance risks facing the council and set out the planned scrutiny activity in the council for the period April 2013 to March 2016.

Our responsibilities

3. Our responsibilities, as independent auditor, are established by the Local Government (Scotland) Act 1973 and the Code of Audit Practice, and guided by the auditing profession's ethical guidance.
4. Audit in the public sector goes beyond simply providing assurance on the financial statements and the organisation's internal control environment. We are also required to provide a view on performance and the organisation's use of resources. In doing this, we aim to support improvement and accountability.
5. In carrying out our audit, we seek to gain assurance that the council:
- has good corporate governance arrangements in place which reflect the three fundamental principles of openness, integrity and accountability
 - has systems of recording and processing transactions which provide a sound basis for the preparation of financial statements and the effective management of its assets and interests
 - prepares financial statements which give a true and fair view of the financial position at 31 March 2013 and income and expenditure for the year then ended, in accordance with the Local Government (Scotland) Act 1973 and other applicable laws and regulations, including the 2012 Code of Practice on Local Authority Accounting in the United Kingdom (the Code). The 2012 Code applies to reporting periods commencing 1 April 2012
 - has systems of internal control which provide an adequate means of preventing or detecting material misstatement, error, fraud or corruption
 - complies with established policies, procedures, laws and regulations
 - proactively manages and reviews its performance in line with its strategic and operational objectives
 - has made proper arrangements for securing best value in its use of resources and is complying with its community planning duties.

Our approach

6. Our audit approach is based on an understanding of the characteristics, responsibilities and principal activities, risks and governance arrangements of the council, and identification of the

key audit risks and challenges in the local government sector generally. This approach includes:

- understanding the business of the council and the risk exposure which could impact on the financial statements
- assessing the key systems of internal control, and considering how risks in these systems could impact on the financial statements
- identifying major transaction streams, balances and areas of estimation, understanding how the council will include these in the financial statements and developing procedures to audit these
- assessing the risk of material misstatement in the financial statements, in conjunction with our evaluation of inherent risk, the control environment and control risk as part of our risk assessment
- determining the nature, timing and extent of our testing programme to provide us with sufficient appropriate audit evidence as to whether the financial statements are free of material misstatement.

7. Through this approach we have also considered and documented the sources of assurance which will make best use of our resources and allow us to focus testing on higher risk areas during the audit of the financial statements. The main areas of assurance for the audit come from planned management action and reliance on systems of internal control. Management action being relied on for 2012/13 includes:

- comprehensive closedown procedures for the financial statements accompanied by a timetable issued to all relevant staff
- clear responsibilities for provision of accounts and working papers being agreed
- delivery of unaudited accounts to agreed timescales
- a comprehensive working papers package and supporting records to demonstrate full compliance with the requirements of IFRS
- completion of the internal audit programme for 2012/13.

8. Auditing standards require internal and external auditors to work closely together to make optimal use of available audit resources. We seek to rely on the work of internal audit wherever possible and as part of our planning process we carry out an early assessment of the internal audit function. Internal audit is provided by the internal audit section within the council. Based on our review of internal audit we plan to place formal reliance on the areas of work set out in Appendix D.

9. Our approach to the audit of the financial statements is based on an integrated assessment of risk across the Code of Audit Practice responsibilities in relation to governance, performance and opinion.

10. At the completion of the audit we will provide Members and the Controller of Audit with an annual report on the audit containing observations and recommendations on significant matters which have arisen in the course of the audit.

Responsibility for the preparation of accounts

11. It is the responsibility of the Head of Finance as Proper Officer to prepare the financial statements in accordance with the Code. This means:
 - acting within the law and ensuring the regularity of transactions by putting in place systems of internal control to ensure that financial transactions are in accordance with the appropriate authority
 - maintaining proper accounting records
 - preparing financial statements timeously which give a true and fair view of the financial position of the council as at 31 March 2013 and its expenditure and income for the year then ended
 - reviewing the main components of the system of internal control, including the arrangements for internal audit and group entities. This should include consideration of issues identified as part of the audit process
 - preparing an explanatory foreword.

Format of accounts

12. The financial statements should be prepared in accordance with the Code which constitutes proper accounting practice for the purposes of section 12 of the Local Government Scotland Act 2003. The council prepares a Whole of Government Accounts consolidation pack annually for the Scottish Government and is required to prepare its accounts using common accounting principles and standard formats for summarisation.

Audit issues and risks

13. This annual audit plan focuses on governance and other risks specific to the financial statements of the council. Our Assurance and Improvement Plan update 2013-16 also provides an analysis of wider risks and issues which relate to aspects of the council's performance against agreed outcomes and targets.
14. Based on our experience, discussions with staff, attendance at committee meetings and a review of supporting information, we have identified the following specific areas that we will keep under review as part of our 2012/13 audit:

Financial management and sustainability

15. The Scottish Government's spending plans for the next four years show a cumulative, real-term reduction in the Scottish budget of 12.3% by 2014/15. Funding for local government reduced by 3% between 2011/12 and 2012/13 and, cumulatively, will reduce by 6.3% by 2014/15. Capital funding will fall significantly in the period to 2013/14 but increase in 2014/15. These reductions come at a time of increasing pressures on demand-led services as well as a number of planned national reforms which are likely to have an impact on the council's future financial planning. These include welfare reform, police and fire reform, and the integration of health and social care services. The uncertainty around the impact of these reforms

represents a risk and is likely to require adjustments to the council's budgets as future developments and their implications for the council become clear.

16. The council continues to show a good understanding of the financial challenges it faces, and has been proactive in preparing financial plans to manage budget reductions. In December 2012 the council considered the medium term financial plan to reflect the Scottish Government provisional settlement figures for the next two years and extended the current five year capital budget to seven years. This was considered in the context of uncertainties in relation to Scottish Government funding beyond 2014/15 and the potential impact of health and social care integration, inflation, pay strategy, and legislative changes (e.g. welfare reform; Children and Young Peoples Bill). Whilst the council is in a relatively strong financial position to deal with the challenges, it is recognised that the level of efficiencies previously achieved will not be available in future years. The council must, therefore, remain vigilant in its financial management to ensure it continues to deliver sustainable services.

Welfare Reform

17. The changes resulting from the implementation of the Welfare Reform Act 2012 are likely to be significant both in terms of the impact on the council and on benefit claimants. The introduction of the Universal Credit will result in the administration of housing benefits passing from councils to the Department for Work and Pensions (DWP) on a phased basis between 2013 and 2017. In addition, council tax benefit will be replaced by a localised council tax rebate scheme, administered by local authorities. At present, the cost of council tax benefit disbursed by the council is in the main met by subsidy received from DWP. The proposed localised council tax rebate from 2013 will only be funded at 90% of current subsidy levels. Currently there is uncertainty as to the arrangements for replacing the council tax benefit.
18. In line with all other authorities, the council faces considerable challenges in implementing these changes, and communicating these effectively to local residents. The key challenges will be in maintaining service delivery and performance whilst implementing the required changes to technology and welfare systems. Consideration will also need to be given to the staff skills required during these reforms.

Police and Fire Reform

19. The Police and Fire Reform (Scotland) Act 2012 will restructure the police and fire and rescue services in Scotland into a single national police service and a single national fire and rescue service. The new police and fire bodies will be central government bodies. The mergers are expected to take place on 1 April 2013.
20. The Scottish Government has indicated that they require the accumulated balance on the usable reserves of the joint boards at 31 March 2013 to be returned to constituent authorities. Further guidance will be provided in this regard once the mechanism for this transfer has been agreed.

Information management

21. Ensuring and maintaining appropriate information security relies on a robust user identity and access management process and supporting procedures. In addition there is a need to ensure staff across the council remain aware of the risks associated with data handling and information security. This is particularly important as the council continues to make more information available on multiple platforms, such as through wireless connections, and new document management systems are implemented. As part of our 2012/13 audit work we intend to carry out a data handling review intended to gauge cultural as well as technological attitudes towards data handling and information security.

Accounts presentation and disclosure

22. There are a limited number of changes required by the 2012 Code to the presentation and disclosure of the 2012/13 financial statements. We will discuss these changes as part of our financial statements audit planning meetings with council officers. One particular change that we will discuss further is the encouragement by the Code to prepare the explanatory foreword in the financial statements taking into consideration the requirements of the Government financial reporting manual.

National performance audit studies - impact and follow up

23. In addition to the above work, Audit Scotland's Performance Audit Group undertake a programme of studies on behalf of the Auditor General and Accounts Commission. In line with Audit Scotland's strategy to support improvement through the audit process and to maximise the impact of national performance audits, we will follow up a number of studies at a local level. In 2012/13 this will involve the completion of impact templates to describe how the council has considered relevant national performance reports and a targeted follow-up review of *Scotland's Public Finances: Addressing the challenges* (published in August 2011).

Summary assurance plan

24. Within these identified risk areas there is a range of more specific risks and these are summarised at Appendix A. In most cases, actions to manage these risks are either planned or already underway within the council. Details of the sources of assurance that we have received for each of these risks and any audit work we plan to undertake are also set out in Appendix A. In the period prior to the submission of the unaudited financial statements, we will liaise with senior officers on any new or emerging issues.

Materiality

25. We consider materiality and its relationship with audit risk when planning the nature, timing and extent of our audit and conducting our audit programme. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.

26. International Standard on Auditing 320 states that, “Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements; judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered.”
27. When considering, in the context of a possible qualification to the audit opinion, whether the misstatement of an item, or a number of items taken together, is material in terms of its monetary value, we use professional judgement, experience and internal guidelines from peers as broad guidance in regard to considering whether the results of tests of detail are material.
28. An item may be judged material for reasons other than its monetary or quantitative value. An inaccuracy, which would not normally be regarded as material by amount, may be important for other reasons. When such an item affects a critical point in the accounts, its materiality has to be viewed in a narrower context (for example the failure to achieve a statutory requirement, an item contrary to law, or areas affected by central government control). Again we use professional judgement, experience and internal guidelines from peers to determine when such matters would fall to be covered in an explanatory paragraph, rather than as a qualification to the audit opinion.

Reporting arrangements

29. Under the Local Government (Scotland) Act 1973, there is a requirement for unaudited financial statements to be presented to the council and the Controller of Audit within 3 months of the financial year end i.e. 30 June. The non-statutory target for audit completion is 30 September. To achieve this target, it is important that a timetable for the audit of the accounts is agreed with us. An agreed timetable is included at Appendix B of this plan, which takes account of submission requirements, planned committee dates and audit resources.
30. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the responsible senior managers and relevant officers to confirm factual accuracy. Responses to draft reports are expected within three weeks of submission.
31. A copy of all final agreed reports will be sent to the Chief Executive, Head of Finance, relevant senior managers, Internal Audit and Audit Scotland’s Best Value & Scrutiny Improvement Group.
32. We will provide an independent auditor’s report to the council and the Accounts Commission for Scotland that the audit of the financial statements has been completed in accordance with applicable statutory requirements, including an opinion on those financial statements. An

annual report to members and the Controller of Audit will also be produced to summarise all significant matters arising from the audit and overall conclusions about the council's management of key risks.

33. All annual reports produced by Audit Scotland are published on our website (www.audit-scotland.gov.uk).
34. The full range of outputs to be delivered by the audit team are summarised in Exhibit 1.

Exhibit 1: 2012/13 Planned Outputs

Planned outputs	Target delivery date
Governance	
Annual Audit Plan	28 February 2013
Assurance and Improvement Plan update (jointly prepared with other local government scrutiny bodies)	Mid April 2013
Internal controls management letter	30 June 2013
Data handling review	31 July 2013
Performance	
Scotland's Public Finances: Addressing the challenge - follow up report	31 August 2013
Financial Statements	
Report to Audit Committee in terms of ISA 260 (Communication of audit matters to those charged with governance)	24 September 2013
Independent auditor's report on the financial statements	30 September 2013
Audit opinion on Whole of Government Accounts	30 September 2013
Annual report to members and the Controller of Audit	31 October 2013
Grants	
Audit opinions on Education Maintenance Allowance, Non Domestic Rates Income return, Criminal Justice Social Work return, Bellwin Scheme return and Housing Benefit & Council Tax Benefit subsidy.	In line with grant requirements

Quality control

35. We are committed to ensuring that our audit reflects best practice and demonstrates best value to the council and the Accounts Commission. We operate a strong quality control framework that seeks to ensure that your organisation receives a high quality service. The framework is embedded in our organisational structures and processes and includes an

engagement lead for every client; in your case Stephen O'Hagan is responsible for ensuring that our work is carried out on time and to a high quality standard.

36. As part of our commitment to quality and continuous improvement, we may periodically seek your views. We would be grateful for any feedback on our services.

Fees and resources

37. In the context of the challenges faced by local authorities, the impact of national spending decisions, and changes made in Audit Scotland's own overall budget we have re-examined our audit fee in 2012/13.

Exhibit 2: Audit Fee

Description	Audit Fee 2011/12	Audit Fee 2012/13	% Change
Total audit fee	£303,725	£283,200	-6.75%

38. Our agreed fee for the 2012/13 audit of the council is £283,200 as shown in Exhibit 2 above. Our fee covers:
- all of the work and outputs described in this plan
 - a contribution towards the costs of national performance studies and statutory reports by the Controller of Audit and the work of the Accounts Commission
 - attendance at Audit Committee meetings and other committees
 - access to advice and information on relevant audit issues
 - travel and subsistence costs.
39. In determining the agreed fee we have taken account of the risk exposure of the council, the management assurances in place and the level of reliance we plan to take from the work of internal audit. We have assumed receipt of the draft accounts and working papers by 28 June 2013.
40. In 2011/12 Audit Scotland were successful in delivering all of our work for less than the budgeted costs, largely as a result of our cost reduction plans continuing to be achieved faster than planned. As a result, you will receive a one off rebate equivalent to around 6% of the 2011/12 indicative fees. This is in addition to the on-going reduction noted above.
41. We reserve the right to charge an additional fee for further audit work in such instances as late receipt of the draft financial statements, the lack of agreed management assurances or being unable to take planned reliance from the work of internal audit. An additional fee may be required if our audit cannot proceed as planned.
42. Fiona Kordiak, Director, Audit Services is the appointed auditor for all local authorities audited by Audit Scotland. In practice, this operates by delegating management and certification responsibilities to Assistant Directors; for Perth & Kinross Council this is Stephen O'Hagan.

43. The local audit team will be led by Pearl Tate who will be responsible for the day to day management of the audit and who will be your primary contact. Details of the experience of our team are provided at Appendix C. The core audit team will call on other specialist and support staff as necessary.

Independence and Objectivity

44. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships within the audit team.
45. We comply with ethical standards issued by the Financial Reporting Council and with Audit Scotland's requirements in respect of independence and objectivity, as summarised at Appendix E.

Appendix A - Summary assurance plan

In this section we identify a range of governance and other risks that may affect the financial statements of the council, the related source of assurance received and the audit work we propose to undertake to secure additional assurance. The management of risk is the responsibility of the council and its officers, with the auditor's role being to review the arrangements put in place by management. Planned audit work, therefore, will not necessarily address all residual risks.

Risk	Source of Assurance	Planned audit action
Economic Climate		
Financial Management Along with all other public bodies in Scotland, the council is facing the prospect of having to make significant budget savings. At the same time as the council aims to support the local economy and maintain service provision, it is likely to face a severe reduction in resources. <i>Risk: the council is unable to meet expenditure commitments from available income. Available income is not directed to priorities.</i>	The council's <i>Securing the Future Toward 2015 and Beyond Strategy</i> sets out the path which will allow it to achieve the required modernisation and efficiencies to meet the financial challenges and future service demand. The medium term financial plan is updated on an on-going basis (December 2012) and used to inform the annual budget setting process. On-going work with NHS Tayside on the Integrated Resourcing Framework.	Targeted follow-up review of Audit Scotland's national performance report <i>Scotland's Public Finances: Addressing the challenges</i> . On-going monitoring and include in report to members as appropriate.

Risk	Source of Assurance	Planned audit action
<p>Performance Management</p> <p>The council's performance indicates a relatively positive picture overall with only a few areas of performance declining. However, effectively managing performance will remain a key challenge as financial pressures increase. The council will need to use its performance information to understand and manage the impact of spending decisions.</p> <p><i>Risk: the council's resources are not directed at priority areas and outcomes are not demonstrated.</i></p>	<p>The current developments of the Single Outcome Agreement (SOA) and the review of the governance arrangements of the Community Planning Partnership provide a platform for the council to set its performance measures to ensure that outcomes in its plans and SOA are achieved.</p> <p>On-going work with NHS Tayside on the Integrated Resourcing Framework.</p>	<p>Review of processes to collate statutory performance indicators</p> <p>On-going monitoring of the performance management framework and report to members as appropriate.</p>
<p>Welfare Reform</p> <p>The changes resulting from the implementation of the Welfare Reform Act 2012 are likely to be significant both for the council and service users.</p> <p>As part of the welfare reform there is also the move to universal credit to replace six of the main means tested benefits. From October 2013 the government will start to move everyone from their old benefits to Universal Credit, though it will not be fully rolled out until 2017. During 2013 a cap on the total amount of benefit that working-age people can received will be implemented on a phased basis.</p> <p><i>Risk: the council do not meet the challenges arising from the implementation of the welfare reform.</i></p>	<p>On-going discussions with DWP to resolve subsidy issues from previous years.</p> <p>The Council continues to deliver on the on-going Welfare Reform Agenda. All changes are effectively communicated to relevant stakeholders and planned implementation processes are in place. A joint Welfare Reform Group works in partnership to ensure a joined-up approach to dealing with the challenges of Welfare Reform. The Council attend a range of working groups (e.g. COSLA and Scottish Government) and maintain involvement with professional organisations. A range of work is carried out on an on-going basis to mitigate and minimise the impact of the reductions in benefits for our communities.</p>	<p>Audit Scotland will carry out a data collection exercise across Scottish councils to identify the action being taken to prepare for welfare reforms</p> <p>Undertake HBCount audit of claim.</p> <p>Review of council's preparedness for welfare reforms.</p> <p>On-going monitoring and include in report to members as appropriate</p>

Risk	Source of Assurance	Planned audit action
<p>Police and Fire Reform</p> <p>The Police and Fire Reform (Scotland) Act 2012 will result in the creation of the Scottish Police Authority (SPA) and the Scottish Fire & Rescue Service (SFRS), transferring responsibility for police and fire services from local government to the new bodies with effect from 1 April 2013. There are a number of outstanding issues relating to the winding up of the joint boards that have yet to be resolved and which could impact on constituent authorities.</p> <p><i>Risk: council may be unable to deliver on any additional responsibilities placed on it as a result of the winding up of the joint boards</i></p>		<p><i>Awaiting further guidance in the winding up order from Scottish Government which may clarify additional responsibilities on councils.</i></p> <p>On-going monitoring and include in report to members as appropriate.</p>
Governance & Accountability		
<p>Control environment</p> <p>A robust system of internal financial controls is essential to reduce the risk of material error in the financial statements. In times of economic challenge, the council's financial systems may be exposed to increased risk of fraud or manipulation.</p> <p><i>Risk: the council's financial position is exposed to error or manipulation and fraud remains undetected.</i></p>	<p>Regular budget monitoring and reporting</p> <p>Robust internal controls in financial systems to mitigate risks of error or manipulation.</p> <p>Internal audit coverage of internal controls.</p> <p>Participation in the National Fraud Initiative.</p> <p>Updated Local Code of Corporate Governance.</p> <p>Annual Governance Statement timetable will be amended to ensure that the AGS can be referred to the appropriate Committee for discussion and approval prior to signing.</p>	<p>Testing of key internal financial controls</p> <p>Targeted testing of risk areas (e.g. cut-off testing, provisions) and report to members as appropriate.</p> <p>Review the council's involvement in the National Fraud Initiative.</p>

Risk	Source of Assurance	Planned audit action
<p>Internal audit</p> <p>Internal audit is an essential part of the council's internal control and governance arrangements to provide assurance that controls are adequate and operating effectively. We seek to place assurance on the work of internal audit wherever possible however, during 2011/12 this was limited to only a few controls across four of the key financial systems.</p> <p><i>Risk: internal audit arrangements are ineffective.</i></p>	<p>Completion of the 2012/13 internal audit plan.</p> <p>The Chief Internal Auditor has confirmed that, within the scope of the internal audit plan, more emphasis will be placed on reviewing the key financial controls.</p>	<p>Review of internal audit files where we plan to place reliance</p> <p>On-going monitoring and include in report to members as appropriate.</p>
<p>Information Management</p> <p>Ensuring and maintaining appropriate information security relies on a robust user identity and access management process and supporting procedures. In addition there is a need to ensure that staff across the council remain aware of the risks associated with data handling and information security.</p> <p><i>Risk: awareness of and attitudes towards maintaining good information security practices is limited to a small number of users.</i></p>	<p>Information Compliance Manager in post</p> <p>Information security guidelines published on intranet</p>	<p>Data handling review to be carried out which gauges cultural as well as technological attitudes to information security.</p> <p>On-going monitoring and include in report to members as appropriate.</p>
<p>Capital expenditure</p> <p>In 2011/12 the council's general fund capital programme was underspend by 25% and housing revenue by 29%.</p> <p><i>Risk: through lack of investment or improvement to the asset base the council is unable to deliver efficient and effective services and contribute to a prosperous, sustainable and inclusive economy for its area.</i></p>	<p>Heads of Performance and Resources have been commissioned by the Executive Director (The Environment Service) to review existing arrangements and develop proposals for consideration by Executive Officer Group (EOT) which will address slippage within General Fund and HRA capital programmes.</p>	<p>On-going monitoring and include in report to members as appropriate.</p>

Risk	Source of Assurance	Planned audit action
<p>Equalities</p> <p>In April 2011, the Equality Act 2010 introduced a new public sector 'General Duty' which encourages equality to be mainstreamed into public bodies' core work so that it is not a marginal activity but part and parcel of how public bodies operate. Following on from this the Scottish Government consulted on a set of 'Specific Duties' which came into force in May 2012. There are nine specific duties listed which aim to support public bodies to better perform against the 'General Duty,' including the duty to assess the impact of equalities in all policies and decisions as well as the requirement to publish a set of equality outcomes (and reporting requirements) no later than 30 April 2013.</p> <p><i>Risk: a set of equality outcomes is not published by the April deadline.</i></p>		<p>On-going monitoring and include in report to members as appropriate.</p>

Risk	Source of Assurance	Planned audit action
Financial Statements		
<p>Tayside Contracts</p> <p>The council has an interest in Tayside Contracts Joint Committee (TCJC) and this body is included in the group accounts. The 2011/12 approach took the council's share of the TCJC's surplus or deficit into the single entity accounts and the assets/liabilities were reflected in the group accounts. Discussions are on-going to ensure that the appropriate treatment is used. In addition the Minute of Agreement should be revisited to ensure actual practice complies with the constituent authorities intentions.</p> <p><i>Risk: the treatment of TCJC in the group accounts is not appropriate and does not comply with accounting standards. In addition, the minute of agreement does not reflect the actual operation of TCJC.</i></p>	<p>The Minute of Agreement is currently being discussed by the Heads of Legal Services.</p>	<p>Classification and disclosure of TCJC will be considered as part of 2012/13 financial statements audit.</p> <p>On-going monitoring and include in report to members as appropriate.</p>
<p>Common Good debt</p> <p>The Kinross Common Good has been in debt to the council over several years and as at 31 March 2012 the outstanding balance was £0.017 million. Common Good funds do not have powers to borrow and in our view this is therefore technically a breach of statute.</p> <p><i>Risk: this technical breach is not resolved prior to the 2012/13 financial statements preparation.</i></p>	<p>This debt will be repaid following the sale of Kinross Town Hall.</p>	<p>On-going monitoring and include in report to members as appropriate.</p>

Risk	Source of Assurance	Planned audit action
<p>Equal Pay/Single Status</p> <p>There are a number of equal pay / single status claims outstanding against the council.</p> <p><i>Risk: the year end provision is misstated.</i></p>	<p>The council will continue to make provisions based upon recent outcomes at other local authorities and upon regular risk based assessments of the potential financial exposure.</p>	<p>Review of provision included in the 2012/13 financial statements, taking account of settlements made by the council during the year and referring to the recent settlement experience of other local authorities.</p> <p>On-going monitoring and include in report to members as appropriate.</p>
<p>Charitable bodies</p> <p>Local authorities with registered charitable bodies are required to comply with the requirements of the Charities Accounts (Scotland) Regulations 2006. The Office of Scottish Charity Regulators (OSCR) classified the council's submission as average and is anticipating full compliance with the statutory provisions by 2013/14.</p> <p><i>Risk: the council does not comply with these regulations and statutory reporting requirements.</i></p>		<p>On-going monitoring and include in report to members as appropriate.</p>

Appendix B - Financial statements audit timetable

Key stage	Date (by)
Testing and review of internal control systems and transactions	March/April 2013
Provision of closedown procedures to audit	29 March 2013
Meetings with officers to clarify expectations of detailed working papers and financial system reports	March 2013
Latest submission date for unaudited financial statements (to external auditors and members)	30 June 2013
Progress meetings with lead officers in emerging issues	As required
Latest date for submission of unaudited Whole of Government Accounts (WGA) return for external audit	26 July 2013
Latest date for final clearance meeting with the Head of Finance or other senior officers	15 September 2013
Agreement of unsigned financial statements for Audit Committee agenda, and issue of report to the audit committee on the audit of financial statements (ISA 260)	24 September 2013
Audit Committee date	September 2013
Independent Auditor's Report signed	30 September 2013
Latest date for signing WGA return	30 September 2013
Certified accounts and annual report presented to the council	November 2012

Appendix C - Audit team

A summarised curriculum vita for each core team member is set out below:

Stephen O'Hagan

Assistant Director (and certifying auditor)

Stephen has over sixteen years experience of public sector audit with Audit Scotland, covering local government, health and the education sector. Prior to this, Stephen worked in local government for five years.

Pearl Tate BAcc (Hons), CPFA

Senior Audit Manager

Pearl began her career as a finance trainee in the health sector and was then an internal auditor in health before joining Audit Scotland in 1996. As an external auditor she has covered a wide and varied portfolio of audits across the whole public sector and currently has a mixed portfolio of health and local government.

Neil O'Connor CA

Senior Auditor

Neil took up post as Senior Auditor in April 1997. Neil trained as an auditor with Carters Chartered Accountants. He has seventeen years experience auditing local government and the health sector.

Grietje Menger ACCA, CISA

Senior ICT Auditor

Grietje started working as a Senior ICT Auditor for Audit Scotland in October 2003. Since then, she has worked mainly as an ICT audit specialist and more recently has regularly undertaken financial statements audits in local government. Grietje trained as an auditor and ICT audit specialist with the Dutch Tax Authority. She is a Certified Information Systems Auditor as well as a member of the Association of Chartered Certified Accountants

Chris Brown

Professional Trainee

Chris joined Audit Scotland in October 2011 and is an ICAS professional trainee.

Appendix D - Reliance on internal audit

Auditing standards require internal and external auditors to work closely together to make optimal use of available audit resources. We seek to rely on the work of internal audit wherever possible and as part of our planning process we carry out an early assessment of the internal audit function. Our review concluded that the service provided by the internal audit function of Perth & Kinross Council operates in accordance with the CIPFA Code of Practice for internal audit in local government. We plan to place reliance on the work of internal audit on specific controls in the following areas:

- Housing rents
- Payroll.

For our wider governance and performance audit work, under our Code of Audit Practice, we also plan to place reliance on the work of internal audit, including the following areas:

- Following the public pound
- Business Continuity
- Public performance reporting.

Reliance on internal audit work in these areas will allow us to direct our resources to the financial systems, performance and governance areas we have assessed as being of higher audit risk.

Appendix E - Independence and Objectivity

Auditors appointed by the Auditor General for Scotland are required to comply with the Code of Audit Practice and standing guidance for auditors, which defines the terms of appointment. When auditing the financial statements auditors are also required to comply with the auditing and ethical standards issued by the Financial Reporting Council (FRC). The main requirements of the Code of Audit Practice, standing guidance for auditors, and the standards are summarised below.

International Standards on Auditing (UK and Ireland) 260 (Communication with those charged with governance) requires that the appointed auditor communicates:

- A statement that the engagement team, and others in the firm as appropriate, the firm and, when applicable, network firms have complied with the FRC's Ethical Standards for auditors.
- All relationships and other matters between the firm, network firms, and the entity that, in the auditor's professional judgment, may reasonably be thought to bear on independence. This shall include total fees charged during the period covered by the financial statements for audit and non-audit services provided by the firm and network firms to the entity and components controlled by the entity. These fees shall be allocated to categories that are appropriate to assist those charged with governance in assessing the effect of services on the independence of the auditor.
- The related safeguards that have been applied to eliminate identified threats to independence or reduce them to an acceptable level.

The standard defines 'those charged with governance' as "the person(s) or organization(s) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process." In your case, the appropriate addressees of communications from the auditor to those charged with governance are the Head of Finance (s95 officer) and the Audit Committee. The auditor reserves the right to communicate directly with members on matters which are considered to be of sufficient importance.

Audit Scotland's Code of Audit Practice requires appointed auditors to carry out their work independently and objectively, and ensure they do not act in any way that might give rise to, or could reasonably be perceived to give rise to, a conflict of interest. Appointed auditors and their staff should avoid entering in to any official, professional or personal relationships which may impair their independence, or might lead to a reasonable perception that their independence could be impaired.

The standing guidance for auditors includes a number of specific requirements. The key requirements relevant to this audit appointment are as follows:

- during the currency of an appointment, auditors should not perform non-audit work for an audited body, consultancy or otherwise, without the prior approval of Audit Scotland
- the appointed auditor and key staff should, in all but exceptional circumstances, be changed at least once every five years in line with Audit Scotland's rotation policy
- the appointed auditor and audit team are required to carry out their duties in a politically neutral way, and should not engage in high profile public party political activity
- the appointed auditor and audit team must abide by Audit Scotland's policy on gifts and hospitality, as set out in the Audit Scotland Staff Code of Conduct.