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Council Building
2 High Street
Perth
PH1 5PH

Monday, 18 September 2017

A Meeting of the **Audit Committee** will be held in **the Council Chamber, 2 High Street, Perth, PH1 5PH** on **Wednesday, 27 September 2017** at **10:00**.

If you have any queries please contact Committee Services on (01738) 475000 or email Committee@pkc.gov.uk.

BERNADETTE MALONE
Chief Executive

Those attending the meeting are requested to ensure that all mobile phones and other communication devices are in silent mode.

Members:

Councillor Eric Drysdale (Convener)
Councillor Bob Band (Vice-Convener)
Councillor Harry Coates
Councillor Stewart Donaldson
Councillor David Illingworth
Councillor Xander McDade
Councillor Callum Purves

Audit Committee

Wednesday, 27 September 2017

AGENDA

MEMBERS ARE REMINDED OF THEIR OBLIGATION TO DECLARE ANY FINANCIAL OR NON-FINANCIAL INTEREST WHICH THEY MAY HAVE IN ANY ITEM ON THIS AGENDA IN ACCORDANCE WITH THE COUNCILLORS' CODE OF CONDUCT.

- 1 WELCOME AND APOLOGIES**
- 2 DECLARATIONS OF INTEREST**
- 3 MINUTE OF MEETING OF THE AUDIT COMMITTEE OF 14 JUNE 2017 FOR APPROVAL AND SIGNATURE 5 - 8**
- 4 DRAFT AUDITED ANNUAL ACCOUNTS 2016/17 AND DRAFT ANNUAL AUDIT REPORT TO THE MEMBERS OF PERTH AND KINROSS COUNCIL AND THE CONTROLLER OF AUDIT FOR THE YEAR ENDED 31 MARCH 2017 9 - 180**
Report by Head of Finance (copy herewith 17/306)
- 5 INTERNAL AUDIT FOLLOW UP 181 - 198**
Report by Chief Internal Auditor (copy herewith 17/307)
- 6 INTERNAL AUDIT UPDATE 199 - 206**
Report by Chief Internal Auditor (copy herewith 17/308)
- (i) EDUCATION AND CHILDREN'S SERVICES**
- (a) 17-02(B) - KINROSS HIGH SCHOOL 207 - 216**
(copy herewith 17/309)
- (ii) HOUSING AND COMMUNITY SAFETY**
- (a) 17-04 - PARTNERSHIP WORKING - COMMUNITY JUSTICE PARTNERSHIP 217 - 228**
(copy herewith 17/310)
- (iii) ALL SERVICES**
- (a) 17-05 - MANAGEMENT OF CONTRACTS 229 - 238**
(copy herewith 17/311)

7	INTERNAL AUDIT STRATEGY & PLAN 2017/18 Report by Chief Internal Auditor (copy herewith 17/312)	239 - 252
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AUDIT COMMITTEE

Minute of meeting of the Audit Committee held in the Council Chambers, 2 High Street, Perth on Wednesday 14 June 2017 at 10.00am.

Present: Councillors E Drysdale, B Band, S Donaldson, D Illingworth, R McCall (substituting for H Coates), X McDade and C Purves.

In Attendance: J Clark, C Irons, L Potter, L Simpson, J Symon and G Taylor (all Corporate and Democratic Services); J Cockburn (Education and Children's Services); N Ballantine and F Crofts (both Environment Service) and N Copland (Housing and Community Care).

Also in Attendance: M Wilkie, KPMG, External Auditors.

Apologies: Councillor H Coates

Councillor Drysdale, Convener, Presiding.

332. WELCOME AND APOLOGIES/SUBSTITUTIONS

The Convener welcomed everyone to the meeting. An apology and substitution were noted as above.

In terms of Standing Order 13, the Committee agreed that the meeting be recorded for use as part of the elected member development programme.

333. DECLARATIONS OF INTEREST

There were no Declarations of Interest made in terms of the Councillors' Code of Conduct.

334. MINUTES

- (i) The minute of meeting of the Audit Committee of 22 March 2017 (Arts. 168–174) was submitted and approved as a correct record and authorised for signature.
- (ii) The minute of the special meeting of the Audit Committee of 18 April 2017 (Arts. 213–218) was submitted and approved as a correct record and authorised for signature.

335. INTERNAL AUDIT UPDATE

There was submitted a report by the Chief Internal Auditor (17/201) presenting a summary of Internal Audit's work against the 2017/18 Annual Plan.

Resolved:

The progress of work against the 2017/18 Annual Plan, be noted.

PERTH AND KINROSS COUNCIL
AUDIT COMMITTEE
14 JUNE 2017

The Committee considered the following final reports:-

(i) Education and Children's Services

(a) 17-02(a) – Financial Management of Schools – Perth Academy

There was submitted a report by the Chief Internal Auditor (17/202) on an audit to ensure that the school was managed in accordance with the Financial Procedures as laid down by Education and Children's Services.

Resolved:

Internal Audit's findings, as detailed in Report 17/202, be noted.

(ii) The Environment Service

(a) 17-03 – Capital Programme

There was submitted a report by the Chief Internal Auditor (17/203) on an audit to ensure (1) that there was adequate consideration of budget and strategy when planning the Capital Programme and (2) that there were effective controls in place to monitor, report and deliver the Capital Programme.

Resolved:

Internal Audit's findings, as detailed in Report 17/203, be noted.

336. INTERNAL AUDIT FOLLOW UP

There was submitted and noted a report by the Chief Internal Auditor (17/204), presenting a current summary of Internal Audit's work to follow up on the implementation of agreed management actions arising from both internal and external audit work.

Resolved:

- (i) The current position in respect of the agreed actions arising from internal and external work be noted.
- (ii) The action plans be progressed, taking into account the recorded audit opinions.
- (iii) Future reports to include the number of actions completed.

**337. EXTERNAL AUDIT - KPMG - PERTH AND KINROSS COUNCIL INTERIM
MANAGEMENT REPORT AND AUDIT STATUS SUMMARY - 31 MARCH
2017**

There was submitted and noted a report by the External Auditor (17/205), on the Council's interim management report and audit summary to 31 March 2017.

M Wilkie, KPMG, gave an outline of KPMG's role as external auditors and summarised their report.

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## PERTH AND KINROSS COUNCIL

## Audit Committee

27 September 2017

**DRAFT AUDITED ANNUAL ACCOUNTS 2016/17 AND  
DRAFT ANNUAL AUDIT REPORT TO THE MEMBERS OF PERTH AND  
KINROSS COUNCIL AND THE CONTROLLER OF AUDIT  
FOR THE YEAR ENDED 31 MARCH 2017**

## Report by the Head of Finance

**PURPOSE OF REPORT**

This report presents the Council's Draft Audited Annual Accounts for financial year 2016/17 in accordance with the Local Authority Accounts (Scotland) Regulations 2014 and includes the Draft Annual Audit Report to the Members of Perth and Kinross Council and the Controller of Audit for the Year Ended 31 March 2017.

**1. BACKGROUND**

- 1.1 The Unaudited Annual Accounts for 2016/17 were considered by the Council on Audit Committee on 28 June 2017 (Report No. 17/326 refers) which authorised the Head of Finance to sign the Accounts and submit them to KPMG, the Council's external auditors, by the statutory deadline of 30 June 2017.
- 1.2 The Annual Accounts are prepared in accordance with the 2016/17 CIPFA Code of Practice on Local Authority Accounting ("the Code").
- 1.3 These accounts also comply with the Local Authority Accounts (Scotland) Regulations 2014 which revoked the Local Authority Accounts (Scotland) Regulations 1985.
- 1.4 The Unaudited Annual Accounts were available for public inspection between 3 July and 21 July 2017 (inclusive). During this period KPMG received no objections to the draft Accounts.

**2. ANNUAL ACCOUNTS 2016/17**

- 2.1 The audit of the 2016/17 Annual Accounts took place between July and early September 2017. The audit considered not only the financial statements but also areas such as financial performance and corporate governance
- 2.2 The Draft Annual Audit Report to the Members of Perth and Kinross Council and the Controller of Audit for the year ended 31 March 2017 is set out at Appendix 1 (the Draft Audit Report). The Draft Audit Report sets out KPMG's opinions and conclusions on the overall audit and their findings to be reported under ISA260: Report to those Charged with Governance. The Draft Audit

Report also includes the findings in relation to Perth and Kinross Charitable Trusts which were distributed separately to Trustees.

- 2.3 The key messages from the 2016/17 audit are set out under six themes on pages 3 and 4 of Appendix X and are summarised as follows:

Audit Conclusions –

- Unqualified audit opinion on the 2016/17 financial statements of Perth and Kinross Council and Perth and Kinross Charitable Trusts.
- The Accounts were of high quality, as were supporting working papers. No audit misstatements were identified demonstrating good financial management.

Financial Position –

- The Council maintains a strong financial position.  
Financial Management and Financial Sustainability –
- Strong financial management in respect of monitoring of costs, forward planning and reporting to elected members.
- The Council prepares a two year Revenue Budget which is considered good practice.
- The Council has a robust Reserves policy.

Governance and Transparency –

- The Council has an effective governance structure.
- There is effective scrutiny, challenge and transparency on decision making.
- The new Risk Management Strategy shows a commitment to continuous improvement.
- Systems of internal control operated effectively.

Value for Money –

- The Council demonstrates a commitment to achieving value for money and has appropriate arrangements for complying with the Following the Public Pound code.
- Options appraisals and business cases are developed to support key decisions and are appropriately scrutinised.

Outlook –

- Budgets have been set for the next two years with a medium term financial plan – this represents good practice.
- The Council faces financial challenges and opportunities associated with reducing settlements and new ways of working.

- 2.4 At this time the 2016/17 Audited Annual Accounts remain unsigned. Approval of the Accounts at today's meeting will provide authorisation for the Leader of the Council, the Chief Executive and the Head of Finance to sign them. Once signed the Accounts will be passed to KPMG so that they may issue their opinion in the form of an audit certificate.
- 2.5 It is anticipated that the final 2016/17 Annual Audit Report to the Members of Perth and Kinross Council and the Controller of Audit for the year ended 31 March 2017 will be issued by KPMG following completion of the final accounts process. The final Report and the signed Audited Annual Accounts for 2016/17 will be considered by the Council on 4 October 2017.
- 2.6 The Draft Audited Accounts (unsigned) are attached to this report at Appendix 2.

### 3. CONCLUSION AND RECOMMENDATIONS

- 3.1 KPMG, the Council's External Auditors, findings on the 2016/17 Audit are set out in the Draft Annual Audit Report to the Members of Perth and Kinross Council and the Controller of Audit for the year ended 31 March 2017 which is attached Appendix 1 to this report.
- 3.2 It is recommended that the Committee:
- (i) Notes the contents of KPMG's Draft Annual Audit Report to the Members of Perth and Kinross Council and the Controller of Audit for the year ended 31 March 2017.
  - (ii) Approves the 2016/17 Audited Annual Accounts and authorises the Leader of the Council, the Chief Executive and the Head of Finance to sign them.

#### Author(s)

| Name           | Designation                  | Contact Details                                                  |
|----------------|------------------------------|------------------------------------------------------------------|
| Scott Walker   | Chief Accountant             | <a href="mailto:chxfinance@pkc.gov.uk">chxfinance@pkc.gov.uk</a> |
| Alison O'Brien | Corporate Accounting Manager |                                                                  |

#### Approved

| Name              | Designation                                        | Date              |
|-------------------|----------------------------------------------------|-------------------|
| Stewart Mackenzie | Head of Finance                                    | 14 September 2017 |
| Jim Valentine     | Depute Chief Executive and Chief Operating Officer | 14 September 2017 |

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Council Text Phone Number 01738 442573

## 1. IMPLICATIONS, ASSESSMENTS, CONSULTATION AND COMMUNICATION

| <b>Strategic Implications</b>                       | <b>Yes / None</b> |
|-----------------------------------------------------|-------------------|
| Community Plan / Single Outcome Agreement           | None              |
| Corporate Plan                                      | Yes               |
| <b>Resource Implications</b>                        |                   |
| Financial                                           | Yes               |
| Workforce                                           | Yes               |
| Asset Management (land, property, IST)              | Yes               |
| <b>Assessments</b>                                  |                   |
| Equality Impact Assessment                          | Yes               |
| Strategic Environmental Assessment                  | Yes               |
| Sustainability (community, economic, environmental) | Yes               |
| Legal and Governance                                | None              |
| Risk                                                | None              |
| <b>Consultation</b>                                 |                   |
| Internal                                            | Yes               |
| External                                            | None              |
| <b>Communication</b>                                |                   |
| Communications Plan                                 | None              |

### 1. Strategic Implications

#### 1.1 Corporate Plan

1.1.1 The Council's Corporate Plan 2013 – 2018 lays out five outcome focused strategic objectives which provide clear strategic direction, inform decisions at a corporate and service level and shape resources allocation. They are as follows:

- (i) Giving every child the best start in life;
- (ii) Developing educated, responsible and informed citizens;
- (iii) Promoting a prosperous, inclusive and sustainable economy;
- (iv) Supporting people to lead independent, healthy and active lives; and
- (v) Creating a safe and sustainable place for future generations.

1.1.2 This report relates to all of these objectives.

### 2. Resource Implications

#### 2.1 Financial

2.1.1 There are no direct financial implications arising from this report other than those reported within the body of the main report.

## 2.2 Workforce

- 2.2.1 There are no direct workforce implications arising from this report other than those reported within the body of the main report.

## 2.3 Asset Management (land, property, IT)

- 2.3.1 There are no direct asset management implications arising from this report other than those reported within the body of the main report.

## 3. **Assessments**

### 3.1 Equality Impact Assessment

- 3.1.1 Under the Equality Act 2010, the Council is required to eliminate discrimination, advance equality of opportunity, and foster good relations between equality groups. Carrying out Equality Impact Assessments for plans and policies allows the Council to demonstrate that it is meeting these duties.
- 3.1.2 The information contained within this report has been considered under the Corporate Equalities Impact Assessment process (EqIA) and has been assessed as **not relevant** for the purposes of EqIA.

### 3.2 Strategic Environmental Assessment

- 3.2.1 The Environmental Assessment (Scotland) Act 2005 places a duty on the Council to identify and assess the environmental consequences of its proposals.
- 3.2.2 The information contained within this report has been considered under the Act. However, no action is required as the Act does not apply to the matters presented in this report.

### 3.3 Sustainability

- 3.3.1 Under the provisions of the Local Government in Scotland Act 2003 the Council has to discharge its duties in a way which contributes to the achievement of sustainable development. In terms of the Climate Change Act, the Council has a general duty to demonstrate its commitment to sustainability and the community, environmental and economic impacts of its actions.
- 3.3.2 The information contained within this report has been considered under the Act. However, no action is required as the Act does not apply to the matters presented in this report.

#### **4. Consultation**

##### **4.1 Internal**

- 4.1.1 The Chief Executive and all Executive Directors have been consulted in the preparation of this report.

#### **2. BACKGROUND PAPERS**

- 2.1 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.

#### **3. APPENDICES**

Appendix 1 – KPMG’s Draft Annual Audit Report to the Members of Perth and Kinross Council and the Controller of Audit for the year ended 31 March 2017

Appendix 2 – 2016/17 Audited Annual Accounts (Unsigned)



# Perth and Kinross Council

Annual Audit Report to the Members of Perth and Kinross Council  
and the Controller of Audit for the year ended 31 March 2017

14 September 2017

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## **About this report**

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

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

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

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

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

## **Complaints**

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



# Executive summary

## Key messages

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### Audit conclusions

We intend to issue unqualified audit opinions on the financial statements of Perth and Kinross Council and Perth and Kinross Council Charitable Trusts.

We have concluded satisfactorily in respect of each of the significant risks and audit focus areas identified in the audit strategy document.

The annual accounts, statement of responsibilities, governance statement and remuneration report were received at the start of the audit fieldwork. The annual accounts were of high quality, as were supporting working papers. We did not identify any audit misstatements. This demonstrates good financial management.

We have no matters to highlight in respect of independence.



### Financial position

The 2016-17 surplus on the provision of services of £9.0 million is £3.7 million lower than the surplus reported in 2015-16. The underlying surplus was £7.0 million greater than budgeted. As in prior years, the surplus was achieved through strong financial discipline, underspends and achieved savings. Approved underspends can be carried forward as part of the budget flexibility scheme.

The Council maintains a strong financial position, with £15.5 million uncommitted general fund balance, representing 4.6% of the 2017-18 revenue budget. The HRA account outturn was in line with budget.

Net assets decreased by £37.9 million to £400.2 million, primarily as a result of the movement in pension liability (page 17).



### Financial management and financial sustainability

We observed strong financial management, in respect of monitoring of costs, forward planning and reporting to elected members. The Council prepares a two year revenue budget which is considered good practice, with a proposal being put forward to move to a three year revenue budget.

There is an estimated savings requirement of £17.4 million in 2017-18, subject to underlying assumptions. Savings are partly managed through the transformation programme 2015-20.

The Council has a robust reserves policy which aims to keep reserves at an adequate level to maintain resources and support financial sustainability.



# Executive summary (continued)

## Key messages (continued)

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### Governance and transparency

The Council has an effective governance structure through committee meetings, the scheme of delegation and standing orders. The Council demonstrates effective scrutiny, challenge and transparency on decision making through various levels of committee reporting reviewed.

A new risk management strategy was implemented in 2016-17, which shows a commitment to continuous improvement. The Council's arrangements in relation to the prevention and detection of fraud are satisfactory, including its participation in the National Fraud Initiative.

Systems of internal control operated effectively throughout the year, with only minor control recommendations identified during the audit.



### Value for money

We consider that the Council demonstrates a commitment to achieving value for money and has appropriate arrangements for complying with the following the public pound code.

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



### Outlook

Budgets have been set for the next two years with a medium term financial plan setting out the direction of the Council for the next five years. This represents good practice.

The Council faces financial challenges and opportunities associated with reducing settlements and new ways of working such as the partnership with NHS Tayside and the integration joint board.

We are content that the going concern assumption is appropriate for the Council. The Scottish Government financial settlement for local authorities for 2017-18 has been communicated, and two year budgets show adequate resource to deliver planned services.



# Introduction

## Scope and responsibilities

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### Purpose of this report

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

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

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

### Accountable officer responsibilities

The Code sets out Perth and Kinross Council's responsibilities in respect of:

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

### Auditor responsibilities

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

### Scope

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

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

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

Under the requirements of International Standard on Auditing (UK and Ireland) ('ISA') 260 *Communication with those charged with governance*, we are required to communicate audit matters arising from the audit of financial statements to those charged with governance of an entity.

This annual audit report to members and our presentation to the Audit Committee, together with previous reports to the Audit Committee throughout the year, discharges the requirements of ISA 260.

# Financial position



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## Overview

The Council recognised an underlying underspend relative to budget of £7.0 million. This is against a backdrop of a challenging environment for all local authorities, with growing demand on service delivery, funding cuts and uncertainty in the current economic climate.

As highlighted in the Audit Scotland report, *Local Government in Scotland; Performance and challenges 2017*, local authorities total revenue funding from the Scottish Government decreased overall by 9.2% in real terms since 2010-11. For Perth and Kinross Council the reduction was 7.0%.

Whilst one year funding settlements from Scottish Government makes long term financial planning difficult, the Council prepares a two year revenue budget using assumptions on future levels of income and expenditure. There is a five year medium term financial plan. This demonstrates good practice in financial planning. A proposal is being put forward to members to approve preparing a three year revenue budget.

Perth and Kinross is an area with a changing demographic and a rising population. An increase in the demographic of older people brings challenges in service provision in health and social care.

The Tay Cities deal was approved, with notice of the final award anticipated in early 2018. This is expected to bring 15,000 new jobs and around £1.8 billion of funding to the Tay region over a ten year period. The area has one of the lowest rates of unemployment at 3.2% in 2016-17, compared with 4.5% for Scotland.

The Transformation Programme 2015-20 continues to support the Council's objectives and support changing service delivery in the challenging period ahead. The Council engages in a range of partnership working with Dundee City Council and Angus Council to realise efficiencies of joined working.

The headline financial position figures are shown below. Further details are provided in the following pages.

Surplus on provision of services

£9.0 million

2015-16 £12.7 million

Net underspend

£7.0 million (£5.4 million approved through budget flexibility)

2015-16 £16.0 million (£5.3 million approved through budget flexibility).

Total useable and unusable reserves

£400.2 million

2015-16 £438.1 million

Uncommitted general fund balance

£15.5 million

2015-16 £13.4 million

Pension liability

£249.9 million

2015-16 £161.8 million

Capital financing requirement

£455.2 million

2015-16 £411.1 million

# Financial position (continued)



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## Comprehensive income and expenditure statement

There are changes to the format of the annual accounts' comprehensive income and expenditure statement ("CIES") as a result of the Chartered Institute of Public Finance and Accountancy ("CIPFA") disclosure requirements on 'telling the story', (see page 19).

Net cost of services reduced compared to the prior year, due to a range of savings achieved across services including procurement reform review, appraising repairs and maintenance options on council houses and maximising the efficiencies in the school estate.

Net underspends of £7.0 million relative to budget are reported for 2016-17. The main areas of underspend are;

- Education and Children's Services (£2.9 million), due to staff vacancies, reduced supplies and services costs and additional income.
- Environment (£1.7 million), due to lower fuel and energy costs, additional income and reduced staff costs.
- Health and social care (£2.9 million), due to staff slippage and additional income in older people services from residential homes, and £0.9 million from learning disability services and mental health provision. The Council earmarked £0.6 million in its own reserves for future health and social care transformation.
- Culture (£0.8 million), due to re-phasing of Perth theatre expenditure into 2017-18.

The above underspends were achieved through additional income and use of the budget flexibility scheme. Approved underspends can be carried forward as part of this scheme (see page 27).

Through monitoring performance indicators (see page 31) and ongoing consultation with service users, the Council demonstrates that underspends have not impacted service delivery in a significant way, and the services which were set out to be delivered in the budget were provided.

The following table shows a comparison of current year to prior year income and expenditure;

| Comprehensive income and expenditure statement    |                 |                 |                  |
|---------------------------------------------------|-----------------|-----------------|------------------|
|                                                   | 2016-17<br>£000 | 2015-16<br>£000 | Variance<br>£000 |
| Net cost of services                              | 303,237         | 322,391         | (19,154)         |
| Other operating expenditure                       | (635)           | 644             | (1,279)          |
| Financing and investment income and expenditure   | 22,945          | 21,878          | 1,067            |
| Taxation and non specific grant income            | (334,579)       | (357,653)       | (23,074)         |
| <b>(Surplus) on the provision of services</b>     | <b>(9,032)</b>  | <b>(12,740)</b> | <b>(3,708)</b>   |
| Other comprehensive income and expenditure        | 46,966          | (52,034)        | 99,000           |
| <b>Total comprehensive income and expenditure</b> | <b>37,934</b>   | <b>(64,774)</b> | <b>102,708</b>   |

*Source 2016-17 draft financial statements*

The movement in other operating expenditure relates to the disposal of non current assets. In 2015-16 a loss was incurred on disposal compared to a gain in 2016-17.

Taxation and non specific grant income decreased due to capital grants reducing by £13.9 million to £20.8 million which is in line with the capital programme. The high street office upgrade has finished and work is commencing on a number of projects leading to an anticipated higher spend in 2017-18 such as the A9/A85 junction. The revenue grant from Scottish Government also decreased.

Other comprehensive income and expenditure moved significantly due to re-measurement of the pension liability. Movements in gilt rates caused a material increase in the liability, (see page 17).

# Financial position (continued)



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| Balance Sheet         |                 |                 |                  |
|-----------------------|-----------------|-----------------|------------------|
|                       | 2016-17<br>£000 | 2015-16<br>£000 | Variance<br>£000 |
| Long term assets      | 1,040,482       | 942,043         | 98,439           |
| Current assets        | 79,139          | 85,114          | (5,975)          |
| Current liabilities   | (73,818)        | (69,335)        | (4,483)          |
| Long term liabilities | (645,550)       | (519,635)       | (125,915)        |
| <b>Net assets</b>     | <b>400,253</b>  | <b>438,187</b>  | <b>37,934</b>    |
| Useable reserves      | 80,357          | 85,835          | 5,478            |
| Unusable reserves     | 319,896         | 352,352         | 32,456           |
| <b>Total reserves</b> | <b>400,253</b>  | <b>438,187</b>  | <b>37,934</b>    |

*Source; 2016-17 draft financial statements*

Fixed assets increased significantly compared to 31 March 2016 due to additions of £94.0 million, partly offset by £7.3 million of disposals. Additions are in line with the major capital investment programme being undertaken, and include works to the A9/A85 road junction and upgrades to the High Street Council offices. Major capital works in 2017-18 will include the next phases of the A9/A85 road improvements and construction starting on the new secondary school at Bertha Park. There have been revaluations in the year as part of the five year rolling programme (see page 16).

Current assets reduced partly due to the timing of trade receivables payments and the cash balance. Short term investments decreased by £20.1 million whilst cash and cash equivalents increased by £16.1 million. The Council is holding more funds in short term deposit facilities due to preferable interest rates and liquidity requirements.

The current liabilities increase relates to a new provision for dilapidations on the Blackfriars offices which the Council has now exited, and timing of trade payables payments.

Long term liabilities increased significantly due to movements in the pensions liability of £88.1 million and borrowing to fund capital expenditure (see page 27).

## Capital programme

Capital monitoring is reported to the Strategic Policy and Resource Committee four times a year in line with Committee timetable. The following major capital investment programmes are being undertaken:

- A9/A85 road junction improvement project. This is being completed over several phases with phase one currently in progress.
- Kinross primary school and Tulloch primary school upgrades; both projects are progressing ahead of budget and expenditure has been phased in to 2016-17 from 2017-18.
- Bertha park development: including new housing and a secondary school which is scheduled to open in August 2019.
- Perth City Hall upgrade: the City Hall is being transformed into a cultural attraction after the proposal was passed by Council. This is currently in design phase. This is part of a £20 million commitment to capital expenditure on culture.

# Financial position (continued)

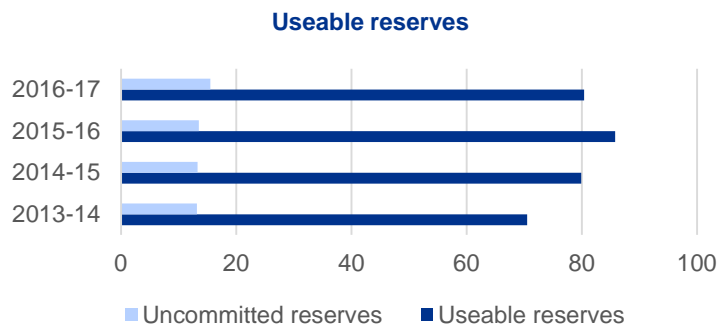


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## Reserves

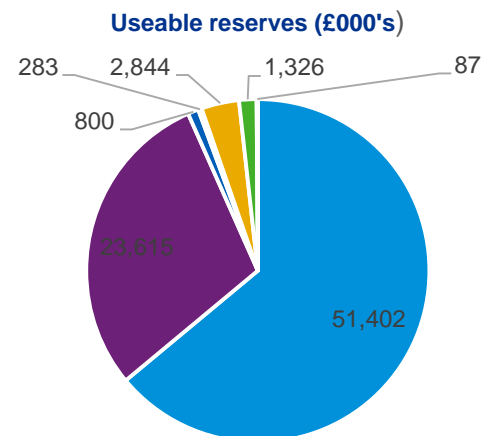
The uncommitted general fund balance was £15.5 million as at 31 March 2017 which represents 4.6% of the 2017-18 revenue budget. The reserves policy is to retain uncommitted reserves of between 2-4%, however with reserves expected to reduce, management considered it prudent to remain at 4.6% for 2016-17.

The useable reserves are split between different funds, with a section of the general fund being uncommitted (£15.5 million) with the rest being earmarked for future projects. Useable reserves are summarised in the pie chart below:

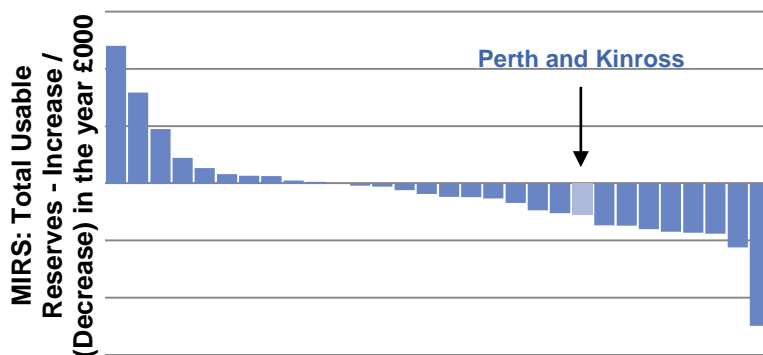


Source: prior year audited accounts and current year unaudited accounts

The decrease in useable reserves is in line with other local authorities;



- General fund
- HRA
- Insurance fund
- Capital grants unapplied
- Capital fund
- Renewal and repair fund
- Capital receipts reserves



Source: Audit Scotland benchmarking 2017



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# Financial position (continued)



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## Financial plans 2017-18

Budgets are set for the next two years, recognising a need for financial constraint. A balanced budget is forecast each year, which relies on savings being achieved and income levels being as budgeted. The key assumptions used in setting the 2017-18 and 2018-19 budgets include:

- Scottish Government funding provided beyond 2017-18.
- Transformation projects forecast to generate savings; there is inherent uncertainty around how successfully these projects can be implemented and the savings they can deliver.
- Band D properties continuing to increase, therefore generating additional council tax income. If the council tax base does not increase revenue would be lower than budgeted.
- Pay award agreements may change and result in a variance from budget. Currently 1% has been agreed by COSLA for 2017-18 and is in line with national pay expectations in the public sector.
- Inflation may exceed or not meet budgeted provisions, and this is heightened by the impact of Brexit on the value of the Sterling.
- The current economic climate provides risk over income levels in areas such as commercial rent income and council tax collection levels. Similarly there is a risk over increased expenditure due to the ageing populations and welfare reform.

Management has carried out some sensitivity analysis to understand the impact on the budget if different levels of income are received.

Results for the first quarter do not show a significant variance to budget, indicating that savings assumptions to date are being realised.

The 2017-18 and 2018-19 provisional revenue budgets are summarised below.

|                                 | Provisional revenue budget 2017-18<br>£000's | Assumed 2018-19 budget<br>£000's |
|---------------------------------|----------------------------------------------|----------------------------------|
| Service expenditure             | 308,286                                      | 298,886                          |
| Corporate expenditure           | 25,460                                       | 28,079                           |
| <b>Total budget expenditure</b> | <b>333,746</b>                               | <b>326,965</b>                   |
| Scottish Government Funding     | 243,516                                      | 241,414                          |
| Council tax income              | 82,240                                       | 85,119                           |
| Other income                    | 7,990                                        | 431                              |
| <b>Total budgeted income</b>    | <b>332,746</b>                               | <b>326,965</b>                   |

*Source; revenue budget 2017-18 & 2018-19*

## Going concern

The Council had net assets of £400.3 million (2015-16: £438.1 million) as at 31 March 2017. Although this decreased from 2015-16 by £37.8 million, it is primarily in relation to the increase in the pension liability (£88.1 million) which is a long term liability.

Management considers it appropriate to continue to adopt the going concern assumption for the preparation of the annual accounts. It considers that the confirmed revenue support grant of £238.0 million for 2017-18 and the savings proposals are sufficient to ensure the Council can meet debts as they fall due.

Continued...



# Financial position (continued)



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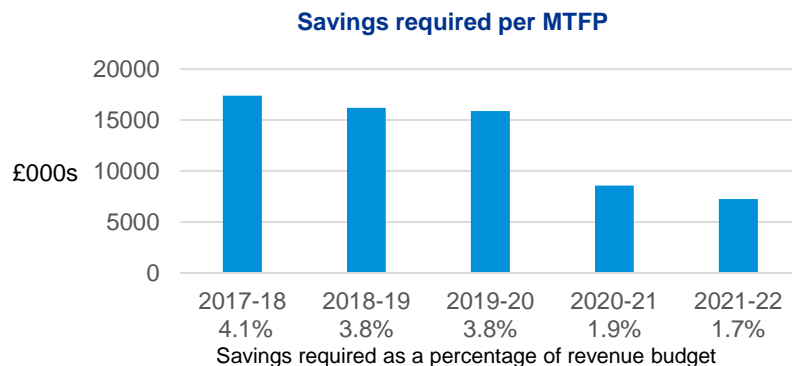
## Going concern (continued)

The Council recognised a surplus on the provision of services in the year and is forecast to deliver a balanced budget going forward. Over the past few years there has been a reduction in the overall cost base and further efficiency savings are incorporated in budgets.

The Scottish Government financial settlement for local authorities for 2017-18 is confirmed, covering the 12 month period to 31 March 2018. Amounts for funding periods after 2017-18 are currently unknown, however a reasonable expectation is a 1.3% reduction and is incorporated into the forecasts which are regularly reviewed.

The Council has identified expenditure pressures and estimated required savings to be achieved through the transformation programme. This is considered in the wider scope section, page 26-28.

The table shows savings required over the next five years, totalling £65.3 million:



Source; medium term financial plan 2017-22

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

Identified savings in the transformation programme come from:

- procurement reform review; closer management of suppliers and collaborative working;
- corporate digital service review; moving more services online;
- a range of social care reforms to provide care at home for longer and reviewing day care services; and
- voluntary severance schemes.

## Conclusion

The Council has prepared short and medium term financial forecasts which are dependant on a number of assumptions out with the Council's control.

A surplus was achieved in the year and a net asset position was maintained.

We are content that the going concern assumption is appropriate given the financial plans prepared, the progress with savings options to date, the brought forward reserves position, the expectation of continued government funding and the Council's sound financial management

# Financial statements and accounting

## Audit conclusions



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### Audit opinion

Our audit work is complete with the exception of ongoing discussion around the valuation basis of 2 High Street (see page 16). Following approval of the annual accounts by the Council we expect to issue an unqualified opinion on the truth and fairness of the state of the Council's affairs as at 31 March 2017, and of the surplus for the year then ended. We also expect to issue unqualified opinions on the truth and fairness of the state of the Perth and Kinross Council Charitable Funds' affairs as at 31 March 2017.

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

### Financial reporting framework, legislation and other reporting requirements

The Council is required to prepare its financial statements in accordance with International Financial Reporting Standards, as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2016-17 ("the Code"), and in accordance with the Local Authority Accounts (Scotland) Regulations 2014. Our audit confirmed that the financial statements have been prepared in accordance with the Code and relevant legislation.

The Perth and Kinross Council Charitable Funds financial statements are prepared in accordance with the Charities SORP (FRS 102). Our audit confirmed that the financial statements have been prepared in accordance with the relevant charity accounting legislation.

### Statutory reports

We have not identified any circumstances to notify the Controller of Audit that indicate a statutory report may be required.

### Other communications

We did not encounter any significant difficulties during the audit. There were no other significant matters arising from the audit that were discussed, or subject to correspondence with management that have not been included within this report. There are no other matters arising from the audit, that, in our professional judgement, are significant to the oversight of the financial reporting process.

### Audit misstatements

There have been no audit misstatements identified during the audit.

### Written representations

We request standard representations from those charged with governance prior to issuing our opinions.

# Financial statements and accounting

## Audit conclusions (continued)



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### Materiality

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

We used a materiality of £8.4 million for the Council's standalone financial statements, and £8.5 million for the Group financial statements. This equates to 2% of cost of services expenditure, adjusted for revaluation decreases recognised in the cost of services expenditure. We designed our procedures to detect errors in specific accounts at a lower level of precision than our materiality. For the standalone and group accounts our performance materiality was £6.3 million. We report all misstatements greater than £250,000.

### Forming our opinions and conclusions

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

- performed controls testing and substantive procedures to ensure that key risks to the annual accounts have been covered;
- communicated with the Chief Internal Auditor and reviewed internal audit reports as issued to the Audit Committee to ensure all key risk areas which may be viewed to have an impact on the annual accounts had been considered;
- reviewed estimates and accounting judgments made by management and considered these for appropriateness;
- considered the potential effect of fraud on the annual accounts through discussions with senior management and internal audit to gain a better understanding of the work performed in relation to the prevention and detection of fraud; and

- attended Audit Committee meetings to communicate our findings to those charged with governance, and to update our understanding of the key governance processes.

### Financial statements preparation

High quality working papers and draft financial statements were provided at the start of the audit fieldwork on 26 June 2017. This included the management commentary and annual governance statement.

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

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

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

Significant risks:

- management override of controls fraud risk;
- fraudulent revenue recognition;
- revaluation of property, heritage assets, plant and equipment; and
- retirement benefits.

Other focus areas:

- presentation of the financial statements;
- consolidation of the IJB; and
- capital expenditure.

# Financial statements and accounting

## Significant risks



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| SIGNIFICANT RISK                                                                                                                                                                                                                                                                                                                                                                                                                                                             | OUR RESPONSE                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | AUDIT CONCLUSION                                                                                                                                                     |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><b>Fraud risk from management override of controls</b></p> <p>Professional standards require us to communicate the fraud risk from management override of controls as a significant risk; as the standards consider management to typically be in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p> | <p>Our audit methodology incorporates the risk of management override as a default significant risk. We have not identified any specific additional risks of management override relating to the audit of the Council.</p> <p>Strong oversight of finances by management provides additional review of potential material errors caused by management override of controls.</p> <p>In line with our methodology, we carried out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the Council's normal course of business, or are otherwise unusual.</p> | <p>There were no specific circumstances identified which would indicate additional risk of management override of controls.</p> <p>No overrides were identified.</p> |

# Financial statements and accounting

## Significant risks (continued)



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| SIGNIFICANT RISK                                                                                                                                                                          | OUR RESPONSE                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | AUDIT CONCLUSION                                                                                                                                                                                                                                                                                                               |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><b>Fraudulent income recognition</b></p> <p>Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.</p> | <p>We considered the fraud risk from revenue recognition for the Council for each of its significant revenue streams and include a significant risk over 'other income', relating primarily to fees and charges income across different services. We consider there to be judgement in recognising this income.</p> <p>Our work consisted of:</p> <ul style="list-style-type: none"> <li>— agreeing non-ring fenced government grants (£187.1 million) to correspondence from the Scottish Government;</li> <li>— sample checking capital grants to third party award letters;</li> <li>— sample testing non domestic rates ("NDR") reliefs and council tax discounts to verify the relief / discounts were awarded at the correct rate and are appropriate. Substantive analytical procedures over gross council tax collected and gross NDR levied. We also completed the audit of the NDR grant claim;</li> <li>— substantive analytical procedures over housing rents income using the full list of properties and rental charge to develop expected charge;</li> <li>— analytical review over other income (£79.1 million) at service level compared to budget and prior year;</li> <li>— journals testing of fees and charges income;</li> <li>— test of detail over services with material other income amounts not already tested; and</li> <li>— cut-off testing over other income to verify it is recorded in the correct financial year.</li> </ul> | <p>We found controls around income to be operating effectively. We are satisfied that income is recognised appropriately, in the correct financial year and in line with the Code.</p> <p>From our journals testing, two journals were identified where back up had not been kept.</p> <p><b><i>Recommendation one</i></b></p> |

# Financial statements and accounting

## Significant risks (continued)



**DRAFT**

| SIGNIFICANT RISK                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | OUR RESPONSE                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | AUDIT CONCLUSION                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><b>Revaluation of property, heritage assets, plant and equipment</b></p> <p>Under the 2016-17 Code and IFRS, property, plant and equipment ("PPE") is required to be held at fair value. In order to comply with these accounting requirements, Council assets are subject to rolling valuations; with nursery, primary and secondary schools, outdoor centres, tips (former landfill sites) and investment properties being subject to valuation in 2016-17. The total value of PPE as at 31 March 2016 was £896 million, therefore the related revaluation is significant. Furthermore, the Council holds £18 million of investment property, which must be revalued on an annual basis.</p> <p>As with any local authority which performs valuations, this is an inherently judgemental area and is therefore an area of financial statement risk.</p> | <p>Our work consisted of:</p> <ul style="list-style-type: none"> <li>— review of the in-house valuation team, considering their objectivity, independence, experience and integrity;</li> <li>— review by KPMG valuer of valuation methodology, comparative sales, supporting evidence of rent or land values and yield applied in valuation calculations. This was also carried out for 2015-16 to gain comfort over opening balances;</li> <li>— selecting a representative sample of assets to agree to supporting evidence and re-perform the revaluation calculations. Our sample included schools, a car park, shopping centre and the Council head offices;</li> <li>— regular meetings and communication with estates team to discuss valuations and understand approach, including treatment of VAT, valuation date and valuation methodology used. The valuation date of 1 April was challenged at our interim audit to verify there was no material movement between 1 April 2016 and 31 March 2017;</li> <li>— review of impairment indicators for those items that have been revalued; and</li> <li>— testing the allocation of revaluation movements between revaluation reserve and income and expenditure for sample of revalued assets.</li> </ul> | <p>A paper was prepared by the Council to show there was no material movement between valuation date and year end. We are satisfied the 1 April is an acceptable valuation date.</p> <p>We note the yield used in the calculation of St Johns shopping centre is at the lower end of an accepted range, however does not cause a material difference.</p> <p>For the council's head offices at 2 High Street, the valuation technique used is the depreciated replacement cost model ("DRC"). This is generally only applied to buildings of a specialised nature e.g. schools, and we would expect to use market for an office building.</p> <p>Discussions remain ongoing between KPMG valuer and Council valuer.</p> |

# Financial statements and accounting

## Significant risks (continued)



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| SIGNIFICANT RISK                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | OUR RESPONSE                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | AUDIT CONCLUSION                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><b>Retirement benefits</b></p> <p>The Council accounts for its participation in the Tayside pension fund and in accordance with IAS 19 <i>Retirement benefits</i>, using information obtained in a valuation report prepared by actuarial consultants.</p> <p>Actuaries use membership data and a number of assumptions in calculations based on market conditions at the year end, including a discount rate to derive the future liabilities back to the year end date and assumptions on future salary increases.</p> <p>IAS 19 requires the discount rate to be set by reference to yields on high quality (i.e. AA) corporate bonds of equivalent term to the liabilities. The calculation of the pension liability is inherently judgemental for all local authorities and represents an area of financial statement risk.</p> | <p>As set out in our audit strategy document, our work consisted of:</p> <ul style="list-style-type: none"> <li>— review by KPMG specialists of the financial assumptions underlying actuarial calculations and comparison to our central benchmarks;</li> <li>— review by KPMG specialists of the roll forward of scheme assets and liabilities and the impact on the value of assets of different calculation methodologies;</li> <li>— testing of the level of contributions used by the actuary to those actually paid during the year;</li> <li>— agreement of membership data used by the actuary to data from the Council; and</li> <li>— agreeing actuarial reports to financial statement disclosures.</li> </ul> | <p>We are satisfied that the retirement benefit obligation:</p> <ul style="list-style-type: none"> <li>— is correctly stated in the balance sheet as at 31 March 2017;</li> <li>— has been accounted for and disclosed correctly in line with IAS19 <i>Retirement benefits</i>; and</li> <li>— assumptions used in calculating this estimate and management's judgements are appropriate and within the acceptable KPMG range.</li> </ul> <p>We set out further information in respect of the defined benefit obligation on page 43. The net liability in the balance sheet increased by £88.1 million compared to 31 March 2016, driven by an decrease in discount rate (1%), and increases in pension rates (0.3%).</p> |

# Financial statements and accounting

## Other focus areas (continued)



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| OTHER FOCUS AREA                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | OUR RESPONSE                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | AUDIT CONCLUSION                                                                                                                                                                                                                                                                                                                                                                                                        |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><b>Capital expenditure</b></p> <p>The Council has a capital budget of £464 million over the next five years. This is split between £386 million for the composite budget and £78 million for the housing investment programme. The expected spend in 2016-17 was £82 million with £59 million for the composite budget and £23 million for the housing investment programme.</p> <p>Due to the significance of this capital investment programme and inherent risk of delivering it in line with budget, we consider this to be an other focus area for our audit work to ensure the classification of costs between operating and capital expenditure is appropriate.</p> | <p>Our audit work consisted of:</p> <ul style="list-style-type: none"> <li>— review of the capital plan and discussing the monitoring arrangements by teams across the Council;</li> <li>— understanding the processes to verify the appropriate recording of capital and other expenses in the financial records and that authorisation by appropriate individuals occurred;</li> <li>— selecting a sample of capital item additions to agree to invoice to verify appropriateness of classification of items between expenditure and capital expenditure;</li> <li>— selecting a sample of expense items to agree to invoice to verify appropriateness of items expense allocation and clarification;</li> <li>— testing of reallocation of assets under the course of construction to fixed asset categories at the period end to verify appropriate categorisation; and</li> <li>— review accounting treatment of developer contributions to significant capital projects.</li> </ul> | <p>Controls were tested over capital monitoring as reported in our interim highlights memorandum. Controls were found to be operating effectively.</p> <p>No issues were identified when testing capital additions, nor were any items found to be expensed of a capital nature.</p> <p>No exceptions were identified and we conclude that capital expenditure is appropriately stated in the financial statements.</p> |

Highway network assets were identified as an other focus area in our strategy document. An announcement was made on 8 March 2017 by the CIPFA/LASAAC Code Board that the introduction of the Highway Network Asset Code into the financial reporting requirements for local authorities would no longer occur. We therefore no longer consider highways network assets to be an area of audit focus.



# Financial statements and accounting

## Other focus areas (continued)



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| OTHER FOCUS AREA                                                                                                                                                                                                                                                                                                                                                                                                                            | OUR RESPONSE                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | AUDIT CONCLUSION                                                                                                                                                                                                           |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><b>Presentation of the financial statements – ‘telling the story’</b></p> <p>New disclosure requirements and restatement requires compliance with relevant guidance and correct application of applicable Accounting Standards. Though less likely to give rise to a material error in the financial statements, this is an important material disclosure change in this year's financial statements, worthy of audit understanding.</p> | <p>Our audit work consisted of:</p> <ul style="list-style-type: none"> <li>— assessing how the Council actioned the revised disclosure requirements for the CIES, MIRS and the new Expenditure and Funding Analysis (“EFA”) as required by the Code;</li> <li>— checking the restated numbers and associated disclosures for accuracy and compliance with applicable Accounting Standards and Code guidance; and</li> <li>— ongoing discussion on the position of the EFA within the financial statements with the finance team.</li> </ul> | <p>The EFA had been presented in line with the code and is included as a note to the primary financial statements.</p> <p>The restated numbers for 2015-16 and current year 2016-17 figures were found to be accurate.</p> |

# Financial statements and accounting

## Other focus areas (continued)



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| OTHER FOCUS AREA                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | OUR RESPONSE                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | AUDIT CONCLUSION                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><b>Consolidation of the IJB</b></p> <p>The IJB was established in 2015-16, and took on full delegated functions from 1 April 2016. The consolidation of this new entity has a material impact on the Council's 2016-17 financial statements. There are a number of intra group transactions to be recognised.</p> <p>The Council has shared risk over the IJB with NHS Tayside, as well as obligations for delivery of services as requested by the IJB. Strong monitoring and reporting is required within the Council to ensure all statutory requirements are met and risk is managed at an appropriate level.</p> | <p>Our audit work consisted of:</p> <ul style="list-style-type: none"> <li>— review of the group consolidation instructions;</li> <li>— agree the intra group transactions and consolidated amounts to those of the IJB financial statements;</li> <li>— discussion with management the overall reporting and monitoring arrangements in place within the Council to meet its obligations to the IJB;</li> <li>— confirmation that the accounting treatment is appropriate with a particular focus on the treatment of reserves. We considered the arrangements in respect of any balance of unspent or overspent funds at the year end; and</li> <li>— review of the joint internal audit work completed by the NHS Tayside internal auditors over the IJB.</li> </ul> | <p>The IJB has been correctly consolidated into the group accounts.</p> <p>The IJB presents gross income and expenditure from the Council. We confirmed this is the correct accounting treatment in grossing up the charges to and from the IJB in the CIES.</p> <p>Reserves are held on behalf of the IJB where an underspend occurs, which is first subject to Council approval. For 2016-17 a creditor is recognised in the Council's accounts of £1.4 million which is effectively the reserves of the IJB.</p> <p>The IJB was assessed as a joint venture and is accounted for using the equity method of accounting, see page 45 for group accounting considerations. We consider this to be the correct accounting treatment.</p> |

# Financial statements and accounting

## Management reporting in financial statements



| REPORT                       | SUMMARY OBSERVATIONS                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | AUDIT CONCLUSION                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
|------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Management commentary</b> | <p>There is a new requirement for auditors to provide an opinion on whether the management commentary had been prepared in accordance with statutory guidance, this is included within our independent auditors report.</p> <p><i>Regulation 8(2) The Local Authority Accounts (Scotland) Regulations 2014</i> requires the inclusion of a management commentary within the annual accounts, similar to the Companies Act requirements for listed entity financial statements.</p>                                                                                                                                                                                                                                        | <p>We are satisfied that the information contained within the management commentary is consistent with the annual accounts.</p> <p>We reviewed the contents of the management commentary against the guidance contained in the local government finance circular 5/2015 and are content with the proposed report.</p> <p>We provided management with some relatively minor suggestions relating to how the management commentary could be enhanced and where additional information disclosures should be made.</p> |
| <b>Remuneration report</b>   | <p>The remuneration report was included within the unaudited annual accounts and supporting reports and working papers were provided.</p> <p>Amendments were required to the draft remuneration report to ensure its consistency with underlying records and presentational changes to ensure that it complied with the Local Authority Accounts (Scotland) Regulations 2014.</p> <p>In the course of testing it was identified that the incorrect report had been used to prepare the 'Remuneration of Employees by Pay Band' table. The report returned gross pensionable pay, rather than gross pay. This was subsequently addressed by management, and the table was restated, as well as the prior year figures.</p> | <p>We are satisfied that the information contained within the remuneration report is consistent with the underlying records and the annual accounts and all required disclosures have been made. Some minor presentational adjustments were made as part of the audit.</p> <p>We recommended that the gross pay report is used, this has been implemented by management.</p> <p>Our independent auditor's report confirms that the part of the remuneration report subject to audit has been properly prepared.</p> |

# Financial statements and accounting

## Management reporting in financial statements



| REPORT                             | SUMMARY OBSERVATIONS                                                                                                                                                                                                                                                                                                                                   | AUDIT CONCLUSION                                                                 |
|------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------|
| <b>Annual governance statement</b> | The statement for 2016-17 outlines the corporate governance and risk management arrangements in operation in the financial year. It provides detail on the Council's governance framework, review of effectiveness, continuous improvement agenda and group entities and analyses the efficiency and effectiveness of these elements of the framework. | We consider that the annual governance statement is appropriate for the Council. |

# Financial statements and accounting

## Qualitative aspects and future developments



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### Qualitative aspects

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

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

Significant accounting estimates relate to the present value of defined benefit obligations and valuation of non current assets. For defined benefit obligations, the estimate is calculated under IAS 19 (as calculated by the Council's actuary, Barnett Waddingham using agreed financial assumptions). We found the assumptions and accounting for pensions to be appropriate (page 46). Non current asset impairment is considered by the Council's valuation team. We used our internal valuation specialists to assess the assumptions used in these reports. We did not identify indications of management bias.

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

### Future accounting and audit developments

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

Other changes to the 2017 Code include an amendment to section 3.1 (Narrative Reporting) to introduce key reporting principles for the Narrative Report, and updates to section 3.4 (Presentation of Financial Statements) to clarify the reporting requirements for accounting policies and going concern reporting.

IFRS 16 Leases will bring a significant number of operating leases onto the balance sheet unless they are low value or have less than a year to run. CIPFA/LASAAC will revisit accounting for PFI liabilities which are currently under finance lease accounting rules of IAS 17, which is being replaced by the new standard.

# Wider scope and Best Value

## Introduction



**DRAFT**

### Audit dimensions introduction

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

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

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

### Best Value

The Accounts Commission agreed the overall framework for a new approach to auditing Best Value in June 2016. Best Value is assessed over the five year audit appointment, as part of the annual audit work. There are seven areas considered over the five years. In addition a Best Value Assurance Report ("BVAR") for each council will be considered by the Accounts Commission at least once in the five year period. The BVAR report for the Council is planned for later in the five year programme.

The Best Value audit work integrated into our audit in 2016-17 focused on two of the seven areas: financial and service planning and financial governance and resource management. The findings of this work are reported within the audit dimensions on pages 25-38.

### Strategic Audit Priorities

The Accounts Commission agreed five Strategic Audit Priorities:

- the clarity of Council priorities and quality long-term planning to achieve these;
- the effectiveness of councils in evaluating and implementing options for significant changes in delivering services;
- how effectively councils are ensuring that members and officers have the right knowledge, skills and time to lead and manage delivery of council priorities;
- how effectively councils are involving citizens in decisions about services; and
- the quality of council public performance reporting to help citizens gauge improvements.

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

### Our approach

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

- interviews with senior officers including the Chief Executive, Head of Culture and Public Service Reform and Head of Finance;
- review of various committee papers and reports;
- attending committee meetings
- discussion with officers throughout the Council; and
- consideration of Audit Scotland guidance to draw conclusions on good practice.

# Wider scope and Best Value

## Audit dimensions conclusions



**DRAFT**

### Financial sustainability

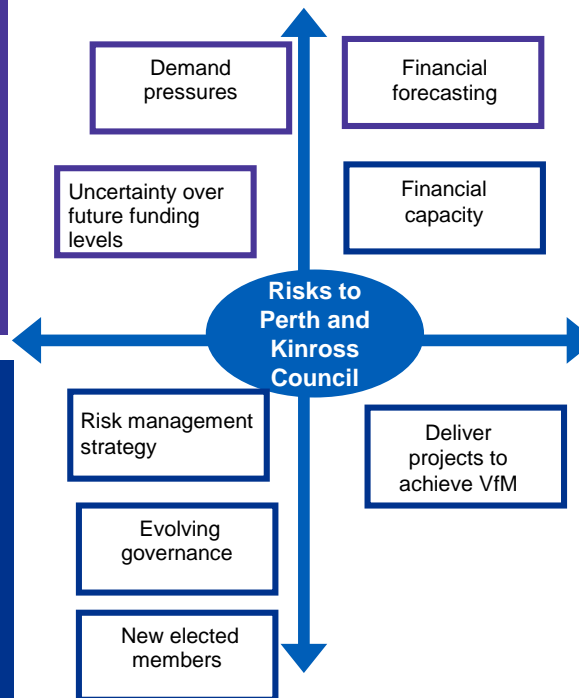
The Council has identified savings requirements over the next five years in order to continue to deliver services.

The transformation programme supports achievement of these savings through redesigning the way services are delivered to maximise efficiencies and support change.

We consider that the Council has effective measures to address financial sustainability.

### Governance and transparency

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



### Financial management

The Council has a sound process in place to manage its finances and resources which aids effective financial planning and budget setting.

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

### Value for money

We consider that the Council has appropriate arrangements for achieving value for money.

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

Partnership working such as Tayside Procurement Consortium provides economies of scale which we consider good practice.

Capital programme management is an area which is evolving and would benefit from further development (see page 37).

# Wider scope and Best Value

## Financial sustainability



**DRAFT**

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

### **Medium to long term financial strategy**

The Medium Term Financial Plan ("MTFP") was approved on 5 October 2016 at Council and covers five years from 2017-22 with a two year revenue budget, 2017-19. This sets out the key variables which are likely to have significant impact on results, e.g. the local government finance settlement, pay awards, inflation and pension fund contributions. The plan identifies projected savings targets for the next five financial years.

The MTFP links to each of the five objectives in the Council's corporate plan 2013-18:

- giving every child the best start in life;
- developing educated, responsible and informed citizens;
- promoting a prosperous, inclusive and sustainable economy;
- supporting people to lead independent, healthy and active lives; and
- creating a safe and sustainable place for future generations.

By linking financial plans to the Council's objectives, it demonstrates strong commitment to achieving the objectives and embeds the priorities of the Council into the financial planning process.

### **Forming the two year revenue budget – *good practice***

The Council set a two year revenue budget for 2017-18 and 2018-19 on 11 February 2016, as well as the budget for 2016-17, which we consider to be good practice. A number of assumptions and risks to delivery are set out within the budget, with expected impacts and mitigations. A proposal is being put forward to prepare a three year revenue budget going forward.

The budget setting process is ongoing throughout the year. Members of the finance team consult with services using last year's budget as a starting point. Adjustments are made based on known service demands and looking at areas of under / over spend from the previous year's budget.

Meetings take place with the administration and with opposition parties to explain the budget and give a platform for discussion on what options could be taken to achieve required savings. This is a transparent process and allows appropriate challenge and scrutiny of budgeted options.

We consider it good practice for the Council to set a medium term budget, which is supported by the five year MTFP. The Council's other long term strategies such as the Single Outcome Agreement ("SOA") and transformation programme clearly link to the budget, with regular reporting allowing budgets to be considered and revised in real time.



# Wider scope and Best Value

## Financial sustainability



**DRAFT**

### Reserves

The Council reserves policy was approved at Council on 22 February 2017. Proposals were put forward to earmark reserves for areas such as the transformation programme, delivering affordable housing and bridge feasibility studies for assessment of the Queens Bridge. There are sufficient reserves to support future operations. We provide further commentary on the financial position on pages six to 13.

#### **Budget flexibility – good practice**

The Council has an approved revenue budget flexibility scheme which allows certain service under and over spends to be carried forward to future financial years. Revenue budget flexibility proposals are reviewed annually. This allows services to re-phase work where required and have flexibility in how they deliver services. We consider that the budget flexibility is a positive part of the Council's approach to managing financial challenges and discourages short term thinking.

The Council faces financial constraints which impact on its ability to raise future levels of reserves. Constraints include a tight budgetary environment and due to the budget flexibility programme there is limited opportunities to raise uncommitted reserves from service underspends. Target levels of uncommitted reserves are between 2-4% of net revenue expenditure. For 2016-17 the uncommitted reserve balance is 4.6%. As it is expected that reserves will begin to deplete in the future, the Council consider it prudent to hold reserves at this position going forward. This provides the Council with a sound basis from which to address transformation needs and plans.

### Treasury management and investment

The Treasury and Investment Strategy covers 2016-17 to 2020-21. The projected borrowing requirement over this period is £131.6 million. This represents approved capital expenditure and refinancing of mature debt. The Council has considered and uses different financing options such as Public Private Partnerships and tax incremental financing.

An annual investment strategy is set in line with Local Government Investment (Scotland) Regulations 2010. Levels of acceptable risk are documented and the Council takes a 'risk aware' approach to investments.

The Council has an appropriate policy for treasury management and investment decisions, this is scrutinised at Council meetings and we do not consider the level of borrowing required to pose a financial sustainably risk.

### Asset management plans

The Council has a number of policies and reports which contribute to the asset management programme. There is a central site where documents are linked, split by service area. The Council uses guidance on good practice such as Account Commission reports and Scottish Government consultations. Capital monitoring reports are linked as well as specific proposals, such as the future of Perth City Hall and the consultations on Bertha Park.

There are separate asset management plans for key areas such as fleet and mechanical equipment, ICT and service assets in schools, which all link into the capital plan. The capital plan links into MTFP, showing there is a connection through from asset management plans to financial planning process.

We consider the Council follows good practice by having detailed asset management plans.

# Wider scope and Best Value

## Financial sustainability (continued)



### Service redesign

The Council has a five year transformation programme 2015-20. The programme provides a framework for innovation, creativity, flexibility and greater entrepreneurship to meet future challenges. Some key themes include:

- Leadership: elected members will have a broader role, overseeing a range of service delivery models and leading on issues such as tackling inequalities and health and social care. More flexible leadership arrangements are coming into place which will enable new models of service to be developed.
- People: focus on commercial and business skills and working across organisational boundaries as more services are delivered on a collaborative basis.
- Communities: understand what needs communities have in order to use resources efficiently and effectively.
- Financial Planning: maintaining a balanced budget with the planned use of reserves against anticipated tough financial settlements over the short to medium term.
- Capacity: focus use of physical assets to ensure diminishing resources are targeted at priorities.
- Governance: governance arrangements will be reviewed as part of the change process. Need to consider developing power whilst still maintaining strong controls.

There are 27 reviews as part of the strategy which aim to develop new ways of working and support the development of efficient processes and systems to sustain high quality service delivery, while still delivering savings and dealing with increasing service demand. An update on projects is presented at each Strategic Policy and Resources Committee using a dashboard system which shows the status of each project. Savings and spend are also reported on each project.

The transformation programme underpins the redesign of how the Council delivers services. Updates are reported to committee, showing transparency and appropriate scrutiny from members. The transformation programme is gathering pace at an appropriate level and has sufficient depth and detail to reach service levels as well as reshaping the aims of the Council.

### Conclusion

The Council has identified savings requirements (£65.3 million) over the next five years in order to continue to provide services to meet demand. Results for the first quarter of 2017-18 are broadly in line with budget, which indicates that efficiencies are being delivered as planned.

The transformation programme supports achievement of savings through redesigning the way services are delivered to maximise efficiencies and support change, its remit and structure is appropriate.

We consider that the Council has effective measures to address financial sustainability.

# Wider scope and Best Value

## Financial management



**DRAFT**

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

### **Finance function capacity**

The Section 95 officer is the Head of Finance, and a member of the Executive Officer Team ("EOT"), therefore has appropriate status within the Council and access to the Chief Executive and the Council members. The finance function has decreased in size over the past five years, in line with the general reduction in the Council's scale. We note the high quality of the annual accounts and regular reporting of financial position to elected members through the Strategic Policy and Resources Committee. The lack of audit adjustments identified through the external audit evidences the capabilities of the finance team. The finance function has sufficient capacity to deliver its objectives and ongoing training ensures adequate knowledge and performance.

The Council provides induction and ongoing training for elected members and staff. Elected members receive initial induction training, followed by an annual meeting to discuss and subsequently review their personal development/training plan. This took place in June 2017 for new elected members after the local government election. KPMG supported training on the financial statements, role of audit and the role of the Audit Committee. The Council will be rolling out the improvement service's continuous professional development framework to all elected members in 2018.

### **Budget consultation with services**

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

The EOT oversees the budget setting process, it is not a decentralised decision in each service. Work is ongoing in developing the process, with the Chief Accountant carrying out an exercise to ask services 'opinions' on the budget process and how this could be improved. This is highlighted as an area of good practice (page 26).

### **Consultation of service users in budget setting**

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

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

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

# Wider scope and Best Value

## Financial management (continued)



### Workforce planning

Over the last five years the workforce of the Council has decreased. The Council aims to have the right people with the right skills and abilities at the right time to perform duties. There is a drive to increase the range of recruitment measures for hard to fill posts, which are defined as a post vacant for six months or more. Typically hard to fill posts are in relation to teachers, particularly in rural areas. The Council has developed a range of incentives such as relocation packages, providing affordable housing and using wider social media channels. Staff have also been funded to retrain as teachers to try and fill the resource gap. The Council has a programme of 'grow your own' which reviews the modern apprentice programme and aims to employ young people straight out of school.

Whilst we have not reviewed the programme in detail, we consider it to be an effective approach to addressing resource gaps. The programme enables efficiencies within certain service areas and reemployment to services with demand.

Sickness absence for teaching staff has traditionally been high within the Council, currently sickness absence days per teacher is 8.6 days. This has been heightened by more medium to long term absence. Proactive wellbeing measures are being taken to support employees and the council is investing time and resource into addressing this performance indicator.

### Outturn versus budget

The Council generated a surplus on the provision of services of £9.0 million in 2016-17 and underspent £7.0 million against budget.

We note that underspends were delivered in the prior five years (£16.0 million in 2015-16) and the previous appointed auditor highlighted that the Council was working towards integrating service performance reporting and budget monitoring, (see appendix nine).

We considered the impact of service delivery from underspends and conclude there has been no clear negative impact on service delivery. This is evidenced through performance management information and the use of the budget flexibility scheme which allocates into 2017-18 with Council approval.

### Conclusion

The Council has a sound process in place to manage its finances and resources which aids effective financial planning and budget setting.

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

# Wider scope and Best Value

## Governance and transparency



**DRAFT**

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

### **Governance structure**

There is a clear system of governance through the scheme of delegation and standing orders. The Council demonstrates effective scrutiny, challenge and transparency on decision making through various levels of committee reporting. The Council meetings are supported by: Strategic Policy and Resources Committee which is tasked with determining strategic policy objectives and priorities; Audit Committee to consider reports from internal and external audit and ensuring action is taken to improve internal controls; and the Scrutiny Committee for ensuring action is taken to monitor overall performance.

Members must declare any interest to the Council during committees. It was noted that non-financial interests are not collated for audit purposes.

### ***Recommendation two***

The Council reviews its Financial Regulations every two years, with the last review in December 2016. The main change was to accountable budget holders as a consequence of changes in structure.

The Local Code of Corporate Governance will be reviewed as a result of the May 2017 elections. A paper is going forward to Council in October 2017 for approval.

### **Transparency**

Decisions are transparent as actions are documented within Council and committee minutes. There is a high level of transparency through the Council's website, which includes minutes and papers for all committee meetings. Committee membership is balanced between administration and opposition members to ensure adequate expertise, independence and challenge. Where areas for improvement are identified, they are included in an action plan which is reviewed during the next annual review of the Council's arrangements.

### **Performance management**

The community plan and SOA link to the Corporate Plan which feeds into Business Management and Improvement Plans ("BMIP") at a service level. BMIPs include a range of performance indicators relevant to the service and a review is carried out every six months at the Scrutiny Committee of progress against the indicators and against objectives.

The Council has developed a number of performance indicators ("PIs") with results reported on the Council's website in the Annual Performance Report ("APR"). The draft 2016-17 APR shows 48% of indicators have improved, 38% demonstrate consistent performance and 12% need further attention.

Statutory Performance Indicators ("SPIs") as prescribed by the Accounts Commission are included within the Council's suite of PIs.

We considered the Council's process for gathering and reporting performance information including SPIs. We consider these arrangements to be appropriate with transparent reporting of results on the Council's website and through the APR.

# Wider scope and Best Value

## Governance and transparency (continued)



**DRAFT**

### Leadership

The Council sets its objectives through the Corporate Plan, which feeds into BMIPs. Transformation projects at service level also support the Council objectives. Alongside this the MTFP and revenue budgets link directly to the Corporate Plan.

We consider this 'golden thread' approach to be good practice, whereby the high level Council objectives feed directly through to service plans, making officers accountable to Council objectives.

This whole Council involvement in delivering outcomes is evidenced through the employee engagement survey in September 2016. Staff were asked to answer "agree", "disagree" or "neither" on the statement *'I know how my job contributes to the Council objectives'*. 83% agreed with only 3.5% disagreeing.

There are a range of approaches the leadership team uses to share its vision across the Council, for example:

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

It is evident that the leadership team and senior management demonstrate a common ethos and motivation to make the Council succeed against its objectives.

### NFI

The National Fraud Initiative ("NFI") is a data matching exercise which compares electronic data within and between participating bodies in Scotland to prevent and detect fraud. This exercise runs every two years and provides a secure website for bodies and auditors to use for uploading data and monitoring matches.

We submitted a return to Audit Scotland in June 2017, assessing management's participation in the NFI against Audit Scotland criteria.

The NFI process should continue to be embedded with departments to ensure consistency in clearing matches and timeliness of returns.

Overall the arrangements were satisfactory and overall engagement with NFI is good, no exceptions were identified.

### Fraud

No material fraud or other irregularities were identified during the year. The arrangements include policies and codes of conduct for staff and board members, supported by a fraud prevention policy and response plan. The Council participates in the NFI exercise, led by internal audit as above. We consider the Councils arrangement to prevent and detect fraud to be satisfactory.

### Shared risk assessment ("SRA")

The SRA process results in a Local Scrutiny Plan ("LSP") for the Council, setting out scrutiny risks and the proposed scrutiny responses over the coming year. The 2017-18 LSP prepared by the Local Area Network of scrutiny partners was considered by the Council in June 2017. The Scottish Housing Regulator has identified risks in the Council approach to homelessness and housing. The Council is aware of these risks and is taking actions to address them.

# Wider scope and Best Value

## Governance and transparency (continued)



**DRAFT**

### Arms Length External Organisations ("ALEOs")

The Head of Culture and Public Service Reform is the strategic lead on governance of the ALEOs. ALEOs are monitored through monthly performance reports and quarterly meetings. Every six months the Chief Executives of the ALEOs attend the Strategic Policy and Resource Committee to discuss performance.

A collaborative approach is taken to consult with ALEOs on strategies and provide each body with an 'investment', rather than a subsidy. This allows ALEOs to be empowered to make decisions, while still under the policies and requirements as set out in the Service Level Agreements ("SLA"). The Council's management of the relationship with its ALEOs is defined within the SLAs.

The Council links governance of ALEOs to its community and corporate plans through a 'commissioning blueprint' which monitors the delivery of services from ALEOs. This enables the Council to set clear expectations and monitor ALEO performance against their own outcomes to assess if it is delivering the required service to meet Council objectives.

Since April 2016 the IJB has directed the provision of integrated health and social care services. The Council has developed new assurance frameworks for monitoring arrangements with the IJB and ALEOs which outline governance and reporting requirements to ensure a consistent approach.

### ALEOs review – good practice

The Council completed an options appraisal exercise on the delivery of culture and sport to identify the best model for medium term delivery. This led to establishing Culture Perth and Kinross ("CPK") with five different scenarios provided. For example keeping the services in house, merging Horsecross and/or Live Active Leisure. The final decision considered the financial benefit of NDR savings and increased income, and also impact on visitor numbers and customer experience, evidenced by improving PIs since its formation.

This is considered good practice, with the Council going through detailed options appraisal to ensure the right model was selected, for both service delivery and value for money.



# Wider scope and Best Value

## Governance and transparency (continued)



### Risk management

The Council recently implemented a new risk management strategy, approved in February 2017, which aims to make the Council more risk aware, rather than risk averse. There is regular reporting of strategic and operational risks to the Strategic Policy and Resources Committee with monthly revenue and capital monitoring reports submitted which include discussion of risks and how these can be controlled / mitigated. The Chief Internal Auditor's reporting lines changed in the year, from the Head of Finance to the Head of Legal Services, giving more independence from the finance team.

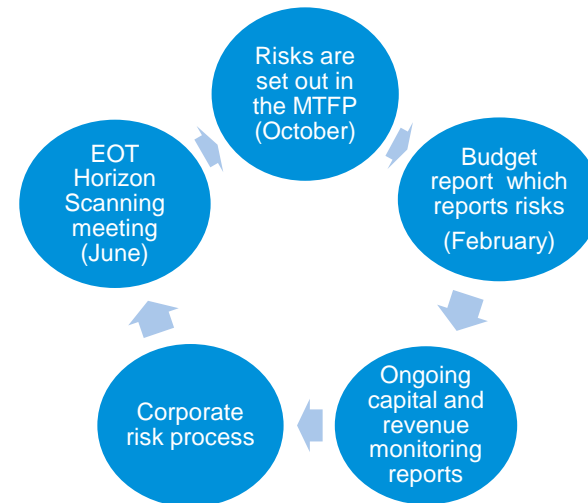
The need for a review of the risk strategy was identified and supported by Internal Audit's report presented on the 29 June 2016. The key drivers for review were an increase in partnership working and new operational models such as the IJB, which change the risk profile of the Council.

Key changes include:

- four risk documents: a risk management policy, risk management strategy to set out high level approach, risk management process guide aimed at service level operations and the risk management appetite which details the level of risk which will be tolerated in each area in order to achieve outcomes;
- definitions for terminology to ensure no ambiguity;
- being risk aware rather than risk adverse; and
- commentary on approach to managing risks within partnership arrangements.

The new risk management strategy demonstrates good practice, with high level outcomes being broken down to service level. This enables officers to take ownership and responsibility for risks, which enables risk management to be driven by all levels within the Council.

As shown below the risk management process is a continuous process throughout the year.





# Wider scope and Best Value

## Governance and transparency (continued)



**DRAFT**

### Internal controls

Council officers are responsible for designing and implementing appropriate internal control systems to ensure a true and fair view of operations within the annual accounts. Our testing, combined with that of Internal Audit, of the design and operation of financial controls over significant risk points confirms that controls relating to financial systems and procedures are designed appropriately and operating effectively. A review of the controls testing by KPMG, as reported in our interim management report are shown opposite.

The findings of our controls testing relate only to those matters identified during our normal audit work, in accordance with the Code, and there may still be weaknesses or risks within the control environment which have not been identified through this work.

As part of our interim audit report, we raised five recommendations in relation to control weaknesses. Management accepted these responses and we will review the progress in our 2017-18 interim report. Notwithstanding the recommendations raised, we consider that the Council has a strong control environment.

### Data analytics

The integrity of accounts payable data was tested using data analytics routines. The full life cycle of the purchase ledger was tested by reviewing purchase orders to invoices to goods received note. Tests included the three-way match, duplicate supplier information, duplicate bank details and unexpected date sequencing, e.g. goods received note is dated before purchase order. Key findings are summarised in appendix six.

| Control tested                                                                                                                                                                                                                                                                             | Effective           |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|
| <b>Bank reconciliations</b> ; three months bank reconciliations were tested for each bank account.                                                                                                                                                                                         | ✓                   |
| <b>BACS Authorisation</b> ; 15 weekly BACS runs were tested to verify they had been approved by an authorised signatory.                                                                                                                                                                   | ✓                   |
| <b>Budget monitoring</b> ; Two monthly reports were considered to confirm a sufficient level of detail was presented to and considered by the Strategic Policy and Resources Committee.                                                                                                    | ✓                   |
| <b>General IT controls</b> ; over key IT systems, Integra and Resource Link, placed reliance on this as part of our audit.                                                                                                                                                                 | ✓                   |
| <b>Payroll controls</b> ; 16 exception reports were reviewed to confirm investigation and explanation of variances. The annual Service Establishment report was reviewed to confirm it has been signed off by each service.                                                                | Recommendation made |
| <b>Council tax and NDR discounts and reliefs</b> ; a sample of 15 reliefs for each were reviewed to ensure appropriate authorisation took place before the relief was awarded.                                                                                                             | ✓                   |
| <b>Capital monitoring reports</b> ; Two reports reviewed to confirm a sufficient level of scrutiny took place over variances and reasons were given for slippage and movements from budget.                                                                                                | ✓                   |
| <b>Expenditure controls</b> ; A sample of 25 purchase orders were tested and agreed to invoice. Procurement testing covered a sample of five contracts. These were checked to verify they had followed the correct tender route based on value. The tender evaluation was also considered. | ✓                   |
| <b>Journal authorisation</b> ; A sample of 25 journals were selected and checks carried out to confirm there is segregation of duties exist in who raises and who authorises journal entries.                                                                                              | Recommendation made |
| <b>Financial reporting</b> ; two months service packs were tested to gain comfort over the accounts preparation process and authorisation of service packs.                                                                                                                                | Recommendation made |

# Wider scope and Best Value

## Governance and transparency (continued)



### Internal audit

Internal audit is provided by the Council's internal audit division which supports management in maintaining sound corporate governance and internal controls through the independent examination and evaluation of control systems and the reporting of weaknesses to management for action.

Audit Scotland's Code of Audit Practice sets out the wider dimension of public sector audit. It requires external auditors to perform an annual assessment of the adequacy of the internal audit function. We considered the activities of internal audit against the requirements of Public Sector Internal Audit Standards ('PSIAS'), focusing our review on the public sector requirements of the attribute and performance standards contained within PSIAS. This included a review of the internal audit charter, reporting lines, independence, objectivity and proficiency and the range of work carried out by internal audit. We also considered the requirements of International Standard on Auditing 610 (*Considering the Work of Internal Audit*).

From this assessment, and considering the requirements of International Standard on Auditing 610 (*Considering the Work of Internal Audit*), we can apply internal audit's work to inform our procedures, where relevant. The review of internal audit reports and conclusions did not indicate additional risks and there is no impact on our planned substantive testing.

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

- Agreed plan completed for the year with all approved reports finalised, as well as unplanned assignments as a result of investigations or additional requests from services.
- 36 internal audit reports completed.
- Out of a total of 188 agreed actions, none were categorised as 'critical' risk findings. 30 were classed as high risk.
- Controls assurance statement provides reasonable assurance on the overall adequacy and effectiveness of the Council's governance framework, risk management and controls.

We consider internal audit to operate effectively, covering a range of areas and delivering reports within agreed timescales. We note a six month plan for April 2017 to September 2017 was only approved in April 2017 by Audit Committee, with a further six month plan scheduled to be approved in September 2017.

### Conclusions

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

# Wider scope and Best Value

## Value for money



**DRAFT**

**Value for money ("VfM") is concerned with using resources effectively and continually improving services.**

### **Following the Public Pound**

Auditors are required to consider the Council's arrangements for compliance with the Code of Guidance on Funding External Bodies and Following the Public Pound ("the FtPP Code"). We considered management's processes to comply with the FtPP Code. The Council presents annually to the Strategic Policy and Resource Committee to ensure value for money and best practice arrangements are in place in relation to the Council's use of companies, trusts and other arms length bodies.

### **Options appraisal**

The Council carries out a range of option appraisals to assess the impact of key decisions and ensure the option selected represents best value and the best outcome for service users.

Business cases are used in areas such as exit packages where the payback period is estimated and savings of the redundancy are calculated. Our testing included consideration of the reasonableness of these savings and whether the decision demonstrates best value. In all cases our testing showed net savings within the next five years, some of which are beginning to be realised.

Capital projects appraisal is an area which is being developed by the Council, please see case study opposite.

Options appraisal links to the transformation programme by allowing services to consider how they provide services and assess if there is more efficient way to operate, thus achieving value for money.

### **Capital projects appraisal – area of ongoing development**

The existing system for capital projects options appraisal is subject to ongoing development. There are regular member officer working groups ("MOWGs") to scrutinise appraisals and discuss options. Project managers prepare business cases for capital projects. There is a set amount of funding and bids are entered. Each business case receives a technical appraisal with a weighted score and the highest rated projects are awarded funding. The HMRC five step model is used to create business cases which is considered good practice. An example of a capital project recently appraised is the A9/A85 link road which shows a balance of taking a risk and gaining a reward.

Gateway reviews are recommended for long term capital projects and historically this is an area the Council has not completed. It is recommended this is implemented as standard practice. By doing this at each milestone any overruns or changes to requirements can be identified and a decision made on the future direction of the project.

### **Recommendation three**

We conclude the Council demonstrates good practice in the use of options appraisal, with the opportunity to further enhance this process particularly around large capital projects.

# Wider scope and Best Value

## Value for money



### VfM in key decisions

The Council identified potential savings when forming the 2017-18 and 2018-19 budgets, although opted not to implement some due to extra grant funding and taxation income becoming available, however the decisions may have to be taken in future years. The ongoing transformation programme focuses on VfM through providing the same services in a more cost efficient way.

The Council considers and discusses difficult decisions such as school closures and teacher numbers as evidenced by committee meeting minutes. While these decisions have not had to be made in 2016-17 the Council is aware of possible tough decisions in the future.

However there is limited review of previous initiatives and the Council may be able to gain valuable insight from review of previous changes.

### Commissioning and procurement

The Council has a dedicated procurement team which receives training and follows the Contract and Procurement Guidance. Contract rules are owned by the Head of Legal Services and officers are made aware of this guidance. We completed sample testing of five contracts to verify they followed the appropriate tender route.

We are aware a recent tender exercise was undertaken to transform City Hall and discussed arising press coverage concerning the tender process with management. No formal challenge has been made and the Council is content that the tender award process was robust.

### Partnership working

The Council is a member of the Tayside Procurement Consortium ("TPC") with Dundee City Council and Angus Council. By being an active member of the TPC, savings are generated showing sound procurement decisions being made by the Council. The Council will continue to be involved in improvement activities at national level to achieve savings and VFM through partnership working.

Resource will be shared with other Councils where there is opportunity to do so. This was recently evidenced with joint working with an officer in roads maintenance.

We consider the Council has used partnership working efficiently to achieve value for money.

### Conclusions

We consider that the Council has appropriate arrangements for achieving value for money and complying with the FtPP Code.

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

Partnership working such as the TPC provides economies of scale which we consider good practice.

Capital programme management is an area which is evolving and would benefit from further development by implementing Gateway reviews and post project evaluations.



# Appendices

# Mandated communications with the Audit committee

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| MATTERS TO BE COMMUNICATED                                                                                                                                                                                                                                                               | LINK TO AUDIT COMMITTEE REPORTS                                                                                                  |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------|
| Relationships that may bear on the firm's Independence and the integrity and objectivity of the audit engagement partner and audit staff (ISA 260 and Combined Code)                                                                                                                     | See appendix three.                                                                                                              |
| The general approach and overall scope of the audit, including levels of materiality, fraud risks, business risks and audit responses and engagement letter (ISA 260)                                                                                                                    | Main body of this paper.                                                                                                         |
| Disagreement with management about matters that, individually or in aggregate, could be significant to the entity's financial statements or the auditor's report (ISA 260)                                                                                                               | There were no such disagreements.                                                                                                |
| The potential effect on the financial statements of any material risks and exposures, such as pending litigation, that are required to be disclosed in the financial statements (ISA 260)                                                                                                | There were no such matters to report.                                                                                            |
| Audit adjustments, whether or not recorded by the entity that have, or could have, a material effect on the entity's financial statements (ISA 260)                                                                                                                                      | See appendix seven.                                                                                                              |
| The selection of, or changes in, significant accounting policies and practices that have, or could have, a material effect on the entity's financial statements (ISA 260)                                                                                                                | Accounting policies and practices selected by the Council are appropriate and in line with the Local Authority Code of Practice. |
| The auditor's view on valuations and related disclosures (ISA 260)                                                                                                                                                                                                                       | See page 16.                                                                                                                     |
| Material uncertainties related to events and conditions that may cast significant doubt on the entity's ability to continue as a going concern (ISA 260)                                                                                                                                 | We have reviewed management's assessment that the Council is a going concern and agree with this assessment.                     |
| Expected modifications to the auditor's report (ISA 260)                                                                                                                                                                                                                                 | There are modifications to the auditor's report.                                                                                 |
| Other matters warranting attention by those charged with governance, such as effectiveness of internal controls relevant to financial reporting, material weaknesses in internal control, questions regarding management integrity, and fraud involving management (ISA 260 and ISA 240) | There are no such matters to report.                                                                                             |

# Appointed auditors responsibilities

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| AREA                                            | APPOINTED AUDITOR'S RESPONSIBILITIES                                                                                                                                                      | HOW WE'VE MET OUR RESPONSIBILITIES                                                                                                                                                                                                                                               |
|-------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Statutory duties</b>                         | Undertake statutory duties, and comply with professional engagement and ethical standards                                                                                                 | Appendix three outlines our approach to independence.                                                                                                                                                                                                                            |
| <b>Financial statements and related reports</b> | Provide an opinion on audited bodies' financial statements and, where appropriate, the regularity of transactions                                                                         | Page 12 summarises the opinions we have provided                                                                                                                                                                                                                                 |
| <b>Financial statements and related reports</b> | Review and report on, as appropriate, other information such as annual governance statements, management commentaries, remuneration reports, grant claims and whole of government returns | <p>Page 21 reports on the other information contained in the financial statements, covering the annual governance statement, management commentary and remuneration report.</p> <p>Page 45 summarises the grant claims and whole of government accounts we have reported on.</p> |
| <b>Financial statements and related reports</b> | Notify the Auditor General or Controller of Audit when circumstances indicate that a statutory report may be required                                                                     | <p>Reviewed and concluded on the effectiveness and appropriateness of arrangements and systems of internal control, including risk management, internal audit, financial, operational and compliance controls.</p> <p>Page 36 sets out our conclusion on these arrangements</p>  |
| <b>Corporate governance</b>                     | Participate in arrangements to cooperate and coordinate with other scrutiny bodies                                                                                                        | Page 36 sets out our conclusion on these arrangements                                                                                                                                                                                                                            |

# Appointed auditors responsibilities

**DRAFT**

| AREA                          | APPOINTED AUDITOR'S RESPONSIBILITIES                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | HOW WE'VE MET OUR RESPONSIBILITIES                                   |
|-------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------|
| <b>Wider audit dimensions</b> | <p>Demonstrate compliance with the wider public audit scope by reviewing and providing judgements and conclusions on the audited bodies':</p> <ul style="list-style-type: none"> <li>- Effectiveness of performance management arrangements in driving economy, efficiency and effectiveness in the use of public money and assets;</li> <li>- Suitability and effectiveness of corporate governance arrangements;</li> <li>- Financial position and arrangements for securing financial sustainability;</li> <li>- Effectiveness of arrangements to achieve best value;</li> <li>- Suitability of arrangements for preparing and publishing statutory performance information</li> </ul> | We set out our conclusions on wider scope and best value on page 25. |



## Appendix three

# Auditor independence

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

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

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

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

We will communicate any significant judgements made about threats to objectivity and independence and the appropriateness of safeguards put in place.

#### General procedures to safeguard independence and objectivity

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

- Instilling professional values;
- Communications;
- Internal accountability;
- Risk management; and
- Independent reviews.

The conclusion of the audit engagement director as to our compliance with the FRC Ethical Standard in relation to this audit engagement and that the safeguards we have applied are appropriate and adequate is subject to review by an engagement quality control reviewer, who is a partner not otherwise involved in your affairs.

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

#### Independence and objectivity considerations relating to the provision of non-audit services

We have considered the fees charged by us to the Council and its affiliates for professional services provided by us during the reporting period. We have detailed the fees charged by us to the Council and its related entities for significant professional services provided by us during the reporting period in the table below, as well as the amounts of any future services which have been contracted or where a written proposal has been submitted. Total fees charged by us for the period ended 31 March 2017 can be analysed as follows:

| Services provided to the Council and its group in respect of: | 2016-17 (excl VAT) |
|---------------------------------------------------------------|--------------------|
| Audit of the financial statements                             | 129,326            |
| Other audit related services                                  | 27,000             |
| Total non-audit services                                      | 27,000             |
| Total                                                         | 156,326            |

The ratio of non-audit fees to audit fees for the year was 0.21: 1.

We do not consider that the total non-audit fees create a self-interest threat since the absolute level of fees is not significant to our firm as a whole.

Facts and matters related to the provision of non-audit services and the safeguards put in place that bear upon our independence and objectivity, are set out in the following table

| Disclosure       | Description of scope of services                                                                                                                                                                        | Principal threats to Independence | Safeguards Applied                                                                                                                                                                                                                                            | Basis of fee | Value of Services Delivered in the year ending 31 March 2017 | Value of Services committed but not yet delivered |
|------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|--------------------------------------------------------------|---------------------------------------------------|
| VAT claim advice | Support with VAT claims in respect of sporting services. Originally agreed on a contingent fee basis, however amended to a fixed fee on appointment as external auditor in line with Ethical Standards. | Self-review                       | Self-review—engagement delivered by a team separate from the external audit team and does not involve actions which directly impact on the financial statements. KPMG did not assume a management role and the claims relate to the application of tax rules. | Fixed fee    | £27,000                                                      | -                                                 |

There are no other matters that, in our professional judgment, bear on our independence which need to be disclosed to the Audit Committee.

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

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

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

Yours faithfully

KPMG LLP

# Grant claims and WGA return

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| RETURN                                      | DESCRIPTION                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | CONCLUSION                                                                                              |
|---------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------|
| <b>Whole of Government Accounts ("WGA")</b> | WGA is the consolidated financial statements for all components of government in the UK. Most public bodies are required to provide information for the preparation of WGA. External auditors are required to review and provide assurance on WGA returns over a prescribed threshold.                                                                                                                                                                                                                                                                                                                                                                                                | We did not identify any exceptions in our testing and issued an unqualified opinion on the WGA return.  |
| <b>Non Domestic Rates ("NDR")</b>           | NDR in Scotland is collected by local authorities on an agency basis and notionally placed in a national 'pool', which is then redistributed among authorities based on each authority's estimated collection levels.<br><br>In April each year, authorities submit an estimate of their expected NDRI following the year end, authorities are required to submit their actual NDR yield, known as 'the notified amount' in a final return to the Scottish Government                                                                                                                                                                                                                 | We did not identify any exceptions in our testing and issued an unqualified opinion on the NDRI return. |
| <b>Housing Benefits ("HB")</b>              | The HB subsidy scheme is the means by which local authorities claim subsidy from the Department for Work and Pensions ("DWP") towards the cost of paying HB in their local areas.<br><br>Claimants benefits either by direct application to the authority or by applying simultaneously for income support/jobseekers allowance and HB to the DWP. Eligibility for, and the amount of, HB is determined in all cases solely by the local authority.<br><br>Monthly instalments of subsidy are made by the DWP on the basis of authorities' estimates in March and August. Final subsidy claims are made on claim form MPF720B which requires to be certified by the external auditor. | We did not identify any exceptions in our testing and issued an unqualified opinion on the HB return.   |

# Grant claims and WGA return

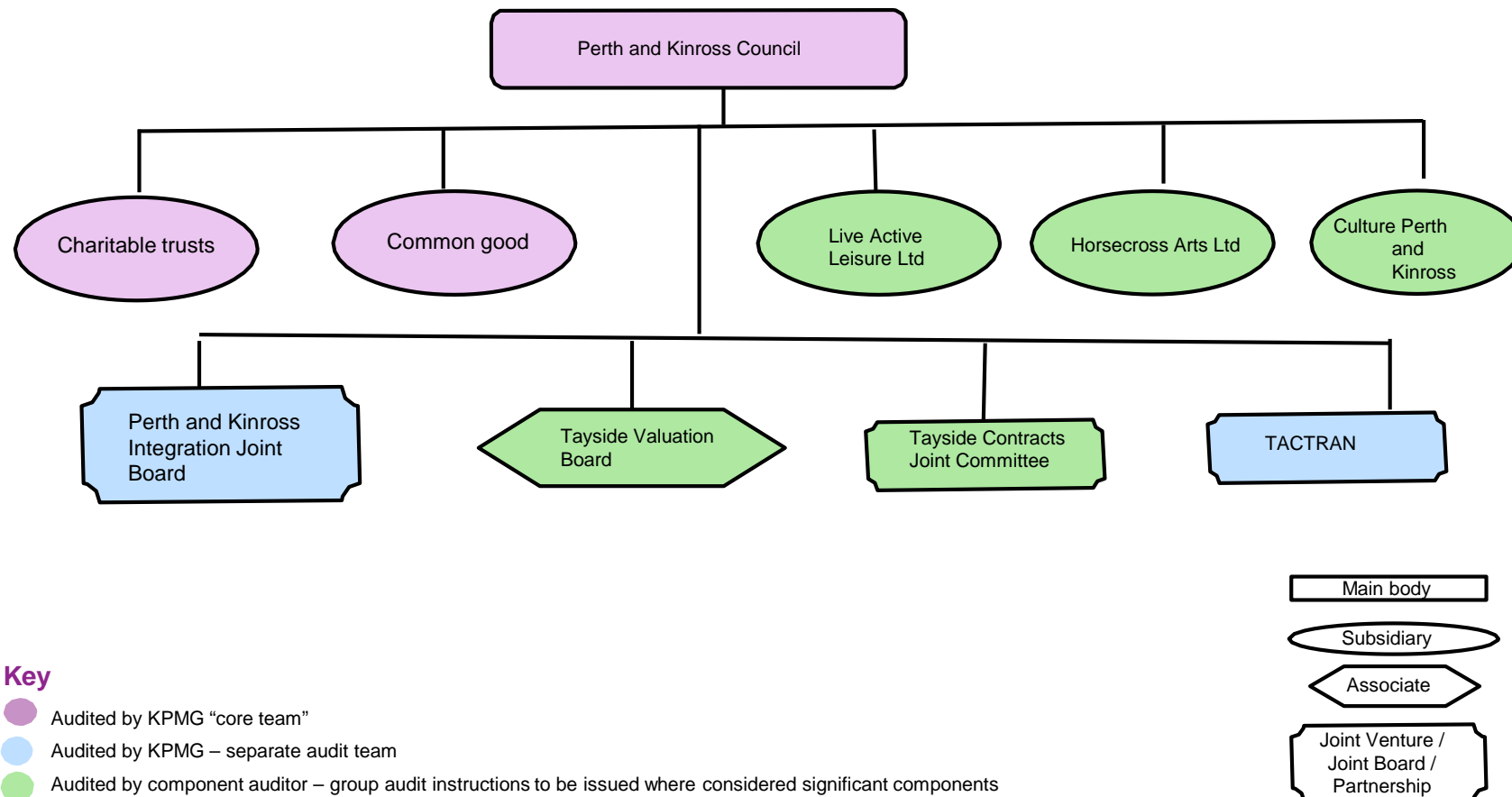
**DRAFT**

| RETURN                                         | DESCRIPTION                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | CONCLUSION                                                                                             |
|------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------|
| <b>Criminal Justice Authority ("CJA")</b>      | <p>The delivery of social work services in the criminal justice system is the responsibility of the eight community justice authorities (CJAs) established under the Management of Offenders etc (Scotland) Act 2005). Dundee City Council is the administering authority for the Tayside CJA.</p> <p>Funding is provided by Scottish Ministers and allocated to constituent authorities by CJAs. Constituent authorities are required to submit a financial return to their CJA detailing eligible expenditure incurred in the financial year to enable the CJA to produce a composite return to the Scottish Government.</p>                                         | We did not identify any exceptions in our testing and issued an unqualified opinion on the CJA return. |
| <b>Education Maintenance Allowance ("EMA")</b> | <p>EMA is a means tested weekly allowance payable to young people from low income families to encourage them to remain in education beyond the compulsory school leaving age. Local authorities manage the delivery of the EMA programme in respect of schools, home education, and all other learning other than college provision.</p> <p>EMA payments comprise a weekly allowance of £30 and are made by local authorities to eligible young people. The Scottish Government reimburses the costs incurred by authorities through monthly payments of grant. An allowance for the costs of administering the programme is also paid by the Scottish Government.</p> | We did not identify any exceptions in our testing and issued an unqualified opinion on the EMA return. |

# Group financial statements

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



# Group financial statements (continued)

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| ENTITY                   | WORK PERFORMED                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | AUDIT CONCLUSION                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
|--------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Charitable Trusts</b> | <p>The Council administers a number of charitable funds of varying sizes. As at 31 March 2016 there were 21 such charities, one of which is an umbrella charity (SC025085) formed by the amalgamation of 42 public trusts. The Council is in the process of reducing the number of charitable trusts by amalgamating those which share common charitable objectives with the Welfare Trust or Culture Perth and Kinross, or by divesting the trusts to other external charitable bodies, such as Tayside Mountain Rescue or the SSPCA. Since 31 March 2016 five charitable trusts have been amalgamated into the Perth and Kinross Welfare Trust, 17 have been transferred externally, and a further three are awaiting OSCR approval.</p> <p>As the trustees of the charities are appointed by the Council and they are registered with the Office of the Scottish Charity Regulator, an audit is required in line with the <i>Local Government (Scotland) Act 1973</i> (section 106 charities).</p> <p>We performed testing over investments held by the Charitable Trusts: agreeing amounts stated in the accounts to original third party documentation from the investment fund.</p> | <p>There were no audit adjustments required to the draft accounts which impacted on the net assets and income and expenditure for the year. We have considered and confirmed our independence as auditors and our quality procedures, together with the objectivity of the Director and audit staff. We assessed materiality based on our knowledge and understanding of the charities' risk profiles and annual accounts balances. Materiality was determined at 10% of net assets.</p> <p>We expect to issue an unqualified opinion on the truth and fairness of the state of the Perth and Kinross Council Charitable Funds' affairs as at 31 March 2017.</p> |
| <b>Group</b>             | <p>The group structure is shown on the previous page. We have completed the following procedures over the group financial statements;</p> <ul style="list-style-type: none"> <li>— review of the assessment of newly formed Culture Perth and Kinross and IJB to verify this is in line with the Code.</li> <li>— audit of consolidation adjustments;</li> <li>— disclosure checklist to verify disclosures are in line with the Code;</li> <li>— discussion of the treatment of pensions; and</li> <li>— agreeing inputs to consolidation back to component financial statements.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | <p>We did not identify any audit adjustments in the group financial statements. Minor presentational changes were suggested which have been accepted by management.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |

# Data Analytics

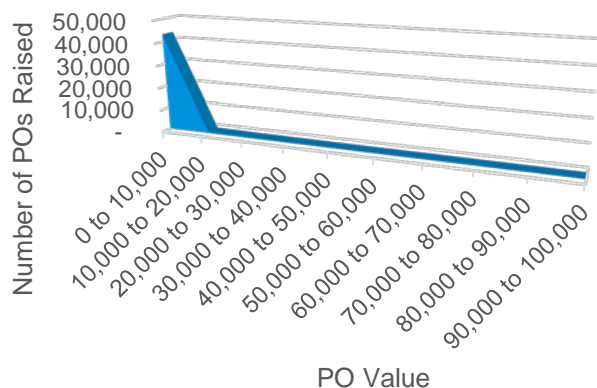
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This page summarises the work we have performed using data analytics over the accounts payable data as described on page 35.

## Accounts payable data analytics – key findings

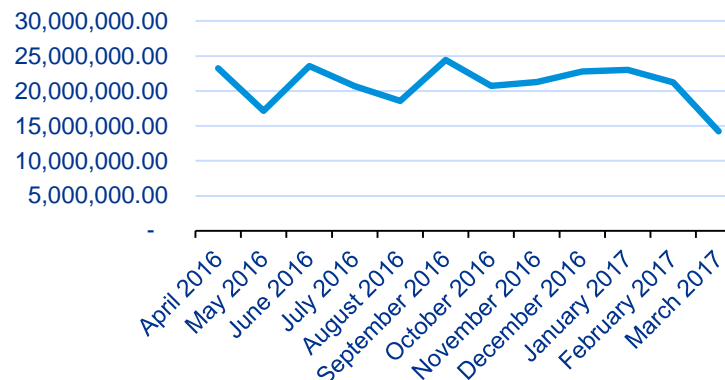
- There were 13,976 suppliers listed in the data, with a total of 103,735 invoices received in 2016-17. The largest value of invoices were received from Tayside Contracts totalling £24.1 million. This is consistent with our understanding of the Council's relationship with Tayside Contracts who provide a range of services to the Council.
- We stratified purchase order values between "£0-£100k", at 10 equal intervals of £10k. Education and children's services raised the highest number of POs, 45.9% of the total.
- Of the 45,872 POs included in the stratification, the largest volume of PO falls in the £0-10k band, with count 43,251 (94%) and a total value £18m (23%). This is in line with our expectations as we would not expect a large amount of high value POs to be raised.

### Stratification of Purchase Orders



- The average number of days taken to pay an invoice was 27 days, which is within the standard 30 day terms for most suppliers.
- Invoice data was profiled by month, showing the value and volume of invoices during the period. The total invoices payable for the year ending March 2017 was 103,735 totalling £250 million. The highest number of invoices payable were in November 2016 (10,300 - 9.9% invoices totalling £20.9 million – 8.36%). The highest value of invoices payable was in September 2016 (£24.38 million – 9.75%). The pattern of invoices is relatively consistent across the year. There is no seasonality to take into account therefore we would expect invoices raised each month to be broadly consistent.

### Invoice Value per Month



Overall we found the data within the accounts payable system to be of a good standard, with some anomalies which can be expected in any large data set. Our testing produced results we consider typical to a local authority.

# Defined benefit obligations

In respect of employee benefits, each of the assumptions used to value the Council's net pension deficit are within an acceptable range of KPMG's expectations. **DRAFT**

We are of the view that this therefore represents a reasonable and balanced approach, in accordance with the requirements of IAS 19. We set out below the assumptions in respect of defined benefit obligations.

| Defined benefit pension liability                                                                                                                                                                                                     |                         |                                                                                                                                                                                                                                                                                                                  |                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 2017<br>£'000                                                                                                                                                                                                                         | 2016<br>£'000           | KPMG comment                                                                                                                                                                                                                                                                                                     |                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| 249,939                                                                                                                                                                                                                               | 161,821                 | In line with our established practice and in advance of the audit fieldwork, our actuarial specialists reviewed the approach and methodology of the actuarial assumptions used in the IAS19 pension scheme valuation. Details of key actuarial assumptions are included in the table, along with our commentary. |                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
|                                                                                                                                                                                                                                       |                         | Perth and Kinross Council                                                                                                                                                                                                                                                                                        |                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| Assumption                                                                                                                                                                                                                            |                         | KPMG Central                                                                                                                                                                                                                                                                                                     | Comment                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| Discount rate (duration dependent)                                                                                                                                                                                                    | 2.70%                   | 2.49%                                                                                                                                                                                                                                                                                                            | The proposed discount rate is higher (lower liabilities) than KPMG's central rate as at 31 March 2017 but lies within a range we would normally consider to be acceptable for IAS19 purposes, albeit at the least prudent end of that range.                                                                                                                                                                                                                     |
| CPI Inflation                                                                                                                                                                                                                         | 2.70%<br>RPI less 0.90% | 2.40%<br>RPI less 1.00%                                                                                                                                                                                                                                                                                          | KPMG's best estimate view is that the differential between RPI and CPI is 1% and we are seeing most companies adopt an assumption of around 1% for this differential. The proposed assumption could therefore be considered overly prudent (higher liability). However, the assumption should not be considered in isolation.                                                                                                                                    |
| Salary growth                                                                                                                                                                                                                         | 3.70%                   | Typically 0%-<br>1.5% above RPI<br>inflation                                                                                                                                                                                                                                                                     | Assumed salary growth is set equal to CPI+1.0%, in line with the anticipated assumption for the 31 March 2017 valuation of the Fund. This assumption is lower than the previous year (RPI+0.9%) and is lower than what we generally see for participants in a number of other LGPS funds (typically around RPI+1%). However, this can be considered reasonable provided the assumption is in line with the Directors' best estimate view on future remuneration. |
| The overall assumptions applied by management are considered to be reasonably balanced. The closing deficit increased by £88.1 million compared to 2015-16, primarily due to the decrease in the discount rate used (3.7% % to 2.7%.) |                         |                                                                                                                                                                                                                                                                                                                  |                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |



This is the current year action plan based on the findings from our substantive testing. We set out the finding, risk and recommendation. We provide a priority grading for recommendations which is set out below;

### Priority rating for recommendations

**Grade one** (significant) observations are those relating to business issues, high level or other important internal controls. These are significant matters relating to factors critical to the success of the Council or systems under consideration. The weaknesses may therefore give rise to loss or error.

**Grade two** (material) observations are those on less important control systems, one-off items subsequently corrected, improvements to the efficiency and effectiveness of controls and items which may be significant in the future. The weakness is not necessarily great, but the risk of error would be significantly reduced if it were rectified.

**Grade three** (minor) observations are those recommendations to improve the efficiency and effectiveness of controls and recommendations which would assist us as auditors. The weakness does not appear to affect the availability of the control to meet their objectives in any significant way. These are less significant observations than grades one or two, but we still consider they merit attention.

| Finding and risk                                                                                                                                                                                                                                          | Recommendation                                                                                                               | Agreed management actions                                                                                                                                                                                                                                                                                                                                                                                                        |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>1. Journals back up</b>                                                                                                                                                                                                                                |                                                                                                                              | <b>Grade three</b>                                                                                                                                                                                                                                                                                                                                                                                                               |
| <p>Two journals from our sample of 30 could not be agreed to back up as an audit trail had not been kept to agree the figures.</p> <p>There is a risk journals are posted with no clear audit trail kept to allow subsequent checking of the journal.</p> | <p>All officers should be reminded of the importance of maintaining back up for journals and keeping appropriate records</p> | <p><b>Management response</b></p> <p>Services will be reminded of the need to keep back up for journals by updating the guidance on inputting journals available on the Integra Information Zone. The issue will also be raised with Financial Controllers at their next meeting for cascade to their teams</p> <p><b>Implementation date</b> 31 October 2017</p> <p><b>Responsible officer</b> Corporate Accounting Manager</p> |

## Appendix eight

# Action plan

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| Finding and risk                                                                                                                                                                                                                                                                                                                                                           | Recommendation                                                                                                                                                                                                                                                                                                                                              | Agreed management actions                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>2. Related parties</b>                                                                                                                                                                                                                                                                                                                                                  |                                                                                                                                                                                                                                                                                                                                                             | <b>Grade three</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| <p>Local authorities shall identify all related party relationships and transactions, including those relationships of close family members.</p> <p>Register of interests have an area for declaring non- financial interest. Currently the Council does not review this section for audit purposes</p> <p>There is a risk related party disclosures are not complete.</p> | <p>A log of members non financial interests should be kept and narrative added to the financial statements to explain that these types of relationship exist.</p>                                                                                                                                                                                           | <p><b>Management response</b></p> <p>Non-financial interests will be reviewed and collated as part of the Related Parties process within the Annual Accounts. The 2016/17 Financial Statements were updated to disclose that these relationships exist.</p> <p><b>Implementation date</b> 30 June 2018</p> <p><b>Responsible officer</b> Corporate Accounting Manager</p>                                                                                                                                                                                                                                                                                           |
| <b>3. Project review</b>                                                                                                                                                                                                                                                                                                                                                   |                                                                                                                                                                                                                                                                                                                                                             | <b>Grade three</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| <p>Historically the Council has not conducted Gateway reviews at key milestones in a project, nor carried out post implementation reviews to learn from and improve on previous projects.</p> <p>There is a risk issues with previous projects are encountered again and review does not take place at key points in a project.</p>                                        | <p>For long term capital projects it is recommended Gateway reviews are undertaken at each key milestone to identify any overruns and allow decisions to be made on the best route forward based on up to date facts.</p> <p>After a project has been completed a post implementation review should be carried out and lessons learned carried forward.</p> | <p><b>Management response</b></p> <p>The Capital Programme office will continue to consult with senior management to develop an appropriate Gateway Review process. Once formally agreed, this will be incorporated into the Capital Programme Governance framework and relevant training will be provide for all stakeholders.</p> <p>The Capital Programme Office will continue to develop a template benefits realisation report and agree the process and format for reporting which will be linked to the initial stages of future programmes.</p> <p><b>Implementation date</b> 31 March 2018</p> <p><b>Responsible officer</b> Capital Programme Manager</p> |

# Prior year recommendations

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We follow up prior-year audit recommendations to determine whether these have been addressed by management. The table below summarised the recommendations made during the 2015-16 audit and their current status.

We have provided a summary of progress against overdue actions below, and their current progress.

| Finding and risk                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | Original management actions                                                                                                                                                                                                                                                                                                                         | Status                                                                                                                                                                     |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>1. Annual Governance Statement</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |                                                                                                                                                                                                                                                                                                                                                     |                                                                                                                                                                            |
| <p>A new approach to compiling the Annual Governance Statement (AGS) was introduced for the 2015/16 financial statements. It was however difficult to evaluate how effective the new approach was as there was no audit trail to evidence the process applied.</p> <p><b>Risk</b></p> <p><i>The AGS does not accurately reflect the governance arrangements within the council's group.</i></p> <p><b>Recommendation</b></p> <p>Prior to members' consideration of the AGS all appropriate assurances should be received and considered.</p> | <p>Whilst verbal assurances had been received prior to consideration of the draft Governance Statement, written Certificates of each Service's assurance were available prior to submission of the Final Accounts.</p> <p>For the AGS 2016/17 we will ensure that written certificates are available prior to submission of the draft statement</p> | <p><b>Implemented</b></p> <p>We have received all signed assurance statements from officers.</p> <p>These were made available before members consideration of the AGS.</p> |

# Prior year recommendations

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| Finding and risk                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | Original management actions                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | Status                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>2. Budget setting process</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| <p>The council continues to underspend against budget (both revenue and capital). There is scope to better align budgets with services' actual spend. In addition, the monitoring reports presented to committee do not include information on service performance so members are unable to evaluate whether the underspends are having a detrimental impact on service delivery.</p> <p><b>Risk</b></p> <p><i>There is an adverse impact on service delivery.</i></p> <p><b>Recommendation</b></p> <p>The council should review its budget setting and monitoring procedures to ensure they remains fit for purpose. This review should consider the inclusion of performance information to provide a clearer basis for decision making.</p> | <p>The Council is aware of this position and has managed under spends and additional income effectively over the medium term. Significant sums were removed from the 2016/17 revenue budget when the final revenue budget was set in February 2016 to reflect historical spend. In addition the executive officer team has already met (06/09/16) to discuss the 2015/16 final outturns with a view to removing any recurring underspends from Service base budgets prior to setting the 2017/18 final revenue budget in February 2017.</p> <p>The revenue monitoring report has also been amended to remind members that reported underspends may be considered for use during the current financial year or as part of the revenue budget strategy for future years.</p> | <p><b>Ongoing</b></p> <p>We considered the revenue monitoring reports and note the inclusion of a statement on underspends being considered for future years. We note underspends may be partly achieved through the budget flexibility programme and additional income.</p> <p>We reviewed the Council's budget setting process and conclude it to be satisfactory. There is appropriate consultation with services and underspends are managed through budget flexibility and medium term financial planning. There is an ongoing process within the Council to review budget setting process.</p> <p>Performance information is reported through BMIPs which are at service level and reported to committee twice yearly.</p> |



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# **PERTH & KINROSS COUNCIL**

## **ANNUAL ACCOUNTS**

**2016/17**

**AUDITED**

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## MANAGEMENT COMMENTARY

### 1. Introduction

This publication contains the financial statements of Perth and Kinross Council and its group for the year ended 31 March 2017.

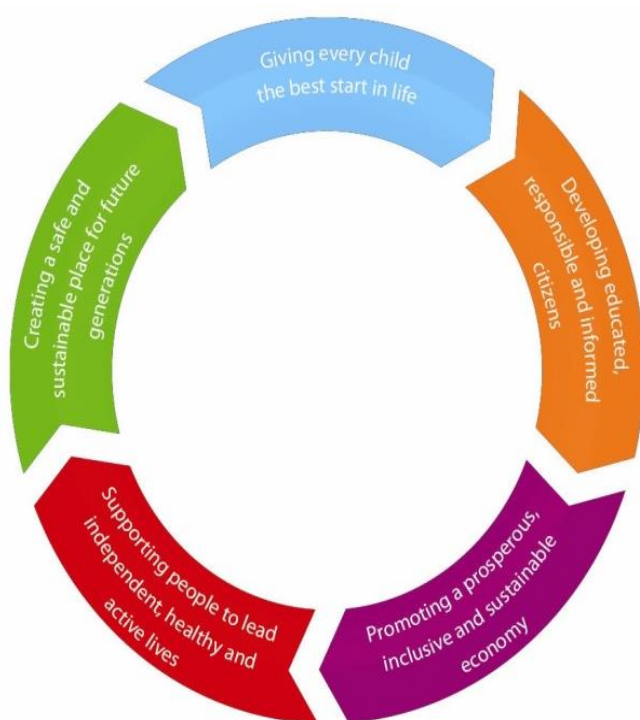
This management commentary outlines the key messages in relation to financial planning and performance for the year 2016/17 and how this has supported delivery of the Council's strategic objectives. This commentary also looks forward, outlining the future financial plans for the organisation and the challenges and risks which it will face as it strives to meet the needs of the people of Perth and Kinross.

A glossary of terms is set out from page 105.

### 2. Our Vision and Strategic Objectives

Perth and Kinross is situated in a central location in Scotland. It covers a geographical area of around 5,286 km<sup>2</sup>, and has an estimated population of 150,680. Over the past 10 years (2006-2016), the area has experienced an 8.1% increase in its population. During the same time period the Scottish population experienced an increase of 5.3%. The latest population projections over the next 25 years show a 12% increase compared to 7% across Scotland.

Our vision is of a confident and ambitious Perth and Kinross, to which everyone can contribute and in which all can share. Through our strategic objectives set out within the [Corporate Plan 2013-18](#) and [SOA/ Community Plan 2013-23](#) we aim to maximise the opportunities available to our citizens to achieve their potential. At the heart of our vision is a desire to see investment in early intervention and prevention focused on building success and reducing the costs of failure. The Corporate Plan 2013 – 2018 states that -



"It is during our very earliest years and even pre-birth that a large part of the pattern for our future adult life is set. Giving every child the best start in life is a key opportunity to improve their chances of enjoying a positive future, regardless of their family circumstances. At the heart of our approach is a focus on enabling all children and young people to develop the skills and attributes required to be successful, take responsibility, make effective contributions to society and demonstrate a well-placed confidence about the things they do and say.

It is unacceptable that, because of a lack of income, families can be dragged into a cycle of deprivation or that older people can be deprived of the right to live in dignity. By removing barriers to employment, encouraging investment in business, skills and infrastructure and attracting new investment and employment into the area we are determined to address the root causes of poverty once and for all.

Reducing health inequalities is vital to achieving sustainable economic growth. If Perth and Kinross is to live up to its potential in terms of economic success, healthy life expectancy must increase – particularly among those whose lives are currently cut short due to deprivation or other inequalities.

Ensuring that Perth and Kinross is a place where everyone enjoys a pleasant and safe environment is important to the health and wellbeing of all our communities. We are committed to focusing our energies on tackling the issues which may negatively impact on communities and their environment to ensure they remain safe, strong and sustainable in the future".

The Council recently endorsed the recommendations of the [Perth and Kinross Fairness Commission](#) which has produced a number of recommendations for the Community Planning Partnership that will create a specific and collective focus on tackling the causes and consequences of poverty and inequality across the area.

### 3. The Annual Accounts 2016/17

The Annual Accounts report the financial performance of the Council. Their main purpose is to demonstrate the stewardship of public funds which have been entrusted to it for the delivery of the Council's vision and strategic objectives. The requirements governing the format and content of the Councils' Annual Accounts are contained in the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (the 2016 Code). The 2016/17 Annual Accounts have been prepared in accordance with this Code.

#### 4. The Financial Plan

As part of its medium term financial planning, Perth and Kinross Council approved balanced gross revenue budgets for 2016/17 to support the delivery of our strategic objectives within the General Fund (£419.4m) on 11 February 2016 and Housing Revenue Account (HRA) (£28.4m) on 27 January 2016. More recently the Council approved the [Medium Term Financial Plan](#) in October 2016, a [2017/18 Final and 2018/19 Provisional Revenue Budget](#) in February 2017 and an [updated HRA Budget](#) in January 2017. Councils need to account for their spending and income in a way which complies with our legislative responsibilities. Most day to day spending and income is recorded within the General Fund and the costs and income in relation to the management of our housing stock are recorded within the Housing Revenue Account.

Key to the delivery of Council Services is investment in the assets which are used to deliver these services (including schools, houses and infrastructure) and the utilisation of capital funding to stimulate development and regeneration in local areas. In 2016/17 the Council budgeted for capital investment of £81.3m on General Fund activities and £18.5m in respect of the Housing Revenue Account. This expenditure is funded from prudential borrowing, government grants, external funding, capital receipts, revenue contributions and earmarked reserves. The Council has in place a composite capital programme to 2023.

#### 5. Performance Management

The Council continues to embed a performance management culture throughout the organisation. It uses a wide range of comprehensive and diverse performance information to manage performance and target service improvements for the people of Perth and Kinross. This is supported by its performance management system which effectively analyses data, tracks progress of indicators and identifies actions to provide and communicate regular and robust performance information to Elected Members and managers. Benchmarking is also used to compare our performance with other organisations to support change and improvement.

Performance is also monitored against strategic objectives on a regular basis at all levels of the Council and reported publicly via our [public performance reporting mechanisms](#). These include the Annual Public Performance Report; Service Annual and Six Month Performance Reports; online performance dashboards ('PK Performs') and the Council's evidence portal. By monitoring and reporting performance information in this way the Council is able to identify areas for improvement as well as celebrate key successes.

##### *2016/17 Performance Summary*

The Council considered individual Service Annual Performance reports on 28 June 2017 and it is anticipated that the Council's Annual Performance Report will be considered in October 2017. These reports provide comprehensive information on the Council's performance for 2016/17. The full range of performance information for 2016/17 can be accessed online at <http://www.pkc.gov.uk/pkperforms>. This includes the Council's Annual Performance Report, the online performance dashboard "PK Performs", Service level performance reports, benchmarking and links to further information. The website is updated with performance reports and data as it becomes available.

For 2016/17 the top performance outcomes are set out in the following table:

| Objective                                        | Outcome                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
|--------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Giving every child the best start in life</b> | <ul style="list-style-type: none"><li>• In 2016, 205 families enrolled in an Incredible Years Group, a group work programme which helps parents of children who are displaying challenging behaviours to manage these behaviours more proactively. A review of the longer-term impact of this programme showed that 96% of the families contacted reported still feeling the benefits of the course between 6 months to 2 years after it had finished.</li><li>• There are now 65 schools using the Bounce Back programme, aimed at promoting mental health resilience through the teaching and promotion of coping skills.</li><li>• Our commitment to corporate parenting and ensuring the best outcomes for children and young people is resulting in greater numbers of young people electing to remain in foster care and full-time education beyond the age of 16 years and strong performance in maintaining contact with young people after they leave care.</li><li>• A continued focus on early intervention and homeless prevention activity has enabled a further reduction in the number of families with children becoming homeless.</li><li>• The Home First Transformation project has reinforced our commitment to improve outcomes by supporting families facing homelessness to move directly into suitable, settled accommodation.</li><li>• We are an active partner in the prison's Children &amp; Family Strategy Group which offers advice and support to families.</li></ul> |

| Objective                                                              | Outcome                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
|------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Developing educated, responsible and informed citizens</b>          | <ul style="list-style-type: none"> <li>Measures from Insight, the national benchmarking tool for the Senior Phase (S4-S6), show improving levels of literacy and numeracy across most measures and generally steady or improving attainment across all levels of ability.</li> <li>54% of all young people who depart school without achieving a level 6 (Higher grade) award are now leaving with at least one vocational qualification, up from 47% in 2015.</li> <li>The Employment Connections Hub has supported 33 young people into employment through the Scottish Government's Employer Recruitment Incentive. The Council also created its own Recruitment Incentive which supported an additional 31 young people into employment.</li> <li>Supported tenants to develop skills and confidence to become digitally included.</li> <li>Delivered "Skills with Bills" training to support people manage their money.</li> <li>The Employment Support Team has worked with 140 service users to find and sustain employment</li> <li>Through Angel's Share a smart web based software package was introduced that helps users achieve greater independence, manage mood problems and reduce reliance on support.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| Objective                                                              | Outcome                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| <b>Promoting a prosperous, sustainable and inclusive economy</b>       | <ul style="list-style-type: none"> <li>We have been ranked highly in Scotland for council tax collection rates for the past 3 years and made further improvement during 2016/17 with a rate of 97.3%.</li> <li>The Rent 1st Campaign gives a clear message around the importance of paying rent and the range of support which can be provided in localities as well as promotion of budget accounts through the Credit Union and support from Welfare Rights.</li> <li>Approval was given by Council on 22 June 2016 to advance <a href="#">City Deal</a> joint working arrangements with Angus, Dundee City and Fife Councils. Other public sector agencies have also expressed support for the Tay Cities proposal and have asked to be involved in the governance and management of the City Deal. The bid has been submitted to the Scottish and UK Government.</li> <li>The Council approved a range of short and longer term <a href="#">support for businesses and economic activity in Perth City</a>.</li> <li>This year saw a major step forward in the delivery of Perth's '<a href="#">Cultural Quarter</a>' with the improvements to Mill Street, Perth which will complement the re-development and expansion of Perth Theatre.</li> <li>Events held in <a href="#">Perth City Centre</a> in November and December 2016 generated a total net economic benefit of more than £1.62m alone according to an external evaluation of the success of Perth Winter Festival.</li> <li>Five social media channels are currently used to promote <a href="#">Perth city</a> and the surrounding area.</li> <li>Overall participation levels in sport and culture remain high, with growth being seen in the use of Community Sports Hubs and Active Schools, and visitor numbers to museums increasing as a result of improvements to public programming policy.</li> <li>The implementation of Local Community Planning Partnerships is a major transformation of local democratic processes, and will see partners working with communities and each other to deliver well-integrated services that meet local priorities and needs.</li> </ul> |
| Objective                                                              | Outcome                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| <b>Supporting people to lead independent, healthy and active lives</b> | <ul style="list-style-type: none"> <li>At the year-end 100% of clients achieved the goals set out in their Outcome Focussed Assessment</li> <li>2,399 people (over 65 years of age) within 2016/17 have received care at home – amounting to 13,439 hours on average per week.</li> <li>3,853 are in receipt of support through Technology Enabled Care</li> <li>Supported 881 people through the Reablement Service with 42% requiring no further ongoing support after the initial period of care.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |

| Objective                                                           | Outcome                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
|---------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Creating a safe and sustainable place for future generations</b> | <ul style="list-style-type: none"> <li>• Focused on increasing the supply of social housing to meet the needs of our communities and met our target of 500 new builds in the last 5 years.</li> <li>• 928 council houses received upgraded central heating systems, 769 homes were fitted with triple glazed windows and high security doors and 161 houses were fitted with supplementary “renewable” energy measures.</li> <li>• We managed 7,467 council tenancies and undertook 26,036 repairs with a 90% satisfaction rate. The average time taken to complete emergency repairs of 3.9hours.</li> <li>• 92% of Community Payback Order Unpaid Work Requirements were completed within agreed timescales.</li> <li>• 1,793 anti-social noise complaints were received in 2016/17 – a reduction of 22% over the previous year.</li> <li>• <a href="#">Community Environment Challenge funding</a> applications of £100,000 have been received from groups in Crieff, Auchterarder, Pitlochry, Kinrosswood, St Fillans and Blackford aimed at leading and delivering projects which make a significant difference to their local environment.</li> <li>• The inaugural <a href="#">Norie-Miller Light Night Walks</a> were successfully delivered with over 50,000 people visiting the free light show over 18 nights.</li> <li>• Work has commenced on one of the largest infrastructure projects in the Council's history with Phase 1 of Perth Transport Futures (A9/A85 to Bertha Park).</li> <li>• The new Bleaton Hallet Bridge was opened on 18 November 2016 and new pedestrian bridges were erected in Alyth to replace those destroyed during the extreme flooding in July 2015.</li> <li>• The 5 Local Community Action Partnerships, consisting of local elected members, community representatives and senior managers from the Community Planning Partnership, have been working to identify local inequality issues and recently distributed a total of £103,480 to 96 community groups via local Participatory Budgeting events.</li> </ul> |

## 6. Financial Performance

Financial performance is part of the performance management culture with regular reporting to the Strategic Policy and Resources Committee. This section summarises the main elements for 2016/17.

Following publication in 2015 of CIPFA's Telling the Story Review of the Presentation of Local Authority Financial Statements, the 2016 Code changed the segmental reporting arrangements for the Comprehensive Income and Expenditure Statement and introduced the Expenditure and Funding Analysis. The new Expenditure and Funding Analysis brings local authority performance reported on the basis of expenditure measured under proper accounting practices together with statutorily defined charges to the General Fund and Housing Revenue Account. Both the Comprehensive Income and Expenditure Statement and the Expenditure and Funding Analysis include a segmental analysis which requires local authorities to report performance on the basis of how they are structured and how they operate, monitor and manage financial performance. Therefore, local authorities are no longer required to report the cost of individual services in their Comprehensive Income and Expenditure Statement in accordance with the format specified in CIPFA's Service Reporting Code of Practice. The 2016 Code also introduces a new streamlined Movement in Reserves Statement.

The 2016 Code requires full retrospective restatement of prior period figures in the new reporting format for the segmental section of the Comprehensive Income and Expenditure Statement. Authorities are also required to provide a comparative year Expenditure and Funding Analysis and to restate the comparative year Movement in Reserves Statement consistent with the new streamlined presentation. There is, however, no impact on the Balance Sheet information as a result of this change in reporting and therefore a third Balance Sheet is not required.

The 2016 Code requires that Authorities present the segmental analysis on the basis of the organisational structure under which they operate. Additionally, the 2016 Code requires that if a local authority changes the presentation or classification of items in its financial statements, the authority shall reclassify comparative amounts unless reclassification is impracticable. The Council has implemented the new reporting structure in the Comprehensive Income and Expenditure Account, the Group Income and Expenditure Account and the revised Movement in Reserves Statement with the prior year being restated to bring it into line with the financial reporting arrangements of the Council.

Although the Expenditure and Funding Analysis reflects the main variances for operational reporting the Council's Comprehensive Income and Expenditure reflects proper accounting practice. As a result there are some major variances between years for individual Services in the Comprehensive Income and Expenditure Statement. For example there is a reduction in Education and Children's Service Expenditure of £16.7million between 2015/16 and 2016/17. The majority of this relates to a revaluation of the school estate of £19.4m. The Council's taxation and non-specific grant income has also reduced by £23 million. This reflects a reduction in the Council's government funding of £7.1 million due to reduced funding from the Scottish Government and capital grants and contributions of £13.9 million due to the Council receiving significant capital grant funding in 2015/16 in respect of flooding works. The Comprehensive Income and Expenditure Statement movements are not directly comparable with the movements in the Expenditure and Funding analysis.

#### a) General Fund Revenue Expenditure for 2016/17

In 2016/17 the Council incurred actual net expenditure on Services of £303.237m (which is the Cost of Services disclosed in the Comprehensive Income and Expenditure Statement on page 26). When Taxation and Non-Specific Grant Income, Financing and Investment Income and Expenditure and Other Operating Income and Expenditure are included there was a net Surplus on the Provision of Services of £9.032m.

The Expenditure and Funding Analysis information on page 41 and 42 sets out adjustments between the net Surplus on the Provision of Services of £9.032m included in the Comprehensive Income and Expenditure Statement and the net expenditure charged to the General Fund & HRA below of £5.016m. The adjustments of £14.048m represent the difference between the net expenditure of the Council that is chargeable to taxation and rents and the figures reported in the Comprehensive Income and Expenditure Account. The surplus in the Expenditure and Funding Analysis is set out in the way in which the Council organises itself and manages financial performance.

The following table sets out adjustments to the most recently approved Revenue Budget (19 April 2017) to ensure that budget and actual figures are comparable. These include property recharges (utilities and maintenance), service strategy and regulation, external income and capital accounting adjustments. On a comparable basis the table shows a net under spend of £7.361m which is explained in further detail below.

|                                                                                         | Updated<br>Budget Per<br>Revenue<br>Monitoring<br>Report No.4<br>£ '000 | Virements<br>£ '000 | Capital<br>Accounting<br>Adjustments<br>£ '000 | Revised<br>Budget<br>£ '000 | Net<br>Expend.<br>Charged to<br>the General<br>Fund & HRA<br>Balances per<br>Expend. &<br>Funding<br>Analysis<br>£ '000 | Variance<br>£ '000 |
|-----------------------------------------------------------------------------------------|-------------------------------------------------------------------------|---------------------|------------------------------------------------|-----------------------------|-------------------------------------------------------------------------------------------------------------------------|--------------------|
| <b>COUNCIL SERVICES</b>                                                                 |                                                                         |                     |                                                |                             |                                                                                                                         |                    |
| Education & Children's Services                                                         | 158,763                                                                 | 7,740               | (9,861)                                        | 156,642                     | 153,750                                                                                                                 | (2,892)            |
| Health & Social Care                                                                    | 49,501                                                                  | 572                 | 0                                              | 50,073                      | 49,226                                                                                                                  | (847)              |
| Housing & Community Safety                                                              | 15,817                                                                  | (1,795)             | 560                                            | 14,582                      | 14,323                                                                                                                  | (259)              |
| The Environment Service                                                                 | 62,779                                                                  | (7,759)             | (5,811)                                        | 49,209                      | 47,526                                                                                                                  | (1,683)            |
| Corporate & Democratic Services                                                         | 14,468                                                                  | (1,466)             | 0                                              | 13,002                      | 12,652                                                                                                                  | (350)              |
| Culture Services                                                                        | 10,489                                                                  | 264                 | 0                                              | 10,753                      | 9,908                                                                                                                   | (845)              |
| Housing Revenue Account                                                                 | 0                                                                       | (336)               | (5,923)                                        | (6,259)                     | (6,277)                                                                                                                 | (18)               |
| Valuation Joint Board                                                                   | 1,166                                                                   | 0                   | 0                                              | 1,166                       | 1,161                                                                                                                   | (5)                |
| Non Distributed Costs                                                                   | 1,551                                                                   | 0                   | 0                                              | 1,551                       | 1,441                                                                                                                   | (110)              |
| <b>NET COST OF SERVICES</b>                                                             | 314,534                                                                 | (2,780)             | (21,035)                                       | 290,719                     | 283,710                                                                                                                 | (7,009)            |
| Taxation & Non-Specific Grant                                                           | (315,385)                                                               | 2,216               | 0                                              | (313,169)                   | (313,748)                                                                                                               | (579)              |
| Finance / Investment / Other                                                            | 12,627                                                                  | 564                 | 21,035                                         | 34,226                      | 35,054                                                                                                                  | 828                |
| <b>Use of General Fund per<br/>Comprehensive Income &amp; Expenditure<br/>Statement</b> | 11,776                                                                  | 0                   | 0                                              | 11,776                      | 5,016                                                                                                                   | (6,760)            |
| Contributions from other Reserves                                                       | (927)                                                                   | 0                   | 0                                              | (927)                       | (1,528)                                                                                                                 | (601)              |
| <b>Use of General Fund Balances</b>                                                     | <b>10,849</b>                                                           | <b>0</b>            | <b>0</b>                                       | <b>10,849</b>               | <b>3,488</b>                                                                                                            | <b>(7,361)</b>     |

The under spend on the net cost of Services of £7.009m is comparable with the revenue monitoring positions that have regularly been presented to the Strategic Policy and Resources Committee throughout the financial year. The following section provides a more detailed explanation of the final year end outturns.

**Education & Children's Services** delivered an under spend of £2.9m. The main reasons for this are -

- In respect of the Devolved School Management (DSM) Scheme there was a £1.1m under spend reflecting underspends on staff costs (teachers and support staff) (£700,000) and supplies & services (educational materials) (£200,000) and additional income (secondments / contributions towards activities / grants / school meals and school lets) (£200,000). These resources will be carried forward by schools into 2017/18.
- In terms of non-DSM budgets there were further over and under spends as follows:
  - Staff under spends (£1.6m) were delivered across the whole Service.
  - Under spends on property costs due to reduced utilities recharges (£550,000) and savings on PPP unitary charges (£80,000) due to lower inflation together with other savings (£90,000) were partially offset by additional repairs and maintenance costs (£220,000).
  - Savings on supplies and services (£500,000) due in the main to the approved carry forward of Evidence to Success funding to future financial years when the expenditure will be incurred.
  - Other net under spends on pupil and staff transport and transfer payments delivered further savings (£150,000).
  - The Service also generated additional income (£500,000) from a number of sources including grant funding, school meals and external recharges.
  - An over spend on foster care (£850,000) due to high levels of demand for this care.
  - A net over spend on Additional Support Needs / Emotional & Behavioural services (£600,000) due to increased pressure to place young people outside the Council's mainstream care / educational provision.

**Health & Social Care** delivered an under spend of around £850,000. The final under spend was achieved after the Council approved the carry forward of £1.4m in the Reserves of Perth and Kinross Integration Joint Board and earmarked £598,000 in its own Reserves for future health and social care transformation. The final under spend differs from that reported to Perth and Kinross Integration Joint Board due to property maintenance costs not directly allocated to the Board. Therefore the total under spend of £2.850m on health and social care is explained in more detail below:

- In relation to Older People's Services there was an under spend of £2m as follows:
  - External residential placements (£500,000) due to the accelerated delivery of approved savings, a reduction in the number of "crisis" placements and a higher turnover of clients than originally budgeted.
  - Local Authority residential homes (£500,000) due to staff slippage in excess of budget, additional income due to the mix of clients and a property maintenance charge that was less than the allocated budget.
  - In the provision of Day Care there was an under spend (£200,000) due to additional staff slippage and the accelerated delivery of approved savings.
  - Within the Access and Locality Teams there were under spends (£250,000) on staff costs as the Service is transformed to locality team models that will more closely meet the needs of communities.
  - In Care at Home there was an under spend (£150,000) due to delays in recruitment and a shortage of external supply in the local market.
  - Across the remainder of the Service there were underspends (£400,000) including the accelerated delivery of approved savings and under spends on occupational therapy services and direct payments.
- In Learning Disabilities the under spend of £600,000 is derived from -
  - Direct Payments (£150,000) due to lower than anticipated levels of uptake for this service.
  - Day Opportunities (£250,000) due to additional staff slippage and a reduced property maintenance recharge.
  - The accelerated delivery of approved savings contributed further to the balance of the under spend in Learning Disabilities (£200,000).
- The other functions within Health and Social Care including Mental Health, Community Care Management and Other Community Care Services contributed to the remaining under spend (£250,000).

**Housing & Community Safety** delivered an under spend of approximately £260,000 which is made up of over and under spends as follows -

- Finance and Support Services underspend (£690,000) was derived from staff slippage in excess of budgeted levels; additional income including statutory additions and the accelerated delivery of approved savings.



- In Housing there was an over spend (£300,000) on temporary accommodation as the new Homefirst service delivery model was rolled out on a phased basis.
- Other over spends (£130,000) within Community Safety and Strategic Support contributed to the final position.

**The Environment Service** under spent by £1.7m. There were over and under spends in the following functions -

- In Operations the under spend (£300,000) was delivered from savings on fuel costs (both price and consumption) and staff slippage in excess of budget.
- The Property Division delivered a net under spend (£200,000) due to savings on energy costs as a result of lower prices partially offset by the non-achievement of professional fee income targets.
- Fleet Management under spent (£225,000), primarily, due to reduced borrowing costs on the vehicle replacement programme.
- Within the Roads Division the net under spend (£410,000) was derived from staff slippage in excess of budgeted levels, additional income from statutory site notices, savings on street lighting energy costs and a further under spend on winter maintenance (in excess of the amount of £450,000 reported to Committee in April 2017). The total under spend on winter maintenance was £540,000 due to a milder than average winter.
- Planning and Development's under spend (£260,000) was primarily the result of additional staff slippage and a rephasing of expenditure on a number of projects partially offset by the non-achievement of planning and building warrant income targets.
- In Regulation the under spend (£155,000) was in relation to additional staff slippage.
- The remaining functions across the Service (Community Greenspace, Bereavement Services, Waste Strategy and other corporate budgets) delivered further net under spends (£150,000).

In **Culture Services** there was an under spend of £800,000 as follows –

- The primary reason for this under spend was a rephasing of the budgeted contribution of £609,000 from the 2016/17 Revenue Budget for the redevelopment of Perth Theatre. This funding will now not be required until 2017/18 and it is anticipated that this amount will be earmarked for the redevelopment of the theatre by the Strategic Policy and Resources Committee in September 2017.

In addition, included under **Taxation and Non-Specific Grant, Finance Investment & Other** and **Contributions from Other Reserves** there is a further net under spend of £352,000 of which the majority is generated from additional Council Tax receipts in 2016/17, primarily, due to an increase in the number of Band D equivalent chargeable properties.

General Fund and Housing Revenue Balances reduced by £3.488m to £52.202m. When the Housing Revenue Account Balance of £800,000 and the earmarked Reserves of £35.859m that are set out on page 44 are excluded this leaves an uncommitted General Fund Balance of £15.543m or 4.6% of the net updated 2017/18 Revenue Budget.

#### **b) Composite Capital Budget and Housing Revenue Account 2016/17**

A summary of the Council's capital expenditure is reflected within Note 35 to the Core Financial Statements on page 68. Total gross capital expenditure in 2016/17 was £94,199,000, comprising £25,234,000 on the Council's Housing Revenue Account (HRA) and £68,965,000 on the Council's Composite (General Fund) Programme. The gross expenditure includes:

- £15,313,000 on School Upgrades, including new primary schools in Alyth, Kinross and Tulloch.
- £24,618,000 on Roads & Transport projects, including Structural Maintenance, Bridge Refurbishments, Road Junction/Access Improvements and Road Safety measures.
- £29,034,000 on various environmental improvements (£2,558,000); Flood Prevention measures (£5,092,000); Perth Theatre Upgrade (£7,432,000); Community Care projects (£966,000) and property upgrades & energy efficiency schemes (£7,814,000). The balance of £5,172,000 relates to expenditure on other property, equipment and IT-related works.
- £25,234,000 on the HRA including expenditure on affordable housing (£7,608,000), Central Heating, Rewiring, Double Glazing and Energy Efficiency Schemes (£8,268,000), and External Works (£5,360,000).

Capital expenditure is funded by borrowing, asset sales, grants, other capital receipts, and Revenue Budget contributions. The Capital Financing Requirement (CFR, i.e. the underlying requirement to borrow for capital purposes) as at 31 March 2017 was £455,232,000. Actual debt was £404,833,000, comprising long-term borrowing (£286,958,000) and a PPP liability (£117,875,000). The ratio of borrowing to the CFR for 2016/17 was therefore unchanged at 88.9% (2015/16 88.9%). During the year the CFR increased by £44,141,000, reflecting the capital expenditure above, less capital receipts, grants and contributions and principal loan repayments.



### c) General Fund Reserves

As at 31 March 2017 the Council had uncommitted General Fund balances of £15.543m which represented 4.6% of the Council's updated 2017/18 Revenue Budget. Council policy as set out in the Reserves Strategy approved by Council on 22 February 2017 is to retain uncommitted reserves of between 2% and 4% of net revenue expenditure over the medium term and it is not currently considered imprudent to maintain uncommitted Reserves above 4%. The Council's Reserves Strategy will continue to be reviewed, particularly as the level of total Reserves is expected to reduce due to the delivery of commitments over the next few years. Full details of the Council's General Fund Reserves are shown on page 25 and pages 64 to 67 of the Financial Statements, along with information on future commitments.

The Reserves position is summarised as follows:

|                              | £'000           |                                          | £'000            |
|------------------------------|-----------------|------------------------------------------|------------------|
| General Fund                 | (51,402)        | Revaluation Reserve                      | (278,190)        |
| Housing Revenue Account      | (800)           | Capital Adjustments Account              | (308,251)        |
| Capital Fund                 | (23,615)        | Financial Instruments Adjustment Account | 11,124           |
| Renewal and Repair Fund      | (283)           | Pensions Reserve                         | 249,939          |
| Insurance Fund               | (2,844)         | Employee Statutory Adjustment Account    | 5,482            |
| Capital Receipts Reserve     | (1,326)         | <b>TOTAL UNUSABLE RESERVES</b>           | <b>(319,896)</b> |
| Capital Grants Unapplied     | (87)            |                                          |                  |
| <b>TOTAL USABLE RESERVES</b> | <b>(80,357)</b> | <b>TOTAL RESERVES</b>                    | <b>(400,253)</b> |

### The Balance Sheet

The Balance Sheet on page 27 summarises the Council's assets and liabilities as at 31 March 2017 and explanatory notes are provided from page 30. Total net assets have decreased by £37.934m to £400.253m. Long Term Assets increased by £98.439m, current assets reduced by £5.975m, current liabilities increased by £4.483m and long term liabilities increased by £125.915m. The major changes in the Council's Balance Sheet between 31 March 2016 and 31 March 2017 are explained in more detail in the following paragraphs.

#### Long Term Assets

The value of Property, Plant and Equipment increased by £100.601m primarily due to the continuation of the major capital investment being undertaken by the Council described above.

#### Current Assets

Short Term Debtors reduced by £2.123m mainly due to a decrease in trade receivables being slightly offset by increases in grants and recharges in relation to Other Entities including NHS Bodies and Central Government and the increase in the provision for Council Tax bad debts. The level of Short Term Investments decreased by £20.072m whilst the level of Cash or Cash Equivalents, increased by £16.121m mainly due to an increase in the Authority's Short Term Deposits (£16.696m). This is as a result of placing a larger proportion of short term cash flow surpluses in instant access or short term deposit facilities, due to low interest rates and liquidity requirements.

#### Current Liabilities

Short Term Borrowing increased £0.703m reflecting the short term element of the debt maturity profile. Short Term Creditors increased £2.669m primarily due to amounts payable to NHS bodies, Central Government Grant and various movements in Trade Creditors. Current provisions have also increased £1.111m, further details are provided at Note 29.

#### Long Term Liabilities

Other Long Term Liabilities increased by £125.915m primarily due to movements in the net pension liability (£88.118m) and the increase in Long Term Borrowing of £37.797m reflecting the maturity profile of existing debt and the new borrowing undertaken to fund Capital expenditure in 2016/17. The net pension liability increased primarily due to changes in assumptions in relation to discount rates (increase in liabilities of £156.5m), levels of inflation (increase in liabilities of £53.8m) and future pay awards (reduction in liabilities of £22.1m) and a return on assets less interest of £112.019m.

The Council's annual Treasury Management Strategy outlines the Council's policy in relation to borrowing and investment. This is prepared in accordance with the Code of Practice on Treasury Management in Local Authorities. The majority of the Council's borrowing comes from market loans and from borrowing from the Public Works Loan Board. Further details are provided at Note 39.

#### Pensions Reserve

International Accounting Standard 19 Revised (IAS19R) requires the disclosure of the Council's share of Tayside Pension Fund's assets and liabilities, both current and future. The information disclosed in the accounts is provided to the Council by the Pension Fund's actuaries following the annual valuation of the Fund. The position at 31 March 2017 indicates a net liability of £249.939m compared to a net pension liability of £161.821m on 31 March 2016 due to changes in the assumptions listed above. This liability is based on a snapshot valuation at 31 March 2017 and is a result of prevailing market conditions at that date. Triennial valuations of the Fund are carried out with the last valuation having taken place at 31 March 2017. Employer's contributions are currently 17% of pensionable pay. For more information see Note 18.

## Provisions, Contingencies and Write Offs

The Council made provision for a number of eventualities which may have a material effect on the financial position of the Council. The reasons for the provisions are outlined in Note 30 on page 64.

There were a number of write-offs of debt and stock during the year which were approved by the Strategic Policy and Resources Committee on 21 June 2017 - [Authority to Write Off Debts and Obsolete Stock - June 2017](#).

No significant events occurred between the Balance Sheet date and the date the Head of Finance signed the accounts which would have a material impact on the 2016/17 Unaudited Annual Accounts.

### d) Accounting Ratios

The following financial indicators have been developed to provide an indication of the sustainability and affordability of the Council's financial plans.

| FINANCIAL INDICATOR                                                                 | 2016/17   | 2015/16   | PURPOSE                                                                                                    |
|-------------------------------------------------------------------------------------|-----------|-----------|------------------------------------------------------------------------------------------------------------|
| Uncommitted General Fund Reserve as a proportion of Annual Budgeted Net Expenditure | 4.6%      | 4.0%      | Reflects the level of funding available to manage financial risk / unplanned expenditure.                  |
| Movement in the Uncommitted General Fund Balance                                    | £2.082m   | £0.151m   | Reflects the extent to which the Council has increased / (decreased) its Uncommitted General Fund Reserve. |
| Council Tax – In Year Collection Rate                                               | 97.3%     | 97.3%     | Demonstrates the Council's effectiveness in collecting council tax debt.                                   |
| Ratio of Council Tax Income to Overall Level of Funding                             | 20.8%     | 19.5%     | This reflects the Council's capacity to vary expenditure by raising Council Tax Income.                    |
| Capital Financing Requirement                                                       | £455.232m | £411.091m | Measurement of requirement to borrow for capital purposes.                                                 |
| External Debt Levels                                                                | £404.833m | £365.368m | Actual borrowing for capital investment purposes.                                                          |
| Capital Financing Requirement Ratio                                                 | 88.9%     | 88.9%     | Measurement of prudence in relation to borrowing levels – borrowing only to invest in capital.             |
| Ratio of Financing Costs to Net Revenue Stream                                      | 6.9%      | 6.1%      | Measurement of the Council's ability to fund borrowing costs.                                              |

### e) Financial Statements

The primary financial statements presented within the Annual Accounts are as follows:

- The **Expenditure and Funding Analysis** compares the net expenditure that is chargeable to taxation and rents and reconciles it to the Comprehensive Income and Expenditure Account. The service analysis for both the Expenditure and Funding Analysis and the Comprehensive Income and Expenditure Statement are now both provided in the way in which the Council organises itself and manages financial performance.
- The **Movement in Reserves Statement** reports movements on the different reserves held by the Council analysed into Usable Reserves (i.e. those that can be applied to fund expenditure or reduce local taxation) and Unusable Reserves.
- The **Comprehensive Income and Expenditure Statement** reports the accounting cost of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Councils raise taxation to cover expenditure in accordance with regulations which may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.
- The **Balance Sheet** brings together all the assets and liabilities of the Council. It is a statement of the resources of the Council and the means by which they have been financed. It is also a report on the Council's financial position at a particular point in time and represents a snapshot of its financial affairs at the close of the year expressed in accounting terms.
- The **Cash Flow Statement** summarises the inflows and outflows of cash and cash equivalents arising from transactions with third parties on both day to day revenue transactions and capital activities. Cash is defined for the purpose of this statement as cash in hand and deposits repayable on demand less overdrafts repayable on demand. Cash equivalents are investments that mature in three months or less from the date of acquisition and that are readily convertible to known amounts of cash with an insignificant risk of change in value.

The Code also requires the following to be included within the Annual Accounts:

- The **Statement of Responsibilities for the Annual Accounts** explains the responsibilities of the Council and of the Head of Finance as they relate to the Annual Accounts.
- The **Notes to the Financial Statements** provide further information on the above financial statements.
- The **Annual Governance Statement** explains how the Council has complied with the Chartered Institute of Public Finance and Accountancy (CIPFA) / Society of Local Authority Chief Executives (SOLACE) standard for good corporate governance and meets the requirements of relevant legislation and current good practice.
- The **Remuneration Report** provides details of the Council's remuneration of its senior councillors and senior officers with regard to salary, taxable expenses and pension benefits and states how remuneration arrangements are managed. The report also provides information on exit packages agreed by the Council during the financial year.

#### Supplementary Financial Statements

The supplementary financial statements are as follows:

- The **Housing Revenue Account** shows the major elements of housing revenue account expenditure and how these are funded by rents and other income.
- The **Council Tax Income Account** reports the gross and net income from Council Tax, together with details of the number of properties on which Council Tax is levied, and the charge per property.
- The **Non-Domestic Rates Income Account** shows the gross and net income from non-domestic rates and details the amount payable to the national non domestic pool, and resulting net income for the financial year to the Council that is shown in the Comprehensive Income and Expenditure Statement.
- The **Charitable Trusts** statement includes the summary Income and Expenditure Account and Balance Sheet of those Charitable Trusts and Endowments administered by the Council.
- The **Common Good** statement includes the summary Income and Expenditure Account and Balance Sheet for the Common Good Funds administered by the Council.
- The **Group Accounts** incorporate the share of the Council's Managed Funds, Subsidiaries and Associates into the Group Movement in Reserves Statement, Group Comprehensive Income and Expenditure Statement, Group Balance Sheet, Group Cash Flow Statement and include the Reconciliation of the Single Entity (Council) Surplus or Deficit for the year to the Group Surplus or Deficit.

## **7. Financial Outlook, Risks and Plans for the Future**

The UK economy is going through a period of rising inflation and lower growth, which together with the uncertainties surrounding the outcome of "Brexit" negotiations, makes it difficult to forecast the financial outlook for the public sector.

This uncertainty further exacerbates the pressures which continue to face public sector expenditure at a UK and Scottish level with further reductions in government funding predicted over the medium term. In addition the continued uncertainty around the full impact of the European Union Referendum and the recent UK General Election adds further layers of uncertainty over future levels of public sector funding. The impact of these on the Council will be considered in the updates of the Medium Term Financial Plan and Revenue & Capital Budgets and factored into future projections.

The Council approved its latest [Medium Term Financial Plan 2017-22](#) in October 2016. This Plan provided an update on the latest projections for the Council across a number of variables including reductions in funding, population growth and an increase in the number of older people with more complex care needs. In February 2017 the Scottish Government announced a one year financial settlement for local government that was more favourable than the planning assumptions used in the Medium Term Financial Plan due to the provision of extra revenue and capital funding and changes to the distribution of additional Council Tax income (from banding changes). The Medium Term Financial Plan reflects sound financial planning by the Council and is critical for the sustainability of key services and the financial stability of the Council. The Council's Reserves Strategy is another key element of its financial planning. It is anticipated that the updated Medium Term Financial Plan will be considered by the Council in October 2017.

Perth and Kinross Council continues to take appropriate action to address the challenging financial climate and the reductions in funding that we anticipate will continue over the next few years. This is underpinned by the regular updating of the Medium Term Financial Plan and by the availability of good quality financial information.

In February 2017 the Council approved a [two year Revenue Budget 2017/18 and 2018/19](#) – final for 2017/18 and provisional for 2018/19. There is still significant uncertainty around the level and conditions associated with the funding that the Council will receive beyond 2017/18 and this may have a significant impact on the final Revenue Budget that is set for 2018/19.

The Council approved the Composite Capital Budget 2016/17 - 2022/23 at its meeting on 22 June 2016. The HRA Capital Budget for 2017/18 - 2021/22 was approved by the Housing & Health Committee on 25 January 2017. Further updates and refinements to these budgets have been approved in subsequent Strategic Policy and Resources Committees. The Council's capital plans include major transport infrastructure improvements in North/West Perth, as well as provision for a new school campus. Also included are various school replacements and refurbishments to address the school estate and increasing school rolls; road network improvements; various Flood Prevention Schemes and the development of Perth City Centre cultural attractions and improvements. Other ongoing expenditure includes road safety measures, parks and public spaces improvements, waste reduction & recycling and property improvements. The HRA Investment Programme 2017/18 to 2021/22 continues to focus upon the provision of new affordable housing and the enhancement of the existing housing stock, including energy efficiency and external fabric maintenance.

The Capital Financing Requirement is estimated to peak at £715,809,000 in 2023/24 under current approved plans. The annual cost of servicing the borrowing and PPP liabilities is being managed through the Capital Fund Strategy within the Medium Term Financial Plan. This assumes an annual increase in the Loan Charges budget by £1,000,000 which will ensure the Council's plans remain affordable, prudent and sustainable.

The 2015/16 Management Commentary included reference to a proposed change in accounting policy affecting the measurement of Highways Network Assets. However the 2016 Code of Practice does not include this change and therefore Highways Network Assets will continue to be included in the financial statements on a historic cost basis only.

#### **a) Transformation**

The Council continues to experience an unprecedented period of change. This includes addressing the greatest financial challenges in a generation, preparing for substantial population increase in Perth and Kinross, managing rising demand for services and managing the most significant change in public service since the creation of the welfare state – the integration of health and social care – as part of a larger public service reform agenda. The ways we deliver services are increasingly complex and require much greater leadership and flexibility from Elected Members and staff.

Councils' revenue funding from the Scottish Government is projected to further reduce in future years and therefore the Council must continue to deliver significant changes in the way services are delivered.

The Council's Transformation Programme 2015-2020 ensures that it will continue to be prepared to overcome these challenges and to deliver vital services to those in its communities who need them most. To respond effectively to these challenges the Council will be more innovative, creative, flexible and entrepreneurial. To achieve this £8.2m of non-recurring funding has been committed to support transformation and a programme of transformation reviews is well underway.

The Council welcomes a new age of working together with our Community Planning partners, with its communities and with the business and voluntary sectors in its area. It will jointly face the challenges whilst remaining focussed on building a better place to live, work and visit, and protecting the most vulnerable in our communities.

#### **b) Risk Management**

The effective management of risk in the Council's activities is a vital part of supporting the delivery of positive outcomes for Perth and Kinross, and is a key part of the Council's strategic improvement framework.

The new [Risk Management Policy, Strategy and Framework](#) was approved by the Strategic Policy and Resources Committee on 8 February 2017 and reflects the changing circumstances facing the Council. The revised risk management framework has been developed based on best practice industry standards including the International Standard in Risk Management – ISO: 31000 and the Office of Governance & Commerce (OGC) Management of Risk Guidance (MoR) and guidance from the Association of Local Authority Risk Managers, (ALARM) and is set out in 4 parts:

- Risk Management Policy - statement of the Council's commitment to effective risk management;
- Risk Management Strategy – articulates our overall approach to risk and provides a detailed risk hierarchy;
- Risk Management Appetite Statement – describes the levels of risk the Council is prepared to tolerate in pursuit of our objectives; and
- Risk Management Process Guide - details how the risk management process will be carried out at an operational level.

#### **c) Workforce Management**

The Council values its commitment to its people. It is reliant on the skills, dedication and passion of its employees in delivering essential services to the people, businesses and communities of Perth and Kinross and in delivering efficiencies and transformation to prepare for the future. The Council is planning for a smaller workforce in future – however, it has continued to invest in building the capability and capacity in its workforce through learning and development opportunities, boosting productivity, encouraging innovation and creativity, embracing agility, digital technology and promoting wellbeing and resilience. These commitments will enable it to match its ambition for transforming services, growing the economy, reducing inequalities, protecting the vulnerable and supporting young people to be all they can be.

Financial pressures, demand for Council services, changing demographics and public service reform informed the development of the Council's third transformation programme and continue to drive efficiencies, service redesign and rationalisation which in turn determine workforce requirements. The Council's Building Ambition - Transformation

Strategy 2015-20 sets out how it will transform services along with an Organisational Development (OD) Framework. The OD Framework ensures that the Council continues to harness the talent of its people based around the Learn Innovate Grow principles. These principles act as enablers for transforming the organisation and reinforce the commitment to developing its organisational culture.

A corporate approach to workforce planning as set out in the Corporate Workforce Plan 2013-18 ensures that the Council maintains a balanced and skilled workforce. Young people are its future leaders. Over the last five years the Council has increased the range and number of opportunities for young people to train and work, targeting investment to areas of growth, hard to fill posts and to young people who experience challenges in life. There has been a 73% increase in young people aged between 16 and 24 within the Council's workforce between 2009 and 2017. And achievement rates for young people in gaining qualifications, going on to further education and finding employment remain high and in excess of 90%. The quality of provision for young people has been recognised by Investors in Young People who awarded the Council the Gold Standard.

Workforce planning is an ongoing and iterative process. A new workforce plan for the next five years is being developed for approval by the Council by the end of 2017. This will build on recent successful programmes to retrain employees for hard to fill posts. The second Learn to Teach programme enrolled 7 more staff in March 2017. Delivered in partnership with the University of Dundee, the programme will train 20 additional teachers over the next two years for Council schools and help address national recruitment shortages. Dual registration for teaching staff is also helping to improve flexibility across primary and secondary schools. Similar programmes are underway with Perth College for social care. Alongside marketing campaigns using social media platforms such as Facebook and Twitter, the Council is trying to reach a wider audience to attract people into these rewarding careers. Another key component of the workforce plan will be talent management which will take the Council's investment in staff to a new level designed to retain staff with the skills and attitudes required for the future.

The Council's plans include enabling projects which are helping to prepare employees and the organisation for the future – positive career choices, job families, job design, keeping staff in the loop (communication through change) and more effective processes for workforce flexibility. It recognises that learning is fundamental to growth and continues to organise sharing of knowledge, skills and expertise. Leadership development has continued with Business Breakfasts, Senior Manager Briefings, coaching skills and a collaborative leadership development programme with neighbouring councils. Together these initiatives help develop and nurture talent to meet future requirements.

The workforce management strategy is inherently linked to the Council's Transformation Programme and our Medium Term Financial Plan. Since 2009, the Council has implemented a range of workforce management measures which are designed to make the best use of opportunities to reshape the workforce on an on-going basis, enable service redesign and deliver a leaner workforce while avoiding compulsory redundancies as far as possible. It has successfully used voluntary severance schemes as a means of reshaping the workforce, making significant recurring annual savings through volunteers who seek to exit the organisation. This approach recognises the importance of managing staff costs and also recognises and values the contribution of our employees, as described within our annual workforce report Building Ambition – A Workforce For the 21st Century (Report 16/562).

A significant strand of the workforce management measures is enhancing capacity and improving performance, which is focussed on the health and wellbeing of employees, building resilience and ensuring that everyone is at work and being supported to perform to the best of their ability. Effectively, this recognises that as well as reducing the size and cost of our workforce, it is also important to maximise productivity.

In 2016/17 the average days lost to sickness absence per full time equivalent (fte) employee were 7.8 days for teachers and 9.6 days for other council staff (this compares with 7.9 days and 9.7 days respectively in 2015/16). The reduction in sickness absence levels for both groups is a reflection of positive support to prevent and minimise sickness absence in future and effective sickness absence management, making use of occupational health advice, counselling and physio where appropriate.

The Council's positive people practices for wellbeing have been recognised through the award of Healthy Working Lives – Silver Award, Carer Positive Kitemark and being an Accredited Living Wage Employer. The Council endorsed the Fair Work Framework in May 2016 and embarked on a programme of consultation and engagement with employees and their trade union representatives on improvements in our employment practices and arrangements. This work is strongly connected to the outcomes from the Fairness Commission within Perth and Kinross and recognises the role of the leadership for the Council as one of the area's largest employers.

## **8. Supplementary Information**

### **(a) Group Accounts**

The Code of Practice on Local Authority Accounting in the United Kingdom requires the Council to produce group financial statements where it has an interest in entities that meet the definition of subsidiary, associate or joint venture. The Group results are presented alongside the results for the Council in the Annual Accounts. Further details of the associated entities that have been incorporated into the financial statements can be found on page 94.

The Council has an interest in six organisations (detailed on page 94) that do not form part of the main Accounts which includes Culture Perth & Kinross Ltd. and the Perth & Kinross Integration Joint Board for the first time. The Council includes the results of these organisations in its Group Accounts due to the significant influence it has over their financial and operating practices. The Council also includes Charitable Trusts administered and controlled by the Council and Common Good Funds as managed funds within the Group Accounts.

In accordance with the Code, the 2016/17 Group Accounts Statements are included on pages 89 to 93. The basis for consolidation is set out in the Notes to the Group Accounts Statements on pages 94 to 96. The effect of consolidation is to reduce the Council's net assets by £2.586m resulting in a Group Balance Sheet showing net assets of £397.667m at 31 March 2017 as set out on page 91. This position reflects the Council's share of the pension liabilities of the Associate included within the Group Balance Sheet.

#### **(b) Common Good and Charitable Trust Funds**

Common Good Funds are administered by the local authority for the general benefit of the relevant communities. Overall the Common Good Funds recorded an in year deficit of £0.009m which, when applied to the surplus brought forward, results in an accumulated revenue surplus as at 31 March 2017 of £1.985m.

Details of income and expenditure accounts and balance sheets can be found on pages 87 and 88 of the Annual Accounts. These funds are subject to similar accounting policies and procedures to those that are applied to the Council's main accounts. The main source of income to Common Good Funds is rent.

The Council also administers a number of charitable Trust Funds. Details of income and expenditure accounts and balance sheets can be found on page 86 of these Annual Accounts. Overall the Trust Funds recorded an in year surplus of £0.111m which, when applied to the surplus brought forward, results in an accumulated surplus as at 31 March 2017 of £3.191m.

Perth and Kinross Council's Trust Funds, for which the Council is the sole trustee, also have to prepare their own Trustees' Annual Report and these are separately available on the Council website.

#### **(c) Public Private Partnerships**

In September 2000 the Council entered into a 25 year PPP contract for the construction, maintenance and operation of office accommodation and a carpark. In 2016/17 the Council paid £2.748m to the contractor under the terms of the contract.

Between 2009 and 2012 six school campuses were also brought into operation at Blairgowrie, Glenearn, Loch Leven, Strathearn, North Inch and Breadalbane. The contractor's obligation was to construct the schools and is to maintain them to a pre agreed standard. In 2016/17 the Council paid £15.432m to the contractor under the terms of the contract.

### **9. Conclusion**

The Council has continued to demonstrate sound financial management in 2016/17 by delivering services with the resources which are available to it. The pressures being experienced by Services in relation to demand are known and plans are in place to mitigate them. They have also been reflected in the medium and long term financial plans.

We know we will face many challenges in the future from the combined effect of reduced resources; increasing demands and expectations for our services. Yet we are confident that by working more creatively with all our residents and partners, we will not only embrace these challenges but will improve our performance and service delivery.

### **10. Acknowledgements**

As in previous years, we would like to acknowledge the significant work of the finance team in producing the annual accounts and thank colleagues across the Council for their continuing support.

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Bernadette Malone  
Chief Executive  
Perth & Kinross Council

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Councillor Ian Campbell  
Leader of the Council  
Perth & Kinross Council

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Stewart Mackenzie  
Head of Finance  
Perth & Kinross Council

Date: 27 September 2017

Date: 27 September 2017

Date: 27 September 2017

## **ANNUAL GOVERNANCE STATEMENT 2016/17**

### **1 Introduction**

- 1.1 Good governance is key to the success of Perth & Kinross Council in delivering its corporate and community objectives and being recognised as an ambitious, high performing Council. It supports better informed decision making, the efficient use and management of our resources, high quality performance, greater scrutiny and accountability, resulting in better outcomes for the communities we serve.
- 1.2 The purpose of the Governance Statement is to give assurance to the people of Perth & Kinross, our Elected Members, staff, partner agencies and other stakeholders that our governance arrangements are effective and our system of internal control is robust.

### **2 Scope of Responsibility**

- 2.1 As a public body, the Council must act in the public interest at all times. It must behave with integrity, conduct its business in accordance with the rule of the law and demonstrate a strong commitment to ethical values. We must demonstrate and ensure that public money is used economically, efficiently, and effectively to deliver sustainable outcomes for the people of Perth & Kinross
- 2.2 The Local Government in Scotland Act 2003 also places a specific duty on the Council to make arrangements to secure best value and ensure continuous improvement in terms of the services it delivers to our communities.
- 2.3 A comprehensive and robust governance framework is integral to the Council's ability to discharge these responsibilities and deliver good outcomes. The Annual Governance Statement seeks to provide assurance that our governance framework is appropriate, adequate and effective in enabling the Council to deliver good outcomes and manage risk.
- 2.4 As well as providing assurance as to the effectiveness of the governance arrangements in place for the Council, this Annual Governance Statement also covers the six organisations that are included in the Council's Group Accounts.
- Live Active Leisure Limited (subsidiary)
  - Horsecross Arts Limited (subsidiary)
  - Culture Perth & Kinross Limited (subsidiary)
  - Tayside Valuation Joint Board (associate)
  - Tayside Contracts (associate)
  - Perth & Kinross Integrated Joint Board (joint venture)

### **3 The purpose of the Governance Framework**

- 3.1 Our governance framework comprises the rules, resources, systems, processes, culture and values designed to help us achieve our strategic objectives and provide effective, good quality services in the most cost effective way possible.
- 3.2 A crucial part of the governance framework is the system of internal control which is designed to manage the risk of a failure to the achievement of our intended outcomes.
- 3.3 The Council manages risk through a continuous process of identification, assessment, evaluation, prioritisation and mitigation. We evaluate risk on the basis of likelihood and impact in both financial and non-financial terms. We do however need to mitigate and manage risk proportionately; recognising that risk can never be eliminated completely and that only reasonable assurance can ever be given.
- 3.4 The purpose of the governance framework therefore is to ensure that we are using all of our resources effectively to deliver good outcomes for our communities and to provide assurance that we are indeed doing the right things, for the right people at the right time in an open, honest and accountable way.

### **4 Our Governance Framework**

- 4.1 We recognise that the following are fundamental elements of good governance within public sector organisations:-
- Vision, direction & purpose
  - Leadership, Culture & Values
  - Stakeholder Engagement
  - Organisational Development
  - Effective Decision Making
  - Internal Controls
  - Scrutiny & Accountability



- 4.2 These fundamental elements of our governance framework reflect and seek to embed the principles of good governance within the International Framework: Delivering Good Governance in the Public Sector developed by CIPFA and the International Federation of Accountants, now incorporated into the 2016 CIPFA Framework for Delivering Good Governance in Local Government, namely:
- Defining outcomes in terms of sustainable economic, social and environmental benefits
  - Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law
  - Ensuring openness and comprehensive stakeholder engagement
  - Developing the entity's capacity, including the capability of its leadership and the individuals within it
  - Determining the interventions necessary to optimise the achievement of the intended outcomes
  - Managing risks and performance through robust internal control and strong public financial management
  - Implementing good practices in transparency, reporting and audit to deliver effective accountability
- 4.3 Our governance arrangements are underpinned by the fundamental principles of good governance, the requirements of legislation and best practice and can be summarised as:
- Our vision is the achievement of the shared priorities and intended outcomes for the citizens of Perth & Kinross defined in our [Community Plan/Single Outcome Agreement 2013-23](#) and our [Corporate Plan](#) for 2013-18. Building Ambition: Our Transformation Strategy together with our [Business Plan](#), [Revenue Budget 2017/18 & 2018/19](#), [Capital Budget and Housing Investment Programme](#) and other strategic documents provide the necessary direction to the organisation to enable it to deliver on its vision and achieve its purpose.
  - Our leadership is effective. The roles and responsibilities of Elected Members and Management within the Council are understood and respected. There is effective communication between Members and Management through Leaders Meetings, Convenors meetings, Member Officer Working Groups and all member briefings where appropriate.
  - There are effective arrangement in place for the discharge of the following functions:
    - Head of Paid Service
    - Monitoring Officer
    - Chief Finance Officer
    - Chief Social Work Officer
  - Our culture and values are reflected in everything we do as an organisation. They are determined by our decision making and behaviours and are reflected in our key corporate and community documents and strategies, our Local Code of Corporate Governance, Elected Member and Employee Codes of Conduct, Whistleblowing and anti- fraud and corruption policies, Elected Member Register of Interests, Gifts & Hospitality Policy and in our suite of policies, processes and procedures ensuring that as a Council we respect the rule of law, behave with integrity, promote a culture of good governance and demonstrate a strong commitment to ethical values.
  - We recognise the importance of good stakeholder engagement in redesigning and reshaping public services and we will continue to actively engage with our communities, partners and other stakeholders to ensure that our services best meet their needs. The Council has a strategy for engaging with communities and has agreed a Statement of Intent with its Community Planning Partners to support a co-ordinated approach to community engagement. Our approach to consultations is based on the [National Standards for Community Engagement](#) and we have established a wide range of [consultation processes and procedures](#). The Community Empowerment (S) Act 2015 provides a framework for improving the quality of engagement and participation which will be reflected in Local Outcome Improvement Plan which is currently being developed with our community partners.
  - In the current climate of constant change and financial challenge, Perth & Kinross Council recognise that we must adapt and evolve to be able to continue delivering cost efficient, high quality services in an increasingly complex public sector landscape. We believe that our people are our most valuable asset and that as an organisation we will secure the best outcomes for our communities by investing in the development of our workforce and our leaders to ensure that they have the right skills and have sufficient capacity to deliver. Our approach is outlined in our strategic document Building Ambition – A Workforce for the 21<sup>st</sup> Century and our “Learn, Innovate Grow” philosophy is being embedded across the organisation to create a highly motivated, skilled and flexible workforce. There is a programme of leadership development in place for our senior managers. An induction programme is in place for Elected Members and an ongoing programme will be developed in consultation with Members to ensure that it meets their needs going forward.
  - The Council's Scheme of Administration sets out the role of committees in decision-making and the delegated decision-making powers of individual officers. The committees, boards and panels we have established ensure proper democratic engagement and provide an appropriate mechanism for effective decision making and accountability. As a local authority, the extent of our decision making powers are determined by statute and regulation. Our report template is designed to ensure that legal and financial checks are carried out before a report is presented for decision. It also provides that appropriate internal and external consultations and where relevant, options appraisals, ensure that decision makers are appropriately informed to determine the best course of action in the circumstances.



- The Council has developed and implemented a suite of policies, procedures and management processes to ensure that there are appropriate **internal controls** in place in respect of:-
  - Workforce Management
  - Financial management
  - Officer /Member relations
  - Performance Management
  - Change & Improvement
  - Workforce Planning
  - Risk Management
  - Procurement
  - Major Investment Project Management
  - Health & Safety
  - Information Management
  - Information Security
  - Civil Contingencies & Business Continuity
  - Anti- Fraud & Corruption
  - Conflicts of interests
  - Gifts & Hospitality
  - Whistle-blowing and reporting concerns
  - Complaints handling
  - Funding External bodies / ALEO's
- The Council believes in openness and transparency, and that as an organisation we are properly held to account for our decisions, actions and performance. Our management and democratic structures and processes are designed to facilitate effective decision making and the proper scrutiny of those decisions and their impact in terms of performance and the achievement of our intended outcomes.
- In February the Council set a two year budget (year 2 provisional). Each budget is allocated to a named budget holder. Budgets are monitored regularly by Service Management Teams and overall financial performance is monitored regularly by the Executive Officer Team.
- The Strategic Policy & Resources Committee receives regular financial monitoring information as part of the budgetary control framework.
- Capital spend is monitored by Senior Management through the Strategic Investment Group and the Corporate Resources Group, and reported regularly to the Executive Officer Team and the Strategic Policy & Resources Committee as part of the budgetary control framework. The Capital Programme Office monitors project milestones.
- The annual service planning process ensures that Services meet the needs of customers, and that targets for quality improvements are set and monitored. Individual Business Management & Improvement Plans set out detailed actions and outcomes for each Service and include performance indicators. Service performance is reported regularly to the Executive Officer Team and publicly through the Council's themed committees and the Scrutiny committee. Financial performance is publicly reported through the Strategic Policy & Resources Committee and relevant service committees.
- The Council publishes an [Annual Performance Report](#) on its performance against the objectives set out within the Corporate Plan and Community Plan/Single Outcome Agreement.
- The Council's Transformation Programme is scrutinised by Service Management Teams, the Executive Officer Team and the Modernising Governance Member Officer Working Group. Progress is reported regularly to the Council's Strategic Policy & Resources Committee.
- The Council has a published process for dealing with complaints from members of the public and annually reports on performance in this respect of complaints handling.
- The Council has a published process for individuals to access information under the Freedom of Information legislation and annually reports on performance in this area.
- The Council has a published process for individuals to access information under the Data Protection legislation and annually reports on performance in this area.

## 5 Governance Assurance Process

- 5.1 Assurance evidence has been gathered from Service Management Teams (SMT) by way of self-assessment questionnaires designed around the fundamental elements of good governance and the principles set on in the 2016 CIPFA Framework).

- 5.2 The evidence submitted by services has undergone a process of quality assurance and challenge through the Policy & Governance Group, which is chaired by the Head of Legal & Governance Services and comprises Senior Officers from the following divisions and representatives of each Directorate;
- Legal
  - Finance
  - Human Resources
  - Internal Audit
  - Information Compliance & Security
  - IT and Information Systems
  - Procurement
  - Democratic Services
- 5.3 Each SMT has certified that, having considered the evidence of the financial and non- financial controls within each of their areas, they are satisfied that these are adequate and effective subject to certain improvement actions which have been identified as part of that self-assessment process being implemented.
- 5.4 A Certificate of Assurance to this effect has been signed by each Director and their respective Depute Chief Executive.
- 5.5 Corporate assurance has also been provided as regards the adequacy of the internal controls from the following Officers:
- Head of Finance (S95 Officer)
  - Head of Legal & Governance Services (Monitoring Officer)
  - Head of Democratic Services
  - Chief Internal Auditor
  - Corporate Procurement Manager
  - Information Compliance Manager
  - Corporate IT Manager
  - Corporate HR Manager
- 5.6 For Arms Length External Organisations reliance has been placed upon:
- unaudited financial statements of the companies (audited accounts will be scrutinised when available);
  - assurance self-assessment evaluations
  - terms and conditions of Service Level Agreements
  - quarterly contract monitoring meetings with Service;
  - performance information and financial monitoring reports to Service; and
  - presentations to Scrutiny Committee
- 5.7 For Tayside Contracts Joint Committee and Tayside Valuation Joint Board, reliance has been placed upon each organisation's own Annual Governance Statement.
- 5.8 For Perth & Kinross Integrated Joint Board reliance has been placed on their own Annual Governance Statement.
- 5.9 The draft Annual Governance Statement is considered by the Council's Scrutiny Committee prior to inclusion with the final draft Annual Accounts.
- 5.10 The Annual Governance Statement is considered by full Council as part of the Annual Accounts.

## **6 2015/16 Governance Statement : Improvement update**

- 6.1 The 2015/16 AGS identified the following areas for review and/or improvement:-
- corporate risk management
  - contract management
  - procurement / commissioning
  - information management
  - workforce planning
  - funding external bodies

6.2 Significant work has been undertaken to review process and improve internal controls in these areas. In particular :

- i. Following review and consultation the Council has agreed a new Risk Strategy and has defined its Risk Appetite. A cohort of staff from across the organisation are undertaking accredited risk management training to ensure that the new approach is implemented consistently across the Council and to support Senior Management Teams to embed effective risk management into their business processes and practices
- ii. Resource has been allocated to embedding more standard, corporate processes for routine procurement tasks to ensure consistency and improve performance. Contract Rules have been revised and a number of tools and templates have been developed to support better procurement, commissioning and contract management as part of the implementation of our Procurement Strategy
- iii. The implementation of the new General Data Protection Regulation in May 2018 requires wholesale review of our current systems and process in respect of how we gather process and manage personal data. This work is currently underway and the opportunity is being taken to develop a new information governance framework to more effectively identify and manage information risk and to realise greater benefits from information as a corporate asset.
- iv. A Corporate Workforce Plan has been developed which provides a framework for more effective workforce planning at both a corporate and an operational level. The Public Sector People Managers Association PPMA Business Workforce Dialogue Tool supports managers to think longer term and more strategically in respect of resource planning. Work is being done to embed workforce planning into our business and financial management processes.
- v. Improvements have been made to the assurance process for our arm's length external bodies in that they are now required to undertake the governance self-assessment process. A more formal structure is being put in place in respect of the role of the Scrutiny Committee in monitoring the performance of the ALEOs and contract monitoring arrangements under the Service Level Agreement are to be strengthened going forward.

## 7 Effectiveness of Governance Arrangements

- 7.1 Based on the assurance process outlined above, in terms of effectiveness, the Council governance arrangements continue to be regarded as fit for purpose in accordance with the governance framework, subject to the areas identified in section 9 below.
- 7.2 Our financial management arrangements conform with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2015)
- 7.3 Our assurance arrangements conform with the governance requirements of the CIPFA Statement on the Role of the Head of Internal Audit (2010)
- 7.4 The Council has designated the Depute Chief Executive (Chief Operating Officer) as the Senior Information Risk Owner with the Head of Legal & Governance Services as Depute. Our information security measures have been reviewed in 2016/17 to ensure continuing compliance with the Public Service Network (PSN) requirements.
- 7.5 The Chief Internal Auditor is the Council's nominated Money Laundering Reporting Officer. There has been no relevant activity during the year.
- 7.6 We have structures in place which support constructive challenge and effective scrutiny. In particular;-
- Scrutiny Committee
  - Strategic Resources & Policy Committee
  - Themed Committees
  - Executive Officer Team
  - Corporate Management Group
  - Strategic Investment Group
  - Policy & Governance Group

## 8 Opinion of the Chief Internal Auditor

- 8.1 Audit activity and performance is detailed in the Annual Report by the Chief Internal Auditor for the year 2016/17. At paragraph 7.1 of that report the Chief Auditor has given the following opinion in respect of the effectiveness of the governance arrangements in place.

*"In the Chief Internal Auditor's opinion, reasonable reliance can be placed on the Council's governance arrangements and systems of internal control for 2016/17, subject to management implementation of the agreed actions detailed in Internal Audit reports and summarised at Section 2 [of the Annual Report for the year 2016/17]. Whilst limited reliance can be placed on the corporate risk management arrangements in place for 2016/17, the ongoing implementation and embedding of the corporate risk management strategy should enable reasonable reliance for 2017/18."*

## 9 Areas for continued improvement action

9.1 The areas referred to in 7.1 above which are the subject of continued improvement actions are:-

- to continue to review and improve contract management practices across the organisation to ensure legal compliance and best practice
- to extend the scope of the review of information management to develop an information governance framework which ensures compliance with the new General Data Protection Regulation and better supports the Council to maximise the benefits of information as a corporate asset
- to embed our new approach to risk management into our business and management processes to facilitate better risk based decision making to enable us to deliver our intended outcomes
- to continue to implement our procurement strategy to ensure that our processes and practices are aligned and deliver value for money
- to continue to develop our workforce planning to ensure that we have an adequately skilled and agile workforce equipped and motivated to meet the challenges of delivering high quality cost efficient public services to our communities
- to further develop the scrutiny function in respect of our ALEOs to ensure better transparency and more robust accountability
- to continue to work with the Chief Officer and Chief Finance Officer of the Integrated Joint Board to further develop the governance arrangements in respect of the relationship between the IJB and the Council as a statutory partner.

## 10 Statement

- 10.1 The Governance Framework has been in place for the financial year ending 31 March 2017 and up to the date of approval of the Annual Accounts.
- 10.2 The Council is legally required to conduct an annual review of the effectiveness of its governance arrangements and to publish a reporting statement, known as the Annual Governance Statement, with its Annual Accounts.
- 10.3 This Statement confirms that a comprehensive review of the Council's corporate governance arrangements has been undertaken and reports on the effectiveness of its arrangements and in particular its internal controls.
- 10.4 The review has been carried out in accordance with Chartered Institute of Public Finance and Accountancy (CIPFA) Framework: Delivering Good Governance in Local Government 2016.
- 10.5 The review of the effectiveness of the Council's system of internal control and overall governance framework has been informed by different sources providing assurance and assessing risk:-
- Service Management Teams
  - Executive Officer Team
  - Chief Finance Officer
  - Monitoring Officer
  - Chief Internal Auditor
  - Policy & Governance Group
  - Internal Audit
  - External Audit
  - External agencies and inspectorates.
- 10.6 Internal Audit have provided assurance for the year 2016/17 and an Internal Audit plan is in place for 2017/18 that will focus on areas which have been identified as corporate or service specific risks.
- 10.7 Each Depute Chief Executive and Director who has responsibility within the Scheme of Delegation for the development and maintenance of the system of internal control has provided assurance that the internal controls and governance arrangements within their service are effective and have been reviewed.
- 10.8 The Chief Financial Officer has provided assurance that the financial arrangements in place conform to the relevant CIPFA requirements and that our expenditure is lawful.
- 10.9 The Monitoring Officer has provided assurance that our governance arrangements ensure compliance with relevant laws, regulations, internal policies and procedures.
- 10.10 We have been advised of the outcome of the review of the effectiveness of the governance arrangements, as outlined above, by the Head of Legal & Governance Services and are satisfied that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework.

- 10.11 Governance improvement actions will be delivered where possible through existing improvement plans and change programmes to avoid duplication of effort. A plan for the improvement activity is outlined in Appendix 1.
- 10.12 Oversight of governance improvement activity will be maintained through Corporate Management Group with support from the Policy & Governance Group who will regularly monitor progress.
- 10.13 Progress will be reported to the Council's Executive Officer Team and the Council's Scrutiny Committee.

We are also reassured by the fact that the areas identified for further development are already in progress. This demonstrates to us that this Council has a good understanding of our key risks and provides assurance to our communities that we are committed to continuously improving the effectiveness of our governance framework to ensure that it is fit for purpose and enables us to deliver our intended outcomes.

Signed:

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Bernadette Malone

Chief Executive

Perth & Kinross Council

Date: 27 September 2017

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Councillor Ian Campbell

Leader of the Council

Perth & Kinross Council

Date: 27 September 2017

## APPENDIX 1 TO THE ANNUAL GOVERNANCE STATEMENT

### ANNUAL GOVERNANCE STATEMENT 2016/17

#### IMPROVEMENT ACTION PLAN 2017-18

| ACTION                                                                                                                                                                                                                                                                                                                                                                                                                                 | LEAD OFFICER                                                                                                      | TIMESCALE/<br>comment | RELEVANT<br>ACTION PLAN       |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------|-----------------------|-------------------------------|
| Embed new risk management strategy/policy across organisation <ul style="list-style-type: none"> <li>• Train cohort of staff to accredited risk management practitioner level</li> <li>• Develop risk management process guide</li> <li>• Facilitate risk management workshops with each service and at senior management level</li> <li>• Carry out Risk Management Health Check</li> <li>• Revise corporate risk register</li> </ul> | Head of Legal & Governance Services /Head of Strategic Commissioning & OD                                         | 31/12/17              | Governance Review Action Plan |
| Monitor procurement and commissioning arrangements to ensure alignment with new Procurement Strategy                                                                                                                                                                                                                                                                                                                                   | Head of Strategic Commissioning & OD /Corporate Procurement Manager                                               | 31/03/18              | Procurement Action Plan       |
| Review & monitor contract management practices within each service area                                                                                                                                                                                                                                                                                                                                                                | Corporate Procurement Manager/ Head of Legal & Governance Services / SMTs                                         | 31/03/18              | Procurement Action Plan       |
| Develop new Information Management Framework <ul style="list-style-type: none"> <li>• Develop Information Governance Strategy</li> <li>• Review and revise Information Management and Information Security Policies</li> <li>• Revise Data Protection policies, procedures and processes to ensure compliance with the new General Data Protection Regulation</li> <li>• Develop Information Governance Toolkit</li> </ul>             | Head of Legal & Governance Services/ Information Compliance Officer/ Corporate IT Manager                         | 31/03/18              | Governance Review Action Plan |
| Further develop workforce planning arrangements across the Council                                                                                                                                                                                                                                                                                                                                                                     | Corporate HR Manager/ SMTs                                                                                        | 31/03/18              | HR Management Plan            |
| Review and monitor governance assurance process in respect of the Integrated Joint Board                                                                                                                                                                                                                                                                                                                                               | Head of Legal & Governance Services/Head of Governance Review Action Plan Democratic Services / Chief Officer IJB | 31/03/18              | Governance Review Action Plan |
| Review and monitor governance assurance process in respect of ALEOs                                                                                                                                                                                                                                                                                                                                                                    | Head of Legal & Governance Services/Head of Democratic Services / Head of PSR & Community Development             | 31/03/18              | Governance Review Action Plan |

## **Independent auditor's report to the members of Perth and Kinross Council and the Accounts Commission**

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 120 of the Code of Audit Practice approved by the Accounts Commission, we do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

### **Report on the audit of the financial statements**

#### **Opinion on financial statements**

We certify that we have audited the financial statements in the annual accounts of Perth and Kinross Council and its group for the year ended 31 March 2017 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the group and council-only Comprehensive Income and Expenditure Statements, Movement in Reserves Statements, Balance Sheets, and Cash-Flow Statements, the council-only Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Council Tax Income Account, and the Non-domestic Rate Account, and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (the 2016/17 Code).

In our opinion the accompanying financial statements:

- give a true and fair view in accordance with applicable law and the 2016/17 Code of the state of affairs of the council and its group as at 31 March 2017 and of the surplus on the provision of services of the council and its group for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2016/17 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

#### **Basis of opinion**

We conducted our audit in accordance with applicable law and International Standards on Auditing in the UK and Ireland (ISAs (UK&I)). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the council and its group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standards for Auditors, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Responsibilities of the Head of Finance for the financial statements**

As explained more fully in the Statement of Responsibilities, the Head of Finance is responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal control as the Head of Finance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

## **Independent auditor's report to the members of Perth and Kinross Council and the Accounts Commission cont'd**

### **Auditor's responsibilities for the audit of the financial statements**

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable legal requirements and ISAs (UK&I) as required by the Code of Audit Practice approved by the Accounts Commission. Those standards require us to comply with the Financial Reporting Council's Ethical Standards for Auditors. An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the circumstances of the council and its group and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Head of Finance and the overall presentation of the financial statements.

Our objectives are to achieve reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK&I) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

### **Other information in the annual accounts**

The Head of Finance is responsible for the other information in the annual accounts. The other information comprises the information other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon except on matters prescribed by the Accounts Commission to the extent explicitly stated later in this report

In connection with our audit of the financial statements in accordance with ISAs (UK&I), our responsibility is to read all the financial and non-financial information in the annual accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Report on other requirements**

#### **Opinions on other prescribed matters**

We are required by the Accounts Commission to express an opinion on the following matters.

In our opinion, the auditable part of the Remuneration Report has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014.

In our opinion, based on the work undertaken in the course of the audit

- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003; and
- the information given in the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016).



**Independent auditor's report to the members of Perth and Kinross Council and the Accounts Commission  
cont'd**

**Matters on which we are required to report by exception**

We are required by the Accounts Commission to report to you if, in our opinion:

- adequate accounting records have not been kept; or
- the financial statements and the auditable part of the Remuneration Report are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit; or
- there has been a failure to achieve a prescribed financial objective. We have nothing to report in respect of these matters.

Andy Shaw, for and on behalf of KPMG LLP

Saltire Court

20 Castle Terrace

Edinburgh

EH1 2EG

28 September 2017

## MOVEMENT IN RESERVES STATEMENT

|                                                                                                        | General<br>Fund<br>Balance<br>£'000 | Housing<br>Revenue<br>Account<br>£'000 | Capital<br>Fund<br>£'000 | Renewal<br>& Repair<br>Fund<br>£'000 | Insurance<br>Fund<br>£'000 | Capital<br>Receipts<br>Reserve<br>£'000 | Capital<br>Grants<br>Unapplied<br>£'000 | Total<br>Usable<br>Reserves<br>£'000 | Unusable<br>Reserves<br>(Note 31)<br>£'000 | Total<br>Authority<br>Reserves<br>£'000 |
|--------------------------------------------------------------------------------------------------------|-------------------------------------|----------------------------------------|--------------------------|--------------------------------------|----------------------------|-----------------------------------------|-----------------------------------------|--------------------------------------|--------------------------------------------|-----------------------------------------|
| <b>Balance at 1 April 2015</b>                                                                         | (52,670)                            | (800)                                  | (19,316)                 | (1,426)                              | (3,802)                    | (1,832)                                 | (102)                                   | (79,948)                             | (293,465)                                  | (373,413)                               |
| <u>Movement in reserves during 2015/16</u>                                                             |                                     |                                        |                          |                                      |                            |                                         |                                         |                                      |                                            |                                         |
| Total Comprehensive Income and Expenditure                                                             | (15,093)                            | 2,353                                  | 0                        | 0                                    | 0                          | 0                                       | 0                                       | (12,740)                             | (52,034)                                   | (64,774)                                |
| Adjustments from income & expenditure charged under the accounting basis to the funding basis (Note 5) | 8,469                               | (1,675)                                | 0                        | 0                                    | 0                          | 44                                      | 15                                      | 6,853                                | (6,853)                                    | 0                                       |
| <b>(Increase) or Decrease in 2015/16</b>                                                               | (6,624)                             | 678                                    | 0                        | 0                                    | 0                          | 44                                      | 15                                      | (5,887)                              | (58,887)                                   | (64,774)                                |
| Transfers to/(from) Other Statutory Reserves                                                           | 4,386                               | (660)                                  | (4,609)                  | 192                                  | 691                        | 0                                       | 0                                       | 0                                    | 0                                          | 0                                       |
| Balance at 31 March 2016 carried forward                                                               | (54,908)                            | (782)                                  | (23,925)                 | (1,234)                              | (3,111)                    | (1,788)                                 | (87)                                    | (85,835)                             | (352,352)                                  | (438,187)                               |
| <u>Movement in reserves during 2016/17</u>                                                             |                                     |                                        |                          |                                      |                            |                                         |                                         |                                      |                                            |                                         |
| Total Comprehensive Income and Expenditure                                                             | (12,455)                            | 3,423                                  | 0                        | 0                                    | 0                          | 0                                       | 0                                       | (9,032)                              | 46,966                                     | 37,934                                  |
| Adjustments from income & expenditure charged under the accounting basis to the funding basis (Note 5) | 16,849                              | (2,801)                                | 0                        | 0                                    | 0                          | 462                                     | 0                                       | 14,510                               | (14,510)                                   | 0                                       |
| <b>Decrease in 2016/17</b>                                                                             | 4,394                               | 622                                    | 0                        | 0                                    | 0                          | 462                                     | 0                                       | 5,478                                | 32,456                                     | 37,934                                  |
| Transfers to/(from) Other Statutory Reserves                                                           | (888)                               | (640)                                  | 310                      | 951                                  | 267                        | 0                                       | 0                                       | 0                                    | 0                                          | 0                                       |
| <b>Balance at 31 March 2017 carried forward</b>                                                        | (51,402)                            | (800)                                  | (23,615)                 | (283)                                | (2,844)                    | (1,326)                                 | (87)                                    | (80,357)                             | (319,896)                                  | (400,253)                               |

## COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

| Restated<br>2015/16     |           |                             |                                                    | 2016/17                       |                 |                             |
|-------------------------|-----------|-----------------------------|----------------------------------------------------|-------------------------------|-----------------|-----------------------------|
| Gross<br>Expenditure    | Income    | Net<br>Expenditure<br>£'000 | Notes                                              | Gross<br>Expenditure<br>£'000 | Income<br>£'000 | Net<br>Expenditure<br>£'000 |
| <b>COUNCIL SERVICES</b> |           |                             |                                                    |                               |                 |                             |
| 166,679                 | (5,752)   | 160,927                     | Education & Children's Services                    | 150,279                       | (6,042)         | 144,237                     |
| 71,865                  | (16,256)  | 55,609                      | Health & Social Care                               | 121,834                       | (70,412)        | 51,422                      |
| 57,372                  | (40,083)  | 17,289                      | Housing & Community Safety                         | 53,761                        | (39,599)        | 14,162                      |
| 77,178                  | (17,948)  | 59,230                      | The Environment Service                            | 78,277                        | (16,080)        | 62,197                      |
| 14,999                  | (1,480)   | 13,519                      | Corporate and Democratic Services                  | 20,588                        | (4,349)         | 16,239                      |
| 10,734                  | (620)     | 10,114                      | Culture Services                                   | 10,729                        | (363)           | 10,366                      |
| 31,538                  | (26,928)  | 4,610                       | Housing Revenue Account                            | 30,340                        | (26,887)        | 3,453                       |
| 1,093                   | 0         | 1,093                       | Valuation Joint Board                              | 1,161                         | 0               | 1,161                       |
| 431,458                 | (109,067) | 322,391                     | <b>COST OF SERVICES</b>                            | 466,969                       | (163,732)       | 303,237                     |
| 1,239                   | (595)     | 644                         | Other Operating Income and Expenditure             | 8                             | 0               | (635)                       |
| 23,453                  | (1,575)   | 21,878                      | Financing and Investment Income and Expenditure    | 9                             | 24,389          | (1,444)                     |
| 0                       | (357,653) | (357,653)                   | Taxation and Non-Specific Grant Income             | 10                            | 0               | (334,579)                   |
| 456,150                 | (468,890) | (12,740)                    | <b>(Surplus)/Deficit on Provision of Services</b>  | 491,358                       | (500,390)       | (9,032)                     |
|                         |           | (19,396)                    | Surplus on revaluation of non current assets       |                               |                 | (29,121)                    |
|                         |           | (32,638)                    | Remeasurement of the net defined benefit liability |                               |                 | 76,087                      |
|                         |           | (52,034)                    | Other Comprehensive Income and Expenditure         |                               |                 | 46,966                      |
|                         |           | (64,774)                    | <b>Total Comprehensive Income and Expenditure</b>  |                               |                 | 37,934                      |

## BALANCE SHEET

| <u>31 March 2016</u> |                              | Notes | <u>31 March 2017</u> |
|----------------------|------------------------------|-------|----------------------|
| £'000                |                              |       | £'000                |
| 895,581              | Property, Plant & Equipment  | 21    | 996,182              |
| 26,289               | Heritage Assets              | 22    | 27,581               |
| 17,558               | Investment Property          | 23    | 14,710               |
| 61                   | Intangible Assets            | 24    | 110                  |
| 2,188                | Assets Held for Sale         | 25    | 1,438                |
| 366                  | Long Term Debtors            | 26    | 461                  |
| <u>942,043</u>       | <b>Long Term Assets</b>      |       | <u>1,040,482</u>     |
| 45,120               | Short Term Investments       |       | 25,048               |
| 895                  | Assets Held for Sale         | 25    | 895                  |
| 384                  | Inventories                  | 27    | 483                  |
| 30,679               | Short Term Debtors           | 28    | 28,556               |
| 8,036                | Cash and Cash Equivalents    | 44    | 24,157               |
| <u>85,114</u>        | <b>Current Assets</b>        |       | <u>79,139</u>        |
| (13,492)             | Short Term Borrowing         | 39    | (14,195)             |
| (55,665)             | Short Term Creditors         | 29    | (58,334)             |
| (178)                | Provisions                   | 30    | (1,289)              |
| <u>(69,335)</u>      | <b>Current Liabilities</b>   |       | <u>(73,818)</u>      |
| (1,756)              | Provisions                   | 30    | (1,950)              |
| (238,183)            | Long Term Borrowing          | 39    | (279,963)            |
| (279,696)            | Other Long Term Liabilities  | 18,36 | (363,637)            |
| <u>(519,635)</u>     | <b>Long Term Liabilities</b> |       | <u>(645,550)</u>     |
| <u>438,187</u>       | <b>NET ASSETS</b>            |       | <u>400,253</u>       |
| 85,835               | Usable Reserves              |       | 80,357               |
| 352,352              | Unusable Reserves            | 32    | 319,896              |
| <u>438,187</u>       | <b>TOTAL RESERVES</b>        |       | <u>400,253</u>       |

The unaudited accounts were issued on 28 June 2017 and the audited accounts were authorised for issue on 27 September 2017.

S Mackenzie CPFA  
Head of Finance  
27 September 2017

## CASH FLOW STATEMENT

| <u>2015/16</u>      |                                                                                                                                       | Notes | <u>2016/17</u>       |
|---------------------|---------------------------------------------------------------------------------------------------------------------------------------|-------|----------------------|
| <u>£'000</u>        |                                                                                                                                       |       | <u>£'000</u>         |
| 12,740              | <b>Surplus on the provision of services</b>                                                                                           |       | 9,032                |
| 59,522              | Adjustments to net surplus or deficit on the provision of services for non cash movements                                             |       | 42,167               |
| (37,852)            | Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities |       | (22,414)             |
| <u>34,410</u>       | Net cash flows from Operating Activities                                                                                              |       | <u>28,785</u>        |
| (27,222)            | Investing Activities                                                                                                                  | 42    | (49,534)             |
| (1,835)             | Financing Activities                                                                                                                  | 43    | 36,870               |
| <u>5,353</u>        | Net increase in cash and cash equivalents                                                                                             |       | <u>16,121</u>        |
| 2,683               | Cash and cash equivalents at the beginning of the reporting period                                                                    |       | 8,036                |
| <u><u>8,036</u></u> | Cash and cash equivalents at the end of the reporting period                                                                          | 44    | <u><u>24,157</u></u> |

## STATEMENT OF RESPONSIBILITIES FOR THE ANNUAL ACCOUNTS

### The Council's Responsibilities

The Council is required:

- to make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has the responsibility for those affairs under Section 95 of the Local Government (Scotland) Act 1975. In this Council that officer is the Head of Finance.
- to manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- ensure the Annual Accounts are prepared in accordance with legislation (The Local Authority Accounts (Scotland) Regulations 2014), and so far as is compatible with that legislation, in accordance with proper accounting practices (section 12 of the Local Government in Scotland Act 2003).
- approve the Annual Accounts for signature.

I confirm that these Annual Accounts were approved for signature by those charged with governance at the meeting of the Audit Committee on 27 September 2017.

Councillor Ian Campbell  
Leader of the Council

Date: 27 September 2017

### The Responsibilities of the Head of Finance

The Head of Finance is responsible for the preparation of the Council's Annual Accounts, which, in terms of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, is required to present a true and fair view of the financial position of the Council at the accounting date and its income and expenditure for the year.

In preparing these Annual Accounts, the Head of Finance has:

- selected suitable accounting policies and applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- complied with the Local Authority Accounting Code of Practice.

The Head of Finance has also:

- kept proper accounting records which were up to date;
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

I certify that the Annual Accounts give a true and fair view of the financial position of the Council and its group at the reporting date and the transactions of the Council and its group for the year ended 31 March 2017.

Stewart Mackenzie CPFA  
Head of Finance  
Date: 27 September 2017

# NOTES TO THE FINANCIAL STATEMENTS

## 1. Accounting Policies

### General

The Annual Accounts have been prepared in accordance with International Financial Reporting Standards (IFRS) and adapted to the Code of Practice as required by the Local Authority Accounts (Scotland) Regulations 2014 and section 12 of the Local Government in Scotland Act 2003. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and supported by International Financial Reporting Standards. The Annual Accounts are intended to present a true and fair view of the financial position and transactions of the authority and have been prepared in accordance with the fundamental accounting principles of relevance, reliability, comparability, understandability and materiality.

The accounting convention adopted in the Annual Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

### Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, or when the Council is entitled to the income not simply when cash payments are made or received.

In particular:

- Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including those rendered by the Council's officers) are recorded as expenditure when the services are received, rather than when payments are made.
- Interest payable on borrowings and receivable on investments is accounted for on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where there is evidence that debts are unlikely to be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.
- Where the Council is acting as an agent for another party (e.g. in the collection of Non Domestic Rates and Water & Wastewater), income and expenditure are recognised only to the extent that commission is receivable by the Council for the agency services rendered or the Council incurs expenses directly on its own behalf in rendering the services.

### Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value. In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

### Changes in Accounting Policies and Estimates and Errors

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events or conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied. Changes in accounting estimates are accounted for prospectively, i.e., in the current and future years affected by the change. Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

### Charges to Revenue for Non-Current Assets

Services, support services and trading accounts are debited with the following amounts to record the cost of holding fixed assets during the year:

- depreciation attributable to the assets used by the relevant service;
- revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off;
- amortisation of intangible fixed assets attributable to the service.

The Council is not required to raise council tax to cover depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual provision from revenue to contribute towards the reduction in its overall borrowing requirement. Depreciation, revaluation and impairment losses and amortisations are therefore replaced by revenue provision in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

## Contingent Assets and Liabilities

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent Assets and liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

## Employee Benefits

### Benefits Payable During Employment

Short-term employee benefits (those that fall due wholly within 12 months of the year-end), such as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees, are recognised as an expense in the year in which employees render service to the Council. An accrual is made against services in the Surplus or Deficit on the Provision of Services for the cost of holiday entitlements and other forms of leave earned by employees but not taken before the year-end and which employees can carry forward into the next financial year. Any accrual made is required under statute to be reversed out of the General Fund Balance by a credit to the Employee Statutory Absences Adjustment Account in the Movement in Reserves Statement.

### Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged in the Comprehensive Income and Expenditure Statement when the Council is demonstrably committed to terminate the employment of an officer.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund Balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for termination benefits related to pensions enhancements and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

### Post-Employment Benefits

Employees of the Council are members of two separate pension schemes: The Scottish Teachers' Superannuation Scheme and the Local Government Pension Scheme.

The Scottish Teachers' Superannuation Scheme is a statutory unfunded defined final benefit salary scheme administered nationally by the Scottish Public Pensions Agency on behalf of the Scottish Government. There are no investment assets built up under the scheme to meet pension liabilities. The contributions paid into the scheme by the Council and teaching employees are determined nationally and member's pension benefits are prescribed under the Teachers' Superannuation (Scotland) Regulations 2005 with the Scottish Government being responsible for meeting the scheme's liabilities.

Other employees, subject to certain qualifying criteria, are eligible to join the Local Government Pension Scheme (LGPS). The LGPS is a statutory funded defined final benefit salary scheme operated through local pension funds. Perth & Kinross Council and its employees pay contributions into the Tayside Pension Fund administered by Dundee City Council calculated at a level to balance the pension liabilities with investment assets. The contributions paid into the scheme by employees and member pension benefits are prescribed, for the period to which the accounts relate, by the Local Government Pensions Scheme (Scotland) Regulations 1998 as amended. Perth & Kinross Council's contributions, as employer, into the Tayside Pension Fund are subject to the advice of the Fund actuary.

Both schemes provided defined benefits to members (retirement lump sums and pensions), earned as employees worked for the Council. However, the arrangements for the teachers' scheme mean that liabilities for these benefits cannot be attributed specifically to the Council. The scheme is therefore accounted for as if it were a defined contributions scheme – no liability for future payments of benefits is recognised in the Balance Sheet and the Education Service line in the Comprehensive Income and Expenditure Statements is charged with the employer's contributions payable to Teachers' Pensions in the year.

The Local Government Scheme is accounted for as a defined benefits scheme. The liabilities of the Tayside Pension Fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc., and projections of projected earnings for current employees. Liabilities are discounted to their value at current prices, using a discount rate of 2.7% which is based on the indicative rate of return on the high quality corporate bond index (i Boxx AA).

The assets of the Tayside Pension Fund attributable to the Council are included in the Balance Sheet at their fair value:



- quoted securities – current bid price;
- unquoted securities – professional estimate;
- unitised securities – current bid price;
- property – market value.

The change in the net pension's liability is analysed into the following components:

- Service cost comprising:
  - current service cost – the increase in liabilities as result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked;
  - past service cost – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – debited to the Surplus/Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs;
  - net interest on the net defined liability / (asset), i.e. net interest expense for the authority – the change during the period in the net defined benefit liability / (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability / (asset) at the end of the period – taking into account any changes in the net defined benefit liability / (asset) during the period as a result of contribution and benefit payments;
- Remeasurements comprising:
  - the return on plan assets - excluding amounts included in net interest on the net defined benefit liability / (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure;
  - the net defined benefit liability / (asset) – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure;
- Contributions paid to the Tayside Pension Fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund Balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact on the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

#### Discretionary Benefits

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

#### Career Average Revalued Earnings Scheme (CARE)

The Local Government Pension Scheme changed from Final Salary to Career Average Revalued Earnings (CARE) on 1 April 2015, with a change of accrual rate from 1/60<sup>th</sup> to 1/49<sup>th</sup>. Employees who were previously paying into the Final Salary scheme were automatically transferred into the new CARE scheme on 1 April 2015.

#### **Events after the Reporting Period**

Events after the reporting period are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Annual Accounts are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period – the Annual Accounts are adjusted to reflect such events;
- those that are indicative of conditions that arose after the reporting period – the Annual Accounts are not adjusted to reflect such events, but where a category of events would have a material effect disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Annual Accounts.

#### **Fair Value Measurement**

The Council measures some of its non-financial assets such as surplus assets and investment properties at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- a) in the principal market for the asset or liability, or
- b) in the absence of a principal market, in the most advantageous market for the asset or liability.

The authority measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the authority takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The authority uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the authority's financial statements are categorised within the fair value hierarchy, as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that the authority can access at the measurement date
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3: unobservable inputs for the asset or liability.

### **Financial Liabilities**

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest) and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount respectively is deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain/loss over the term of the replacement loan. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

### **Financial Assets**

Financial assets are loans and receivables that have fixed or determinable payments but are not quoted in an active market.

Loans and receivables are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are then measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For deposits that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the agreement.

However, the Council has made loans to various organisations at less than market rates (soft loan). When a soft loan is made, a loss is recorded in the Comprehensive Income and Expenditure Statement (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement at a higher effective rate of interest than the rate receivable from the voluntary organisations, with the difference serving to increase the amortised cost of the loan in the Balance Sheet.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

Any gains and losses that arise on the de-recognition of an asset are credited/debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

## Foreign Currency

Where the Council enters into a transaction in foreign currency the transaction is converted into sterling at the exchange rate applicable on the date the transaction is effective.

## Government Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

- the Council will comply with the conditions attached to the payments; and
- the grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attaching to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants/contributions) or Taxation and Non-Specific Grant Income (non-ring-fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied Account. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied Account are transferred to the Capital Adjustment Account once they have been applied.

## Heritage Assets

Heritage Assets are those assets that are intended to be preserved in trust for future generations because of their cultural, environmental or historical associations. Heritage Assets include museum and gallery collections and works of art. These assets are held by the Council in pursuit of its overall objectives in relation to the maintenance of the heritage. From 1 April 2016 Culture Perth & Kinross had responsibility for the delivery and development of museum and library services in Perth & Kinross. The Trust manages the museum and gallery collections on behalf of the Council, however the Council will continue to be custodian of the collections.

### Tangible Heritage Assets

The Council's Heritage Assets are held in the Perth Museum & Gallery, Fergusson Gallery and Alyth Museum. The collections include Art, History and Natural History and are held in support of Council objectives i.e. to increase knowledge, understanding and appreciation of the local area and its history. Heritage Assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Council's accounting policies on property, plant and equipment.

However, some of the measurement rules are relaxed in relation to heritage assets as detailed below. The Council has embarked upon a revaluation programme for all collection items deemed to have significant value, these being mainly items within Fine and Applied Art collections. In recognition of the key qualitative characteristics of the financial statements, i.e. understandability, relevance, reliability and comparability, the Council has chosen to apply a £10,000 de-minimis level for which items will be recognised within the balance sheet. The exclusion of individual items having a value of less than £10,000 does not impact upon the characteristics of the financial statements and a summary of the main collections and applicable accounting treatment is as follows.

### Art Collection

The Fine Art collection includes paintings and sketches in various mediums, and although international in scope, its greatest strength is in the holding of Scottish pictures. The collection seeks to retain a balance between the historical and the contemporary whilst continuing to develop the holdings of works of specifically local interest. The Applied Art collection has been acquired since 1785 through purchase, gift or bequest. It covers a wide variety of objects and materials, within which the collections of Perth silver and Perthshire glass are unsurpassed in terms of national importance.

Subject to the de-minimis noted above, items donated or acquired are valued by the curators at point of acquisition; in addition, there is a five year rolling programme of valuation to ensure all significant items in the Art collection are valued. All valuations are undertaken by the curators having relevant knowledge and experience and with reference to appropriate commercial markets.

Art collection items are held in the Council balance sheet at market value and are tested annually for impairment, e.g. where an item has suffered physical deterioration or breakage or where doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the Council's general policies on impairment.

As the assets within the art collection are deemed to have indeterminate lives and a high residual value, the Council does not consider it appropriate to charge depreciation.

### History Collection

The History collection includes social history, archaeology, arms & armour, costume, archives, coins, medals & stamps, photography and world cultures collections. These items cannot be readily and/or reliably valued due to their diverse

nature. The cost of valuation would be disproportionate in terms of any benefit derived to the user of the financial statements and the History collection is consequently excluded from the Council Balance Sheet.

#### Natural History Collection

The Natural History collection includes zoology, botany and geology collections. No market exists for these items and collections and there is no comparable data to form the basis of valuation. The cost of obtaining valuations would be disproportionate in terms of any benefit derived to the user of the financial statements and Natural History collections are consequently excluded from the Council Balance Sheet.

#### Heritage Assets – General

The Council may dispose of heritage assets which have a doubtful provenance or are unsuitable for public display. The proceeds of such items are accounted for in accordance with the Council's general provisions relating to the disposal of property, plant and equipment. Disposal proceeds are disclosed separately in the notes to the financial statements and are accounted for in accordance with statutory accounting requirements relating to capital expenditure and capital receipts.

The promotion of other cultural events and programmes during the year makes it difficult to reliably estimate the percentage of the Art Collection on display for public viewing. All items not on display are held in secure storage and access is permitted to scholars and others for research purposes.

The Culture Perth & Kinross Collections Management Framework provides guidance on the collection, disposal or lending of heritage assets.

### **Intangible Assets**

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Council as a result of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Council. Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being available) and the Council will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset. Expenditure is capitalised where it can be measured reliably as attributable to the asset and restricted to that incurred during the development phase (research expenditure is not capitalised). Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Council's goods or services.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Council can be determined by reference to an active market. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and the Capital Receipts Reserve.

### **Interests in Companies and Other Entities**

The Council has material interests in companies and other entities that have the nature of subsidiaries, associates and jointly controlled entities and require it to prepare group accounts. In the Council's own single-entity accounts, the interests in companies and other entities are recorded as financial assets at cost, less any provision for losses.

### **Inventories**

Inventories are included in the Balance Sheet at the lower of cost and net realisable value. Work in progress is valued at the cost of direct materials and labour plus attributable overheads based on the normal level of activity less any attributable losses.

### **Investment Properties**

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale. Investment properties are measured initially at cost and subsequently at fair value, being the price that would be received to sell such an asset in an orderly transaction between market participants at the measurement date. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and the Capital Receipts Reserve.

## Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases. Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification. Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

### The Council as Lessee

Operating Leases - Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

### The Council as Lessor

Operating Leases - Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

## Overheads and Support Services

The costs of overheads and support services are only charged to the HRA and charities in accordance with the total absorption costing principle.

## Property, Plant and Equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

### Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (e.g. repairs and maintenance) is charged as an expense when it is incurred.

### Measurement

Assets are initially measured at cost, comprising:

- the purchase price;
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management;
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located where there is a legal or constructive obligation to do so.

The Council does not capitalise borrowing costs incurred whilst assets are under construction. The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition will not increase the cash flows of the Council. In the latter case, the cost of the acquisition is the carrying amount of the asset given up by the Council.

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-Specific Grant Income line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

Assets are then carried in the Balance Sheet using the following measurement bases:

- infrastructure and community assets – depreciated historical cost;
- assets under construction – historical cost
- dwellings – current value, determined using the basis of existing use value for social housing (EUV-SH). The Council values these assets using the Beacon approach (Adjusted Vacant Possession)

- other land and buildings – current value based on existing use value (EUV) for operational assets where there is an active market, or if there is no market based evidence of current value because of the specialist nature of the asset and/or the asset is rarely sold, depreciated replacement cost (DRC) using the instant build approach;
- all other assets – current value, determined by the amount that would be paid for the asset in its existing use (existing use value – EUV).

Assets included in the Balance Sheet at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains.

Where decreases in value are identified, the revaluation loss is accounted for as follows:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains);
- where there is no balance in the Revaluation Reserve or insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

#### Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains);
- where there is no balance in the Revaluation Reserve or insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

#### Disposals and Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previously recognised losses. Depreciation is not charged on Assets Held for Sale. Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal.

Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal are categorised as capital receipts. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement. The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

#### Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction).

|                               |                      |
|-------------------------------|----------------------|
| Leasehold properties          | over period of lease |
| Roads and bridges             | 15-30 years          |
| Other infrastructure assets   | 10-30 years          |
| Vehicles, plant and equipment | 3-15 years           |
| Council Buildings             | up to 50 years       |
| Council Dwellings             | 10-30 years          |
| Intangible Fixed Assets       | 3-5 years            |

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately. Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

### **Private Finance Initiative (PFI) and Similar Contracts**

PFI and similar contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the PFI contractor. As the Council is deemed to control the services that are provided under its PFI schemes the Council carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment.

The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment. Non-current assets recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the Council.

The amounts payable to the PFI operators each year are analysed into five elements:

- fair value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement;
- finance cost – an interest charge on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;
- contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;
- payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease);
- lifecycle replacement costs – debited to the relevant service in the Comprehensive Income and Expenditure Statement.

### **Provisions**

The Council is required to make provisions where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. Provision has been made for bad and doubtful debts in respect of Council Tax, Community Charge, Housing Rents and other items of income, where appropriate. In all cases the level of provision is based on experience and an assessment of the prospects of recovering the related debt.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the council becomes aware of the obligation, and measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties. When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service. Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the council settles the obligation.

### **Reserves**

Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus/Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure. Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments and retirement benefits and that do not represent usable resources for the Council – these reserves are explained in the relevant notes.

### **Revenue Expenditure Funded from Capital under Statute**

Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax.

### **VAT**

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

## 2. Accounting Standards that have been issued but have not yet been adopted

For 2016/17, there have been changes to the disclosure requirements for Pension Fund accounting and reporting, however the changes do not impact upon the Annual Accounts of the Council.

## 3. Critical Judgements in Applying Accounting Policies

In applying the accounting policies set out in Note 1, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Annual Accounts are:

### Public Sector Funding

There is a high degree of uncertainty about future levels of funding for local government. However, the Council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Council might be impaired as a result of a need to close facilities and reduce levels of service provision.

### Public Private Partnership (PPP)

The Council is deemed to control the services provided under the agreement for the provision of educational establishments. The accounting policies for PPP schemes and similar arrangements have been applied and the assets under the contract are included within Property, Plant and Equipment on the Council's Balance Sheet. Note 36 provides further details.

## 4. Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty

The Annual Accounts contains estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Council's Balance Sheet at 31 March 2017 for which there is a significant risk of material adjustment in the forthcoming financial year are in respect of the Council's Net Pensions Liability and Property and Plant and Equipment.

### Uncertainty

Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.

### Effect if Actual Results Differ from Assumptions

The effects on the net pensions liability of changes in individual assumptions can be measured. For instance, a 0.1% increase in the discount rate assumption would result in a reduction in the pension liability of £17,988,000. However, the assumptions interact in complex ways. During 2016/17, the Council's actuaries advised that the net pension liability had increased by £88,118,000 following an updating of assumptions.

### Uncertainty

Property, Plant and Equipment assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Council will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.

### Effect if Actual Results Differ from Assumptions

If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge for buildings would increase by £563,000 for every year that useful lives had to be reduced.



## 5. Adjustments between Accounting Basis and Funding Basis under Regulations

|                                                                                                                                                                                                                         | Usable Reserves      |                         |                          |               | 2015/16      |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------|-------------------------|--------------------------|---------------|--------------|
|                                                                                                                                                                                                                         | General Fund Balance | Housing Revenue Account | Capital Receipts Reserve | Total         |              |
|                                                                                                                                                                                                                         | £'000                | £'000                   | £'000                    | £'000         | £'000        |
| <u>Adjustments involving the Capital Adjustment Account</u>                                                                                                                                                             |                      |                         |                          |               |              |
| Depreciation and impairment on non-current assets                                                                                                                                                                       | (29,165)             | (13,463)                | 0                        | (42,628)      | (40,684)     |
| Revaluation Losses on Property, Plant & Equipment                                                                                                                                                                       | (6,463)              | (80)                    | 0                        | (6,543)       | (8,938)      |
| Reversal revaluation gains                                                                                                                                                                                              | 27,586               | 0                       |                          | 27,586        | 12,102       |
| Movements in Fair Value of Investment Properties                                                                                                                                                                        | (171)                | 0                       | 0                        | (171)         | 136          |
| Amortisation of Intangible Assets                                                                                                                                                                                       | (39)                 | 0                       | 0                        | (39)          | (11)         |
| Capital grants and contributions credited to the Comprehensive Income & Expenditure Statement                                                                                                                           | 17,571               | 3,260                   | 0                        | 20,831        | 34,782       |
| Amounts of non current assets written off on disposal as part of the gain/loss                                                                                                                                          | (860)                | (2,320)                 | 0                        | (3,180)       | (4,465)      |
| <u>Items not debited or credited to the Comprehensive Income &amp; Expenditure Statement</u>                                                                                                                            |                      |                         |                          |               |              |
| Statutory provision for repayment of debt                                                                                                                                                                               | 14,675               | 3,378                   | 0                        | 18,053        | 16,956       |
| Capital expenditure charged to the General Fund and HRA balances                                                                                                                                                        | 4,146                | 4,966                   | 0                        | 9,112         | 8,534        |
| <u>Adjustments involving the Capital Receipts Reserve</u>                                                                                                                                                               |                      |                         |                          |               |              |
| Transfer of sale proceeds credited as part of the gain/loss on disposal                                                                                                                                                 | 1,138                | 2,242                   | (3,380)                  | 0             | 0            |
| Use of the Capital Receipts Reserve to finance new capital expenditure                                                                                                                                                  | 0                    | 0                       | 3,842                    | 3,842         | 3,237        |
| <u>Adjustments involving the Capital Grants Unapplied Account</u>                                                                                                                                                       | 0                    | 0                       | 0                        | 0             | 15           |
| <u>Adjustments involving the Financial Instruments Adjustment Account</u>                                                                                                                                               | 391                  | 121                     | 0                        | 512           | 562          |
| <u>Adjustments involving the Pensions Reserve</u>                                                                                                                                                                       |                      |                         |                          |               |              |
| Employer's pensions contributions and direct payments to pensioners payable in the year                                                                                                                                 | 15,619               | 1,088                   | 0                        | 16,707        | 16,377       |
| Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement                                                                                             | (26,814)             | (1,924)                 | 0                        | (28,738)      | (32,782)     |
| <u>Adjustments involving Short Term Accumulated Absences Account</u>                                                                                                                                                    |                      |                         |                          |               |              |
| Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements | (765)                | (69)                    | 0                        | (834)         | 1,032        |
| <b>Total Adjustments</b>                                                                                                                                                                                                | <b>16,849</b>        | <b>(2,801)</b>          | <b>462</b>               | <b>14,510</b> | <b>6,853</b> |

## 6. Expenditure and Funding Analysis - 2016/17

|                                                              | Net<br>Expenditure<br>charged to<br>the General<br>Fund and HRA<br>Balances<br>£000 | Adjustments<br>between the<br>Funding and<br>Accounting<br>Basis<br>£000 | Net<br>Expenditure<br>in the<br>Comprehensive<br>Income and<br>Expenditure<br>Statement<br>£000 |
|--------------------------------------------------------------|-------------------------------------------------------------------------------------|--------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------|
| Education & Children's Services                              | 153,750                                                                             | (9,513)                                                                  | 144,237                                                                                         |
| Health & Social Care                                         | 49,226                                                                              | 2,196                                                                    | 51,422                                                                                          |
| Housing & Community Safety                                   | 14,323                                                                              | (161)                                                                    | 14,162                                                                                          |
| The Environment Service                                      | 47,526                                                                              | 14,671                                                                   | 62,197                                                                                          |
| Corporate and Democratic Services                            | 12,652                                                                              | 3,587                                                                    | 16,239                                                                                          |
| Culture Services                                             | 9,908                                                                               | 458                                                                      | 10,366                                                                                          |
| Housing Revenue Account                                      | (6,277)                                                                             | 9,730                                                                    | 3,453                                                                                           |
| Valuation Joint Board                                        | 1,161                                                                               | 0                                                                        | 1,161                                                                                           |
| Non Distributed Costs                                        | 1,441                                                                               | (1,441)                                                                  | 0                                                                                               |
| <b>Cost of Services</b>                                      | <b>283,710</b>                                                                      | <b>19,527</b>                                                            | <b>303,237</b>                                                                                  |
| Other Income and Expenditure                                 | (278,694)                                                                           | (33,575)                                                                 | (312,269)                                                                                       |
| <b>(Surplus) or Deficit on Provision of Services</b>         | <b>5,016</b>                                                                        | <b>(14,048)</b>                                                          | <b>(9,032)</b>                                                                                  |
| Opening General Fund and HRA Balance                         | (55,690)                                                                            |                                                                          |                                                                                                 |
| (Surplus) or Deficit on General Fund and HRA Balance in Year | 5,016                                                                               |                                                                          |                                                                                                 |
| Transfers from other Statutory Reserves                      | (1,528)                                                                             |                                                                          |                                                                                                 |
| <b>Closing General Fund and HRA Balance at 31 March</b>      | <b>(52,202)</b>                                                                     |                                                                          |                                                                                                 |

This note provides a reconciliation of the main adjustments to Net Expenditure Chargeable to the General Fund and HRA Balances to arrive at the amounts in the Comprehensive Income and Expenditure Statement. The relevant transfers between reserves are explained in the Movement in Reserves Statement.

### Notes to the Expenditure and Funding Analysis - adjustments between funding and accounting basis

| Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts                                                        | Adjustments for<br>Capital Purposes<br>Note A<br>£ '000 | Net change for the<br>Pensions<br>Adjustments<br>Note B<br>£ '000 | Other Differences<br>Note C<br>£ '000 | Total Adjustments<br>£ '000 |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------|-------------------------------------------------------------------|---------------------------------------|-----------------------------|
| <b>COUNCIL SERVICES</b>                                                                                                                                      |                                                         |                                                                   |                                       |                             |
| Education & Children's Services                                                                                                                              | (12,014)                                                | 2,155                                                             | 346                                   | (9,513)                     |
| Health & Social Care                                                                                                                                         | 551                                                     | 1,567                                                             | 78                                    | 2,196                       |
| Housing & Community Safety                                                                                                                                   | (498)                                                   | 344                                                               | (7)                                   | (161)                       |
| The Environment Service                                                                                                                                      | 12,178                                                  | 2,263                                                             | 230                                   | 14,671                      |
| Corporate and Democratic Services                                                                                                                            | 2,620                                                   | 849                                                               | 118                                   | 3,587                       |
| Culture Services                                                                                                                                             | 458                                                     | 0                                                                 | 0                                     | 458                         |
| Housing Revenue Account                                                                                                                                      | 9,217                                                   | 444                                                               | 69                                    | 9,730                       |
| Valuation Joint Board                                                                                                                                        | 0                                                       | 0                                                                 | 0                                     | 0                           |
| Non Distributed Costs                                                                                                                                        | 0                                                       | (1,441)                                                           | 0                                     | (1,441)                     |
| <b>Cost of Services</b>                                                                                                                                      | <b>12,512</b>                                           | <b>6,181</b>                                                      | <b>834</b>                            | <b>19,527</b>               |
| Other Operating Expenditure and Income                                                                                                                       | (200)                                                   | 0                                                                 | 0                                     | (200)                       |
| Financing and Investment Income and Expenditure                                                                                                              | (17,882)                                                | 5,850                                                             | (512)                                 | (12,544)                    |
| Taxation and Non-Specific Grant Income                                                                                                                       | (20,831)                                                | 0                                                                 | 0                                     | (20,831)                    |
| <b>Other income and expenditure from the Expenditure and Funding Analysis</b>                                                                                | <b>(38,913)</b>                                         | <b>5,850</b>                                                      | <b>(512)</b>                          | <b>(33,575)</b>             |
| <b>Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services</b> | <b>(26,401)</b>                                         | <b>12,031</b>                                                     | <b>322</b>                            | <b>(14,048)</b>             |

## Expenditure and Funding Analysis - 2015/16

|                                                              | Net<br>Expenditure<br>charged to<br>the General<br>Fund and HRA<br>Balances<br>£000 | Adjustments<br>between the<br>Funding and<br>Accounting<br>Basis<br>£000 | Net<br>Expenditure<br>in the<br>Comprehensive<br>Income and<br>Expenditure<br>Statement<br>£000 |
|--------------------------------------------------------------|-------------------------------------------------------------------------------------|--------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------|
| Education & Children's Services                              | 152,044                                                                             | 8,883                                                                    | 160,927                                                                                         |
| Health & Social Care                                         | 50,096                                                                              | 5,513                                                                    | 55,609                                                                                          |
| Housing & Community Safety                                   | 16,902                                                                              | 387                                                                      | 17,289                                                                                          |
| The Environment Service                                      | 43,776                                                                              | 15,454                                                                   | 59,230                                                                                          |
| Corporate and Democratic Services                            | 13,689                                                                              | (170)                                                                    | 13,519                                                                                          |
| Culture Services                                             | 9,673                                                                               | 441                                                                      | 10,114                                                                                          |
| Housing Revenue Account                                      | (5,293)                                                                             | 9,903                                                                    | 4,610                                                                                           |
| Valuation Joint Board                                        | 1,093                                                                               | 0                                                                        | 1,093                                                                                           |
| Non Distributed Costs                                        | 1,445                                                                               | (1,445)                                                                  | 0                                                                                               |
| <b>Cost of Services</b>                                      | <b>283,425</b>                                                                      | <b>38,966</b>                                                            | <b>322,391</b>                                                                                  |
| Other Income and Expenditure                                 | (289,371)                                                                           | (45,760)                                                                 | (335,131)                                                                                       |
| <b>(Surplus) or Deficit on Provision of Services</b>         | <b>(5,946)</b>                                                                      | <b>(6,794)</b>                                                           | <b>(12,740)</b>                                                                                 |
| Opening General Fund and HRA Balance                         | (53,470)                                                                            |                                                                          |                                                                                                 |
| (Surplus) or Deficit on General Fund and HRA Balance in Year | (5,946)                                                                             |                                                                          |                                                                                                 |
| Transfers to other Statutory Reserves                        | 3,726                                                                               |                                                                          |                                                                                                 |
| <b>Closing General Fund and HRA Balance at 31 March</b>      | <b>(55,690)</b>                                                                     |                                                                          |                                                                                                 |

This note provides a reconciliation of the main adjustments to Net Expenditure Chargeable to the General Fund and HRA Balances to arrive at the amounts in the Comprehensive Income and Expenditure Statement. The relevant transfers between reserves are explained in the Movement in Reserves Statement.

### Notes to the Expenditure and Funding Analysis - adjustments between funding and accounting basis

|                                                                                                                                                              | Adjustments for<br>Capital Purposes<br>Note A<br>£ '000 | Net change for the<br>Pensions<br>Adjustments<br>Note B<br>£ '000 | Other Differences<br>Note C<br>£ '000 | Total Adjustments<br>£ '000 |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------|-------------------------------------------------------------------|---------------------------------------|-----------------------------|
| Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts                                                        |                                                         |                                                                   |                                       |                             |
| <b>COUNCIL SERVICES</b>                                                                                                                                      |                                                         |                                                                   |                                       |                             |
| Education & Children's Services                                                                                                                              | 6,452                                                   | 2,863                                                             | (432)                                 | 8,883                       |
| Health & Social Care                                                                                                                                         | 477                                                     | 5,315                                                             | (279)                                 | 5,513                       |
| Housing & Community Safety                                                                                                                                   | 119                                                     | 268                                                               | 0                                     | 387                         |
| The Environment Service                                                                                                                                      | 13,159                                                  | 2,518                                                             | (223)                                 | 15,454                      |
| Corporate and Democratic Services                                                                                                                            | (586)                                                   | 475                                                               | (59)                                  | (170)                       |
| Culture Services                                                                                                                                             | 441                                                     | 0                                                                 | 0                                     | 441                         |
| Housing Revenue Account                                                                                                                                      | 8,935                                                   | 1,007                                                             | (39)                                  | 9,903                       |
| Valuation Joint Board                                                                                                                                        | 0                                                       | 0                                                                 | 0                                     | 0                           |
| Non Distributed Costs                                                                                                                                        | 0                                                       | (1,445)                                                           | 0                                     | (1,445)                     |
| <b>Cost of Services</b>                                                                                                                                      | <b>28,997</b>                                           | <b>11,001</b>                                                     | <b>(1,032)</b>                        | <b>38,966</b>               |
| Other Operating Expenditure and Income                                                                                                                       | 1,272                                                   | 81                                                                | 0                                     | 1,353                       |
| Financing and Investment Income and Expenditure                                                                                                              | (17,092)                                                | 5,323                                                             | (562)                                 | (12,331)                    |
| Taxation and Non-Specific Grant Income                                                                                                                       | (34,782)                                                | 0                                                                 | 0                                     | (34,782)                    |
| <b>Other income and expenditure from the Expenditure and Funding Analysis</b>                                                                                | <b>(50,602)</b>                                         | <b>5,404</b>                                                      | <b>(562)</b>                          | <b>(45,760)</b>             |
| <b>Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services</b> | <b>(21,605)</b>                                         | <b>16,405</b>                                                     | <b>(1,594)</b>                        | <b>(6,794)</b>              |

## Note 6 cont'd

### Explanation to the Expenditure and Funding Analysis

#### Adjustments for Capital Purposes

Note A Adjustments for Capital Purposes adds in depreciation and impairment and revaluation gains and losses in the services line, and for:

- **Other operating expenditure** – adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets.
- **Financing and investment income and expenditure** – the statutory charges for capital financing and other revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices.
- **Taxation and non-specific grant income and expenditure** – capital grants are adjusted for income not chargeable under generally accepted accounting practices. Revenue grants are adjusted from those receivable in the year to those receivable without conditions or for which conditions were satisfied throughout the year. The Taxation and Non Specific Grant Income and Expenditure line is credited with capital grants receivable in the year without conditions or for conditions which were satisfied in the year.

#### Net Change for the Pensions Adjustments

Note B Net change for the removal of pension contributions and the addition of IAS 19 Employee Benefits pension related expenditure and income:

- **For services** this represents the removal of the employer pension contributions made by the authority as allowed by statute and the replacement with current service costs and past service costs.
- For **Financing and investment income and expenditure** – the net interest on the defined benefit liability is charged to the Comprehensive Income and Expenditure Statement

#### Other Differences

Note C Other differences between the amounts debited/credited to the Comprehensive Income and Expenditure Statement and amounts payable/receivable to be recognised under statute:

- For **Financing and investment income and expenditure** the other differences column recognises adjustments to the General Fund for the timing differences for premiums and discounts and stepped interest rate loans
- **For services** this represents the removal of the increase or decrease in the employee statutory adjustment account.

## 7. Transfer (to)/from General Fund Reserves

The Reserves Strategy that the Council approved in February 2017 earmarked funding towards specific or known future commitments. The following table sets out the updated balances as at 31 March 2017 for these Earmarked Reserves taking cognisance of the final year-end position.

|                                                                                     | Balance as at<br>1 April 2016<br>£'000 | Transfers<br>(In)/Out<br>£'000 | Balance as at<br>31 March 2017<br>£'000 |
|-------------------------------------------------------------------------------------|----------------------------------------|--------------------------------|-----------------------------------------|
| Transformation Programme (including Workforce Management and Organisational Change) | (15,966)                               | 2,284                          | (13,682)                                |
| Developer Contributions: Commuted Sums & Infrastructure and Affordable Housing      | (5,011)                                | 313                            | (4,698)                                 |
| Affordable Housing (Resources accrued from reduced Council Tax Discounts)           | (3,729)                                | (295)                          | (4,024)                                 |
| Revenue Budget Flexibility                                                          | (5,283)                                | 2,450                          | (2,833)                                 |
| Perth High School                                                                   | 0                                      | (2,116)                        | (2,116)                                 |
| Secondary Schools                                                                   | (1,149)                                | (250)                          | (1,399)                                 |
| Devolved School Management (DSM)                                                    | (1,258)                                | 155                            | (1,103)                                 |
| Bridge Feasibility Studies                                                          | 0                                      | (808)                          | (808)                                   |
| Revenue Grants                                                                      | (826)                                  | 132                            | (694)                                   |
| Health and Social Care Partnership                                                  | 0                                      | (598)                          | (598)                                   |
| Crematorium Abatement Levy                                                          | (400)                                  | (100)                          | (500)                                   |
| Perth & Kinross Marketing & Promotional Scheme                                      | (650)                                  | 215                            | (435)                                   |
| Car Parking                                                                         | (1,668)                                | 1,251                          | (417)                                   |
| Perth City Centre Projects                                                          | (1,200)                                | 808                            | (392)                                   |
| Flood Prevention Works                                                              | 0                                      | (291)                          | (291)                                   |
| UK City of Culture                                                                  | (239)                                  | (1)                            | (240)                                   |
| Environmental Improvements                                                          | (220)                                  | 8                              | (212)                                   |
| Local Government Elections                                                          | (197)                                  | (15)                           | (212)                                   |
| Energy and Water Management                                                         | (200)                                  | 0                              | (200)                                   |
| Planning Appeals and Public Inquiries                                               | (300)                                  | 104                            | (196)                                   |
| Central Energy Efficiency Fund                                                      | (231)                                  | 81                             | (150)                                   |
| Public Service Network                                                              | (355)                                  | 215                            | (140)                                   |
| Contaminated Land                                                                   | (123)                                  | 0                              | (123)                                   |
| Modern Apprentices/Graduate Trainees                                                | (291)                                  | 170                            | (121)                                   |
| Corporate Feasibility Studies                                                       | (100)                                  | 0                              | (100)                                   |
| Financial Assistance                                                                | (80)                                   | (20)                           | (100)                                   |
| Investment in Improvement Funds                                                     | (218)                                  | 143                            | (75)                                    |
| Essential Maintenance & Compliance Works                                            | (715)                                  | 715                            | 0                                       |
| Events                                                                              | (50)                                   | 50                             | 0                                       |
| Evidence to Success                                                                 | (624)                                  | 624                            | 0                                       |
| Investment in Learning Programme (ILL)                                              | (100)                                  | 100                            | 0                                       |
| Perth Office Programme                                                              | (244)                                  | 244                            | 0                                       |
| Rural Warden                                                                        | (20)                                   | 20                             | 0                                       |
| Earmarked Balances at 31 March 2017                                                 | (41,447)                               | 5,588                          | (35,859)                                |

### Purpose of Earmarked General Fund Balances

**Transformation Programme (including Workforce Management and Organisational Change)** – the Reserves Strategy in February 2017 approved these resources as earmarked to support the Council's transformation programme including the costs of any workforce management and cultural change measures required to respond to future financial challenges. The application of these resources will be reported to the Strategic Policy & Resources Committee through the revenue monitoring process.

**Developer Contributions: Commuted Sums & Infrastructure and Affordable Housing** - the Enterprise & Infrastructure Committee approved a comprehensive affordable housing policy on 29 August 2007. As a consequence, commuted sums are received from some developers in lieu of the provision of affordable housing. These sums are held in the Council's Reserves until they are applied to schemes for the provision of affordable housing. Additionally, contributions are provided by developers towards the cost of providing and maintaining public open space, play areas and Infrastructure. The application of these resources will be reported to the Strategic Policy & Resources Committee through the revenue monitoring process.

**Affordable Housing (Resources accrued from reduced Council Tax Discounts)** - These reserves have been generated as a result of the Council's policy on varying the level of council tax charged for long term empty properties and second homes. These resources can only be used for the provision of affordable housing. The application of these resources will be reported to the Strategic Policy & Resources Committee through the revenue monitoring process.

**Revenue Budget Flexibility** – to assist in the management of the Revenue Budget, the Council's approved budget flexibility scheme permits Services to carry forward under or over spends from one financial year into future financial years within set limits and with the prior approval of Council. The amount carried forward can only be utilised for purposes approved by Council.

**Perth High School** - these resources were earmarked as part of 2016/17 Revenue Monitoring Report 1 to the Strategic Policy and Resources Committee (Report No. 16/400 refers) for future maintenance works at Perth High School.

**Secondary Schools** – £649,000 of these resources were earmarked as part of the 2015/16 Revenue Monitoring Report 1 to the Strategic Policy & Resources Committee (report 15/395 refers) to equip the new secondary school at Bertha Park. A further £650,000 was approved as part of the 2016/17 and 2017/18 Revenue Budget processes as budget flexibility and £100,000 transferred from the amount earmarked for Investment and Learning.

**Devolved School Management (DSM)** – the amount shown is the accumulated sum available to be carried forward at 31 March 2017 under the approved scheme for managing these budgets. The purposes for which the earmarked amount can be used and the procedures for its management and control are detailed in the Council's approved DSM scheme.

**Bridge Feasibility Studies** - the Council earmarked £808,000 for testing and assessment of the Queens Bridge, Perth and Old Perth Bridge to be carried out over the next 2 financial years (Report No. 17/60 refers).

**Revenue Grants** - these grants are being carried forward in reserves as the grant conditions have been met but the expenditure has not been fully incurred.

**Health and Social Care Partnership** - The Strategic Policy and Resources Committee approved earmarking £598,000 as part of the 2016/17 Revenue Monitoring Report 3 (Report 17/45 refers) for future partnership transformation projects.

**Crematorium Abatement Levy** – income from financial years 2012/13 to 2016/17 has been earmarked for future investment at Perth Crematorium to comply with mercury abatement legislation. The application of these resources will be reported to the Strategic Policy & Resources Committee through the revenue monitoring process.

**Perth & Kinross Marketing & Promotional Scheme** - These resources were earmarked as part of 2016/17 Revenue Monitoring to the Strategic Policy and Resources Committee (Report No. 16/400 refers) for use in future years.

**Car Parking** – this balance is the accumulated surplus at 31 March 2017 which is restricted in its application under the Road Traffic Regulation Act 1984. Any proposals to utilise these resources will require approval by the Strategic Policy and Resources Committee.

**Perth City Centre Projects** – this balance will be utilised for projects in Perth City Centre. The application of these resources will be reported to the Strategic Policy & Resources Committee through the revenue monitoring process.

**Flood Prevention Works** – these resources were earmarked as part of the 2017/18 Reserves Strategy for the completion of improvement works in 2017/18 required as a consequence of severe weather. (Report No 17/48 refers).

**UK City of Culture** – Council has approved funding of £400,000 towards the bid for City of Culture (reports 15/417 and 16/445 refer). £240,000 of resources are available for future years.

**Environmental Improvements** – these resources are earmarked in reserves for future environmental initiatives. The application of these resources will be reported to the Strategic Policy & Resources Committee through the revenue monitoring process.

**Local Government Elections** – these resources are earmarked in reserves as a contribution to local elections. The application of these resources will be reported to the Strategic Policy & Resources Committee through the revenue monitoring process.

**Energy and Water Management** – the Council approved the transfer of £200,000 to an Energy and Water Management Reserve as part of the Revenue Budget process in February 2014. This is to deal with any potential over spends on energy and water management associated with severe weather.

**Planning Appeals and Public Inquiries** – under spends in previous years have been earmarked to fund future planning appeal and public inquiry expenses. The application of these resources will be reported to the Strategic Policy & Resources Committee through the revenue monitoring process.

**Central Energy Efficiency Fund** – this fund is a means of pooling grant received from the former Scottish Executive together with savings achieved from the implementation of energy conservation and efficiency schemes to fund expenditure on further schemes of the same type. The application of these resources will be reported to the Strategic Policy & Resources Committee through the revenue monitoring process.

**Public Service Network** – these resources are earmarked in reserves to fund any additional work that may be required beyond initial accreditation. The application of these resources will be reported to the Strategic Policy & Resources Committee through the revenue monitoring process.

**Contaminated Land** – these resources are earmarked to fund future remediation work to comply with the Council's statutory duty. The application of these resources will be reported to the Strategic Policy & Resources Committee through the revenue monitoring process.

**Modern Apprentices/Graduate Trainees** - The Strategic Policy and Resources Committee approved the transfer of the underspend on modern apprentices and graduate trainees during 2016/17 to fund future expenditure in this area.

**Corporate Feasibility Studies** – these resources were approved to be earmarked at the Strategic Policy & Resources Committee (report 16/179 refers) for use in future years.

**Financial Assistance** – at its meeting on 9 February 2006 the Council approved the creation of a recurring budget to fund its anticipated contribution to the Mod and other events across Perth and Kinross.

**Investment in Improvement Funds** - this amount is earmarked for specific projects in accordance with reports approved by the Strategic Policy & Resources Committee. The application of these resources will be reported to the Strategic Policy & Resources Committee through the revenue monitoring process, with additional reports on progress in utilising the resources to be submitted to that committee where necessary.

**Essential Maintenance and Compliance Works** – these resources have been earmarked to fund the dilapidations works associated with the Perth Office Programme and have been accounted for in 2016/17.

**Events** – These resources were earmarked as part of the revenue budget approved in February 2013 for investment in outdoor and cultural events. The remaining resources have been utilised in 2016/17.

**Evidence to Success** – these resources were earmarked as part of the setting of the 2015/16 Revenue Budget in February 2014 and were utilised in 2016/17.

**Investment in Learning Programme** – these resources have been transferred to the new earmarked reserve for Secondary Schools as approved as part of the 2017/18 Reserves Strategy.

**Perth Office Programme** - these resources were earmarked in reserves to fund future expenditure on the Perth Office Programme and have been utilised in 2016/17.

**Rural Warden** - these resources were earmarked as part of the 2015/16 Revenue Budget to provide pilot funding for a partnership approach to community safety in Highland Perthshire and were utilised in 2016/17.

## 8. Other Operating Expenditure / Income

|                                                       | 2016/17<br>£'000 | 2015/16<br>£'000 |
|-------------------------------------------------------|------------------|------------------|
| (Gains)/ Losses on the Disposal of Non Current Assets | (200)            | 1,239            |
| Share of Tayside Contracts surplus                    | (435)            | (595)            |
| Total                                                 | <u>(635)</u>     | <u>644</u>       |

## 9. Financing and Investment Income and Expenditure

|                                                                                             | 2016/17<br>£'000 | 2015/16<br>£'000 |
|---------------------------------------------------------------------------------------------|------------------|------------------|
| Interest payable and similar charges                                                        | 18,157           | 17,808           |
| Pensions interest cost and expected return on pensions assets                               | 5,850            | 5,677            |
| Interest receivable and similar income                                                      | (375)            | (455)            |
| Income and expenditure in relation to investment properties and changes in their fair value | (687)            | (1,152)          |
| Total                                                                                       | <u>22,945</u>    | <u>21,878</u>    |

## 10. Taxation and Non Specific Grant Incomes

|                                  | 2016/17<br>£'000 | 2015/16<br>£'000 |
|----------------------------------|------------------|------------------|
| Council Tax Income               | (69,420)         | (69,494)         |
| Non Domestic Rates               | (57,228)         | (59,158)         |
| Non Ringfenced Government Grants | (187,100)        | (194,219)        |
| Capital Grants and Contributions | (20,831)         | (34,782)         |
| Total                            | <u>(334,579)</u> | <u>(357,653)</u> |

## 11. Material Items of Income and Expense

There have been no material items of income and expenditure during 2016/17 which are not disclosed on the face of the Comprehensive Income and Expenditure Statement.

## 12. Premiums and Discounts on Debt Rescheduling Written Down

The Code requires that any premiums or discounts arising from debt rescheduling should be written off in the year they were incurred, except in limited circumstances where they would qualify as a 'modification' of debt. During 2016/17, there were no such debt modifications.

The net amount of premium and discount debited to the General Fund and HRA for transactions prior to 1 April 2007 (as permitted by statutory guidance) from the Financial Instruments Adjustment Account (FIAA) was £497,000 (2015/16 £547,000).

### 13. General Grants, Bequests and Donations

Perth and Kinross Council is represented on, exercises influence over and provides grants to a large number of outside bodies which provide services to the public, consistent with the Council's statutory responsibilities.

During 2016/17 a total of £14,607,000 (2015/16 £9,956,000) was paid out in support of these organisations ranging from remission of hall rents of a few pounds to the contribution towards the operational and other costs of Live Active Leisure Limited of £4,788,000 (2015/16 £3,844,000). Details of grants are shown below.

|                                                 | 2016/17<br>£'000 | 2015/16<br>£'000 |
|-------------------------------------------------|------------------|------------------|
| Education & Children's Services - Service Level |                  |                  |
| Agreements with Voluntary Organisations         | 943              | 1,041            |
| Health & Social Care - Service Level            |                  |                  |
| Agreements with Voluntary Organisations         | 2,511            | 2,262            |
| Health & Social Care Grants                     | 388              | 93               |
| Live Active Leisure Limited                     | 4,788            | 3,844            |
| Culture Perth & Kinross                         | 3,330            | 0                |
| Horsecross Arts Ltd                             | 1,205            | 1,187            |
| Churches Action for the Homeless                | 271              | 236              |
| Pitlochry Festival Theatre                      | 220              | 220              |
| Citizens Advice Bureau                          | 428              | 388              |
| Shaw Trust                                      | 143              | 158              |
| Perthshire Women's Aid                          | 120              | 124              |
| Perth & Kinross Heritage Trust                  | 83               | 83               |
| Perth & Kinross Countryside Trust               | 60               | 60               |
| Perth and Kinross Community Mediation           | 0                | 55               |
| Vacant Property Grants                          | 47               | 31               |
| Perth & Kinross Sports Council                  | 11               | 11               |
| Visit Scotland                                  | 0                | 28               |
| Other Miscellaneous Grants                      | 59               | 135              |
|                                                 | <u>14,607</u>    | <u>9,956</u>     |



## 14. Expenditure and Income Analysed by Nature

The Council's expenditure and income is analysed as follows:

| Expenditure/Income                          | <u>2016/17</u><br>£'000 | <u>2015/16</u><br>£'000 |
|---------------------------------------------|-------------------------|-------------------------|
| <b>Expenditure</b>                          |                         |                         |
| Employee benefits expenses                  | 189,531                 | 198,381                 |
| Other services expenses                     | 205,678                 | 193,487                 |
| Contribution to Integration Joint Board     | 48,229                  | 0                       |
| Support service recharges                   | 2,118                   | 2,059                   |
| Depreciation, amortisation, impairment      | 21,795                  | 37,531                  |
| Interest payments                           | 24,007                  | 23,453                  |
| Loss on the disposal of assets              | 0                       | 1,239                   |
| <b>Total Expenditure</b>                    | <b>491,358</b>          | <b>456,150</b>          |
| <b>Income</b>                               |                         |                         |
| Fees, charges and other service income      | 125,403                 | 68,877                  |
| Interest and investment income              | 1,444                   | 1,575                   |
| Taxation and Non-Specific Grant Income      | 334,579                 | 357,653                 |
| Government grants and contributions         | 38,764                  | 40,785                  |
| Gain on the disposal of assets              | 200                     | 0                       |
| <b>Total Income</b>                         | <b>500,390</b>          | <b>468,890</b>          |
| <b>Surplus on the Provision of Services</b> | <b>(9,032)</b>          | <b>(12,740)</b>         |

## 15. Agency Services

Agency arrangements operate in some Services where the Council undertakes work on behalf of other local authorities; Scottish Water; government; and other public bodies. The main items of income and related expenditure, which are included within the Comprehensive Income and Expenditure Account, are shown below.

|                                                                       | 2016/17<br>Income<br>£'000 | 2016/17<br>Expenditure<br>£'000 | 2015/16<br>Income<br>£'000 | 2015/16<br>Expenditure<br>£'000 |
|-----------------------------------------------------------------------|----------------------------|---------------------------------|----------------------------|---------------------------------|
| <u>Education &amp; Children's Services</u>                            |                            |                                 |                            |                                 |
| Provision of Pupil Support                                            |                            |                                 |                            |                                 |
| Assistants to other local authorities                                 | 147                        | 147                             | 156                        | 156                             |
| <u>The Environment Service</u>                                        |                            |                                 |                            |                                 |
| Receipts from other local authorities for cross boundary bus services | 20                         | 20                              | 30                         | 30                              |
| <u>Corporate and Democratic Services</u>                              |                            |                                 |                            |                                 |
| Income from Scottish Water                                            | 444                        | 444                             | 444                        | 444                             |
| <b>Totals</b>                                                         | <b>611</b>                 | <b>611</b>                      | <b>630</b>                 | <b>630</b>                      |

## 16. External Audit Costs

In 2016/17 Perth and Kinross Council incurred the following fees relating to external audit services provided in accordance with the Code of Audit Practice:

|                     | 2016/17<br>£'000 | 2015/16<br>£'000 |
|---------------------|------------------|------------------|
| External Audit Fees | 279              | 284              |

This includes £3,000 in respect of the audit of charitable trusts where the Council is the sole trustee (2015/16 £1,500).

## 17. Termination Benefits

The Council terminated the contracts of a number of employees in 2016/17, incurring liabilities of £1,663,000 (£3,449,000 in 2015/16). These were in relation to 134 officers (150 in 2015/16) from all Services across the Council throughout 2016/17 and will deliver recurring savings of approximately £1.1 million in a full year.

## 18. Post-Employment Benefits

International Accounting Standard 19 'Employee Benefits' (IAS 19) prescribes how pension costs and liabilities are to be disclosed in the financial statements. The standard requires employing organisations to account for post-employment benefits in the period in which they are committed to give them, even if the actual payment of these benefits will be many years in the future. The following notes are prepared in accordance with the code guidance on disclosure requirements in respect of IAS 19.

Perth & Kinross Council participates in two different pension schemes, one for teaching staff and a separate scheme for all other employees.

### **Pensions Schemes Accounted for as Defined Contribution Schemes**

#### ***Teachers***

Teachers employed by the Council are members of the Teachers' Pension Scheme, administered by the Scottish Government. The Scheme provides teachers with specified benefits upon their retirement, and the Council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

The scheme is technically a defined benefit scheme. However, the Scheme is unfunded and the Scottish Government uses a notional fund as the basis for calculating the employers' contribution rate paid by local authorities. The Council is not able to identify its share of the underlying financial position and performance of the scheme with sufficient reliability for accounting purposes. For the purposes of this Annual Accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

In 2016/17, the Council paid £9,012,045 to the Teachers' Pensions scheme in respect of teachers' retirement benefits, representing 17.2% of pensionable pay. The figures for 2015/16 were £8,502,817 and 17.2%. There were no contributions remaining payable at the year-end. Additional payments relating to added year's benefits, which the Council has inherited from predecessor authorities or awarded itself, together with related increases, amounted to £254,534 (2015/16 £247,281).

### **Pension Schemes Accounted for as Defined Benefit Pension Schemes**

#### ***Local Government Pension Scheme***

The post-employment scheme for other employees, subject to certain qualifying criteria, is the Local Government Pension Scheme (LGPS) which is administered in this area by Dundee City Council in respect of all local authorities and admitted bodies in the former Tayside area. This is a multi-employer scheme in which it is possible for an employer to identify its share of the assets and liabilities on a consistent and reasonable basis. Employer's liabilities can be evaluated directly by the Actuary at any time on membership data.

#### **Benefits**

- It is a Career Average Revalued Earnings scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level to balance the pension's liability with investment assets.
- The pensions accrual rate guarantees a pension based on 1/49th of career average revalued earnings and years of pensionable service. There is no automatic entitlement to a lump sum. Members may opt to give up (commute) pension for lump sum up to the limit set by the Finance Act 2004. The scheme's normal retirement age is 65. Pensions are increased annually in line with changes to the Pensions (Increases) Act 1971 and Section 59 of the Social Security Pensions Act 1975.

#### **Governance**

- The Tayside Pension Fund is operated under the regulatory framework for the LGPS in Scotland and the governance of the scheme is the responsibility of the Tayside Pension Fund Committee. This committee is comprised solely of elected members of Dundee City Council. Employing authorities (including Perth & Kinross Council) are represented at the Tayside Pension Fund Representative Forum.
- Policy is determined in accordance with the Local Government Pension Scheme (Scotland) Regulations. Management of the Fund's investments is carried out by the Fund's Investment Advisory Panel which selects and appoints a number of external investment managers/partners and monitors their investment performance.
- Under the Regulations, employers fall into three categories, scheme employers (also known as scheduled bodies) such as Perth & Kinross Council, community admission bodies and transferee admission bodies. Admission agreements are generally assumed to be open-ended. However, either party can voluntarily terminate the admission agreement by giving an appropriate period of notice to the other parties. Any deficit arising from the cessation valuation will usually be levied on the departing admission body as a capital payment.

#### **Principal Risks**

- The principal risks to the scheme are the longevity assumptions, statutory changes to the scheme, changes to inflation, bond yields and the performance of the investments held by the scheme. These are mitigated to a certain extent by the statutory requirements to charge the General Fund the amount due by statute as described in the accounting policy note.

## Discretionary Post-employment Benefits

- Discretionary post-retirement benefits on early retirements are an unfunded defined benefit arrangement, under which liabilities are recognised when an award is made. There are no plan assets built up to meet these pension liabilities.

The contributions paid into the scheme by employees and member pension benefits are prescribed, for the period to which the accounts relate, by the Local Government Pensions Scheme (Scotland) Regulations 1998 as amended. Perth & Kinross Council's contributions, as an employer, into the Tayside Pension Fund are subject to the advice of the Fund actuary.

The Local Government Pension Scheme allows for the award of discretionary post-employment benefits upon early retirement. This is an unfunded defined benefit final arrangement, under which liabilities are recognised when awards are made. However, there are no investment assets built up to meet the pension's liabilities, and cash has to be generated to meet actual pensions payments as they eventually fall due.

### Career Average Revalued Earnings Scheme (CARE)

The Local Government Pension Scheme changed from Final Salary to Career Average Revalued Earnings (CARE) on 1 April 2015, with a change of accrual rate from 1/60<sup>th</sup> to 1/49<sup>th</sup>. Employees who were previously paying into the Final Salary scheme were automatically transferred into the new CARE scheme on 1 April 2015.

### Transactions Relating to Post-Employment Benefits

The Council recognises the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge the Council is required to make against Council Tax is based on the cash payable in the year, so the real cost of post-employment/retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement.

The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year.

#### Local Government Pension Scheme

|                                                                                                                                                | 2016/17<br>£'000 | 2015/16<br>£'000 |
|------------------------------------------------------------------------------------------------------------------------------------------------|------------------|------------------|
| Comprehensive Income and Expenditure Statement                                                                                                 |                  |                  |
| Cost of Services                                                                                                                               |                  |                  |
| - Service Cost                                                                                                                                 | 22,888           | 27,105           |
| Financing and Investment Income and Expenditure                                                                                                |                  |                  |
| - Net Interest on the Defined Liability                                                                                                        | 5,612            | 5,611            |
| Administration Expenses                                                                                                                        | 238              | 66               |
| Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services                                                   | <u>28,738</u>    | <u>32,782</u>    |
| Remeasurement of the net defined benefit liability comprising:                                                                                 |                  |                  |
| Expected return on pension fund assets in excess of interest                                                                                   | (112,019)        | 25,157           |
| Changes in financial assumptions                                                                                                               | 188,247          | (56,870)         |
| Experience Gain on defined benefit obligation                                                                                                  | (141)            | (925)            |
| Total Post Employment Benefit (Credited)/Charged to the Comprehensive Income & Expenditure Statement                                           | <u>76,087</u>    | <u>(32,638)</u>  |
| Movement in Reserves Statement                                                                                                                 |                  |                  |
| - Reversal of net charges made to the surplus or deficit on the Provision of Services for post-employment benefits in accordance with the code | <u>(28,738)</u>  | <u>(32,782)</u>  |
| Actual amount charged against the General Fund Balance for pensions in the year:                                                               |                  |                  |
| Employers' contributions and direct payments payable to Tayside Pension Fund                                                                   | <u>16,707</u>    | <u>16,377</u>    |

## Pensions Assets and Liabilities Recognised in the Balance Sheet

The amount included in the Balance Sheet arising from the Council's obligation in respect of its defined benefit scheme is as follows:

|                                                 | 31 March<br>2017<br>£'000 | 31 March<br>2016<br>£'000 |
|-------------------------------------------------|---------------------------|---------------------------|
| Present Value of the Defined Benefit Obligation | 937,102                   | 724,812                   |
| Present Value of Unfunded Obligation            | 29,061                    | 25,687                    |
| Closing Defined Benefit Obligation              | 966,163                   | 750,499                   |
| Fair Value of Pension Fund Assets (Bid Value)   | (716,224)                 | (588,678)                 |
| <b>Net Liability in Balance Sheet</b>           | <b>249,939</b>            | <b>161,821</b>            |

A reconciliation of Perth & Kinross Council's share of the present value of Tayside Pension Fund's defined benefit obligation (liabilities) is as follows:

|                                               | 31 March<br>2017<br>£'000 | 31 March<br>2016<br>£'000 |
|-----------------------------------------------|---------------------------|---------------------------|
| Opening Defined Benefit Obligation            | 750,499                   | 771,810                   |
| Current Service Cost                          | 22,473                    | 25,232                    |
| Interest Cost                                 | 27,201                    | 25,214                    |
| Change in Financial Assumptions               | 188,247                   | (56,870)                  |
| Experience Gain on Defined Benefit Obligation | (141)                     | (925)                     |
| Liabilities Extinguished on Settlement        | (6,812)                   | 0                         |
| Estimated Benefits Paid Net of Transfers In   | (21,353)                  | (19,248)                  |
| Past Service Costs (including Curtailments)   | 2,637                     | 1,873                     |
| Contributions by Scheme Participants          | 5,294                     | 5,290                     |
| Unfunded Pension Payments                     | (1,882)                   | (1,877)                   |
| Closing Defined Benefit Obligation            | 966,163                   | 750,499                   |

A reconciliation of the movements in Perth & Kinross Council's share of the fair value of Tayside Pension Fund's assets is as follows:

|                                                           | 31 March<br>2017<br>£'000 | 31 March<br>2016<br>£'000 |
|-----------------------------------------------------------|---------------------------|---------------------------|
| Opening Fair Value of Scheme Assets                       | 588,678                   | 593,756                   |
| Interest on Assets                                        | 21,589                    | 19,603                    |
| Return on Assets Less Interest                            | 112,019                   | (25,157)                  |
| Administration Expenses                                   | (238)                     | (66)                      |
| Contributions by Employer Including Unfunded              | 16,707                    | 16,377                    |
| Contributions by Scheme Participants                      | 5,294                     | 5,290                     |
| Estimated Benefits Paid Plus Unfunded Net of Transfers In | (23,235)                  | (21,125)                  |
| Settlement Prices Paid                                    | (4,590)                   | 0                         |
| Closing Fair Value of Scheme Assets                       | 716,224                   | 588,678                   |

Perth & Kinross Council's share of Tayside Pension Fund's assets at 31 March 2017 comprised:

|              | 31 March 2017  |             | 31 March 2016  |             |
|--------------|----------------|-------------|----------------|-------------|
|              | £'000          | %           | £'000          | %           |
| Equities     | 515,614        | 72%         | 403,566        | 68%         |
| Gilts        | 47,479         | 6%          | 30,813         | 5%          |
| Other Bonds  | 70,647         | 10%         | 76,015         | 13%         |
| Property     | 70,665         | 10%         | 71,824         | 13%         |
| Cash         | 11,819         | 2%          | 6,460          | 1%          |
| <b>Total</b> | <b>716,224</b> | <b>100%</b> | <b>588,678</b> | <b>100%</b> |

A further breakdown of the assets as at 31 March 2017 is as follows:

|                                    | 31 March 2017      | 31 March 2016      |
|------------------------------------|--------------------|--------------------|
| <b>Equities</b>                    |                    |                    |
| Consumer                           | 10%                | 10%                |
| Financials                         | 10%                | 11%                |
| Industrials                        | 8%                 | 7%                 |
| Energy and Utilities               | 3%                 | 3%                 |
| Materials                          | 4%                 | 2%                 |
| Healthcare                         | 4%                 | 4%                 |
| Information Technology             | 6%                 | 5%                 |
| Telecommunications                 | 1%                 | 2%                 |
| Pooled Investments                 | <u>26%</u>         | <u>24%</u>         |
|                                    | 72%                | 68%                |
| <b>Gilts</b>                       |                    |                    |
| Government Bonds                   | 6%                 | 5%                 |
| <b>Other Bonds</b>                 |                    |                    |
| Corporate Bonds                    | 10%                | 12%                |
| Venture Capital / Partnerships     | <u>0%</u>          | <u>1%</u>          |
|                                    | 10%                | 13%                |
| <b>Property</b>                    |                    |                    |
| Retail                             | 3%                 | 2%                 |
| Commercial                         | 5%                 | 9%                 |
| Alternatives and Cash              | <u>2%</u>          | <u>2%</u>          |
|                                    | 10%                | 13%                |
| <b>Cash</b>                        |                    |                    |
| Forward Foreign Exchange Contracts | 2%                 | 1%                 |
| <b>Total</b>                       | <u><u>100%</u></u> | <u><u>100%</u></u> |

### Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. Both the Local Government Pension Scheme and Discretionary Benefits liabilities have been assessed by Barnett Waddingham Public Sector Consulting, an independent firm of actuaries. Estimates for the Tayside Pension Fund are based on the latest full valuation of the scheme as at 31 March 2017.

#### The principal assumptions used by the actuary have been:

|                                                                      | 2016/17 | 2015/16 |
|----------------------------------------------------------------------|---------|---------|
| <b>Mortality Assumptions:</b>                                        |         |         |
| <b>Longevity at 65 for Current Pensioners:</b>                       |         |         |
| - Men                                                                | 21.4    | 21.3    |
| - Women                                                              | 23.5    | 23.3    |
| <b>Longevity at 65 for Future Pensioners:</b>                        |         |         |
| - Men                                                                | 23.7    | 23.5    |
| - Women                                                              | 25.8    | 25.6    |
| Rate of Inflation CPI                                                | 2.7%    | 2.4%    |
| Rate of Inflation RPI                                                | 3.6%    | 3.3%    |
| Rate of Increase in Salaries                                         | 3.7%    | 4.2%    |
| Rate of Increase in Pensions                                         | 2.7%    | 2.4%    |
| Rate for Discounting Scheme Liabilities                              | 2.7%    | 3.7%    |
| Take-up of Option to Convert Annual Pension into Retirement Lump Sum | 10.0%   | 10.0%   |

The liabilities show the underlying commitments that the Council has in the long run to pay post-employment (retirement) benefits. The net liability of £249,939,000 has a substantial impact on the net worth of the Council as recorded in the Balance Sheet. However, statutory arrangements for funding the deficit mean that the financial position of the Council remains sound.

- The deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees (i.e. before payments fall due) as assessed by the scheme actuary.
- Finance is only required to be raised to cover discretionary benefits when the pensions are actually paid.

The total contribution expected to be made to the Local Government Pension Scheme by the Council in the year to 31 March 2018 is £14,892,000.

### Sensitivity Analysis

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the tables above. The sensitivity analysis below have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remain constant. The assumptions in longevity, for example, assume that life expectancy increases or decreases for men and women. In practice, this is unlikely to occur, and changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, i.e. on an actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous period.

|                                                          |                |              |              |
|----------------------------------------------------------|----------------|--------------|--------------|
| Adjustment to discount rate                              | +0.1%          | 0.0%         | -0.1%        |
| - Present value of total obligation                      | £948,175,000   | £966,163,000 | £984,510,000 |
| - Projected Service cost                                 | £31,276,000    | £32,008,000  | £32,758,000  |
| Adjustment to long term salary increase                  | +0.1%          | 0.0%         | -0.1%        |
| - Present value of total obligation                      | £968,860,000   | £966,163,000 | £963,484,000 |
| - Projected Service cost                                 | £32,023,000    | £32,008,000  | £31,993,000  |
| Adjustment to pension increases and deferred revaluation | +0.1%          | 0.0%         | -0.1%        |
| - Present value of total obligation                      | £981,796,000   | £966,163,000 | £950,837,000 |
| - Projected Service cost                                 | £32,742,000    | £32,008,000  | £31,290,000  |
| Adjustment to mortality age rating assumption            | + 1 year       | None         | -1 year      |
| - Present value of total obligation                      | £1,002,219,000 | £966,163,000 | £931,445,000 |
| - Projected Service cost                                 | £33,029,000    | £32,008,000  | £31,019,000  |

### 19. Related Parties

The Council is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. Disclosure of these transactions allows readers to assess the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

#### Scottish Government

The Scottish Government has effective control over the general operations of the Council – it is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. Council Tax bills). Grants received from government departments are set out in the subjective analysis in Note 14 on expenditure and income analysed by nature.

#### Tayside Valuation Joint Board

The Tayside Valuation Joint Board provides services on behalf of Perth & Kinross, Angus and Dundee Councils. The Council does not have any direct control or influence over the board and the amount payable to this body for valuation services and electoral registration services was £1,422,000. £1,161,000 is disclosed in the Comprehensive Income and Expenditure Statement under Valuation Joint Board and £261,000 under Corporate and Democratic Services for electoral and registration services.

#### Members

Members of the Council have direct control over the Council's financial and operating policies. The total of members' allowances paid in 2016/17 is shown in the Remuneration Report. During 2016/17, three councillors had an interest in businesses from which the Council commissioned works and services to the value of £23,006; £22,969 and £450 respectively. Contracts were entered into in full compliance with the Council's standing orders and the Councillors' Code of Conduct.

In addition the Council makes revenue and capital payments to a large number of organisations on which Council members are represented.

#### Live Active Leisure Ltd

This organisation provides leisure services within the area served by the Council. A grant was provided in 2016/17 amounting to £4,788,000 (2015/16 £3,844,000). It is a sole member Company with the Council as that member.

#### Horsecross Arts Ltd

This organisation operates Perth Concert Hall and Perth Theatre. A grant was provided in 2016/17 amounting to £1,205,000 (2015/16 £1,187,000). It is a sole member Company with the Council as that member.

#### Culture Perth & Kinross

This organisation has operated libraries, museums and arts galleries in Perth & Kinross since 1 April 2016. A grant was provided in 2016/17 amounting to £3,330,000.

### Tayside Contracts Joint Committee

This organisation provides roads maintenance; catering and cleaning services to the Council. Payments to Tayside Contracts in 2016/17 amounted to £21,826,000 (2015/16 £22,491,000). The Joint Committee is administered and controlled by Dundee City, Angus and Perth and Kinross Councils.

### Health and Social Care Partnership

This organisation is a joint venture between Perth & Kinross Council and Tayside Health Board and has since 1 April 2016 provided an integrated Health and Social Care service. In 2016/17 a payment of £48,229,000 was made to fund this service.

## **20. Leases**

### Council as Lessee

The Council operates a Lease Car Scheme which is available to eligible employees and lease rental payments are recovered from employees. The car leasing agreements are due to expire during the financial years 2017/18 to 2019/20.

The Council has acquired the use of a number of properties by entering into leasing arrangements. The majority of such properties are used for office accommodation and any capital works undertaken within these premises are written down over the shorter of the lease term or the useful life of the property.

The future minimum lease payments due under non-cancellable leases in future years are:

|                                                   | 2016/17<br>£'000 | 2015/16<br>£'000 |
|---------------------------------------------------|------------------|------------------|
| Not later than one year                           | 302              | 613              |
| Later than one year and not later than five years | 885              | 916              |
| Later than five years                             | 505              | 604              |
|                                                   | <u>1,692</u>     | <u>2,133</u>     |

The expenditure charged to the Services lines in the Comprehensive Income and Expenditure Statement during the year in relation to these leases was:

|                              | 2016/17<br>£'000 | 2015/16<br>£'000 |
|------------------------------|------------------|------------------|
| Minimum lease payments       | 617              | 792              |
| Sublease payments receivable | (13)             | (11)             |
|                              | <u>604</u>       | <u>781</u>       |

### Council as Lessor

The Council leases out property under operating leases at normal market rents with the following purpose:

Land for the generation of rental income arising from its use; land and buildings, which include offices and shops, for the supply of suitable business accommodation to promote economic development or satisfy social needs, or to solely generate rental income for the Council.

The future minimum lease payments receivable under non-cancellable leases in future years are:

|                                                   | 2016/17<br>£'000 | 2015/16<br>£'000 |
|---------------------------------------------------|------------------|------------------|
| Not later than one year                           | 1,054            | 1,155            |
| Later than one year and not later than five years | 3,643            | 3,700            |
| Later than five years                             | 44,584           | 47,869           |
|                                                   | <u>49,281</u>    | <u>52,724</u>    |

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. There were no material adjustments in respect of contingent rents during the years 2015/16 and 2016/17.

## 21. Property, Plant and Equipment

Movements on Fixed Assets 2016/17 in respect of Property, Plant & Equipment are shown below:

### Movements in 2016/17

|                                                                                                    | Council<br>Dwellings<br>£'000 | Other<br>Land &<br>Buildings<br>£'000 | Vehicles<br>Plant &<br>Equipment<br>£'000 | Infrastructure<br>Assets<br>£'000 | Community<br>Assets<br>£'000 | Sub<br>Total<br>c/fwd<br>£'000 |
|----------------------------------------------------------------------------------------------------|-------------------------------|---------------------------------------|-------------------------------------------|-----------------------------------|------------------------------|--------------------------------|
| <u>Gross Book Value</u>                                                                            |                               |                                       |                                           |                                   |                              |                                |
| As at 1 April 2016                                                                                 | 295,912                       | 476,654                               | 40,287                                    | 226,841                           | 16,674                       | 1,056,368                      |
| Additions                                                                                          | 20,581                        | 11,844                                | 5,220                                     | 29,807                            | 1,073                        | 68,525                         |
| Revaluation increases recognised in the<br>Revaluation Reserve                                     | 0                             | 22,524                                | 0                                         | 0                                 | 0                            | 22,524                         |
| Revaluation decreases recognised in the<br>Revaluation Reserve                                     | 0                             | (1,844)                               | 0                                         | 0                                 | 0                            | (1,844)                        |
| Revaluation increases recognised in the<br>Surplus/Deficit on the Provision of Services            | 0                             | 18,935                                | 0                                         | 0                                 | 0                            | 18,935                         |
| Revaluation decreases recognised in the<br>Surplus/Deficit on the Provision of Services            | 0                             | (8,680)                               | 0                                         | 0                                 | 0                            | (8,680)                        |
| Impairment losses/(reversals) recognised in the<br>Surplus/Deficit on the Provision of Services    | 0                             | 0                                     | 0                                         | 0                                 | 0                            | 0                              |
| Derecognition - disposals                                                                          | (4,802)                       | (40)                                  | (2,443)                                   | 0                                 | 0                            | (7,285)                        |
| Asset reclassifications                                                                            | 2,843                         | 11,790                                | 0                                         | 0                                 | 0                            | 14,633                         |
| As at 31 March 2017                                                                                | 314,534                       | 531,183                               | 43,064                                    | 256,648                           | 17,747                       | 1,163,176                      |
| <u>Depreciation</u>                                                                                |                               |                                       |                                           |                                   |                              |                                |
| As at 1 April 2016                                                                                 | (25,176)                      | (33,140)                              | (24,826)                                  | (90,756)                          | (7,102)                      | (181,000)                      |
| Depreciation charge for 2016/17                                                                    | (13,334)                      | (14,615)                              | (5,485)                                   | (8,150)                           | (1,044)                      | (42,628)                       |
| Depreciation written out to the Revaluation<br>Reserve - revaluation gain                          | 0                             | 5,820                                 | 0                                         | 0                                 | 0                            | 5,820                          |
| Depreciation written out to the Revaluation<br>Reserve - revaluation loss                          | 0                             | 324                                   | 0                                         | 0                                 | 0                            | 324                            |
| Depreciation written out to the Surplus/Deficit<br>on the Provision of Services - revaluation gain | 0                             | 8,650                                 | 0                                         | 0                                 | 0                            | 8,650                          |
| Depreciation written out to the Surplus/Deficit<br>on the Provision of Services - revaluation loss | 0                             | 2,149                                 | 0                                         | 0                                 | 0                            | 2,149                          |
| Derecognition - disposals                                                                          | 2,482                         | 0                                     | 2,373                                     | 0                                 | 0                            | 4,855                          |
| Asset reclassifications                                                                            | 0                             | 0                                     | 0                                         | 0                                 | 0                            | 0                              |
| As at 31 March 2017                                                                                | (36,028)                      | (30,812)                              | (27,938)                                  | (98,906)                          | (8,146)                      | (201,830)                      |
| Net Book Value at 31 March 2017                                                                    | 278,506                       | 500,371                               | 15,126                                    | 157,742                           | 9,601                        | 961,346                        |



**Property, Plant and Equipment cont'd**
**Movements in 2016/17**

|                                                                                                    | Sub<br>total<br>b/fwd<br>£'000 | Surplus<br>Assets<br>£'000 | Assets<br>Under<br>Construction<br>£'000 | Total<br>PPE<br>£'000 | PFI Assets<br>Included<br>in PPE<br>£'000 |
|----------------------------------------------------------------------------------------------------|--------------------------------|----------------------------|------------------------------------------|-----------------------|-------------------------------------------|
| <u>Gross Book Value</u>                                                                            |                                |                            |                                          |                       |                                           |
| As at 1 April 2016                                                                                 | 1,056,368                      | 18                         | 20,195                                   | 1,076,581             | 134,752                                   |
| Additions                                                                                          | 68,525                         | 0                          | 25,586                                   | 94,111                | 0                                         |
| Revaluation increases recognised in the<br>Revaluation Reserve                                     | 22,524                         | 0                          | 1,350                                    | 23,874                | 0                                         |
| Revaluation decreases recognised in the<br>Revaluation Reserve                                     | (1,844)                        | (345)                      | 0                                        | (2,189)               | 0                                         |
| Revaluation increases recognised in the<br>Surplus/Deficit on the Provision of Services            | 18,935                         | 0                          | 0                                        | 18,935                | 0                                         |
| Revaluation decreases recognised in the<br>Surplus/Deficit on the Provision of Services            | (8,680)                        | (11)                       | 0                                        | (8,691)               | (600)                                     |
| Impairment losses/(reversals) recognised in the<br>Surplus/Deficit on the Provision of Services    | 0                              | 0                          | 0                                        | 0                     | 0                                         |
| Derecognition - disposals                                                                          | (7,285)                        | 0                          | 0                                        | (7,285)               | 0                                         |
| Asset reclassifications                                                                            | 14,633                         | 356                        | (12,313)                                 | 2,676                 | 0                                         |
| As at 31 March 2017                                                                                | 1,163,176                      | 18                         | 34,818                                   | 1,198,012             | 134,152                                   |
| <u>Depreciation</u>                                                                                |                                |                            |                                          |                       |                                           |
| As at 1 April 2016                                                                                 | (181,000)                      | 0                          | 0                                        | (181,000)             | (4,873)                                   |
| Depreciation charge for 2016/17                                                                    | (42,628)                       | 0                          | 0                                        | (42,628)              | (4,477)                                   |
| Depreciation written out to the Revaluation<br>Reserve - revaluation gain                          | 5,820                          | 0                          | 0                                        | 5,820                 | 0                                         |
| Depreciation written out to the Revaluation<br>Reserve - revaluation loss                          | 324                            | 0                          | 0                                        | 324                   | 0                                         |
| Depreciation written out to the Surplus/Deficit<br>on the Provision of Services - revaluation gain | 8,650                          | 0                          | 0                                        | 8,650                 | 0                                         |
| Depreciation written out to the Surplus/Deficit<br>on the Provision of Services - revaluation loss | 2,149                          | 0                          | 0                                        | 2,149                 | 454                                       |
| Derecognition - disposals                                                                          | 4,855                          | 0                          | 0                                        | 4,855                 | 0                                         |
| Asset reclassifications                                                                            | 0                              | 0                          | 0                                        | 0                     | 0                                         |
| As at 31 March 2017                                                                                | (201,830)                      | 0                          | 0                                        | (201,830)             | (8,896)                                   |
| Net Book Value at 31 March 2017                                                                    | 961,346                        | 18                         | 34,818                                   | 996,182               | 125,256                                   |

## Property, Plant and Equipment cont'd

### Comparative Movements in 2015/16

|                                                                                                    | Council<br>Dwellings<br>£'000 | Other<br>Land &<br>Buildings<br>£'000 | Vehicles<br>Plant &<br>Equipment<br>£'000 | Infrastructure<br>Assets<br>£'000 | Community<br>Assets<br>£'000 | Sub<br>Total<br>c/fwd<br>£'000 |
|----------------------------------------------------------------------------------------------------|-------------------------------|---------------------------------------|-------------------------------------------|-----------------------------------|------------------------------|--------------------------------|
| <u>Gross Book Value</u>                                                                            |                               |                                       |                                           |                                   |                              |                                |
| As at 1 April 2015                                                                                 | 278,565                       | 451,831                               | 37,542                                    | 211,308                           | 15,473                       | 994,719                        |
| Additions                                                                                          | 14,672                        | 10,936                                | 6,065                                     | 15,533                            | 1,201                        | 48,407                         |
| Revaluation increases recognised in the<br>Revaluation Reserve                                     | 0                             | 10,951                                | 0                                         | 0                                 | 0                            | 10,951                         |
| Revaluation decreases recognised in the<br>Revaluation Reserve                                     | 0                             | (316)                                 | 0                                         | 0                                 | 0                            | (316)                          |
| Revaluation increases recognised in the<br>Surplus/Deficit on the Provision of Services            | 0                             | 2,216                                 | 0                                         | 0                                 | 0                            | 2,216                          |
| Revaluation decreases recognised in the<br>Surplus/Deficit on the Provision of Services            | 0                             | (10,202)                              | 0                                         | 0                                 | 0                            | (10,202)                       |
| Derecognition - disposals                                                                          | (3,824)                       | (3,599)                               | (3,320)                                   | 0                                 | 0                            | (10,743)                       |
| Asset reclassifications                                                                            | 6,499                         | 14,837                                | 0                                         | 0                                 | 0                            | 21,336                         |
| As at 31 March 2016                                                                                | 295,912                       | 476,654                               | 40,287                                    | 226,841                           | 16,674                       | 1,056,368                      |
| <u>Depreciation</u>                                                                                |                               |                                       |                                           |                                   |                              |                                |
| As at 1 April 2015                                                                                 | (15,002)                      | (42,862)                              | (22,800)                                  | (82,480)                          | (6,111)                      | (169,255)                      |
| Depreciation charge for 2015/16                                                                    | (13,002)                      | (13,162)                              | (5,253)                                   | (8,276)                           | (991)                        | (40,684)                       |
| Depreciation written out to the Revaluation<br>Reserve - revaluation gain                          | 0                             | 6,549                                 | 0                                         | 0                                 | 0                            | 6,549                          |
| Depreciation written out to the Revaluation<br>Reserve - revaluation loss                          | 0                             | 37                                    | 0                                         | 0                                 | 0                            | 37                             |
| Depreciation written out to the Surplus/Deficit<br>on the Provision of Services - revaluation gain | 0                             | 9,593                                 | 0                                         | 0                                 | 0                            | 9,593                          |
| Depreciation written out to the Surplus/Deficit<br>on the Provision of Services - revaluation loss | 0                             | 2,779                                 | 0                                         | 0                                 | 0                            | 2,779                          |
| Derecognition - disposals                                                                          | 2,828                         | 2,076                                 | 3,227                                     | 0                                 | 0                            | 8,131                          |
| Asset reclassifications                                                                            | 0                             | 1,850                                 | 0                                         | 0                                 | 0                            | 1,850                          |
| As at 31 March 2016                                                                                | (25,176)                      | (33,140)                              | (24,826)                                  | (90,756)                          | (7,102)                      | (181,000)                      |
| Net Book Value at 31 March 2016                                                                    | 270,736                       | 443,514                               | 15,461                                    | 136,085                           | 9,572                        | 875,368                        |

## Property, Plant and Equipment cont'd

### Movements in 2015/16

|                                                                                                 | Sub<br>total<br>b/fwd<br>£'000 | Surplus<br>Assets<br>£'000 | Assets<br>Under<br>Construction<br>£'000 | Total<br>PPE<br>£'000 | PFI Assets<br>Included<br>in PPE<br>£'000 |
|-------------------------------------------------------------------------------------------------|--------------------------------|----------------------------|------------------------------------------|-----------------------|-------------------------------------------|
| <u>Gross Book Value</u>                                                                         |                                |                            |                                          |                       |                                           |
| As at 1 April 2015                                                                              | 994,719                        | 726                        | 28,315                                   | 1,023,760             | 133,078                                   |
| Additions                                                                                       | 48,407                         | 221                        | 16,984                                   | 65,612                | 46                                        |
| Revaluation increases recognised in the Revaluation Reserve                                     | 10,951                         | 18                         | 0                                        | 10,969                | 3,002                                     |
| Revaluation decreases recognised in the Revaluation Reserve                                     | (316)                          | 0                          | (74)                                     | (390)                 | 0                                         |
| Revaluation increases recognised in the Surplus/Deficit on the Provision of Services            | 2,216                          | 0                          | 0                                        | 2,216                 | 757                                       |
| Revaluation decreases recognised in the Surplus/Deficit on the Provision of Services            | (10,202)                       | (2,791)                    | (428)                                    | (13,421)              | (2,131)                                   |
| Derecognition - disposals                                                                       | (10,743)                       | (580)                      | 0                                        | (11,323)              | 0                                         |
| Asset reclassifications                                                                         | 21,336                         | 2,424                      | (24,602)                                 | (842)                 | 0                                         |
| As at 31 March 2016                                                                             | 1,056,368                      | 18                         | 20,195                                   | 1,076,581             | 134,752                                   |
| <u>Depreciation</u>                                                                             |                                |                            |                                          |                       |                                           |
| As at 1 April 2015                                                                              | (169,255)                      | (35)                       | 0                                        | (169,290)             | (16,600)                                  |
| Depreciation charge for 2015/16                                                                 | (40,684)                       | 0                          | 0                                        | (40,684)              | (4,477)                                   |
| Depreciation written out to the Revaluation Reserve - revaluation gain                          | 6,549                          | 0                          | 0                                        | 6,549                 | 5,690                                     |
| Depreciation written out to the Revaluation Reserve - revaluation loss                          | 37                             | 0                          | 1                                        | 38                    | 0                                         |
| Depreciation written out to the Surplus/Deficit on the Provision of Services - revaluation gain | 9,593                          | 0                          | 0                                        | 9,593                 | 8,976                                     |
| Depreciation written out to the Surplus/Deficit on the Provision of Services - revaluation loss | 2,779                          | 1,875                      | 10                                       | 4,664                 | 1,538                                     |
| Derecognition - disposals                                                                       | 8,131                          | 0                          | 0                                        | 8,131                 | 0                                         |
| Asset reclassifications                                                                         | 1,850                          | (1,840)                    | (11)                                     | (1)                   | 0                                         |
| As at 31 March 2016                                                                             | (181,000)                      | 0                          | 0                                        | (181,000)             | (4,873)                                   |
| Net Book Value at 31 March 2016                                                                 | 875,368                        | 18                         | 20,195                                   | 895,581               | 129,879                                   |

### Capital Commitments

At 31 March 2017, the Council has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2016/17 and future years budgeted to cost £41.288m. Similar commitments at 31 March 2016 were £23.534m. The total commitment is made up of the following:

|                                     | 2016/17<br>£'000 | 2015/16<br>£'000 |
|-------------------------------------|------------------|------------------|
| Education Projects                  | 16,412           | 7,729            |
| Perth Theatre Upgrade               | 7,514            | 8,420            |
| Roads & Bridges Improvement Schemes | 13,010           | 877              |
| Flood Prevention                    | 795              | 736              |
| Environmental Improvements          | 1,212            | 1,392            |
| Upgrade of Office Accommodation     | 0                | 3,536            |
| Other Capital Projects              | 2,345            | 844              |
|                                     | <u>41,288</u>    | <u>23,534</u>    |

## Valuation of Assets

### Revaluations

The Authority carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at its current value is revalued at least every five years. All valuations were carried out internally with the exception of Council Dwellings which were carried out by the District Valuer. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors.

Surplus Assets are valued annually on a fair value basis. In terms of the fair value hierarchy, all Surplus Assets are valued at Level 2 and there were no transfers between Levels during the year.

|                                | Council<br>Dwellings<br>£'000 | Other<br>Land and<br>Buildings<br>£'000 | Surplus<br>Assets<br>£'000 | Total<br>£'000 |
|--------------------------------|-------------------------------|-----------------------------------------|----------------------------|----------------|
| Carried at historical cost     | 62,294                        | 17,853                                  | 0                          | 80,147         |
| Values at current value as at: |                               |                                         |                            |                |
| 31 March 2017                  | 0                             | 258,291                                 | 0                          | 258,291        |
| 31 March 2016                  | 0                             | 148,239                                 | 18                         | 148,257        |
| 31 March 2015                  | 252,240                       | 14                                      | 0                          | 252,254        |
| 31 March 2014                  | 0                             | 73,406                                  | 0                          | 73,406         |
| 31 March 2013                  | 0                             | 33,380                                  | 0                          | 33,380         |
| Total Cost or Valuation        | 314,534                       | 531,183                                 | 18                         | 845,735        |

### Changes in Estimates

In 2016/17 the Council made a change to its accounting estimates for Property, Plant and Equipment. During the revaluation of the school property portfolio, remaining useful lives for a number of Primary Schools were reviewed. As a result the 2016/17 depreciation charge for the properties was £0.3m higher than it would have been if the useful lives assessed in 2015/16 had been used for the calculation. The impact of this change will carry forward into 2017/18 and future years.

## 22. Heritage Assets

### Reconciliation of the carrying value of Heritage Assets held by the Council

|                     | 2016/17<br>Art<br>Collection<br>£'000 | 2016/17<br>War<br>Memorials<br>£'000 | 2016/17<br>Total<br>£'000 | 2015/16<br>Art<br>Collection<br>£'000 | 2015/16<br>War<br>Memorials<br>£'000 | 2015/16<br>Total<br>£'000 |
|---------------------|---------------------------------------|--------------------------------------|---------------------------|---------------------------------------|--------------------------------------|---------------------------|
| Cost or Valuation   |                                       |                                      |                           |                                       |                                      |                           |
| Balance at 1 April  | 26,243                                | 46                                   | 26,289                    | 24,013                                | 46                                   | 24,059                    |
| Revaluations        | 1,292                                 | 0                                    | 1,292                     | 2,230                                 | 0                                    | 2,230                     |
| Balance at 31 March | 27,535                                | 46                                   | 27,581                    | 26,243                                | 46                                   | 26,289                    |

### Art Collection

The collection of Fine Art maintained and preserved by Culture Perth & Kinross, on behalf of Perth & Kinross Council is varied and includes oil paintings (approx 1,225 items), watercolours (900), drawings (4,000), prints (1,500), and sculptures (150). The Fine Art collection also includes J D Fergusson and Margaret Morris archives which number approximately 30,000 items.

The Art Collection also includes silver, glass, ceramics, furniture, Oriental materials, horology and metalwork; these are collectively identified as Applied Art.

Curators within Culture Perth & Kinross commenced in 2011/12 a rolling programme of valuation for the Fine and Applied Art collections. Items and collections having significant value are added to the Council balance sheet as the valuation programme progresses.

There are a number of significant works included within the Art Collection. The cumulative value of the J D Fergusson oil paintings valued during 2010/11 amounts to £10.2m; the oils form a small part of the J D Fergusson and Margaret Morris collection of works and archives. The cumulative value attached to the oil paintings valued by the curators during 2011/12 is £9.3m. Of note are paintings by John Everett Millais, Samuel John Peploe, and Francis Campbell Boileau which have a collective value of £6m. An additional £1.1m was added to the value of Heritage Assets in 2012/13 following the curatorial valuation of watercolours and drawings, and J D Fergusson works on paper. The 2013/14 revaluation programme included the curatorial valuation of the Margaret Morris archives, which has resulted in £3.4m being added to the value of Heritage Assets. The sculptures were valued in 2015/16 which resulted in a further £2.2m being added to the value of Heritage Assets, the most noteworthy of these being sculptures by Eric Gill and J D Fergusson with a cumulative value of £1.3m.

An additional £1.3m has been added to the value of Heritage Assets in 2016/17 following the curatorial valuation of prints, ephemera, watercolours and drawings. Of particular note are the Beatrix Potter Fungi Studies Collection and the watercolour 'A Frosty Morning' by Sir George Clausen with a cumulative value of £0.5m.

#### *Additions and Disposals of Heritage Assets*

There has been no significant addition, either by purchase or donation, to the Fine and Applied Art collection during the current and previous four financial years. The majority of the collections are held in perpetuity, or have disposal conditions attached, and consequently no Fine and Applied Art disposals have occurred during the current and previous four financial years.

### **Further Information on the Museum and Art Gallery Collection**

#### **Art Collection**

##### **Fine and Applied Art**

The Fine Art collection owes its existence largely to the 1926 bequests of local patrons Robert Hay Robertson and Robert Brough, although the first painting entered the collection as early as 1785.

The collection is international in its scope and numbers over 4,000 items. It includes an interesting group of Italian 'Old Masters', a small but important group of 19th Century French works, a good group of 17th century Dutch and Flemish paintings and work by English artists including a small but highly important collection of natural history watercolours by Beatrix Potter.

Its greatest strength however lies in its holding of Scottish pictures. These span the 16th to the 21st century and include such important works as Loch Katrine by Horatio McCulloch and D Y Cameron's The Wilds of Assynt, as well as pictures with strong local connections. Amongst these are pictures by local artists, local topographical views and portraits of local individuals. The collection seeks to retain a balance between the historical and the contemporary aspects whilst continuing to develop the holdings of works of specifically local interest.

In 1991 the collection was effectively doubled in size with the gifting of the J D Fergusson Art Foundation's collection of artworks by the Scottish 'Colourist' John Duncan Fergusson (1874-1961) and its associated archive. This collection is housed at the Fergusson Gallery in Perth.

The Applied Art collection has been acquired since 1785 through purchase, gift or bequest. It covers a wide variety of objects and materials, within which the collections of Perth silver and Perthshire glass are unsurpassed in terms of national importance. The ceramics collection contains significant collections of Staffordshire flat-back figures and Martinware studio pottery as well as a collection of studio pottery produced by potters native to or resident in the Perth & Kinross area. Other smaller collections include furniture, timepieces, oriental and other items.

The promotion of other cultural events and programmes during the year makes it difficult to reliably estimate the percentage of the Art Collection on display for public viewing. However, all items are held in secure storage and access is permitted to scholars and others for research purposes.

The Culture Perth & Kinross Limited Collections Management Framework provides guidance on the collection, disposal or lending of heritage assets.

### **23. Investment Properties**

|                                                            | 2016/17<br>£'000 | 2015/16<br>£'000 |
|------------------------------------------------------------|------------------|------------------|
| Rental income from investment property                     | (1,069)          | (1,120)          |
| Direct operating expenses arising from investment property | 211              | 71               |
| Balance at end of year                                     | <u>(858)</u>     | <u>(1,049)</u>   |

The following table summarises the movement in the fair value of investment properties over the year:

|                                                | 2016/17<br>£'000 | 2015/16<br>£'000 |
|------------------------------------------------|------------------|------------------|
| Balance at start of year                       | 17,558           | 17,699           |
| Additions                                      | 0                | 735              |
| Disposals:                                     | 0                | (190)            |
| Net (losses)/gains from fair value adjustments | (171)            | 136              |
| Reclassifications:                             |                  |                  |
| (to) / from Property, Plant and Equipment      | (2,676)          | (822)            |
| Other movements                                | (1)              | 0                |
| Balance at end of year                         | <u>14,710</u>    | <u>17,558</u>    |

All of the Authority's investment properties are valued at Level 2 on the fair value hierarchy. Values as at 31 March 2016 and 31 March 2017 are as follows:

|                                          | Other Significant Observable<br>Inputs (Level 2) |                  |
|------------------------------------------|--------------------------------------------------|------------------|
|                                          | 2016/17<br>£'000                                 | 2015/16<br>£'000 |
| Recurring fair value measurements using: |                                                  |                  |
| Industrial and Commercial Land           | 12,026                                           | 15,098           |
| Shops and Offices                        | 1,967                                            | 1,703            |
| Other Investment Properties              | 717                                              | 757              |
| Total Fair Value                         | <u>14,710</u>                                    | <u>17,558</u>    |

### Valuation Techniques used to Determine Level 2 and 3 Fair Values for Investment Properties

#### Significant Observable Inputs – Level 2

The majority of the value of Industrial and Commercial Land relates to sites leased out on ground leases. Market data is available at national and local levels from sector specialists to provide the valuers with information, such as trends and rent yields, for the commercial and industrial markets. Local market activity for ground leases tends to follow national trends and valuations are undertaken using a discounted income approach. Ground leases are longer term arrangements and sites of this nature enjoy 100% occupancy levels; the rental income stream is known and market data for rent yields is available, all of which are observable input. As a result of the conditions of the ground lease agreement, there is no unobservable input. The valuation of investment land leased out on a ground lease therefore requires the use of observable market data and minimal, if any, unobservable data and is regarded as Level 2.

Market data providing information on trends and rent yield is available from sector specialists for leased Shops and Offices. Local market data is used to assist the valuation process, and valuations are undertaken using the income approach, discounted using market rates to arrive at a net present value for the income stream. The valuer will also consider other factors, such as the age and condition of the property, when arriving at the final valuation. This requires judgement, however any unobservable input is not considered to be significant in terms of any adjustment to the fair value of the property. The valuation of the shops and offices is mainly representative of the available market data, and the valuation input is primarily based on observable data. Therefore the properties are categorised as Level 2.

Other Investment Properties primarily relate to land held for development by the private sector, which will generate a receipt to the Council on disposal. Sites held for redevelopment are valued on the basis of the highest and best use of the site, taking into account adjacent and surrounding property, recent market activity, and development plan restrictions. The valuation of these sites is therefore based upon observable input, i.e. local market data, and as such will be regarded as Level 2.

#### Highest and Best Use of Investment Properties

In estimating the fair value of the authority's investment properties, the highest and best use of the properties is their current use.

#### Valuation Techniques

There has been no change in the valuation techniques used during the year for investment properties.

#### Valuation Process for Investment Properties

The fair value of the Council's investment property is measured annually at each reporting date. All valuations are carried out internally, in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. The Council's valuation experts work closely with finance officers reporting directly to the Head of Finance on a regular basis regarding all valuation matters.

## 24. Intangible Assets

The movement on Intangible Asset balances during the year is as follows:

|                                      | 2016/17<br>Assets<br>£'000 | 2015/16<br>Assets<br>£'000 |
|--------------------------------------|----------------------------|----------------------------|
| Balance at start of year             |                            |                            |
| Gross carrying amount                | 134                        | 184                        |
| Accumulated amortisation             | (73)                       | (141)                      |
| Net carrying amount at start of year | 61                         | 43                         |
| Additions: Purchases                 | 88                         | 29                         |
| Disposals: Gross Carrying Amount     | 0                          | (79)                       |
| Disposals: Accumulated Amortisation  | 0                          | 79                         |
| Amortisation for the period          | (39)                       | (11)                       |
| Net carrying amount at end of year   | 110                        | 61                         |
| Comprising:                          |                            |                            |
| Gross carrying amounts               | 222                        | 134                        |
| Accumulated amortisation             | (112)                      | (73)                       |
|                                      | 110                        | 61                         |

Intangible Assets include the historic cost for internal development of software for Resourcelink, the Council's integrated Human Resources Payroll system. The Council is custodian of Resourcelink software and data and continues to maintain control over the system; future economic benefits will therefore continue to flow to the council. Amortisation of Resourcelink expenditure commenced in 2008/09 and the historic cost has now been written down in full.

Intangible Assets also includes the cost of the software licence and additional development of Concerto, the Council's Corporate Asset Management software. Costs in relation to Concerto were incurred during 2014/15, with further development carried out in 2015/16 and during the current year, and will provide future benefit to the Council; these costs are amortised over the seven year licence term, which commenced during 2014/15.

## 25. Assets Held for Sale

|                                           | Current          |                  | Non Current      |                  |
|-------------------------------------------|------------------|------------------|------------------|------------------|
|                                           | 2016/17<br>£'000 | 2015/16<br>£'000 | 2016/17<br>£'000 | 2015/16<br>£'000 |
| Balance outstanding at start of year      | 895              | 274              | 2,188            | 2,116            |
| Assets newly classified as held for sale: |                  |                  |                  |                  |
| - Property, Plant and Equipment           | 0                | 896              | 0                | 769              |
| Revaluation Losses                        | 0                | (100)            | 0                | (80)             |
| Revaluation Gains                         | 0                | 0                | 0                | 293              |
| Assets sold                               | 0                | (175)            | (750)            | (910)            |
| Transfers from non-current to current     | 0                | 0                | 0                | 0                |
| Balance outstanding at year end           | 895              | 895              | 1,438            | 2,188            |

## 26. Long Term Debtors

|                              | 2016/17<br>£'000 | 2015/16<br>£'000 |
|------------------------------|------------------|------------------|
| Other Entities & Individuals | 461              | 366              |
| Total                        | <u>461</u>       | <u>366</u>       |

## 27. Inventories

|                                      | Consumables & Maintenance<br>Materials |                  |
|--------------------------------------|----------------------------------------|------------------|
|                                      | 2016/17<br>£'000                       | 2015/16<br>£'000 |
| Balance outstanding at start of year | 384                                    | 466              |
| Purchases                            | 2,796                                  | 2,970            |
| Recognised as an expense in the year | (2,692)                                | (3,047)          |
| Written off balances                 | (5)                                    | (5)              |
| Balance outstanding at end of year   | <u>483</u>                             | <u>384</u>       |

## 28. Debtors

|                                | 2016/17<br>£'000 | 2016/17<br>£'000 | 2015/16<br>£'000 | 2015/16<br>£'000 |
|--------------------------------|------------------|------------------|------------------|------------------|
|                                | Gross            | Net              | Gross            | Net              |
| Scottish Government            |                  | 4,960            |                  | 5,979            |
| Central Government             |                  | 7,429            |                  | 6,701            |
| Other Local Authorities        |                  | 122              |                  | 16               |
| NHS Bodies                     |                  | 1,231            |                  | 667              |
| Other Entities & Individuals   | 15,822           |                  | 15,339           |                  |
| less Impairment                | <u>(9,747)</u>   |                  | <u>(9,930)</u>   |                  |
|                                |                  | 6,075            |                  | 5,409            |
| Trade                          | 5,943            |                  | 8,629            |                  |
| less Impairment                | <u>(721)</u>     |                  | <u>(790)</u>     |                  |
|                                |                  | 5,222            |                  | 7,839            |
| Council Tax & Community Charge | 16,033           |                  | 15,710           |                  |
| less Impairment                | <u>(12,516)</u>  |                  | <u>(11,642)</u>  |                  |
|                                |                  | 3,517            |                  | 4,068            |
| Total                          |                  | <u>28,556</u>    |                  | <u>30,679</u>    |



## 29. Creditors

|                                       | 2016/17<br>£'000 | 2015/16<br>£'000 |
|---------------------------------------|------------------|------------------|
| Scottish Government                   | (419)            | (133)            |
| Central Government                    | (4,702)          | (4,303)          |
| Other Local Authorities               | (711)            | (684)            |
| NHS Bodies                            | (1,471)          | (4)              |
| Public Corporations and Trading Funds | (365)            | (325)            |
| Other Entities and Individuals        | (20,041)         | (21,328)         |
| Trade Creditors                       | (30,625)         | (28,888)         |
| Total                                 | <u>(58,334)</u>  | <u>(55,665)</u>  |

## 30. Provisions Other than Bad and Doubtful Debts

### Self-Insured/Uninsured Losses

The Insurance Fund makes provision for losses arising from Property, Employers' Liability, Public Liability, Motor, Fidelity Guarantee, Computer, Engineering and Travel/Personal Accident claims.

The provision provides for an estimate of all liabilities likely to be incurred by the Council in respect of self-insured and uninsured losses in respect of incidents that have arisen prior to 1 April 2017.

### Dilapidations

During the year the Council operated services from properties that it did not own. The Council has therefore made a provision for the estimated liability to reinstate a building to its original specification and design as detailed in the operating lease. This provision is currently being negotiated with the landlord's agent.

### Perth Office Project

The Council has made provision for the final claim received from a contractor for a project within the 2016/17 capital programme. The final figures and rates for additional works are still being reviewed and negotiated with the contractor.

### Canal Street Car Park

The Council has made provision for a compensation claim received from a contractor for a project within the 2016/17 capital programme. It is not currently clear whether the claim is fully valid as it is currently under negotiation, therefore, a provision has been made to meet any potential liability.

### Commercial Rent

The Council manages the rental leases for a number of commercial properties. Due to the down turn in the economic climate affecting retail trading performance, there has been a rent refund in line with the terms of a specific individual lease relating to 2013/14. As subsequent financial years remain subject to negotiation based on the same lease terms, a provision has been made to meet any potential liability.

|                                       | Self Insured/<br>Uninsured<br>Losses<br>£'000 | Dilapidations<br>£'000 | Perth<br>Office<br>Project<br>£'000 | Canal<br>Street<br>Car Park<br>£'000 | Commercial<br>Rent<br>£'000 | Total<br>£'000 |
|---------------------------------------|-----------------------------------------------|------------------------|-------------------------------------|--------------------------------------|-----------------------------|----------------|
| Balance as at 1 April 2016            | 1,934                                         | 0                      | 0                                   | 0                                    | 0                           | 1,934          |
| Additional provisions made in 2016/17 | 348                                           | 750                    | 183                                 | 49                                   | 190                         | 1,520          |
| Amounts used in 2016/17               | (215)                                         | 0                      | 0                                   | 0                                    | 0                           | (215)          |
| Balance as at 31 March 2017           | <u>2,067</u>                                  | <u>750</u>             | <u>183</u>                          | <u>49</u>                            | <u>190</u>                  | <u>3,239</u>   |
| Balance Sheet Disclosure:             |                                               |                        |                                     |                                      |                             |                |
| Less than 12 months                   | 117                                           | 750                    | 183                                 | 49                                   | 190                         | 1,289          |
| Over 12 months                        | 1,950                                         | 0                      | 0                                   | 0                                    | 0                           | 1,950          |
|                                       | <u>2,067</u>                                  | <u>750</u>             | <u>183</u>                          | <u>49</u>                            | <u>190</u>                  | <u>3,239</u>   |

## 31. Usable Reserves

Movements in the Council's Usable Reserves are detailed in the Movement in Reserves Statement and notes 5 and 6.

### 32. Unusable Reserves

|                                          | 2016/17<br>£'000 | 2015/16<br>£'000 |
|------------------------------------------|------------------|------------------|
| Revaluation Reserve                      | (278,190)        | (258,256)        |
| Capital Adjustments Account              | (308,251)        | (272,201)        |
| Financial Instruments Adjustment Account | 11,124           | 11,636           |
| Pensions Reserve                         | 249,939          | 161,821          |
| Employee Statutory Adjustment Account    | 5,482            | 4,648            |
| Total Unusable Reserves                  | <u>(319,896)</u> | <u>(352,352)</u> |

#### Revaluation Reserve

The Revaluation Reserve contains the gains made by the Council arising from increases in the value of its Property, Plant and Equipment. The balance is reduced when assets with accumulated gains are:

- re-valued downwards or impaired and the gains are lost;
- used in the provision of services and the gains are consumed through depreciation; or
- disposed of and the gains are realised.

The Reserve contains only revaluation gains accumulated since 1 April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

|                                                                                                                        | 2016/17<br>£'000 | 2015/16<br>£'000 |
|------------------------------------------------------------------------------------------------------------------------|------------------|------------------|
| Balance at 1 April                                                                                                     | (258,256)        | (246,847)        |
| Upward revaluation of assets                                                                                           | (30,986)         | (19,748)         |
| Downward revaluation of assets and impairment losses not charged to the (Surplus)/Deficit on the Provision of Services | 1,865            | 352              |
|                                                                                                                        | <u>(287,377)</u> | <u>(266,243)</u> |
| Difference between fair value depreciation and historical cost depreciation                                            | 7,539            | 7,141            |
| Accumulated gains on assets sold or scrapped                                                                           | 1,648            | 846              |
| Amount written off to the Capital Adjustment Account                                                                   | 9,187            | 7,987            |
| Balance at 31 March                                                                                                    | <u>(278,190)</u> | <u>(258,256)</u> |

#### Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and enhancement.

The Account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Council.

The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

Note 5 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

|                                                                                                                             | 2016/17<br>£'000        | 2015/16<br>£'000        |
|-----------------------------------------------------------------------------------------------------------------------------|-------------------------|-------------------------|
| Balance at 1 April                                                                                                          | (272,201)               | (242,550)               |
| Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement |                         |                         |
| Charges for depreciation and impairment of non current assets                                                               | 42,628                  | 40,684                  |
| Revaluation gains on Property, Plant and Equipment                                                                          | (21,043)                | (3,164)                 |
| Amortisation of intangible assets                                                                                           | 39                      | 11                      |
| Amounts of non current assets written off on disposal as part of the gain/loss                                              | 3,180                   | 4,465                   |
|                                                                                                                             | <u>(247,397)</u>        | <u>(200,554)</u>        |
| Adjusting amounts written out of the Revaluation Reserve                                                                    | <u>(9,187)</u>          | <u>(7,987)</u>          |
|                                                                                                                             | <u>(256,584)</u>        | <u>(208,541)</u>        |
| Capital financing applied in the year:                                                                                      |                         |                         |
| Use of the Capital Receipts Reserve to finance new capital expenditure                                                      | (3,842)                 | (3,237)                 |
| Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement                             | (20,831)                | (34,782)                |
| Application of grants to capital financing from Capital Grants Unapplied Account                                            | 0                       | (15)                    |
| Statutory provision for the financing of capital investment charged against the General Fund and HRA balances               | (18,053)                | (16,956)                |
| Capital expenditure charged against the general fund and HRA balances                                                       | <u>(9,112)</u>          | <u>(8,534)</u>          |
|                                                                                                                             | <u>(308,422)</u>        | <u>(272,065)</u>        |
| Movements in the fair value of the Investment Properties                                                                    | 171                     | (136)                   |
| Balance at 31 March                                                                                                         | <u><u>(308,251)</u></u> | <u><u>(272,201)</u></u> |

#### Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account (FIAA) is used to hold the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions.

The Council uses the Account to manage the balance of premiums and discounts which existed at 31 March 2007, which arose on the early redemption of loans. These are charged to the General Fund and Housing Revenue Account (HRA) in accordance with statutory provisions, and so spreading the burden on Council Tax and Housing Rents. These statutory arrangements allow for the annual charges to be made in accordance with the original amortisation schedules which existed at that time. Whilst these statutory provisions allow for the spreading of discounts and premiums which arose after 1 April 2007 in certain circumstances, there have been no such premiums or discounts in this period.

The Council also uses the FIAA to hold the difference in interest charges which arises on stepped interest rate loans. These typically have low interest rates in the early years before "stepping up" to a higher interest rate. Interest on such loans is now required to be charged consistently over the life of the loan using the Effective Interest Rate Method. The difference in the cumulative charges under this new method to 31 March 2007 was debited to the FIAA, and is to be charged to the General fund and the HRA over the life of the loans under the statutory provisions.

Accordingly, the balance on the FIAA as at 31 March 2017 in respect of the above provisions will be charged to the General Fund and HRA over the next 38 years. The movements on the FIAA during the year are shown below:

|                                                                                                                                                                    | 2016/17<br>£'000     | 2015/16<br>£'000     |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------|----------------------|
| Balance at 1 April                                                                                                                                                 | 11,636               | 12,198               |
| Proportion of discounts incurred in previous financial years credited against the General Fund & HRA Balance in accordance with statutory requirements in the year | 4                    | 4                    |
| Proportion of premiums incurred in previous financial years charged against the General Fund & HRA Balance in accordance with statutory requirements in the year   | (501)                | (551)                |
| Difference on restatement of Stepped Interest Rate Loans                                                                                                           | (15)                 | (15)                 |
| Balance at 31 March                                                                                                                                                | <u><u>11,124</u></u> | <u><u>11,636</u></u> |

### Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post-employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Council makes employer's contributions to pensions funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall between the benefits earned by past and current employees and the resources the Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

|                                                                                                                                                                                    | 2016/17<br>£'000 | 2015/16<br>£'000 |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|------------------|
| Balance at 1 April                                                                                                                                                                 | 161,821          | 178,054          |
| Actuarial Gains or Losses on Pensions Assets and Liabilities                                                                                                                       | 76,087           | (32,638)         |
| Reversal of Items Relating to Retirement Benefits Debited or Credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement | 28,738           | 32,782           |
| Employer's Pensions Contributions and Direct Payments to Pensioners Payable in the Year                                                                                            | (16,707)         | (16,377)         |
| Balance at 31 March                                                                                                                                                                | <u>249,939</u>   | <u>161,821</u>   |

### Employee Statutory Adjustment Account

The Employee Statutory Adjustment Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

|                                                                             | 2016/17<br>£'000 | 2015/16<br>£'000 |
|-----------------------------------------------------------------------------|------------------|------------------|
| Balance at 1 April                                                          | 4,648            | 5,680            |
| Settlement or cancellation of accrual made at the end of the preceding year | (4,648)          | (5,680)          |
| Amounts accrued at the end of the current year                              | 5,482            | 4,648            |
| Balance at 31 March                                                         | <u>5,482</u>     | <u>4,648</u>     |

### **33. Impairment Losses**

Movements in the value of properties during the year were mainly due to the revaluation of the nursery, primary and secondary school portfolio during 2016/17. Any losses arising have been assessed as a revaluation loss rather than a loss attributed to deterioration in the anticipated level of the performance of the properties. There were no significant losses for any individual school.

### 34. Grants

The Authority credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2016/17.

|                                                                | 2016/17<br>£'000 | 2015/16<br>£'000 |
|----------------------------------------------------------------|------------------|------------------|
| <b>Credited to Taxation and Non Specific Grant Income</b>      |                  |                  |
| Scottish Government                                            | 16,973           | 33,770           |
| Scottish Government Bodies & Directorates                      | 1,349            | 88               |
| Developer Contributions                                        | 1,186            | 146              |
| Other Third Party Contributions                                | 1,323            | 778              |
|                                                                | <u>20,831</u>    | <u>34,782</u>    |
| <b>Credited to Services</b>                                    |                  |                  |
| Scottish Government                                            | 4,713            | 5,886            |
| Scottish Government Directorates (incl Historic Scotland; NHS) | 228              | 492              |
| Sport Scotland                                                 | 441              | 376              |
| Local Authority                                                | 33               | 33               |
| Other Scottish Government Bodies                               | 230              | 326              |
| Other Third Party Contributions                                | 1,690            | 906              |
|                                                                | <u>7,335</u>     | <u>8,019</u>     |

### 35. Capital Expenditure and Capital Financing

The total amount of capital expenditure incurred in the year is shown in the table below (including the value of assets acquired under PFI/PPP contracts), together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Council that has yet to be financed. The CFR is analysed below.

|                                             | 2016/17<br>£'000 | 2015/16<br>£'000 |
|---------------------------------------------|------------------|------------------|
| Capital Financing Requirements b/fwd        | 411,091          | 408,201          |
| <u>Capital Expenditure</u>                  |                  |                  |
| Property, Plant & Equipment                 | 94,199           | 66,376           |
| Revenue Expenditure funded from Capital     | <u>2,216</u>     | <u>1,655</u>     |
|                                             | <u>96,415</u>    | <u>68,031</u>    |
|                                             | <u>507,506</u>   | <u>476,232</u>   |
| <u>Sources of Finance</u>                   |                  |                  |
| Capital Receipts                            | (2,061)          | (3,214)          |
| Government Grants and Contributions         | (23,048)         | (36,437)         |
| Revenue Contributions                       | (9,112)          | (8,534)          |
| Loans Fund Principal Repayments             | <u>(18,053)</u>  | <u>(16,956)</u>  |
|                                             | <u>(52,274)</u>  | <u>(65,141)</u>  |
| Closing Capital Financing Requirement c/fwd | <u>455,232</u>   | <u>411,091</u>   |
| Movement                                    | 44,141           | 2,890            |
| <u>Analysed as:</u>                         |                  |                  |
| Increase in need to borrow                  | 47,957           | 6,613            |
| Net assets acquired under PPP contract      | <u>(3,816)</u>   | <u>(3,723)</u>   |
|                                             | <u>44,141</u>    | <u>2,890</u>     |

### 36. Public Finance Initiatives and Similar Contracts

The Council has an obligation for 25 years commencing September 2000 in respect of a unitary charge payment to be made for office accommodation and a car park.

The unitary charge for 2016/17 for the office accommodation was £2,341,000 (2015/16 £2,485,000). In 2015/16 the facilities management element of the service charge was renegotiated resulting in a reduced unitary charge payment.

The unitary charge for 2016/17 for the car park was £407,000 (2015/16 £408,000).

Future agreed payments will increase in line with inflation. The unitary charge payments for 2017/18 for the office accommodation will be £2,324,000 and for the car park £420,000.

The project agreement for provision of the facilities included the transfer of four Council properties to the operator in exchange for reduced annual payments over the life of the agreement. At the end of this project these assets do not revert back to the Council.

The Council has an obligation for six school campuses in a Public Private Partnership with Axiom Education (Perth and Kinross) Ltd. North Inch Primary was brought into operation in 2011/12. Breadalbane Campus at Aberfeldy was completed in 2010/11 and the campuses at Blairgowrie, Perth South, Kinross, Crieff and the Roman Catholic School Campus were brought into operation during 2009/10. The Council will make unitary charge payments until the contract ends in 2042, at which time the campuses will be handed back to the Council at no cost. The estimated capital value of the scheme is £127,687,000.

The unitary charge for 2016/17 for the campuses operating in the year was £15,432,000 (2015/16 £15,414,000).

Future agreed payments will increase in line with inflation. The unitary charge payments for 2017/18 for all school campuses are estimated to be £15,954,000.

Movements in Fixed Assets under Public Private Partnerships during the year were:

|                                 | 2016/17<br>£'000 | 2015/16<br>£'000 |
|---------------------------------|------------------|------------------|
| Net Book Value at 1 April 2016  | 129,879          | 116,478          |
| Additions                       | 0                | 46               |
| Revaluations                    | (146)            | 17,832           |
| Depreciation                    | (4,477)          | (4,477)          |
| Net Book Value at 31 March 2017 | <u>125,256</u>   | <u>129,879</u>   |

Movements in Public Private Partnership Liabilities during the year were:

|                                    | 2016/17<br>£'000 | 2015/16<br>£'000 |
|------------------------------------|------------------|------------------|
| Liabilities at 1 April 2016        | 121,691          | 125,414          |
| Amounts repaid in year             | (3,816)          | (3,723)          |
| Liabilities at 31 March 2017       | <u>117,875</u>   | <u>121,691</u>   |
| Disclosed in the Balance Sheet as: |                  |                  |
| Long Term Liabilities              | 113,698          | 117,875          |
| Creditors                          | 4,177            | 3,816            |
| Liabilities at 31 March 2017       | <u>117,875</u>   | <u>121,691</u>   |

Future Public Private Partnership liabilities due to be met:

|                       | Repayment<br>of liability<br>£'000 | Interest<br>£'000 | Service<br>Charges<br>£'000 | Lifecycle<br>Maintenance<br>£'000 | Contingent<br>Rentals<br>£'000 | TOTAL<br>£'000 |
|-----------------------|------------------------------------|-------------------|-----------------------------|-----------------------------------|--------------------------------|----------------|
| Due within one year   | 4,177                              | 6,123             | 6,096                       | 1,060                             | 1,566                          | 19,022         |
| Due in 2 to 5 years   | 16,955                             | 21,759            | 26,144                      | 7,626                             | 8,031                          | 80,515         |
| Due in 6 to 10 years  | 22,402                             | 20,085            | 35,421                      | 13,506                            | 14,532                         | 105,946        |
| Due in 11 to 15 years | 18,442                             | 14,746            | 36,937                      | 16,761                            | 19,960                         | 106,846        |
| Due in 16 to 20 years | 26,314                             | 9,929             | 42,146                      | 13,069                            | 29,428                         | 120,886        |
| Due in 21 to 25 years | 29,585                             | 3,386             | 43,296                      | 12,670                            | 34,188                         | 123,125        |
| Total                 | <u>117,875</u>                     | <u>76,028</u>     | <u>190,040</u>              | <u>64,692</u>                     | <u>107,705</u>                 | <u>556,340</u> |

These figures are based on the actual cash amount estimated to be payable and not on prices at 31 March 2017.

### 37. Authorisation of Annual Accounts

The Unaudited Annual Accounts were authorised for issue by the Head of Finance on 28 June 2017 and the Audited Annual Accounts were authorised for issue on 27 September 2017. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2017, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

### 38. Contingent Liabilities

The Council has made provision for insurance claims where appropriate and has an Insurance Fund to manage insurable risks. There is also a contingent liability in respect of potential insurance claims incurred but not reported which cannot be forecast with any certainty.

There is a contingent liability relating to Municipal Mutual Insurance (MMI), who were the insurers for Tayside Regional Council (TRC). Following a Supreme Court judgement in November 2012 a scheme of arrangement has been put in place where MMI will seek to recover, from the scheme members or successors, 15% of all claims paid out since 1993 on policies taken out by TRC (less an overall total reduction of £50,000). Perth and Kinross Council is one of the successor bodies of TRC. It is not currently clear whether the remaining assets of the TRC Insurance Fund will be sufficient to meet any liability.

The Council has received a claim in relation to mesothelioma where an individual may have been exposed to asbestos while they were employed by the Council and its predecessor authority. It is not possible to determine with any certainty whether there is any liability at this time until the claim is fully investigated.

The Scottish Parliament is considering legislation which would remove the current time limit on raising civil court actions relating to childhood abuse. Consequently the Council may in future be the subject of court action relating to past events. It is not possible to estimate the potential financial effect due to a number of uncertainties. These include the detail of the legislation, the number of claims which may arise, and the extent of compensation which could arise. Additionally the extent of re-imbursement which might arise from historic or current insurance policies cannot currently be assessed.

The Council previously identified a potential issue in terms of fixed assets included in the Council Balance Sheet which should, potentially, be included in the Balance Sheet of the Common Good Funds instead. Property titles are being reviewed when land and/or buildings are declared surplus to operational needs and, until all property titles for all former burghs are reviewed, there remains the possibility that some assets may require to be transferred between the Council and Common Good balance sheets.

The Council operates services from a number of properties that it does not own. In the future there may be a liability in respect of property costs to reinstate buildings to their original specification and design.

The Council has identified a potential liability in respect of casual and supply staff who may be entitled to employee benefits, such as occupational sick pay and maternity pay, similar to those available to permanent staff. At this time, it

is not possible to determine the number of individuals involved. Therefore, no reliable estimate of the cost of providing retrospective access to these benefits can be made.

The Council has a potential liability in respect of financial guarantees for the Tayside Pension Fund in respect of Scheduled Bodies and Admitted Bodies should they cease to exist, withdraw from the Pension Scheme or otherwise become unable to continue covering any unfunded liabilities. These bodies include Tayside and Central Scotland Transport Partnership, Live Active Leisure Ltd, Horsecross Arts Limited, Perth & Kinross Countryside Trust, Perth & Kinross Society for the Blind, Perth Citizens' Advice Bureau and Culture Perth & Kinross. In addition the Council has a potential liability in respect of pensions for the Convention of Scottish Local Authorities (COSLA) should the organisation cease to exist.

### 39. Financial Instruments

Accounting regulations require the 'financial instruments' (investment, lending and borrowing of the Council) shown on the balance sheet to be further analysed into various defined categories. The investments, lending and borrowing disclosed in the balance sheet are made up of the following categories of 'financial instruments'.

|                                         | Long-Term                 |                           | Current                   |                           | Total                     |                           |
|-----------------------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
|                                         | 31 March<br>2017<br>£'000 | 31 March<br>2016<br>£'000 | 31 March<br>2017<br>£'000 | 31 March<br>2016<br>£'000 | 31 March<br>2017<br>£'000 | 31 March<br>2016<br>£'000 |
| <b>Borrowings</b>                       |                           |                           |                           |                           |                           |                           |
| Financial liabilities at amortised cost | 279,963                   | 238,183                   | 14,195                    | 13,492                    | 294,158                   | 251,675                   |
| Total borrowings                        | 279,963                   | 238,183                   | 14,195                    | 13,492                    | 294,158                   | 251,675                   |
| <b>Investments</b>                      |                           |                           |                           |                           |                           |                           |
| Loans and receivables                   | 401                       | 370                       | 49,302                    | 53,334                    | 49,703                    | 53,704                    |
| Total investments                       | 401                       | 370                       | 49,302                    | 53,334                    | 49,703                    | 53,704                    |

Lender Option Borrower Option (LOBO) borrowings of £44.459m have been included in long term borrowing as at 31 March 2017 but have a call date in the next 12 months.

The above long term figures are based on the 2016 Code which requires that in undertaking Effective Interest Rate (EIR) calculations, the maturity period for a LOBO is taken as being the contractual period to maturity.

#### Financial Instruments Gains / Losses

The gains and losses recognised in the Comprehensive Income and Expenditure Account in relation to financial instruments are as follows:

|                                                   | Financial<br>Liabilities                        | Financial<br>Assets      |                  |                  |
|---------------------------------------------------|-------------------------------------------------|--------------------------|------------------|------------------|
|                                                   | Liabilities<br>measured at<br>amortised<br>cost | Loans and<br>receivables | Total<br>2016/17 | Total<br>2015/16 |
|                                                   | £'000                                           | £'000                    | £'000            | £'000            |
| Interest expense                                  | 10,756                                          | 0                        | 10,756           | 10,289           |
| Losses on derecognition                           | 0                                               | 0                        | 0                | 0                |
| Interest payable and similar charges              | 10,756                                          | 0                        | 10,756           | 10,289           |
| Interest income                                   | 0                                               | (426)                    | (426)            | (489)            |
| Interest and investment income                    | 0                                               | (426)                    | (426)            | (489)            |
| Gains on revaluation                              | 0                                               | 0                        | 0                | (46)             |
| Losses on revaluation                             | 14                                              | 0                        | 14               | 7                |
| Losses arising on revaluation of financial assets | 14                                              | 0                        | 14               | (39)             |
| Net loss/(gain) for the year                      | 10,770                                          | (426)                    | 10,344           | 9,761            |

#### Fair Value of Liabilities Carried at Amortised Cost

The fair value of each class of financial assets and liabilities which are carried in the balance sheet as at 31 March 2017 at amortised cost is disclosed below.



## Methods and Assumptions in valuation technique:

The fair value of an instrument is determined by calculating the Net Present Value (NPV) of future cash flows, which provides an estimate of the value of payments in the future in today's terms.

The discount rate used in the NPV calculation is the rate applicable in the market on the date of valuation for an instrument with the same structure, terms and remaining duration. For debt, this will be the new borrowing rate since premature repayment rates include a margin which represents the lender's profit as a result of rescheduling the loan; this is not included in the fair value calculation since any motivation other than securing a fair price should be ignored. In addition, lenders do not have the ability to force the Council to repay debt early.

The rates quoted in this valuation were obtained by the Council's treasury management consultants from the market on 31 March 2017, using bid prices where applicable.

The calculations are made with the following assumptions:

- For Public Works Loans Board (PWLB) debt, the discount rates used are the rates for new borrowing as per rate sheet number 127/17.
- For other market debt and investments the discount rates used are the rates available for an instrument with the same terms from a comparable lender.
- Interpolation techniques have been used between available rates where the exact maturity period was not available.
- No early repayment or impairment is recognised.
- Fair values have been calculated for all instruments in the portfolio, but only those which are materially different from the carrying value have been disclosed.

The fair values are calculated as follows:

|                                      | 31 March 2017   |            | 31 March 2016   |            |
|--------------------------------------|-----------------|------------|-----------------|------------|
|                                      | Carrying amount | Fair value | Carrying amount | Fair value |
|                                      | £'000           | £'000      | £'000           | £'000      |
| Public Works Loans Board (PWLB)      | 245,170         | 311,361    | 196,645         | 239,475    |
| Lender Option Borrower Option (LOBO) | 44,831          | 67,097     | 44,850          | 58,240     |
| Local Authority Bonds                | 0               | 0          | 5,001           | 5,011      |
| Short term borrowing                 | 1,384           | 1,379      | 2,808           | 3,433      |
| Other (Special Loans)                | 2,273           | 2,275      | 1,828           | 1,829      |
| Other Market Loans                   | 500             | 519        | 543             | 541        |
| Financial Liabilities                | 294,158         | 382,631    | 251,675         | 308,529    |

Fair value is more than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the rates available for similar loans at the balance sheet date. The difference between the carrying amount and the fair value therefore represents the premium the Council would need to pay to the lender in the event these loans were to be repaid at that date. For comparison, if the Council were to have repaid all the loans to the PWLB on the balance sheet date, a total of £372.9M would have been payable after applying the PWLB's premature redemption rates applicable on that date. This is higher than the Fair Value shown in the table above, as the PWLB premature redemption rates include an additional profit margin over their comparative new borrowing rates.

## Fair Value of Assets Carried at Amortised Cost

|                                            | 31 March 2017   |            | 31 March 2016   |            |
|--------------------------------------------|-----------------|------------|-----------------|------------|
|                                            | Carrying amount | Fair value | Carrying amount | Fair value |
|                                            | £'000           | £'000      | £'000           | £'000      |
| Cash (including petty cash)                | 24,157          | 24,160     | 8,036           | 8,036      |
| Deposits with Banks and Building Societies | 25,048          | 25,065     | 45,120          | 45,153     |
| Mortgages                                  | 108             | 108        | 114             | 115        |
| Loans to Others                            | 390             | 390        | 434             | 434        |
| Financial Assets                           | 49,703          | 49,723     | 53,704          | 53,738     |

The fair value is higher than the carrying amount because the Council's portfolio of investments includes a number of fixed rate deposits where the interest rate receivable is higher than the rates available for similar loans at the balance sheet date.

## Nature and Extent of Risks Arising from Financial Instruments

The Council's management of treasury risks is intended to minimise the Council's exposure to the unpredictability of financial markets and to protect the financial resources available to fund services. The Council has fully adopted CIPFA's Code of Treasury Management Practices and has written principles for overall risk management as well as written policies and procedures covering specific areas such as credit risk, liquidity risk and market risk.

### (i) Credit Risk

Credit risk arises from the short-term lending of surplus funds to banks, building societies, Money Market Funds and other local authorities as well as credit exposures to the Council's customers. It is the policy of the Council to place deposits only with a limited number of high quality banks, building societies and Money Market Funds whose credit rating, together with other market information, is independently assessed as sufficiently secure by the Council's treasury advisers and to restrict lending to a prudent maximum amount and duration for each institution.

The following analysis summarises the Council's potential maximum exposure to credit risk, based on past experience and current market conditions.

|                                                      | Amounts at 31<br>March 2017 | Historical<br>experience of<br>default | Historical<br>experience<br>adjusted for<br>market conditions<br>as at 31 March<br>2017 | Estimated maximum<br>exposure to default and<br>uncollectability |
|------------------------------------------------------|-----------------------------|----------------------------------------|-----------------------------------------------------------------------------------------|------------------------------------------------------------------|
|                                                      | £'000                       | %                                      | %                                                                                       | £'000                                                            |
| Deposits with banks and other financial institutions | 53,810                      | 0                                      | 0                                                                                       | 0                                                                |
| Loans to Others                                      | 498                         | 0                                      | 0                                                                                       | 0                                                                |
| Debtors                                              | 12,769                      | 19.8                                   | 19.8                                                                                    | 2,528                                                            |
| <b>Total</b>                                         | <b>67,077</b>               | <b>-</b>                               | <b>-</b>                                                                                | <b>2,528</b>                                                     |

The Council's overall exposure to credit risk in relation to its deposits in banks and other financial institutions of £53.810m above cannot be assessed generally, as the risk of non-payment of the principle sums or interest is specific to each individual institution. Experience indicates that any such non-payment is rare, and there is no evidence that any risk of default existed at 31 March 2017. The repayment profile of these deposits, including loans to others, is shown below:

|                        | 31 March 2017<br>£'000 | 31 March 2016<br>£'000 |
|------------------------|------------------------|------------------------|
| Less than three months | 41,295                 | 37,165                 |
| Three to six months    | 12,515                 | 20,021                 |
| Six months to one year | -                      | -                      |
| More than one year     | -                      | -                      |
| <b>Total</b>           | <b>53,810</b>          | <b>57,186</b>          |

### Loans to Others

The Council initiates a legal charge on property where, for example, clients require assistance with payment of care fees, but cannot pay immediately until such time as their property is sold. The total amount outstanding as at 31 March 2017 in this category is £390,000 and experience of default is minimal. The Council has granted mortgages for essential property repairs in shared ownership properties. The total amount outstanding as at 31 March 2017 is £108,000 with no experience of default. The total amount of Loans to Others of £498,000 can be analysed as follows:

|                        | 31 March 2017<br>£'000 | 31 March 2016<br>£'000 |
|------------------------|------------------------|------------------------|
| Less than three months | 6                      | 3                      |
| Three to six months    | 3                      | 3                      |
| Six months to one year | 92                     | 178                    |
| More than one year     | 397                    | 364                    |
| <b>Total</b>           | <b>498</b>             | <b>548</b>             |

### Debtors

The Council does not generally allow credit for customers, such that £10.480m of the £12.769m balance is past its due date for payment.

The past due amount can be analysed by age as follows:

|                        | <b>31 March 2017</b> | <b>31 March 2016</b> |
|------------------------|----------------------|----------------------|
|                        | <b>£'000</b>         | <b>£'000</b>         |
| Less than three months | 7,226                | 8,598                |
| Three to six months    | 311                  | 259                  |
| Six months to one year | 1,370                | 1,234                |
| More than one year     | 1,573                | 1,547                |
| <b>Total</b>           | <b>10,480</b>        | <b>11,638</b>        |

## (ii) Liquidity Risk

The Council has access to borrowings from the money markets to cover day to day cashflow needs, as well as borrowing from the Public Works Loans Board or money markets for longer term funding requirements. As a result there is no significant risk that the Council will be unable to raise finance to meet its commitments under financial instruments. The Council manages its portfolio in conjunction with interest rate forecasts to reduce the risk of a large proportion of its borrowing maturing at a time of higher interest rates, and so reduce the financial impact of re-financing at an unfavourable time. In addition, the monitoring of interest rate movements for the identification of debt rescheduling opportunities to amend the maturity profile, as well as achieving savings in interest charges, is undertaken on a continuous basis to further mitigate any refinancing risks.

The maturity structure of financial liabilities is as follows (at nominal value):

| <b>Loans outstanding</b> | <b>On 31 March 2017</b> | <b>On 31 March 2016</b> |
|--------------------------|-------------------------|-------------------------|
|                          | <b>£'000</b>            | <b>£'000</b>            |
| Public Works Loans Board | 243,209                 | 194,871                 |
| Market debt              | 43,749                  | 43,806                  |
| Local Authority Bonds    | 0                       | 5,000                   |
| Temporary borrowing      | 1,383                   | 2,807                   |
| Local bonds              | 2,625                   | 1,821                   |
| Bank Overdraft           | 4,639                   | 4,064                   |
| <b>Total</b>             | <b>295,605</b>          | <b>252,369</b>          |
| Less than 1 year         | 16,865                  | 15,410                  |
| Between 1 and 2 years    | 10,218                  | 8,218                   |
| Between 2 and 5 years    | 33,340                  | 30,336                  |
| Between 5 and 10 years   | 33,621                  | 31,122                  |
| Between 10 and 15 years  | 6,475                   | 6,105                   |
| More than 15 years       | 195,086                 | 161,178                 |
| <b>Total</b>             | <b>295,605</b>          | <b>252,369</b>          |

In the more than 15 years category there are £44.459m of LOBO borrowings which have a call date in the next 12 months.

## (iii) Market Risk

### Interest rate risk

The Council is exposed to interest rate risk in two different ways: the first being the uncertainty of interest paid/received on variable rate instruments and the second being the effect of fluctuations in interest rates on the fair value of an instrument.

The current interest rate risk for the council is summarised below:

- Reductions in interest rates will affect interest earned on variable rate investments, and reduces income credited to the Comprehensive Income and Expenditure Statement. There would only be a small reduction in the interest payable on variable rate borrowing.
- Increases in interest rates will affect interest paid on variable rate borrowings, and increases interest expense charged to the Comprehensive Income and Expenditure Account, but offset by increased investment returns.
- The fair value of fixed rate financial assets will fall if interest rates rise. This will not impact on the balance sheet for assets held at amortised cost, but will impact on the disclosure note for fair value. It would have a negative effect on the balance sheet for any assets held at fair value in the balance sheet, which would also be reflected in the Comprehensive Income & Expenditure Statement. However, no such assets at fair value were held by the Council as at 31 March 2017.
- The fair value of fixed rate financial assets will rise if interest rates fall. This will not impact on the balance sheet for liabilities held at amortised cost, but will impact on the disclosure note for fair value.

The Council has a number of strategies for managing interest rate risk. The policy is to keep a maximum of 35% of its borrowings in variable rate loans. During periods of falling interest rates, and where economic circumstances make it favourable, fixed rate loans may be repaid early to limit exposure to losses, whilst fixed deposits may be undertaken for longer periods (within policy and counterparty limits).

The treasury management team has an active strategy for assessing interest rate exposure that feeds into the setting of the annual budget and which is used to update the budget throughout the year. This allows any favourable or adverse changes to be accommodated. The analysis will also advise whether new borrowing taken out is fixed or variable.

According to this assessment strategy, at 31 March 2017, if interest rates had been 1% higher with all other variables held constant, the financial effect would be:

|                                                              | £'000        |
|--------------------------------------------------------------|--------------|
| Increase in interest payable on variable rate borrowings     | 518          |
| Increase in interest receivable on variable rate investments | (709)        |
| Impact on Comprehensive Income and Expenditure Statement     | <u>(191)</u> |
| Share of overall impact credited to the HRA                  | (45)         |

The impact of a 1% fall in interest rates would have been an estimated cost of £421,000 to the Council as a result of a reduction in investment income, whilst it would be unlikely that the lenders of the market loans borrowed would pass on the reduction in rates payable. However, there would be a small reduction of £46,000 payable on other small loan balances. Therefore the net cost of a 1% fall in interest rates would be £375,000.

#### Foreign Exchange Risk

The Council has no financial assets or liabilities denominated in foreign currencies and thus has no exposure to loss arising from movements in exchange rates.

#### Price Risk

The Council does not invest in equities or other tradable instruments, therefore it is not exposed to gains or losses on movements in their price.

### **40. Devolved School Management (DSM) Schools**

The accumulated balance on the General Fund at 31 March 2017 includes net surplus funds of £1,103,000 (31 March 2016 £1,258,000) in respect of schools participating in the Devolved School Management scheme. There are a number of schools with surpluses totalling £1,114,000 and a number of schools carrying forward deficits amounting to £11,000. These surpluses and deficits are earmarked in 2016/17 for the individual schools concerned.

### **41. Operating Activities**

The cash flows for operating activities include the following items:

|                   | 2016/17<br>£'000 | 2015/16<br>£'000 |
|-------------------|------------------|------------------|
| Interest received | (497)            | (526)            |
| Interest paid     | 19,804           | 17,827           |
|                   | <u>19,307</u>    | <u>17,301</u>    |

### **42. Investing Activities**

|                                                                                                    | 2016/17<br>£'000 | 2015/16<br>£'000 |
|----------------------------------------------------------------------------------------------------|------------------|------------------|
| Purchase of property, plant and equipment, investment property and intangible assets               | (93,817)         | (66,233)         |
| Purchase of short-term and long-term investments                                                   | (67,548)         | (119,120)        |
| Proceeds from the sale of property, plant and equipment, investment property and intangible assets | 3,380            | 3,193            |
| Proceeds of short-term and long-term investments                                                   | 87,620           | 120,156          |
| Other receipts for investing activities                                                            | 20,831           | 34,782           |
|                                                                                                    | <u>(49,534)</u>  | <u>(27,222)</u>  |

#### 43. Financing Activities

|                                                                                                                              | 2016/17<br>£'000 | 2015/16<br>£'000 |
|------------------------------------------------------------------------------------------------------------------------------|------------------|------------------|
| Cash receipts of short and long-term borrowing                                                                               | 82,485           | 61,732           |
| Cash payments for the reduction of the outstanding liabilities relating to finance leases and on balance sheet PFI contracts | (3,816)          | (3,723)          |
| Repayments of short and long-term borrowing                                                                                  | (41,799)         | (59,844)         |
| Net cash flows from financing activities                                                                                     | <u>36,870</u>    | <u>(1,835)</u>   |

#### 44. Cash and Cash Equivalents

The balance of Cash and Cash equivalents is made up of the following elements:

|                                 | 2016/17<br>£'000 | 2015/16<br>£'000 |
|---------------------------------|------------------|------------------|
| Cash held by officers           | 36               | 34               |
| Bank current accounts           | (4,641)          | (4,064)          |
| Short-term deposits with banks  | 28,762           | 12,066           |
| Total cash and cash equivalents | <u>24,157</u>    | <u>8,036</u>     |

#### 45. Trust Funds

Perth & Kinross Council administers a number of Charitable Funds of varying sizes. The Income and Expenditure Account and Balance Sheet are detailed on page 75.

These funds include Educational Trusts and other trusts which are primarily for the residents of Perth & Kinross. An exercise is currently being undertaken to amalgamate many of the non-educational trusts in order for the funds to be more readily accessible.

The Perth & Kinross Educational Trust gives financial assistance towards scholarships, second or subsequent degrees, mature students and further education. Assistance is also provided to schools for sports facilities and special equipment, promoting visual arts and education in music and drama. There are also preferences for certain beneficiaries usually named schools for prizes etc. Also within the Perth & Kinross Educational Trust there are eight individual endowments for maintaining, furnishing and equipping school buildings.

The other charitable trusts purposes include giving financial assistance to the poor in different areas of Perth & Kinross, assistance for libraries and art galleries and the maintenance of memorials.

|                                                                                         | 31 March 2017<br>£'000 | 31 March 2016<br>£'000 |
|-----------------------------------------------------------------------------------------|------------------------|------------------------|
| Educational Trust - Financial Assistance                                                |                        |                        |
| Net assets                                                                              | 943                    | 847                    |
| Net(Incoming)/Outgoing Resources before other recognised gains and losses               | (1)                    | 2                      |
| Educational Trust - Endowments                                                          |                        |                        |
| Net assets                                                                              | 54                     | 52                     |
| Net (Incoming) Resources before other recognised gains and losses                       | (3)                    | (2)                    |
| Other Charitable Trusts                                                                 |                        |                        |
| Net assets                                                                              | 2,194                  | 2,181                  |
| Net (Incoming)/Outgoing Resources before other recognised gains and losses              | (283)                  | 17                     |
| <b>TOTAL Net Assets</b>                                                                 | <b>3,191</b>           | <b>3,080</b>           |
| <b>TOTAL Net (Incoming)/Outgoing Resources before other recognised gains and losses</b> | <b>(287)</b>           | <b>17</b>              |

Detailed Accounts for the Charities are available from the Head of Finance, 2 High Street, Perth, PH1 5PH.

#### 46. The Statutory Loans Fund

The Local Authority (Capital Financing and Accounting) (Scotland) Regulations 2016 came into force on 1 April 2016. These made various changes to the way the Loans Fund was operated and accounted for. The most significant changes were approved by the Strategic Policy & Resources Committee on 30 November 2016 (report 16/528 refers), relating to the way capital advances (expenditure) are repaid (charged) on an annual basis.

The Loans Fund is an internal fund operated by the Council to manage the amortisation of capital expenditure (capital advances) over the life of the various assets being funded by borrowing, and also to manage the external borrowing raised to finance the capital expenditure. Whilst both elements of the Loans Fund operate independently of each other, because they are based on the same capital plans they will broadly be consistent to each other over the long term. However, significant differences may arise over the short-term. This may include, for example, delaying external borrowing due to unfavourable prevailing interest rates, where the Council's daily cashflow remains positive, or where the Council has significant levels of Reserves.

The Statutory repayment method (ie to continue to write-down the debt in accordance with existing schedules) applies for all outstanding Loans Fund advances as at 31 March 2016, as well as future advances incurred up to 31 March 2021 by applying existing budgeted schedules and methodologies. This is on the basis that forward capital plans had previously been approved, including the revenue budget implications under existing methodologies. For all Loans Fund advances incurred beyond 31 March 2021, there is a presumption that repayments will be determined by the straight line asset life method, unless specific circumstances dictate that a different method should apply. The Council also defers the repayment of Loans Fund advances until the asset being funded is completed and operational.

The value of Loans Fund advances outstanding at 31 March 2017 is £338,039,000. This is made up as follows:

|                      | Advances<br>1 April 2016<br>£'000 | Repaid<br>2016/17<br>£'000 | New Advances<br>2016/17<br>£'000 | Advances<br>31 March 2017<br>£'000 |
|----------------------|-----------------------------------|----------------------------|----------------------------------|------------------------------------|
| General Fund         | 185,006                           | (7,998)                    | 40,407                           | 217,415                            |
| Prudential Borrowing | 36,975                            | (2,861)                    | 7,022                            | 41,136                             |
| Sub Total            | 221,981                           | (10,859)                   | 47,429                           | 258,551                            |
| HRA                  | 68,101                            | (3,378)                    | 14,765                           | 79,488                             |
| Total                | 290,082                           | (14,237)                   | 62,194                           | 338,039                            |

The future repayments of these advances is summarised in the table below:

|                         | General<br>Fund<br>£'000 | Prudential<br>Borrowing<br>£'000 | Sub Total:<br>General<br>Fund<br>£'000 | Housing<br>Revenue<br>Account<br>£'000 | Total<br>£'000 |
|-------------------------|--------------------------|----------------------------------|----------------------------------------|----------------------------------------|----------------|
| Within 1 Year           | 8,481                    | 3,097                            | 11,578                                 | 3,808                                  | 15,386         |
| Between 1 and 2 Years   | 8,964                    | 3,058                            | 12,022                                 | 3,750                                  | 15,772         |
| Between 2 and 5 Years   | 28,486                   | 6,726                            | 35,212                                 | 11,126                                 | 46,338         |
| Between 5 and 10 Years  | 47,988                   | 6,757                            | 54,745                                 | 18,517                                 | 73,262         |
| Between 10 and 15 Years | 42,344                   | 6,988                            | 49,332                                 | 13,517                                 | 62,849         |
| Between 15 and 20 Years | 33,060                   | 7,373                            | 40,433                                 | 9,127                                  | 49,560         |
| Between 20 and 25 Years | 27,114                   | 4,038                            | 31,152                                 | 11,775                                 | 42,927         |
| More than 25 Years      | 20,978                   | 3,099                            | 24,077                                 | 7,868                                  | 31,945         |
| Total                   | 217,415                  | 41,136                           | 258,551                                | 79,488                                 | 338,039        |

Comparison of the Capital advances above with capital debt of £286.960m shows that the Council is currently "under-borrowed" by around £51m. This reflects the strategy adopted in recent years of utilising cash balances (which have arisen due to the high levels of reserves held by the Council in the short term) to reduce the level of short term investments held by the Council, instead of undertaking new borrowing. This strategy mitigated the increased risks and low returns associated with investments in recent years.

The latest approved General Fund (Composite) Capital Budget and Housing Investment Programme includes the amount of capital expenditure to be funded by borrowing (ie new Loans Fund advances) in each of the next 6 years is as follows:

|         | General<br>Fund | Housing<br>Investment<br>Programme | Total   |
|---------|-----------------|------------------------------------|---------|
|         | £'000           | £'000                              | £'000   |
| 2017/18 | 60,011          | 17,452                             | 77,463  |
| 2018/19 | 56,909          | 8,905                              | 65,814  |
| 2019/20 | 78,011          | 7,373                              | 85,384  |
| 2020/21 | 66,008          | 6,906                              | 72,914  |
| 2021/22 | 62,482          | 21,495                             | 83,977  |
| 2022/23 | 25,845          | 0                                  | 25,845  |
| Total   | 349,266         | 62,131                             | 411,397 |

All the above Loans Fund repayments have been included in the Loan Charge estimates within the approved Medium Term Financial Plans, and therefore remain affordable under the current Loan Charge Budget strategy. This Strategy includes increasing the Loan Charges budget by £1M per annum until around 2030/31 under current estimates to fund the additional infrastructure requirements in the Council's approved medium term Capital Plan.

## HOUSING REVENUE ACCOUNT

The Housing Revenue Account (HRA) Income and Expenditure Statement shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants. Councils charge rents to cover expenditure in accordance with the legislative framework which may be different from the accounting cost. The increase or decrease in the year, on the basis on which rents are raised, is shown in the Statement of Movements on the Housing Revenue Account Balance.

| <u>2015/16</u> |                                                                                                                   | <u>2016/17</u> |          |
|----------------|-------------------------------------------------------------------------------------------------------------------|----------------|----------|
| £'000          |                                                                                                                   | £'000          | £'000    |
|                | <b>Income</b>                                                                                                     |                |          |
| (24,908)       | Dwelling Rents                                                                                                    | (25,662)       |          |
| 248            | less Voids                                                                                                        | 229            |          |
|                |                                                                                                                   |                | (25,433) |
| (673)          | Non-Dwelling Rents                                                                                                | (675)          |          |
| 231            | less Voids                                                                                                        | 253            |          |
|                |                                                                                                                   |                | (422)    |
| (1,826)        | Other Income                                                                                                      |                | (1,032)  |
| (26,928)       | <b>Total Income</b>                                                                                               |                | (26,887) |
|                | <b>Expenditure</b>                                                                                                |                |          |
| 8,576          | Repairs & Maintenance                                                                                             | 7,322          |          |
| 8,021          | Supervision & Management                                                                                          | 7,870          |          |
| 13,129         | Depreciation, impairment and revaluation losses on non current assets                                             | 13,543         |          |
| 375            | Movement in the Impairment of Debtors                                                                             | (250)          |          |
| 1,437          | Other expenditure                                                                                                 | 1,855          |          |
| 31,538         | <b>Total Expenditure</b>                                                                                          |                | 30,340   |
| 4,610          | <b>Net Expenditure for HRA Services as included in the Comprehensive Income and Expenditure Statement</b>         |                | 3,453    |
|                |                                                                                                                   |                |          |
| 298            | HRA services' share of Corporate and Democratic Core                                                              |                | 337      |
| 4,908          | <b>Net Expenditure for HRA Services</b>                                                                           |                | 3,790    |
|                |                                                                                                                   |                |          |
|                | HRA share of the operating income and expenditure included in the Comprehensive Income and Expenditure Statement: |                |          |
| (55)           | (Gain)/loss on sale of HRA Non-Current Assets                                                                     |                | 78       |
| 2,161          | Interest payable and similar charges                                                                              |                | 2,429    |
| (10)           | Interest and investment income                                                                                    |                | (6)      |
| 356            | Net Interest on the net defined benefit liability                                                                 |                | 392      |
| (5,007)        | Capital Grants and Contributions Receivable                                                                       |                | (3,260)  |
| 2,353          | <b>Deficit for the year on HRA services</b>                                                                       |                | 3,423    |



## STATEMENT OF MOVEMENTS ON THE HOUSING REVENUE ACCOUNT BALANCE

The Statement of Movement on the Housing Revenue Account balance reconciles the Housing Revenue Account to the HRA balance, an earmarked element of the Council's General Fund Balance.

| <u>2015/16</u> |                                                                      | <u>2016/17</u> | <u>2016/17</u> |
|----------------|----------------------------------------------------------------------|----------------|----------------|
| <u>£'000</u>   |                                                                      | <u>£'000</u>   | <u>£'000</u>   |
| (800)          | Balance on the HRA at the end of the Previous Year                   |                | (782)          |
| 2,353          | Deficit for the year on the HRA Income and Expenditure Account       | 3,423          |                |
| <u>(1,675)</u> | Adjustments between Accounting Basis and Funding Basis Under Statute | <u>(2,801)</u> |                |
| <u>678</u>     | Net Decrease before Transfers to or from Reserves                    | 622            |                |
| (660)          | Transfer from Reserves                                               | <u>(640)</u>   |                |
| 18             | Decrease/(Increase) in Year on the HRA                               |                | (18)           |
| <u>(782)</u>   | Balance on the HRA at the end of the Current Year                    |                | <u>(800)</u>   |

### Note to the Statement of Movement on the HRA Balance

| <u>2015/16</u> |                                                                                                                              | <u>2016/17</u> | <u>2016/17</u> |
|----------------|------------------------------------------------------------------------------------------------------------------------------|----------------|----------------|
| <u>£'000</u>   |                                                                                                                              | <u>£'000</u>   | <u>£'000</u>   |
|                | <b>Items included in the HRA Income and Expenditure Account but excluded from the movement on HRA Balance for the year</b>   |                |                |
| 55             | Gain/(Loss) on sale of HRA Non-current assets                                                                                | (78)           |                |
| (13,128)       | Depreciation and impairment of non current assets                                                                            | (13,463)       |                |
| (294)          | Revaluation Losses on Property, Plant and Equipment                                                                          | (80)           |                |
| 293            | Reversal revaluation gains                                                                                                   | 0              |                |
|                | Capital Grants and Contributions credited to the Comprehensive Income and Expenditure Statement                              | 3,260          |                |
| 39             | Adjustments involving Short Term Accumulated Absences Account                                                                | (69)           |                |
|                | Reversal of items relating to retirement benefits credited to the Comprehensive Income and Expenditure Statement             | (1,924)        |                |
| <u>(2,052)</u> |                                                                                                                              | <u>(1,924)</u> |                |
| (10,080)       |                                                                                                                              |                | (12,354)       |
|                | <b>Items not included in the HRA Income and Expenditure Account but included in the movement on HRA Balance for the year</b> |                |                |
| 1,045          | Employer's pension contributions and direct payments to pensioners payable in the year                                       | 1,088          |                |
| 124            | Adjustments involving the Financial Instruments Adjustment Account                                                           | 121            |                |
| 3,042          | Statutory provision for the repayment of debt                                                                                | 3,378          |                |
| 4,194          | Capital expenditure charged to the HRA balances                                                                              | 4,966          |                |
| <u>8,405</u>   |                                                                                                                              | <u>9,553</u>   |                |
| <u>(1,675)</u> | <b>Net additional amount required by statute to be debited to the HRA Balance for the year</b>                               |                | <u>(2,801)</u> |

## NOTES TO THE HOUSING REVENUE ACCOUNT

### 1. **Housing Stock** at 31 March 2017

|                                        | No. of Dwellings<br>31 March 2017 | No. of Dwellings<br>31 March 2016 |
|----------------------------------------|-----------------------------------|-----------------------------------|
| Sheltered accommodation                | 289                               | 290                               |
| Detached/Semi-Detached/Terraced        | 3,578                             | 3,602                             |
| High Rise Flats                        | 135                               | 135                               |
| Tenement Flats/Other Flats/Maisonettes | 3,465                             | 3,440                             |
| Total                                  | <u>7,467</u>                      | <u>7,467</u>                      |

### 2. **Rent Arrears** at 31 March 2017

|                | Gross Arrears<br>31 March 2017 |                | Gross Arrears<br>31 March 2016 |                |
|----------------|--------------------------------|----------------|--------------------------------|----------------|
|                | £'000                          | % of<br>Income | £'000                          | % of<br>Income |
| Houses         | 2,508                          | 10.1           | 2,634                          | 10.6           |
| Other Subjects | <u>65</u>                      | <u>9.7</u>     | <u>81</u>                      | <u>12.0</u>    |
| Totals         | <u>2,573</u>                   | <u>10.1</u>    | <u>2,715</u>                   | <u>10.6</u>    |

### 3. **Impairment of Debtors**

In 2016/17 an impairment of £1,781,138 has been provided in the Balance Sheet a decrease of £250,023 from the impairment in 2015/16.

## COUNCIL TAX INCOME ACCOUNT

The Council Tax Income Account shows the gross income raised from Council Taxes levied and deductions made under statute. The resultant net income is transferred to the Comprehensive Income and Expenditure Statement of the Council.

| <u>2015/16</u> |                                                                                       | <u>2016/17</u> |         |
|----------------|---------------------------------------------------------------------------------------|----------------|---------|
| £'000          |                                                                                       | £'000          | £'000   |
| 85,394         | <b>Gross Charge</b>                                                                   |                | 86,192  |
| (2,903)        | Deduct - Exemptions                                                                   |                | (2,957) |
| (111)          | Disabled Relief                                                                       |                | (113)   |
| (6,738)        | Discounts and Reductions                                                              |                | (6,680) |
| (6,287)        | Council Tax Reduction Scheme                                                          |                | (6,155) |
| 69,355         | <b>Net Council Tax</b>                                                                |                | 70,287  |
|                | Deduct -                                                                              |                |         |
| (6)            | Ministry Of Defence Properties                                                        | (6)            |         |
| 6              | Contribution Received                                                                 | 6              | 0       |
| (980)          | Provision for Bad and Doubtful Debts                                                  |                | (950)   |
| 68,375         | <b>Total Council Tax Income</b>                                                       |                | 69,337  |
| 1,119          | Adjustments for prior years for Council Tax and Community Charge                      |                | 83      |
| 69,494         | <b>Total Council Tax / Community Charge Income to Comprehensive I&amp;E Statement</b> |                | 69,420  |

## NOTES TO THE COUNCIL TAX INCOME ACCOUNT

### 1. CALCULATION OF THE COUNCIL TAX BASE

|                                                  | A       | B       | C       | D       | E      | F     | G     | H     | 31.3.17<br>TOTAL | Restated<br>31.3.16<br>TOTAL |
|--------------------------------------------------|---------|---------|---------|---------|--------|-------|-------|-------|------------------|------------------------------|
| No. of Properties                                | 8,805   | 14,696  | 12,001  | 10,536  | 11,525 | 7,425 | 6,043 | 679   | 71,710           | 71,165                       |
| Exemptions                                       | (804)   | (756)   | (532)   | (320)   | (283)  | (123) | (102) | (22)  | (2,942)          | (3,015)                      |
| Disabled Relief                                  | 69      | 15      | (3)     | 41      | (37)   | 6     | (83)  | (8)   | 0                | 0                            |
| Discounts                                        | (1,371) | (1,874) | (1,296) | (1,050) | (887)  | (441) | (301) | (58)  | (7,278)          | (7,250)                      |
| Effective No. of Properties                      | 6,699   | 12,081  | 10,170  | 9,207   | 10,318 | 6,867 | 5,557 | 591   | 61,490           | 60,900                       |
| Ratio                                            | 6/9     | 7/9     | 8/9     | 9/9     | 11/9   | 13/9  | 15/9  | 18/9  |                  |                              |
| Band D Equivalents                               | 4,462   | 9,397   | 9,040   | 9,207   | 12,611 | 9,918 | 9,261 | 1,182 | 65,078           | 64,374                       |
| Contributions in lieu                            |         |         |         |         |        |       |       |       | 6                | 6                            |
| TOTAL                                            |         |         |         |         |        |       |       |       | 65,084           | 64,380                       |
| Provision for non-payment at 2.5% (2015/16 2.5%) |         |         |         |         |        |       |       |       | (1,627)          | (1,610)                      |
| COUNCIL TAX BASE                                 |         |         |         |         |        |       |       |       | 63,457           | 62,770                       |

### 2. THE COUNCIL TAX CHARGE

The Council Tax is based on the value of a domestic property together with a personal element which takes into account the number and circumstances of that property's occupants.

Each property is placed in one of eight valuation bands (A-H) in accordance with their value as at 1 April 1991. The Council Tax charge levied for each property is calculated in proportion to the Council Tax charge for a band D property by applying fractions. A discount of 25% is given where there are fewer than two residents of a property. Discounts of 10% are awarded for second homes and long term empty dwellings. Some unoccupied dwellings may receive discount of 50%. Persons in detention, students, mentally handicapped people and certain others are disregarded for Council Tax purposes. Reductions in Council Tax are also granted for disabled people.

The valuation bands, the fractions used in calculating the Council Tax payable for each valuation band and the actual charges determined for 2016/17 are set out below:

| Valuation Band | Property Valuation Range | Fraction of band D | 2016/17 Actual Charge | 2015/16 Actual Charge |
|----------------|--------------------------|--------------------|-----------------------|-----------------------|
| A              | £0 - £27,000             | 6/9                | £772.00               | £772.00               |
| B              | £27,001 - £35,000        | 7/9                | £900.67               | £900.67               |
| C              | £35,001 - £45,000        | 8/9                | £1,029.33             | £1,029.33             |
| D              | £45,001 - £58,000        | 9/9                | £1,158.00             | £1,158.00             |
| E              | £58,001 - £80,000        | 11/9               | £1,415.33             | £1,415.33             |
| F              | £80,001 - £106,000       | 13/9               | £1,672.67             | £1,672.67             |
| G              | £106,001 - £212,000      | 15/9               | £1,930.00             | £1,930.00             |
| H              | Over £212,000            | 18/9               | £2,316.00             | £2,316.00             |

## NON DOMESTIC RATE INCOME ACCOUNT

The Non-Domestic Rate Account is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Non-Domestic Rate Account. The statement shows the gross income from the rates and deductions made under statute. The net income is paid to the Scottish Government as a contribution to the national Non-Domestic Rate pool.

| <u>2015/16</u> |                                                                                         | <u>2016/17</u> |               |
|----------------|-----------------------------------------------------------------------------------------|----------------|---------------|
| £'000          |                                                                                         | £'000          | £'000         |
| 71,883         | <b>Gross Rate Levied</b>                                                                |                | 74,129        |
|                | Deduct:                                                                                 |                |               |
| (2,448)        | Rate Rebates                                                                            | (2,526)        |               |
| (9)            | Interest on Overpaid Rates                                                              | 0              |               |
| (15,706)       | Reliefs, Charities etc.                                                                 | (15,622)       |               |
| (285)          | Provision for Bad and Doubtful Debts                                                    | (269)          |               |
|                |                                                                                         |                | (18,417)      |
|                | Adjustments to Previous Years:                                                          |                |               |
| (340)          | Gross Rate Levied                                                                       | (2,157)        |               |
| 48             | Rate Rebates                                                                            | 0              |               |
| (276)          | Reliefs, Charities etc.                                                                 | 107            |               |
| (222)          | Impairment for Bad and Doubtful Debts and Abatements                                    | 522            |               |
|                |                                                                                         |                | (1,528)       |
| <u>52,645</u>  | <b>Net Non Domestic Rate Income</b>                                                     |                | <u>54,184</u> |
| (52,824)       | Contribution to National Non Domestic Rate Pool                                         | (54,511)       |               |
| 59,337         | Contribution from National Non Domestic Rate Pool                                       | 57,555         |               |
| <u>6,513</u>   | Net contribution from National Non Domestic Rate Pool                                   |                | <u>3,044</u>  |
| 59,158         | <b>Total Non Domestic Rate Income (before Council retentions)</b>                       |                | <u>57,228</u> |
| 0              | Non-Domestic Rate Income Retained by Council (Business Rates Incentivisation Scheme)    |                | 0             |
| <u>59,158</u>  | <b>Total Non Domestic Rate Income to Comprehensive Income and Expenditure Statement</b> |                | <u>57,228</u> |
| <u>179</u>     | Discretionary Relief funded by the Council                                              |                | <u>327</u>    |

## NOTES TO THE NON DOMESTIC RATE INCOME ACCOUNT

### 1. NON DOMESTIC RATES

All non domestic rate income collected by Scottish local authorities is paid into a national pool. It is redistributed to authorities in proportion to the resident population in each authority's area and therefore bears no direct relationship to the amount collected by those authorities. The rate poundage set by the Scottish Government for 2016/17 was 48.4p (2015/16 48.0p).

The Small Business Bonus Scheme, introduced from 1 April 2008, provides relief to businesses based on their combined rateable value. From 1 April 2014 the combined rateable value threshold has been set at £35,000 with relief available on all individual properties with a rateable value of £18,000 or less. Subject to eligibility, this provides relief of between 25% and 100%. This scheme replaced the Small Business Rates Relief Scheme.

A supplement of 2.6p (2015/16 for 1.3p) was charged on properties with a rateable value of over £35,000 (£35,000 for 2015/16) to contribute towards the additional cost of the scheme.

### 2. RATEABLE SUBJECTS AND VALUES

| <i>No. of<br/>Subjects<br/>at 1 April 2015</i> | <i>Rateable<br/>Value<br/>£'000<br/>at 1 April 2015</i> |                                       | <i>No. of<br/>Subjects<br/>at 1 April 2016</i> | <i>Rateable<br/>Value<br/>£'000<br/>at 1 April 2016</i> |
|------------------------------------------------|---------------------------------------------------------|---------------------------------------|------------------------------------------------|---------------------------------------------------------|
| 1,671                                          | 39,100                                                  | Shops                                 | 1,662                                          | 38,667                                                  |
| 92                                             | 1,670                                                   | Public Houses                         | 89                                             | 1,652                                                   |
| 970                                            | 15,568                                                  | Offices (including banks)             | 993                                            | 15,094                                                  |
| 223                                            | 9,992                                                   | Hotels etc.                           | 220                                            | 9,940                                                   |
| 1,531                                          | 21,153                                                  | Industrial Subjects etc.              | 1,536                                          | 21,227                                                  |
| 1,531                                          | 9,398                                                   | Leisure, Entertainment, Caravans etc. | 1,546                                          | 9,451                                                   |
| 158                                            | 3,404                                                   | Garages and Petrol Stations           | 157                                            | 3,451                                                   |
| 60                                             | 1,132                                                   | Cultural                              | 61                                             | 1,083                                                   |
| 426                                            | 1,327                                                   | Sporting Subjects                     | 424                                            | 1,323                                                   |
| 121                                            | 13,574                                                  | Education and Training                | 119                                            | 14,111                                                  |
| 387                                            | 6,907                                                   | Public Service Subjects               | 401                                            | 6,907                                                   |
| 1                                              | 0                                                       | Communications                        | 1                                              | 0                                                       |
| 28                                             | 709                                                     | Quarries, Mines etc.                  | 27                                             | 417                                                     |
| 2                                              | 4,065                                                   | Petrochemical                         | 2                                              | 4,065                                                   |
| 246                                            | 1,750                                                   | Religious                             | 246                                            | 1,748                                                   |
| 117                                            | 6,477                                                   | Health, Medical                       | 117                                            | 6,503                                                   |
| 717                                            | 1,534                                                   | Other                                 | 721                                            | 1,533                                                   |
| 70                                             | 3,024                                                   | Care Facilities                       | 71                                             | 3,055                                                   |
| 20                                             | 83                                                      | Advertising                           | 22                                             | 90                                                      |
| 59                                             | 7,826                                                   | Undertaking                           | 67                                             | 8,031                                                   |
| <u>8,430</u>                                   | <u>148,693</u>                                          | Total                                 | <u>8,482</u>                                   | <u>148,348</u>                                          |

## CHARITABLE TRUSTS

The Council administers Perth & Kinross Educational Trust and various other Charitable Trusts and Endowments. The figures below summarise the aggregate income and expenditure for the year and the assets and liabilities at 31 March 2017.

### INCOME AND EXPENDITURE ACCOUNT FOR YEAR TO 31 MARCH 2017

|                                                                          | 2016/17<br>£'000 | 2016/17<br>£'000 | 2015/16<br>£'000 |
|--------------------------------------------------------------------------|------------------|------------------|------------------|
| <b>INCOMING RESOURCES</b>                                                |                  |                  |                  |
| Incoming resources from generated funds:                                 |                  |                  |                  |
| Investment Income                                                        | 138              |                  | 116              |
| Other incoming resources                                                 | 5                |                  | 5                |
| <b>Total Incoming Resources</b>                                          |                  | 143              | 121              |
| <b>RESOURCES EXPENDED</b>                                                |                  |                  |                  |
| Costs of generating funds:                                               |                  |                  |                  |
| Investment management costs                                              | 18               |                  | 16               |
| Charitable activities                                                    | 91               |                  | 64               |
| Governance costs                                                         | 13               |                  | 8                |
| Repairs to property                                                      | 0                |                  | 13               |
| Reorganisation of trusts                                                 | 308              |                  | 3                |
| <b>Total Resources Expended</b>                                          |                  | 430              | 104              |
| <b>Net Incoming Resources Before Other Recognised Gains &amp; Losses</b> |                  | (287)            | 17               |
| <b>OTHER RECOGNISED GAINS</b>                                            |                  |                  |                  |
| Gain/(Losses) on Investment assets                                       |                  | 398              | (122)            |
| <b>Net Movement in Funds for the Year</b>                                |                  | 111              | (105)            |
| <b>RECONCILIATION OF FUNDS</b>                                           |                  |                  |                  |
| Total Funds Brought Forward at 1 April 2016                              |                  | 3,080            | 3,185            |
| <b>TOTAL FUNDS CARRIED FORWARD AT 31 MARCH 2017</b>                      |                  | <u>3,191</u>     | <u>3,080</u>     |

### BALANCE SHEET AS AT 31 MARCH 2017

|                                                                 | 31 March 2017<br>£'000 | 31 March 2017<br>£'000 | 31 March 2016<br>£'000 |
|-----------------------------------------------------------------|------------------------|------------------------|------------------------|
| <b>FIXED ASSETS</b>                                             |                        |                        |                        |
| Tangible Assets                                                 |                        | 100                    | 65                     |
| Investments                                                     |                        | 2,971                  | 2,915                  |
| <b>CURRENT ASSETS</b>                                           |                        |                        |                        |
| Debtors                                                         | 8                      |                        | 7                      |
| Investments - Amounts due by Perth & Kinross Council Loans Fund | 152                    |                        | 106                    |
|                                                                 | 160                    |                        |                        |
| <b>LIABILITIES</b>                                              |                        |                        |                        |
| Creditors: amounts falling due within one year                  | (40)                   |                        | (13)                   |
| <b>NET CURRENT ASSETS</b>                                       |                        | 120                    | 100                    |
| <b>NET ASSETS</b>                                               |                        | <u>3,191</u>           | <u>3,080</u>           |
| <b>TOTAL FUNDS</b>                                              |                        | <u>3,191</u>           | <u>3,080</u>           |

#### Notes to Charitable Trusts

- The market value of Investments at 31 March 2017 was £2,971,000 (31 March 2016 £2,915,000).
- The unaudited accounts were issued on 28 June 2017 and the audited accounts were authorised for issue on 27 September 2017.

Stewart Mackenzie CPFA  
Head of Finance  
27 September 2017

## COMMON GOOD

The Council administers the Common Good Accounts for ten former burghs within Perth & Kinross. The figures below summarise the aggregate income and expenditure for the year and detail the Assets and Liabilities at 31 March 2017.

### INCOME AND EXPENDITURE ACCOUNT FOR YEAR TO 31 MARCH 2017

|                                   | 2016/17<br>£'000 | 2016/17<br>£'000 | 2015/16<br>£'000 |
|-----------------------------------|------------------|------------------|------------------|
| <b>EXPENDITURE</b>                |                  |                  |                  |
| Grants to Voluntary Organisations | 177              |                  | 179              |
| Christmas Lighting                | 90               |                  | 83               |
| Property Costs                    | 17               |                  | 79               |
| Supplies & Services               | 7                |                  | 7                |
|                                   |                  | 291              | 348              |
| <b>INCOME</b>                     |                  |                  |                  |
| Rents, Fees, Charges etc.         | 262              |                  | 257              |
| Interest on Loans                 | 18               |                  | 16               |
| Other                             | 2                |                  | 2                |
|                                   |                  | 282              | 275              |
| <b>(DEFICIT) FOR THE YEAR</b>     |                  | (9)              | (73)             |
| Revenue Balance Brought Forward   |                  | 1,994            | 2,067            |
| Revenue Balance Carried Forward   |                  | 1,985            | 1,994            |

### BALANCE SHEET AS AT 31 MARCH 2017

|                                                        | 31 March 2017<br>£'000 | 31 March 2017<br>£'000 | 31 March 2016<br>£'000 |
|--------------------------------------------------------|------------------------|------------------------|------------------------|
| <b>FIXED ASSETS</b>                                    |                        | 4,614                  | 4,657                  |
| <b>CURRENT ASSETS</b>                                  |                        |                        |                        |
| Debtors                                                | 9                      |                        | 86                     |
| Investments                                            | 2,142                  |                        | 1,828                  |
| Revenue Advances to Perth & Kinross Council Loans Fund | 142                    |                        | 528                    |
|                                                        | 2,293                  |                        | 2,442                  |
| <b>CURRENT LIABILITIES</b>                             |                        |                        |                        |
| Creditors and Accruals                                 | (50)                   |                        | (196)                  |
| <b>NET CURRENT ASSETS</b>                              |                        | 2,243                  | 2,246                  |
| <b>TOTAL NET ASSETS</b>                                |                        | 6,857                  | 6,903                  |
| <b>RESERVES</b>                                        |                        |                        |                        |
| Revenue                                                |                        | 1,985                  | 1,994                  |
| Capital                                                |                        | 386                    | 386                    |
| Capital Adjustment Account                             |                        | 80                     | 80                     |
| Revaluation Reserve                                    |                        | 4,406                  | 4,443                  |
|                                                        |                        | 6,857                  | 6,903                  |

The unaudited accounts were issued on 28 June 2017 and the audited accounts were authorised for issue on 27 September 2017.

Stewart Mackenzie CPFA  
Head of Finance  
27 September 2017



## NOTES TO THE COMMON GOOD ACCOUNTS

- Depreciation on Common Good Funds is charged on buildings, based on current value less residual value over the remaining useful life of the property. The buildings have a life expectancy of over 50 years and depreciation has been charged on a straight line basis over that period.
- Common Good Reserve Funds**

The movements in the individual Common Good Funds Revenue Reserves are summarised below:

| FUND         | Balance at<br>1 April 16 | Income<br>2016/17 | Expenditure<br>2016/17 | Balance at<br>31 March 17 |
|--------------|--------------------------|-------------------|------------------------|---------------------------|
|              | £'000                    | £'000             | £'000                  | £'000                     |
| Perth City   | 1,273                    | 253               | 201                    | 1,325                     |
| Aberfeldy    | 145                      | 2                 | 25                     | 122                       |
| Alyth        | 21                       | 0                 | 1                      | 20                        |
| Auchterarder | 359                      | 24                | 61                     | 322                       |
| Blairgowrie  | 21                       | 0                 | 0                      | 21                        |
| Coupar Angus | 2                        | 0                 | 1                      | 1                         |
| Crieff       | 8                        | 2                 | 1                      | 9                         |
| Kinross      | 158                      | 1                 | 1                      | 158                       |
| Pitlochry    | 7                        | 0                 | 0                      | 7                         |
| <b>TOTAL</b> | <b>1,994</b>             | <b>282</b>        | <b>291</b>             | <b>1,985</b>              |

### 3. Common Good Fixed Assets

Some of the fixed assets included in the Council Balance Sheet should potentially be included in the Balance Sheet of the Common Good Funds instead.

A review of property and land titles is undertaken once an asset has been declared surplus to operational needs. Until all property titles of the former burghs are reviewed there remains the possibility that some assets may require to be transferred between the Balance Sheets of the Council and Common Good Funds.

# GROUP MOVEMENT IN RESERVES STATEMENT

|                                                                                               | General<br>Fund<br>Balance | Housing<br>Revenue<br>Account | Capital<br>Fund | Renewal<br>& Repair<br>Fund | Insurance<br>Fund | Capital<br>Receipts<br>Reserve | Capital<br>Grants<br>Unapplied | Total<br>Usable<br>Reserves | Unusable<br>Reserves | TOTAL<br>Authority<br>Reserves | Authority's<br>share of<br>subsidiaries | Authority's<br>share of<br>associates<br>& joint<br>ventures | TOTAL<br>Reserves |
|-----------------------------------------------------------------------------------------------|----------------------------|-------------------------------|-----------------|-----------------------------|-------------------|--------------------------------|--------------------------------|-----------------------------|----------------------|--------------------------------|-----------------------------------------|--------------------------------------------------------------|-------------------|
|                                                                                               | £'000                      | £'000                         | £'000           | £'000                       | £'000             | £'000                          | £'000                          | £'000                       | £'000                | £'000                          | £'000                                   | £'000                                                        | £'000             |
| <b>Balance at 1 April 2015</b>                                                                | (52,670)                   | (800)                         | (19,316)        | (1,426)                     | (3,802)           | (1,832)                        | (102)                          | (79,948)                    | (293,465)            | (373,413)                      | (13,485)                                | 2,018                                                        | (384,880)         |
| <b><u>Movement in reserves during 2015/16</u></b>                                             |                            |                               |                 |                             |                   |                                |                                |                             |                      |                                |                                         |                                                              |                   |
| Total Comprehensive Income and Expenditure                                                    | (15,093)                   | 2,353                         | 0               | 0                           | 0                 | 0                              | 0                              | (12,740)                    | (52,034)             | (64,774)                       | (1,399)                                 | (168)                                                        | (66,341)          |
| Adjustments from income & expenditure charged under the accounting basis to the funding basis | 8,469                      | (1,675)                       | 0               | 0                           | 0                 | 44                             | 15                             | 6,853                       | (6,853)              | 0                              | 0                                       | 0                                                            | 0                 |
| <b>(Increase) or Decrease in 2015/16</b>                                                      | (6,624)                    | 678                           | 0               | 0                           | 0                 | 44                             | 15                             | (5,887)                     | (58,887)             | (64,774)                       | (1,399)                                 | (168)                                                        | (66,341)          |
| Transfers to/(from) Other Statutory Reserves                                                  | 4,386                      | (660)                         | (4,609)         | 192                         | 691               | 0                              | 0                              | 0                           | 0                    | 0                              | 0                                       | 0                                                            | 0                 |
| <b>Balance at 31 March 2016 carried forward</b>                                               | (54,908)                   | (782)                         | (23,925)        | (1,234)                     | (3,111)           | (1,788)                        | (87)                           | (85,835)                    | (352,352)            | (438,187)                      | (14,884)                                | 1,850                                                        | (451,221)         |
| <b><u>Movement in reserves during 2016/17</u></b>                                             |                            |                               |                 |                             |                   |                                |                                |                             |                      |                                |                                         |                                                              |                   |
| Total Comprehensive Income and Expenditure                                                    | (12,455)                   | 3,423                         | 0               | 0                           | 0                 | 0                              | 0                              | (9,032)                     | 46,966               | 37,934                         | 9,077                                   | 6,543                                                        | 53,554            |
| Adjustments from income & expenditure charged under the accounting basis to the funding basis | 16,849                     | (2,801)                       | 0               | 0                           | 0                 | 462                            | 0                              | 14,510                      | (14,510)             | 0                              | 0                                       | 0                                                            | 0                 |
| <b>Decrease in 2016/17</b>                                                                    | 4,394                      | 622                           | 0               | 0                           | 0                 | 462                            | 0                              | 5,478                       | 32,456               | 37,934                         | 9,077                                   | 6,543                                                        | 53,554            |
| Transfers to/(from) Other Statutory Reserves                                                  | (888)                      | (640)                         | 310             | 951                         | 267               | 0                              | 0                              | 0                           | 0                    | 0                              | 0                                       | 0                                                            | 0                 |
| <b>Balance at 31 March 2017 carried forward</b>                                               | (51,402)                   | (800)                         | (23,615)        | (283)                       | (2,844)           | (1,326)                        | (87)                           | (80,357)                    | (319,896)            | (400,253)                      | (5,807)                                 | 8,393                                                        | (397,667)         |

# GROUP COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

| Restated<br>2015/16<br>Net<br>Expenditure<br>£'000 |                                                                                                 | Note | 2016/17                       |                 |                             |
|----------------------------------------------------|-------------------------------------------------------------------------------------------------|------|-------------------------------|-----------------|-----------------------------|
|                                                    |                                                                                                 |      | Gross<br>Expenditure<br>£'000 | Income<br>£'000 | Net<br>Expenditure<br>£'000 |
|                                                    | <b>SERVICES</b>                                                                                 |      |                               |                 |                             |
| 160,927                                            | Education & Children's Services                                                                 |      | 150,279                       | (6,042)         | 144,237                     |
| 55,609                                             | Health & Social Care                                                                            |      | 121,834                       | (70,412)        | 51,422                      |
| 17,289                                             | Housing & Community Safety                                                                      |      | 53,761                        | (39,599)        | 14,162                      |
| 59,230                                             | The Environment Service                                                                         |      | 78,277                        | (16,080)        | 62,197                      |
| 13,519                                             | Corporate and Democratic Services                                                               |      | 20,588                        | (4,349)         | 16,239                      |
| 11,130                                             | Culture Services                                                                                |      | 18,939                        | (9,901)         | 9,038                       |
| 4,610                                              | Housing Revenue Account                                                                         |      | 30,340                        | (26,887)        | 3,453                       |
| 1,093                                              | Valuation Joint Board                                                                           |      | 1,161                         | 0               | 1,161                       |
| 99                                                 | Charitable Trusts                                                                               |      | 430                           | (5)             | 425                         |
| 89                                                 | Common Good                                                                                     |      | 291                           | (264)           | 27                          |
| 323,595                                            | <b>COST OF SERVICES</b>                                                                         |      | 475,900                       | (173,539)       | 302,361                     |
| 644                                                | Other Operating Expenditure / Income                                                            |      | 0                             | (635)           | (635)                       |
| 21,824                                             | Financing and Investment Income and Expenditure                                                 | 4    | 24,389                        | (2,038)         | 22,351                      |
| (357,653)                                          | Taxation and Non-Specific Grant Income                                                          |      | 0                             | (334,579)       | (334,579)                   |
| (11,590)                                           | <b>Surplus on Provision of Services</b>                                                         |      | 500,289                       | (510,791)       | (10,502)                    |
| 2,403                                              | Share of the (Surplus) or Deficit on the provision of services by Associates and Joint Ventures |      |                               |                 | 496                         |
| (9,187)                                            | <b>Group Surplus</b>                                                                            |      |                               |                 | (10,006)                    |
| (19,463)                                           | Surplus on revaluation of non current assets                                                    |      |                               |                 | (29,084)                    |
| (35,004)                                           | Remeasurement of the net defined benefit liability                                              |      |                               |                 | 84,462                      |
| (6)                                                | Other gains and losses                                                                          |      |                               |                 | 2,069                       |
| (2,681)                                            | Share of the other comprehensive income and expenditure of Associates and Joint Ventures        |      |                               |                 | 6,113                       |
| (57,154)                                           | <b>Other Comprehensive Income and Expenditure</b>                                               |      |                               |                 | 63,560                      |
| (66,341)                                           | <b>Total Comprehensive Income and Expenditure</b>                                               |      |                               |                 | 53,554                      |

## GROUP BALANCE SHEET

| 31 March 2016 |                                              | Notes | 31 March 2017 |
|---------------|----------------------------------------------|-------|---------------|
| £'000         |                                              |       | £'000         |
| 912,383       | Property, Plant & Equipment                  |       | 1,012,251     |
| 26,289        | Heritage Assets                              |       | 27,581        |
| 17,558        | Investment Property                          |       | 14,710        |
| 61            | Intangible Assets                            |       | 110           |
| 2,188         | Assets Held for Sale                         |       | 1,438         |
| 0             | Investment in Joint Venture                  |       | 693           |
| 366           | Long Term Debtors                            |       | 461           |
| 958,845       | <b>Long Term Assets</b>                      |       | 1,057,244     |
| 49,863        | Short Term Investments                       | 5     | 30,161        |
| 895           | Assets Held for Sale                         |       | 895           |
| 434           | Inventories                                  |       | 553           |
| 31,415        | Short Term Debtors                           | 6     | 29,896        |
| 18,038        | Cash and Cash Equivalents                    |       | 35,587        |
| 100,645       | <b>Current Assets</b>                        |       | 97,092        |
| (13,492)      | Short Term Borrowing                         |       | (14,195)      |
| (57,732)      | Short Term Creditors                         | 7     | (61,434)      |
| (178)         | Provisions                                   |       | (1,289)       |
| (71,402)      | <b>Current Liabilities</b>                   |       | (76,918)      |
| (1,756)       | Provisions                                   |       | (1,950)       |
| (238,183)     | Long Term Borrowing                          |       | (279,963)     |
| (11,834)      | Liabilities in associates and joint ventures |       | (19,134)      |
| (285,094)     | Other Long Term Liabilities                  |       | (378,704)     |
| (536,867)     | <b>Long Term Liabilities</b>                 |       | (679,751)     |
| 451,221       | <b>NET ASSETS</b>                            |       | 397,667       |
| 85,835        | Usable Reserves                              |       | 80,357        |
| 352,352       | Unusable Reserves                            |       | 319,896       |
| 3,051         | Group Reserves                               |       | (12,634)      |
| 9,983         | Charitable and Common Good Reserves          |       | 10,048        |
| 451,221       | <b>TOTAL RESERVES</b>                        |       | 397,667       |

The unaudited Accounts were issued on 28 June 2017 and the audited accounts were authorised for issue on 27 September 2017.

Stewart Mackenzie CPFA  
Head of Finance  
27 September 2017

## GROUP CASH FLOW STATEMENT

| <u>2015/16</u>       |                                                                                                                                       | <u>Notes</u> | <u>2016/17</u>       |
|----------------------|---------------------------------------------------------------------------------------------------------------------------------------|--------------|----------------------|
| £'000                |                                                                                                                                       |              | £'000                |
| 9,187                | <b>Surplus on the provision of services</b>                                                                                           |              | 10,006               |
| 63,866               | Adjustments to net surplus or deficit on the provision of services for non cash movements                                             |              | 42,768               |
| (37,852)             | Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities |              | (22,414)             |
| <u>35,201</u>        | Net cash flows from Operating Activities                                                                                              |              | <u>30,360</u>        |
| (27,118)             | Investing Activities                                                                                                                  | 10           | (49,715)             |
| (1,880)              | Financing Activities                                                                                                                  | 11           | 36,904               |
| <u>6,203</u>         | Net increase in cash and cash equivalents                                                                                             |              | <u>17,549</u>        |
| 11,835               | Cash and cash equivalents at the beginning of the reporting period                                                                    |              | 18,038               |
| <u><u>18,038</u></u> | Cash and cash equivalents at the end of the reporting period                                                                          |              | <u><u>35,587</u></u> |

# RECONCILIATION OF THE SINGLE ENTITY SURPLUS FOR THE YEAR TO THE GROUP SURPLUS

| <u>2015/16</u> |                                                                                        | <u>2016/17</u>  |
|----------------|----------------------------------------------------------------------------------------|-----------------|
| <u>£'000</u>   |                                                                                        | <u>£'000</u>    |
| (12,740)       | Surplus on the single entity Comprehensive Income & Expenditure Statement for the year | (9,032)         |
|                | Add:                                                                                   |                 |
| 178            | • Managed Funds - Charitable Trusts & Common Good                                      | (102)           |
| 0              | • Joint Venture                                                                        | (693)           |
| 2,403          | • Associates                                                                           | 1,189           |
| 972            | • Subsidiaries                                                                         | (1,368)         |
| <u>(9,187)</u> | Surplus for the year on the Group Comprehensive Income & Expenditure Statement         | <u>(10,006)</u> |

## NOTES TO THE GROUP ACCOUNTS

### 1. Combining Entities

The results of Tayside Valuation Board which is jointly administered with Dundee City and Angus Councils have been included in the Group Accounts. The Council is exempt from including the Board as a subsidiary under the “rebuttable presumption” which recognises that the Scottish Government exercises a dominant influence on the Board evidenced particularly by its ability to reconstitute or abolish statutory bodies or otherwise influence their operating and financial policies.

A number of Councillors have voting rights on the Board. The Council has an obligation to contribute to the Joint Board losses or deficits and the ability to exercise significant influence over it. The Joint Board has therefore been incorporated in the Group Accounts under the equity method of Accounting for Associates.

For the purpose of consolidation and incorporation within the Group Accounts recognition has been made of the Council's interest which is based on its share of the contributions made to the Tayside Valuation Board, which in 2016/17 was 40.71% (2015/16 40.71%). The accounting period for the Board is the year to 31 March 2017 and the Board Statements of Accounts presents fairly its individual financial position.

The individual accounts relating to Tayside Valuation Joint Board are published separately, and can be obtained from the Director of Corporate Services, Dundee City Council, Dundee House, 50 North Lindsay Street, Dundee, DD1 1QE.

In addition, the Council has also included Live Active Leisure Ltd., Horsecross Arts Ltd. and Culture Perth & Kinross Ltd. as Subsidiaries within its Group Accounts in accordance with IAS 27 Consolidated and Separate Financial Statements, and in particular SIC 12 Consolidation – Special Purpose Entities. These organisations deliver services on behalf of the Council and the Council therefore obtains benefit from their operations; in addition, service delivery is managed through Service Level Agreements specific to the service provision required from the organisations by the Council. Live Active Leisure Ltd., Horsecross Arts Ltd. and Culture Perth & Kinross Ltd. are governed by company and charitable trust regulation. For the purpose of consolidation and incorporation within the Group Accounts it has been assumed that the Council's interest in these organisations is 100% due to the nature of Council control and direction over their operations.

Live Active Leisure Ltd., Horsecross Arts Ltd. and Culture Perth & Kinross Ltd. are arm's length companies with sole member status with the Council being the sole member in both companies.

The individual accounts relating to these organisations are published separately, and can be obtained from the following addresses:-

|                              |                                                  |
|------------------------------|--------------------------------------------------|
| Live Active Leisure Ltd.     | Caledonia House, Hay Street, Perth, PH1 5HS.     |
| Horsecross Arts Ltd.         | Perth Concert Hall, Mill Street, Perth, PH1 5HZ. |
| Culture Perth & Kinross Ltd. | A K Bell Library, 2-8 York Place, Perth, PH2 8EP |

The income, expenditure, assets and liabilities of the Charitable Trusts which are administered and controlled by the Council have also been included as a managed fund. The nature of the assets of the managed fund are heritable property, investments and debtors. The assets are not the property of Perth & Kinross Council and are subject to charitable trust regulations. The Income and Expenditure Account of the Charitable Trusts is detailed on page 86 of the Annual Accounts.

The income, expenditure, assets and liabilities of the Common Good Accounts which are administered and controlled by the Council have also been included as a managed fund. The nature of the assets of the managed fund are heritable property, investments and debtors. The assets are the property of Perth & Kinross Council and are subject to the Accounting Code of Practice. The Income and Expenditure Account of the Common Good is detailed on page 87 of the Annual Accounts.

Perth & Kinross Council's share of the assets and liabilities of Tayside Contracts Joint Committee which is jointly administered and controlled with Dundee City Council and Angus Council has been included in the Group Accounts using the equity method for an associate due to the Council having significant influence rather than joint control over the entity. The Council's investment in Tayside Contracts for 2016/17 is 32.9% (2015/16 33.0%). Copies of Tayside Contracts Joint Committee's individual accounts are published separately, and can be obtained from Head of Financial Services, Tayside Contracts, 1 Soutar Street, Dundee, DD3 8SS.

Perth and Kinross Integration Joint Board (IJB) is the statutory body established to integrate health and social care services between the Council and NHS Tayside. The IJB came into effect in October 2015 however the IJB results for 2015/16 were excluded from the Council's Group accounts on the grounds of materiality. The IJB Board consists of eight voting members, four of whom are Perth & Kinross Council councillors. The Council can therefore exercise joint control over the arrangement and the IJB has been consolidated into the 2016/17 Council Group accounts as a joint venture using the equity method and a percentage share of 50%. Copies of the Perth & Kinross Integration Joint Board individual accounts are published separately and can be obtained from the Chief Financial Officer, Perth & Kinross Integration Joint Board, 2 High Street, Perth, PH1 5PH.

In addition the CIPFA Code requires the realignment of accounting policies for entities included within the Group Accounts. The pension liability at 31 March 2017 for Horsecross Arts Ltd of £2,024,000 and of Culture Perth & Kinross Ltd. of £3,850,000 has been included within the Group Reserves balance at 31 March 2017.

Tayside and Central Scotland Transport Partnership (TACTRAN) is a statutory body established under the Transport (Scotland) Act 2005. The partnership covers Angus, Dundee City, Perth & Kinross and Stirling Council areas. The results of TACTRAN have been excluded from Perth & Kinross Council's Group accounts on the grounds of materiality.

## 2. Nature of Combination

The Council inherited its interest in the Tayside Valuation Board following the reorganisation of local government in 1996. It is considered that the Council's interest was obtained on an acquisition basis. However, as no consideration was given, no goodwill requires to be accounted for.

## 3. Financial Impact of Consolidation and Going Concern

The effect of inclusion of the Subsidiaries and Associates listed above in the Group Balance Sheet is to decrease both reserves and net assets by £2,586,000 (2015/16 £13,034,000 increase).

All Subsidiaries and the Associate have prepared their accounts on a 'going concern' basis. The Council's Group Accounts have been prepared on a 'going concern' basis as there is no reason to suggest that future funding will not continue. Apart from the disclosures made in the Notes to the Group Accounts there were no material amounts or details in relation to associates or managed funds.

## 4. Group Comprehensive Income & Expenditure Statement – Financing and Investment Income & Expenditure

|                                                       | 2016/17<br>£'000 | <i>Restated</i><br>2015/16<br>£'000 |
|-------------------------------------------------------|------------------|-------------------------------------|
| Council Financing and Investment Income & Expenditure | 22,945           | 21,878                              |
| Subsidiaries                                          | (40)             | (44)                                |
| Charitable Trusts                                     | (536)            | 6                                   |
| Common Good                                           | (18)             | (16)                                |
|                                                       | <u>22,351</u>    | <u>21,824</u>                       |

## 5. Group Balance Sheet - Investments

|                               | 2016/17<br>£'000 | 2015/16<br>£'000 |
|-------------------------------|------------------|------------------|
| Council Investments           | 25,048           | 45,120           |
| Charitable Trusts Investments | 2,971            | 2,915            |
| Common Good Investments       | 2,142            | 1,828            |
| Total Group Investments       | <u>30,161</u>    | <u>49,863</u>    |

## 6. Group Balance Sheet – Short term Debtors (net of provisions)

|                                                           | 2016/17<br>£'000 | 2015/16<br>£'000 |
|-----------------------------------------------------------|------------------|------------------|
| Net Debtors Balance - Note 28 to the Financial Statements | 28,556           | 30,679           |
| Subsidiary Debtors                                        | 1,323            | 643              |
| Charitable Trust                                          |                  |                  |
| Debtors                                                   | 160              | 113              |
| Inter-company elimination                                 | (152)            | (106)            |
| Common Good                                               |                  |                  |
| Debtors                                                   | 151              | 614              |
| Inter-company elimination                                 | (142)            | (528)            |
| Total Group Debtors                                       | <u>29,896</u>    | <u>31,415</u>    |



## 7. Group Balance Sheet – Short term Creditors

|                                                             | 2016/17<br>£'000 | 2015/16<br>£'000 |
|-------------------------------------------------------------|------------------|------------------|
| Net Creditors Balance - Note 29 to the Financial Statements | (58,334)         | (55,665)         |
| Charitable Trust                                            |                  |                  |
| Creditors                                                   | (40)             | (13)             |
| Inter-company elimination                                   | 152              | 106              |
| Common Good                                                 |                  |                  |
| Creditors                                                   | (50)             | (196)            |
| Inter-company elimination                                   | 142              | 528              |
|                                                             | <u>(58,130)</u>  | <u>(55,240)</u>  |
| Subsidiary Creditors                                        | (3,304)          | (2,492)          |
| Total Group Creditors                                       | <u>(61,434)</u>  | <u>(57,732)</u>  |

## 8. Group Balance Sheet - Pension Liability

|                                                                          | 2016/17<br>£'000 | 2015/16<br>£'000 |
|--------------------------------------------------------------------------|------------------|------------------|
| Net Pensions Liability at 31 March - Note 18 to the Financial Statements | (249,939)        | (161,821)        |
| Subsidiaries                                                             | <u>(15,067)</u>  | <u>(5,399)</u>   |
| Group Pension Liability at 31 March                                      | <u>(265,006)</u> | <u>(167,220)</u> |

## 9. Group Cash Flow Statement

There has been no impact on the Group Cash Flow Statement from the inclusion of the Tayside Valuation Joint Board, Tayside Contracts Joint Committee, or the Perth & Kinross Integration Joint Board. Cash transactions between the Joint Boards and the Council are already included within the Council's Cash Flow Statement and there were no dividend transactions.

The impact of the inclusion of Live Active Leisure Ltd., Horsecross Arts Ltd. and Culture Perth & Kinross Ltd. within the Group Cash Flow Statement is to increase the net cash position by £11,430,000 (2015/16, increase of £10,002,000). A cash increase of £8,903,000 represents the Council's 100% share of Live Active Leisure Ltd., a cash increase of £1,239,000 represents the Council's 100% share of Horsecross Arts Ltd and a cash increase of £1,288,000 represents the Council's 100% share of Culture Perth & Kinross.

## 10. Group Cash Flow – Investing Activities

|                              | 2016/17<br>£'000 | 2015/16<br>£'000 |
|------------------------------|------------------|------------------|
| Council Investing Activities | (49,534)         | (27,222)         |
| Subsidiaries                 | <u>(181)</u>     | <u>104</u>       |
|                              | <u>(49,715)</u>  | <u>(27,118)</u>  |

## 11. Group Cash Flow – Financing Activities

|                              | 2016/17<br>£'000 | 2015/16<br>£'000 |
|------------------------------|------------------|------------------|
| Council Financing Activities | 36,870           | (1,835)          |
| Subsidiaries                 | <u>34</u>        | <u>(45)</u>      |
|                              | <u>36,904</u>    | <u>(1,880)</u>   |

## 12. Related Party Transactions

The under noted balances, which all relate to the supply of goods and services, existed between the Tayside Valuation Joint Board and the Council at the year-end:

|                               | Balance Due |         | Balance Due |         |
|-------------------------------|-------------|---------|-------------|---------|
|                               | From        | To      | From        | To      |
|                               | 31.3.17     | 31.3.17 | 31.3.16     | 31.3.16 |
|                               | £'000       | £'000   | £'000       | £'000   |
| Tayside Valuation Joint Board | 1           | 0       | 73          | 0       |

# **REMUNERATION REPORT FOR FINANCIAL YEAR 2016/17**

## **1. Introduction**

[The Local Authority Accounts \(Scotland\) Amendment Regulations 2011 \(SSI No. 2011/64\)](#) require local authorities in Scotland to prepare a Remuneration Report as part of their annual statutory accounts. The disclosures within this report have been prepared in accordance with guidance issued by the Scottish Government on 13 May 2011 in [Local Government Finance Circular No 8/2011](#) (subsequently updated). This guidance prescribes the content and format of the information presented within the Remuneration Report and specifies that remuneration disclosures are to be based upon taxable expenses and benefits. The disclosures are set out in accordance with proper accounting practice as prescribed by the [Code of Practice on Local Authority Accounting in the UK](#) and include prior year comparative figures.

## **2. Audit of Remuneration Report**

The Remuneration Report is a statement in its own right rather than a note to the accounts and certain disclosures within the report are subject to audit.

All information disclosed in tables 1 to 7 in this Remuneration Report will be audited by the Council's appointed auditor KPMG. The other sections of the Remuneration Report will be reviewed by KPMG to ensure that they are consistent with the financial statements.

## **3. Remuneration of Senior Councillors**

- 3.1 The remuneration of Councillors is regulated by the [Local Governance \(Scotland\) Act 2004 \(Remuneration\) regulations 2007 \(SSI No. 2007/183\)](#). The Regulations provide for the grading of Councillors for the purposes of remuneration arrangements, as either, the Leader of the Council, the Civic Head (Provost), Senior Councillors or Councillors. The Leader of the Council and the Civic Head cannot be the same person for the purposes of payment of remuneration. A Senior Councillor is a Councillor who holds a significant position of responsibility in the Council's political management structure.
- 3.2 When determining the level of remuneration for Councillors the Scottish Ministers considered the recommendations of the former Scottish Local Authority Remuneration Committee (SLARC). SLARC was an advisory Non-Departmental Public Body set up in 2005 to advise Scottish Ministers on the remuneration, allowances and expenses incurred by local authority councillors. The Committee was stood down in February 2013.
- 3.3 The Regulations set out the salary that is to be paid to the Leader of the Council in accordance with bandings also set out in the Regulations. The Regulations also permit the Council to remunerate one Civic Head, which in the case of Perth & Kinross Council is the Provost, and set out the maximum salary that may be paid to that Civic Head. For 2016/17 the maximum salary for the Leader of Perth & Kinross Council is £33,789 and the Council has agreed that the Civic Head be paid 75% of the salary of the Leader, which for 2016/17 is a maximum of £25,341. Please refer to Table 1.
- 3.4 In addition to the Leader of the Council and Civic Head, Regulations also set out the maximum number of Senior Councillors the Council may have; the maximum yearly amount that may be paid to a Senior Councillor (75% of the total yearly amount payable to the Leader of the Council) and the maximum yearly amount payable by the Council for all Senior Councillors. Perth & Kinross Council may have a maximum of 14 Senior Councillors with a maximum salary of £25,341 and a maximum yearly amount payable for all Senior Councillors of £295,643 in 2016/17 (excluding the Council Leader, Civic Head, Conveners and Vice Conveners of Joint Boards and the Tayside Community Justice Authority). The Council is able to exercise local flexibility in the determination of the precise number of Senior Councillors and their salary within these maximum limits. Perth & Kinross Council's policy in 2016/17 was to pay Senior Councillors up to 90% of the maximum of £25,341 as prescribed by SLARC.
- 3.5 The Regulations also set out the remuneration payable to Councillors with the responsibility of a Convener or a Vice-Convener of a Joint Board such as Tayside Valuation Joint Board. The Regulations require the remuneration to be paid by the Council of which the Convener or Vice-Convener is a member. Joint Board Conveners and Vice-Conveners are considered to be Senior Councillors for remuneration disclosure purposes. In financial year 2016/17, Councillors from Perth & Kinross Council served as Convener of the Tayside Valuation Joint Board and Vice-Convener of the Tayside Community Justice Authority. The remuneration paid by the Council to these Councillors in their roles as Convener and Vice-Conveners was not recharged by the Council to the Tayside Valuation Joint Board or the Tayside Community Justice Authority.
- 3.6 During 2016/17 Perth & Kinross Council had 12 Senior Councillor posts and 2 Councillors serving as Conveners and Vice-Conveners of Joint Boards and the Community Justice Authority who are treated as Senior Councillors for the purposes of the Remuneration Report. Together with the Leader of the Council and the Provost, the total remuneration including taxable expenses paid to these Councillors was £376,561. The individual amounts payable to the Leader of the Council, the Provost, Senior Councillors of Perth & Kinross Council and Conveners and Vice-Conveners of Joint Boards and the Tayside Community Justice Authority in 2016/17 are set out in table 1. The Regulations also permit the Council to pay contributions or other payments as required to the Local Government Pension Scheme in respect of those Councillors who elect to become Councillor Members of the pension scheme.

**Table 1: Remuneration of Senior Councillors, Conveners and Vice-Conveners of Joint Boards and Vice Convener of the Tayside Community Justice Authority for Financial Year 2016/17**

| <b>Name and Post Title</b>                                                                                         | <b>Salary, Fees &amp; Allowances<br/>2016/17<br/>£</b> | <b>Taxable Expenses<br/>2016/17<br/>(Note:1)<br/>£</b> | <b>Total Remuneration<br/>2016/17<br/>£</b> | <b>Total Remuneration<br/>2015/16<br/>£</b> |
|--------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------|--------------------------------------------------------|---------------------------------------------|---------------------------------------------|
| Ian Miller<br>Council Leader & Convener Strategic Policy and Resources Committee                                   | 33,789                                                 | 99                                                     | <b>33,888</b>                               | <i>33,570</i>                               |
| Elizabeth Grant<br>Provost (Civic Head)                                                                            | 25,341                                                 | 4                                                      | <b>25,345</b>                               | <i>25,166</i>                               |
| Henry Anderson<br>Convener Licensing Board                                                                         | 22,743                                                 | 104                                                    | <b>22,847</b>                               | <i>22,618</i>                               |
| Robert Band<br>Convener Lifelong Learning Committee                                                                | 22,743                                                 | 124                                                    | <b>22,867</b>                               | <i>22,665</i>                               |
| Ian Campbell<br>Leader Largest Opposition Party (from 12/10/16)                                                    | 10,722                                                 | 39                                                     | <b>10,761</b>                               | <i>n/a</i>                                  |
| Dave Cuthbert<br>Convener of Audit Committee (from 01/07/16)                                                       | 17,057                                                 | 0                                                      | <b>17,057</b>                               | <i>n/a</i>                                  |
| Dave Doogan<br>Convener Housing & Health Committee                                                                 | 22,743                                                 | 52                                                     | <b>22,795</b>                               | <i>22,571</i>                               |
| Bob Ellis<br>Convener Licencing Committee                                                                          | 22,743                                                 | 32                                                     | <b>22,775</b>                               | <i>21,925</i>                               |
| Alan Grant<br>Convener Environment Committee                                                                       | 22,743                                                 | 0                                                      | <b>22,743</b>                               | <i>22,518</i>                               |
| Tom Gray<br>Convener Development Management Committee                                                              | 22,743                                                 | 70                                                     | <b>22,813</b>                               | <i>22,609</i>                               |
| John Kellas<br>Convener Enterprise & Infrastructure Committee                                                      | 22,743                                                 | 93                                                     | <b>22,836</b>                               | <i>22,612</i>                               |
| Murray Lyle<br>Convener Local Review Body                                                                          | 22,743                                                 | 28                                                     | <b>22,771</b>                               | <i>22,569</i>                               |
| Elspeth MacLachlan<br>Convener Tayside Valuation Board                                                             | 21,118                                                 | 92                                                     | <b>21,210</b>                               | <i>21,020</i>                               |
| Archibald MacLellan<br>Vice Convener Tayside Community Justice Authority                                           | 22,296                                                 | 44                                                     | <b>22,340</b>                               | <i>19,913</i>                               |
| Douglas Pover<br>Convener Community Safety Committee                                                               | 22,743                                                 | 92                                                     | <b>22,835</b>                               | <i>22,605</i>                               |
| Mac Roberts<br>Leader Largest Opposition Party (to 11/10/16)                                                       | 12,057                                                 | 85                                                     | <b>12,142</b>                               | <i>22,656</i>                               |
| Alexander Stewart<br>Convener Scrutiny Committee (to 30/06/16)                                                     | 5,686                                                  | 17                                                     | <b>5,703</b>                                | <i>22,643</i>                               |
| Barbara Vaughan<br>Convener of the Audit Committee (to 30/06/16)<br>Convener of Scrutiny Committee (from 01/07/16) | 22,743                                                 | 90                                                     | <b>22,833</b>                               | <i>22,609</i>                               |
| <b>TOTAL (Note: 2)</b>                                                                                             | <b>375,496</b>                                         | <b>1,065</b>                                           | <b>376,561</b>                              | <i>370,269</i>                              |

Notes:

- (1) Taxable Expenses relate to meals taken on Council premises.
- (2) After adjusting for the salaries of the Leader of the Council, Civic Head (Provost) and Convenors and Vice Convenors of Joint Boards and the Community Justice Authority, the total salary paid to Senior Councillors in 2016/17 was £272,952 which compares with the maximum under Regulations of £295,643.

- 3.7 The arrangements for political decision making structures within Perth & Kinross Council as at 31 March 2017, which encompassed the salaries of all Elected Members including the Council Leader, Civic Head and Senior Councillors were agreed at the meeting of the full Council on 23 May 2012 (Report No. 12/193 refers) and are available on the Council's website at [Political Decision Making Structures](#)
- 3.8 The Council paid the following salaries and expenses to all Councillors (including those listed in Table 1 above) in financial year 2016/17:

**Table 2: Remuneration Paid to Councillors 1 April 2016 to 31 March 2017**

| Type of Remuneration | 2016/17<br>£   | 2015/16<br>£   |
|----------------------|----------------|----------------|
| Salaries             | 784,882        | 782,615        |
| Taxable Expenses     | 2,142          | 2,595          |
| Total                | <u>787,024</u> | <u>785,210</u> |

- 3.9 The annual return of Councillors' salaries and expenses for 2016/17 is available for any member of the public to view at Perth & Kinross Council, 2 High Street, Perth; Culture Perth & Kinross Ltd. libraries and Council local area offices during normal working hours and is also available on the Council's website at [Councillors Allowances](#)
- 3.10 The information in the annual return of Councillors' salaries and expenses for 2016/17 differs from the information presented within the Remuneration Report as the Remuneration Report excludes the payment of expenses which are not subject to taxation such as car mileage expenses; expenditure on public transport and subsistence expenses.

#### **4. Remuneration of Senior Employees**

- 4.1 The Council is required to publish the remuneration of Senior Employees as defined by the disclosure regulations. Senior Employees are defined with reference to their management authority; to the political restriction placed upon their post under [section 2\(1\) \(a\), \(b\) or \(c\) of the Local Government Housing Act 1989](#) and with reference to their reporting relationship to the Council's 'Head of Paid Service' or Chief Executive. The disclosure requirements also include any employee whose annual remuneration is £150,000 or more. No employee of Perth & Kinross Council was remunerated at this level in 2016/17.
- 4.2 The application of the disclosure regulations in relation to the management structure of Perth & Kinross Council defines the following post-holders as Senior Employees in 2016/17:
- The Chief Executive as the Statutory Head of Paid Service.
  - The Senior Depute Chief Executive and Depute Chief Executives as officers responsible for the management of the authority to the extent that they may direct or control the major activities of the authority either solely or collectively.
  - The Head of Legal Services as the Council's statutory monitoring officer; the Head of Finance as the Council's proper officer for financial administration and the Director of Social Work as the Council's statutory Chief Social Work officer.
- 4.3 The Scottish Joint Negotiating Committee (SJNC) for Local Authority Services sets the salaries for the Chief Executives of Scottish local authorities.

4.4 The remuneration of Senior Employees of Perth & Kinross Council and its Subsidiaries for 2016/17 is detailed in table 3 below:

**Table 3: Remuneration of Senior Employees of the Council and its Subsidiaries for Financial Year 2016/17  
(Job titles as at 31 March 2017)**

| <b>Name and Post Title</b>                                                                                  | <b>Salary, Fees<br/>&amp; Allowances<br/>2016/17<br/>£</b> | <b>Total<br/>Remuneration<br/>2016/17<br/>£</b> | <b>Total<br/>Remuneration<br/>2015/16<br/>£</b> |
|-------------------------------------------------------------------------------------------------------------|------------------------------------------------------------|-------------------------------------------------|-------------------------------------------------|
| Bernadette Malone<br>Chief Executive (Note 1)                                                               | 135,121                                                    | <b>135,121</b>                                  | <i>129,941</i>                                  |
| John Fyffe<br>Senior Deputy Chief Executive                                                                 | 116,627                                                    | <b>116,627</b>                                  | <i>115,472</i>                                  |
| John Walker<br>Depute Chief Executive & Chief Operating Officer<br>(left 08/02/17 on grounds of ill health) | 128,500                                                    | <b>128,500</b>                                  | <i>110,147</i>                                  |
| James Valentine<br>Depute Chief Executive                                                                   | 111,248                                                    | <b>111,248</b>                                  | <i>110,147</i>                                  |
| William Atkinson<br>Director of Social Work                                                                 | 92,828                                                     | <b>92,828</b>                                   | <i>88,798</i>                                   |
| Ian Innes (Left 30/06/15)<br>Head of Legal Services                                                         | 0                                                          | <b>0</b>                                        | <i>21,755</i>                                   |
| Lisa Simpson (Started 08/06/15)<br>Head of Legal & Governance Services                                      | 87,890                                                     | <b>87,890</b>                                   | <i>70,869</i>                                   |
| John Symon<br>Head of Finance                                                                               | 87,890                                                     | <b>87,890</b>                                   | <i>87,020</i>                                   |
| Gillian Taylor<br>Head of Democratic Services (Note 2)                                                      | n/a                                                        | <b>n/a</b>                                      | <i>79,898</i>                                   |
| Gwilym Gibbons<br>Horsecross Arts Limited – Chief Executive                                                 | 70,160                                                     | <b>70,160</b>                                   | <i>66,950</i>                                   |
| James Moyes<br>Live Active Leisure – Chief Executive                                                        | 77,525                                                     | <b>77,525</b>                                   | <i>74,964</i>                                   |
| Helen Smout -<br>Culture Perth & Kinross Limited – Chief Executive (Note 3)                                 | 57,006                                                     | <b>57,006</b>                                   | <i>0</i>                                        |
| <b>TOTAL</b>                                                                                                | <b>964,795</b>                                             | <b>964,795</b>                                  | <i>955,961</i>                                  |

Note 1:

The substantive salary for the Chief Executive is laid down in COSLA Circular CO/146. The Chief Executive's remuneration in 2016/17 included a fee of £4,833 for acting as Returning Officer for the Perthshire North, South & Kinross-shire Constituency Election 2016 and £3,038 for acting as Returning Officer for the EU Referendum. .

Note 2:

The Head of Democratic Services reported to the Chief Executive until 30 September 2015, therefore no figures are shown for 2016/17.

Note 3:

Culture Perth & Kinross Limited was operational from 1 April 2016. There are, therefore, no comparator figures.

4.5 No other taxable benefits or bonuses were received by the above named Senior Employees of Perth & Kinross Council in 2016/17.

## 5. General Disclosure of Remuneration by Pay Band

5.1 In accordance with the disclosure regulations, Table 4 below details the number of Perth & Kinross Council employees (including teachers) whose annual remuneration in 2016/17 was £50,000 or more including Senior Employees subject to individual disclosure in section 4 of this report. The information is presented, as required, in bandings of £5,000.

**Table 4: Remuneration of Employees by Pay Band for 2016/17**

| Remuneration Bands | Number of Employees |                            |
|--------------------|---------------------|----------------------------|
|                    | 2016/17             | <i>Restated</i><br>2015/16 |
| £50,000-£54,999    | 79                  | 69                         |
| £55,000-£59,999    | 42                  | 47                         |
| £60,000-£64,999    | 10                  | 2                          |
| £65,000-£69,999    | 4                   | 4                          |
| £70,000-£74,999    | 5                   | 4                          |
| £75,000-£79,999    | 2                   | 7                          |
| £80,000-£84,999    | 11                  | 7                          |
| £85,000-£89,999    | 3                   | 3                          |
| £90,000-£94,999    | 2                   | 1                          |
| £95,000-£99,999    | 0                   | 0                          |
| £100,000-£104,999  | 0                   | 0                          |
| £105,000-£109,999  | 0                   | 0                          |
| £110,000-£114,999  | 2                   | 2                          |
| £115,000-£119,999  | 0                   | 1                          |
| £120,000-£124,999  | 0                   | 0                          |
| £125,000-£129,999  | 1                   | 0                          |
| £130,000-£134,999  | 0                   | 1                          |
| £135,000-£139,999  | 1                   | 0                          |
| Total              | <u>162</u>          | <u>148</u>                 |

The increase in the number of employees included in Table 4 primarily reflects a 1% pay award in 2016/17 which resulted in a number of deputy head teachers being included in the first remuneration band.

**Table 5: The number of Exit Packages with Total Cost per band and Total Cost of Compulsory and Other Redundancies**

| (a)<br>Exit package cost<br>band (including<br>special payments) | (b)<br>Number of<br>compulsory<br>redundancies |          | (c)<br>Number of other<br>departures agreed |            | (d)<br>Total number of exit<br>packages by cost<br>band (b) + (c) |            | (e)<br>Total cost of exit<br>packages in each<br>band |                  |
|------------------------------------------------------------------|------------------------------------------------|----------|---------------------------------------------|------------|-------------------------------------------------------------------|------------|-------------------------------------------------------|------------------|
|                                                                  | 2016/17                                        | 2015/16  | 2016/17                                     | 2015/16    | 2016/17                                                           | 2015/16    | 2016/17<br>£'000                                      | 2015/16<br>£'000 |
| £0 - £20,000                                                     | 0                                              | 0        | 110                                         | 94         | 110                                                               | 94         | 204                                                   | 617              |
| £20,001 - £40,000                                                | 0                                              | 0        | 9                                           | 26         | 9                                                                 | 26         | 261                                                   | 714              |
| £40,001 - £60,000                                                | 0                                              | 0        | 7                                           | 12         | 7                                                                 | 12         | 337                                                   | 603              |
| £60,001 - £80,000                                                | 0                                              | 0        | 3                                           | 9          | 3                                                                 | 9          | 189                                                   | 604              |
| £80,001 - £100,000                                               | 0                                              | 0        | 2                                           | 6          | 2                                                                 | 6          | 173                                                   | 516              |
| Over £100,000                                                    | 0                                              | 0        | 3                                           | 3          | 3                                                                 | 3          | 499                                                   | 395              |
| <b>Total</b>                                                     | <b>0</b>                                       | <b>0</b> | <b>134</b>                                  | <b>150</b> | <b>134</b>                                                        | <b>150</b> | <b>1,663</b>                                          | <b>3,449</b>     |

- 5.2 The costs included within table 5 above are all non-recurring and include payments to individual officers and to the relevant Superannuation Fund.
- 5.3 All of the individual exit packages included within table 5 above have been subject to a full business case outlining the implications for the Council. In terms of the financial assessment for each business case, the maximum payback period is up to five years. The departure of the individuals included in the above table has delivered significant recurring savings to the Council and also allowed the Council to deliver on a challenging transformation / modernisation programme.

## **6. Remuneration by Subsidiary Bodies of Perth & Kinross Council**

- 6.1 Councillors and Senior Employees of Perth & Kinross Council serve as Board members; officials and technical advisors to subsidiary bodies of the Council. In 2016/17, the Head of Legal & Governance Services and Head of Democratic Services served as proper officers to the Tayside and Central Scotland Transport Partnership (TACTRAN). No remuneration was paid to Councillors and Senior Employees of Perth & Kinross Council by subsidiary bodies of the Council in 2016/17.

## **7. Disclosure of Pension Benefits**

- 7.1 The disclosure regulations require the separate disclosure of accrued pension benefits for Senior Councillors and Senior Employees of Perth & Kinross Council. Pension Benefits for councillors and local government employees are provided through the Local Government Pension Scheme (LGPS). Councillors have only been eligible to join this scheme since May 2007.
- 7.2 Councillor's pension benefits are based on career average pay. The councillor's pay for each year or part year ending 31 March (other than the pay in the final year commencing 1 April) is increased by the increase in the cost of living as measured by the appropriate index between the end of that year and the last day of the month in which their membership of the scheme ends. The total of the revalued pay is then divided by the period of membership to calculate the career average pay. This is the value used to calculate the pension benefits.
- 7.3 From 1 April 2015 a career average scheme was implemented for local government employees. This means that pension is built up based on the pensionable pay for each year. The benefit is added to the employee's pension account plus inflation

increases. The scheme's normal retirement age for both councillors and employees will vary dependant on age and length of pensionable service.

- 7.4 From 1 April 2009 a tiered contribution scheme was introduced with contributions from scheme members being based on how much pay falls into each tier. Prior to 2009 contribution rates were set at 6% for all non-manual employees.

**Tiered Pension Contribution Rates for Local Government Pension Scheme Members in 2016/17**

| Actual Pensionable pay                      | Contribution Rate<br>2016/17 |
|---------------------------------------------|------------------------------|
| On earnings up to and including £20,500     | 5.5%                         |
| On earnings above £20,500 and up to £25,000 | 7.25%                        |
| On earnings above £25,000 and up to £34,400 | 8.5%                         |
| On earnings above £34,400 and up to £45,800 | 9.5%                         |
| On earnings above £45,800                   | 12%                          |

- 7.5 Pensionable Pay includes salary, plus any contractual elements of pay such as shift payment, night working payment, standby and the monetary value of any accommodation or other allowances in kind pertaining to employment.
- 7.6 Under the scheme there is no automatic entitlement to a lump sum. Members may opt to give up (commute) pension for lump sum up to the limit set by the Finance Act 2004. The pension is built up based on pensionable pay in the year with an accrual rate of 1/49<sup>th</sup> added to the pension account. (Prior to 2015 the accrual rate was 1/60<sup>th</sup> of final pensionable salary and years of pensionable service. Prior to 2009 the accrual rate guaranteed a pension based on 1/80<sup>th</sup> and a lump sum based on 3/80<sup>th</sup> of final pensionable salary and years of pensionable service).
- 7.7 The value of accrued benefits have been calculated on the basis of the age at which the person will first become entitled to receive a pension on their retirement without reduction on account of its payment at that age; without exercising any option to commute pension entitlement into a lump sum; and without any adjustment for the effects of future inflation. The pension figures shown relate to the benefits that the person has accrued as a consequence of their local government service, and not just their current appointment.

**7.8 Pension Entitlements of Senior Councillors**

The pension entitlements of Senior Councillors of Perth & Kinross Council for the year to 31 March 2017 are shown in table 6 below, together with the contribution made by the Council to each Senior Councillor's pension during the year.

**Table 6: Pension Entitlements of Senior Councillors, Convener of Tayside Valuation Board and Vice-Convener of the Tayside Community Justice Authority for Financial Year 2016/17**

| Name and Post Title                                                                 | In-year pension contributions     |                                   |                     | Accrued Pension Benefits              |                                                     |                                           |
|-------------------------------------------------------------------------------------|-----------------------------------|-----------------------------------|---------------------|---------------------------------------|-----------------------------------------------------|-------------------------------------------|
|                                                                                     | For Year<br>to<br>31/03/2017<br>£ | For Year<br>to<br>31/03/2016<br>£ |                     | For Year<br>to<br>31/03/2017<br>£'000 | For Year<br>to<br>31/03/2016<br>(Restated)<br>£'000 | Difference<br>From<br>31/03/2016<br>£'000 |
| Ian Miller<br>Council Leader & Convener Strategic<br>Policy and Resources Committee | 5,744                             | 5,688                             | Pension<br>Lump Sum | 7<br>3                                | 6<br>3                                              | 1<br>0                                    |
| Elizabeth Grant<br>Provost (Civic Head) (Note 1)                                    | 0                                 | 0                                 | Pension<br>Lump Sum | 0<br>0                                | 0<br>0                                              | 0<br>0                                    |
| Henry Anderson<br>Convener Licensing Board                                          | 3,866                             | 3,828                             | Pension<br>Lump Sum | 2<br>0                                | 2<br>0                                              | 0<br>0                                    |
| Robert Band<br>Convener Lifelong Learning Committee                                 | 3,866                             | 3,828                             | Pension<br>Lump Sum | 5<br>2                                | 4<br>2                                              | 1<br>0                                    |
| Ian Campbell<br>Leader of Largest Opposition Party (from<br>12/10/16)               | 1,823                             | n/a                               | Pension<br>Lump Sum | 3<br>1                                | n/a                                                 | n/a                                       |
| Dave Cuthbert<br>Convener of Audit Committee (from<br>01/07/16)                     | 2,900                             | n/a                               | Pension<br>Lump Sum | 2<br>0                                | n/a                                                 | n/a                                       |
| Dave Doogan<br>Convener Housing & Health Committee                                  | 3,866                             | 3,828                             | Pension<br>Lump Sum | 2<br>0                                | 1<br>0                                              | 1<br>0                                    |
| Bob Ellis<br>Convener Licencing Committee                                           | 3,866                             | 3,720                             | Pension<br>Lump Sum | 3<br>0                                | 3<br>0                                              | 0<br>0                                    |
| Alan Grant (Note 1)<br>Convener Environment Committee                               | 0                                 | 0                                 | Pension<br>Lump Sum | 0<br>0                                | 0<br>0                                              | 0<br>0                                    |
| Tom Gray<br>Convener Development Management<br>Committee                            | 3,866                             | 3,828                             | Pension<br>Lump Sum | 3<br>0                                | 3<br>0                                              | 0<br>0                                    |
| John Kellas<br>Convener Enterprise & Infrastructure<br>Committee                    | 3,866                             | 3,828                             | Pension<br>Lump Sum | 5<br>2                                | 4<br>2                                              | 1<br>0                                    |
| Murray Lyle<br>Convener Local Review Body                                           | 3,866                             | 3,828                             | Pension<br>Lump Sum | 4<br>2                                | 3<br>1                                              | 1<br>1                                    |

| Name and Post Title                                                                                               | In-year pension contributions |                             |                  | Accrued Pension Benefits        |                                               |                                     |
|-------------------------------------------------------------------------------------------------------------------|-------------------------------|-----------------------------|------------------|---------------------------------|-----------------------------------------------|-------------------------------------|
|                                                                                                                   | For Year to 31/03/2017<br>£   | For Year to 31/03/2016<br>£ |                  | For Year to 31/03/2017<br>£'000 | For Year to 31/03/2016<br>(Restated)<br>£'000 | Difference from 31/03/2016<br>£'000 |
| Elsbeth Maclachlan<br>Convener Tayside Valuation Board                                                            | 3,590                         | 3,555                       | Pension Lump Sum | 3<br>1                          | 3<br>1                                        | 0<br>0                              |
| Archibald MacLellan<br>Vice Convener Tayside Community Justice Authority (from 01/06/16)                          | 773                           | 3,377                       | Pension Lump Sum | 6<br>2                          | 6<br>2                                        | 0<br>0                              |
| Douglas Pover<br>Convener Community Safety Committee                                                              | 3,866                         | 3,828                       | Pension Lump Sum | 2<br>0                          | 2<br>0                                        | 0<br>0                              |
| Mac Roberts<br>Leader Largest Opposition Party (to 30/06/16)                                                      | 3,404                         | 3,828                       | Pension Lump Sum | 8<br>11                         | 7<br>11                                       | 1<br>0                              |
| Alexander Stewart<br>Convener Scrutiny Committee (to 30/6/16)                                                     | 967                           | 3,828                       | Pension Lump Sum | 7<br>14                         | 7<br>14                                       | 0<br>0                              |
| Barbara Vaughan (Note 1)<br>Convener Audit Committee (to 30/6/16)<br>Convenor of Scrutiny Committee (from 1/7/16) | 0                             | 0                           | Pension Lump Sum | 0<br>0                          | 0<br>0                                        | 0<br>0                              |
| <b>TOTAL</b>                                                                                                      | <b>50,129</b>                 | <b>50,792</b>               |                  |                                 |                                               |                                     |

Notes:

- (1) The pension benefits shown relate to the benefits that the individual has accrued as a consequence of their total local government service, including any service with a Council subsidiary body, and not just their current appointment. Councillors have only been eligible to join the Local Government Pension Scheme since May 2007. Provost Elizabeth Grant and Councillors Alan Grant and Barbara Vaughan have elected not to become members of the Local Government Pension Scheme. Councillor MacLellan left the scheme on 20 June 2016.

## 7.9 Pension Entitlements of Senior Employees

The pension entitlements of Senior Employees of Perth & Kinross Council and its Subsidiaries for the year to 31 March 2017 are shown in table 7 below, together with the contribution made by the Council to each Senior Employee's pension during the year.

**Table 7: Pension Entitlements of Senior Employees of the Council and its Subsidiaries for Financial Year 2016/17 (Post titles as at 31 March 2017)**

| Name and Post Title                                                                                         | In-year pension contributions |                             |                  | Accrued Pension Benefits        |                                 |                                     |
|-------------------------------------------------------------------------------------------------------------|-------------------------------|-----------------------------|------------------|---------------------------------|---------------------------------|-------------------------------------|
|                                                                                                             | For Year to 31/03/2017<br>£   | For Year to 31/03/2016<br>£ |                  | For Year to 31/03/2017<br>£'000 | For Year to 31/03/2016<br>£'000 | Difference from 31/03/2016<br>£'000 |
| Bernadette Malone<br>Chief Executive                                                                        | 21,633                        | 22,103                      | Pension Lump Sum | 51<br>101                       | 49<br>100                       | 2<br>1                              |
| John Fyffe<br>Senior Depute Chief Executive                                                                 | 19,827                        | 19,631                      | Pension Lump Sum | 64<br>145                       | 62<br>143                       | 2<br>2                              |
| John Walker<br>Depute Chief Executive & Chief Operating Officer<br>(left 08/02/17 on grounds of ill health) | 16,155                        | 18,725                      | Pension Lump Sum | 48<br>99                        | 46<br>98                        | 2<br>1                              |
| James Valentine<br>Depute Chief Executive                                                                   | 18,912                        | 18,725                      | Pension Lump Sum | 48<br>99                        | 46<br>98                        | 2<br>1                              |
| William Atkinson<br>Director of Social Work                                                                 | 0                             | 15,096                      | Pension Lump Sum | 49<br>115                       | 49<br>115                       | 0<br>0                              |
| Lisa Simpson (Started 08/06/15)<br>Head of Legal & Governance Services (Note 2)                             | 14,941                        | 12,048                      | Pension Lump Sum | 3<br>0                          | 1<br>0                          | 2                                   |
| Ian Innes (Left 30/6/15)<br>Head of Legal Services                                                          | 0                             | 3,698                       | Pension Lump Sum | 0<br>0                          | 45<br>109                       | n/a<br>n/a                          |
| John Symon<br>Head of Finance                                                                               | 14,941                        | 14,794                      | Pension Lump Sum | 31<br>60                        | 29<br>59                        | 2<br>1                              |
| Gillian Taylor<br>Head of Democratic Services (Note 3)                                                      | n/a                           | 13,622                      | Pension Lump Sum | n/a<br>n/a                      | 38<br>85                        | n/a<br>n/a                          |



| Name and Post Title                                                       | In-year pension contributions |                        |                  | Accrued Pension Benefits |                        |                            |
|---------------------------------------------------------------------------|-------------------------------|------------------------|------------------|--------------------------|------------------------|----------------------------|
|                                                                           | For Year to 31/03/2017        | For Year to 31/03/2016 |                  | For Year to 31/03/2017   | For Year to 31/03/2016 | Difference from 31/03/2016 |
|                                                                           | £                             | £                      |                  | £'000                    | £'000                  | £'000                      |
| Gwilym Gibbons (Note 2)<br>Horsecross Arts Limited – Chief Executive      | 11,927                        | 11,382                 | Pension Lump Sum | 3<br>0                   | 2<br>0                 | 1<br>0                     |
| James Moyes<br>Live Active Leisure - Chief Executive                      | 13,179                        | 12,744                 | Pension Lump Sum | 42<br>92                 | 39<br>89               | 3<br>3                     |
| Helen Smout<br>Culture Perth & Kinross Limited - Chief Executive (Note 4) | 9,691                         | 0                      | Pension Lump Sum | 15<br>20,                | 0<br>0                 | n/a<br>n/a                 |
| <b>TOTAL</b>                                                              | <b>141,206</b>                | <b>162,568</b>         |                  |                          |                        |                            |

Notes:

- (1) The pension benefits shown relate to the benefits that the individual has accrued as a consequence of their local government service, including any service with a Council subsidiary body, and not just their current employment.
- (2) These figures do not include transfer values.
- (3) The Head of Democratic Services only reported to the Chief Executive until 30 September 2015, therefore no figures are shown for 2016/17.
- (4) Culture Perth & Kinross Limited was operational from 1 April 2016. There are, therefore, no comparator figures.

Signed:

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Bernadette Malone  
Chief Executive

Perth & Kinross Council

Date: 27 September 2017

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Councillor Ian Campbell  
Leader of the Council

Perth & Kinross Council

Date: 27 September 2017

## **GLOSSARY**

### **ACCOUNTING PERIOD**

The period of time covered by the accounts, normally a period of twelve months commencing on 1 April. The end of the accounting period is the Balance Sheet date.

### **ACCRUALS**

Sums included in the final accounts to recognise revenue and capital income and expenditure earned or incurred in the financial year, but for which actual payment had not been received or made as at 31 March.

### **BEACON METHOD (ADJUSTED VACANT POSSESSION METHOD)**

Based on the (vacant possession) market value of the asset which is the adjusted to reflect the assets' use for social housing with a sitting tenant.

### **CAA**

Capital Adjustment Account

### **CAPITAL EXPENDITURE**

Expenditure on the acquisition of a fixed asset, which will be used in providing services beyond the current accounting period, or expenditure which adds to and not merely maintains the value of an existing fixed asset.

### **CAPITAL FINANCING**

Funds raised to pay for capital expenditure. There are various methods of financing capital expenditure including borrowing, leasing, direct revenue financing, usable capital receipts, capital grants, capital contributions, revenue reserves and earmarked reserves.

### **CAPITAL RECEIPT**

The proceeds from the disposal of land or other fixed assets. Proportions of capital receipts can be used to finance new capital expenditure, within rules set down by the Government but they cannot be used to finance revenue expenditure.

### **CONTINGENT LIABILITY**

A contingent liability is either:

- A possible obligation arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Council's control; or
- A present obligation arising from past events where it is not probable that a transfer of economic benefits will be required, or the amount of the obligation cannot be measured with sufficient reliability.

### **CORPORATE & DEMOCRATIC CORE**

The corporate and democratic core comprises all the activities that local authorities engage in specifically because they are elected, multi-purpose authorities. The cost of these activities are thus over and above those which would be incurred by a series of independent single purpose, nominated bodies managing the same services. There is therefore no logical basis for apportioning these costs to services.

### **CREDITOR**

Amount owed by the Council for work done, goods received or services rendered within the accounting period, but for which payment has not been made by the Council by the end of that accounting period.

### **CRR**

Capital Receipts Reserve

### **CURRENT VALUE**

The measurement of operational assets used for the delivery of Council services. Property, plant and equipment is measured on the basis of service potential using existing use value for assets where an active market exists, existing use value-social housing for operational Council dwellings or depreciated replacement cost for assets where there is no market and/or the asset is specialised.

### **DISCOUNTED CASH FLOW METHOD**

Quantifies the cash-generating potential, stated at present value, of the housing operation taking into account the estimated future income and expenditure streams.

### **DEBTOR**

Amount owed to the Council for works done, goods received or services rendered within the accounting period, but for which payment has not been received by the Council by the end of that period.

### **EXISTING USE VALUE FOR SOCIAL HOUSING (EUV-SH)**

Is the estimated amount for which a property should exchange on the date of valuation, between a willing buyer and a willing seller in an arm's length transaction.

### **FAIR VALUE**

Fair value is the price that would be received to sell an asset or pay to transfer a liability in an orderly transaction between market participants at the measurement date.

**FIAA**

Financial Instruments Adjustment Account

**IMPAIRMENT**

A reduction in the value of a fixed asset to below its carrying amount on the Balance Sheet.

**MATERIALITY**

The concept that the Statement of Accounts should include all amounts which, if omitted, or mis-stated, could be expected to lead to a distortion of the financial statements and ultimately mislead a user of the accounts.

**NET BOOK VALUE**

The amount at which fixed assets are included in the Balance Sheet, i.e. their historical costs or current value less the cumulative amounts provided for depreciation.

**NON-DISTRIBUTED COSTS**

These are overheads which cannot be directly allocated to a specific area of activity and as such are not apportioned to services.

**PPE**

Property, Plant & Equipment

**PRIOR YEAR ADJUSTMENT**

Material adjustments applicable to previous years arising from changes in accounting policies or from the correction of fundamental errors. This does not include normal recurring corrections or adjustments of accounting estimates made in prior years.

**PROVISION**

An amount put aside in the accounts for future liabilities or losses which are certain or very likely to occur but the amounts or dates of when they will arise are uncertain.

**PUBLIC WORKS LOAN BOARD (PWLb)**

A Central Government Agency, which provides loans from one year and above to authorities at interest rates that are 1% higher than those at which the Government can borrow itself.

**REVENUE EXPENDITURE**

The day-to-day expenses of providing services.



## PERTH AND KINROSS COUNCIL

## Audit Committee

27 September 2017

## INTERNAL AUDIT FOLLOW UP

## Report by Chief Internal Auditor

**PURPOSE OF REPORT**

This report presents a current summary of Internal Audit's 'follow up' work.

**1. BACKGROUND AND MAIN ISSUES**

- 1.1 The Public Sector Internal Audit Standards (PSIAS) require the Chief Internal Auditor to establish a follow-up process to monitor and ensure that management actions have been effectively implemented. To assist the Audit Committee, the appendices to this report provide information on those actions that have not been implemented in accordance with the original agreed timetable, or where there is insufficient information on the current situation. Some dates have been revised and agreed with Services in recognition of the need for more time to complete the actions.
- 1.2 Appendix A presents a summary of the number of actions arising from internal and external audit reports.
  - Table 1 shows the total number of agreed actions which Internal Audit will be following up even where the originally agreed completion dates have not yet been reached; the total number of actions is 98.
  - Table 2 shows the number of agreed actions that have been reported as incomplete as at their original agreed completion date. These total 30, of which 20 had a completion date of April to June 2017 and are therefore detailed in the following Appendices B to E.
  - A further 10 actions not completed by their original date have been allocated revised dates for completion after 30 June 2017 and progress will be reported on these at a future Committee.
  - The number of agreed actions which have yet to be followed up as the date for completion is after 30 June 2017 is 68.
- 1.3 In both tables, the actions are grouped by Service and reported by 'importance' of the agreed actions. The importance of each action is documented in the original Internal Audit reports considered by the Audit Committee. Reported importance ratings range from 'critical', where there are significant financial, reputation, legal, performance, or safety issues, to 'low', where the risks are lower but there may be opportunities for improving processes and procedures. Reports produced by Audit Scotland do not explicitly state the importance of each individual action and are therefore included in the tables as 'not rated'.

- 1.4 Appendices B to E present detailed follow-up information in respect of actions agreed for completion in the period of April to June 2017. The appendices also record service management's explanations of the status of each action point and internal audit comments where relevant.
- 1.5 The Audit Committee has requested information regarding any action with a 'critical' or 'high' risk rating which has not been completed on its originally agreed date. Table two highlights six such instances of 'high' risk actions. Five of these actions relate to actions arising for Services from the Information Sharing audit and updates are included within this report on Appendices C to E. The final action is from the Self-Directed Support Internal Audit report and relates to the Scheme of Administration. An update on this action appears on Appendix B.

## 2. PROPOSALS

- 2.1 It is recommended that the Committee seeks assurance that there are clear and achievable action plans for completing the agreed actions noted above.

## 3. CONCLUSION AND RECOMMENDATIONS

- 3.1 The Audit Committee is asked to consider the most appropriate action to be taken to progress the agreed Action Plans.
- 3.2 It is recommended that the Audit Committee:
- (i) Note the current position in respect of the agreed actions arising from internal and external work; and
  - (ii) Consider the most appropriate action to be taken to progress the agreed action plans, taking into account the recorded audit opinions.

### Author

| Name         | Designation            | Contact Details                                                        |
|--------------|------------------------|------------------------------------------------------------------------|
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If you or someone you know would like a copy of this document in another language or format, (on occasion only, a summary of the document will be provided in translation), this can be arranged by contacting *Jackie Clark*



Council Text Phone Number 01738 442573

## 1. IMPLICATIONS, ASSESSMENTS, CONSULTATION AND COMMUNICATION

| <b>Strategic Implications</b>                       | <b>Yes / None</b> |
|-----------------------------------------------------|-------------------|
| Community Plan / Single Outcome Agreement           | None              |
| Corporate Plan                                      | Yes               |
| <b>Resource Implications</b>                        |                   |
| Financial                                           | None              |
| Workforce                                           | None              |
| Asset Management (land, property, IST)              | None              |
| <b>Assessments</b>                                  |                   |
| Equality Impact Assessment                          | Yes               |
| Strategic Environmental Assessment                  | None              |
| Sustainability (community, economic, environmental) | None              |
| Legal and Governance                                | None              |
| Risk                                                | Yes               |
| <b>Consultation</b>                                 |                   |
| Internal                                            | Yes               |
| External                                            | None              |
| <b>Communication</b>                                |                   |
| Communications Plan                                 | None              |

### 1. Strategic Implications

#### 1.1 Corporate Plan

1.1.1 The Council's Corporate Plan 2013 – 2018 lays out five outcome focussed strategic objectives which provide clear strategic direction, inform decisions at a corporate and service level and shape resources allocation. They are as follows:

- (i) Giving every child the best start in life;
- (ii) Developing educated, responsible and informed citizens;
- (iii) Promoting a prosperous, inclusive and sustainable economy;
- (iv) Supporting people to lead independent, healthy and active lives; and
- (v) Creating a safe and sustainable place for future generations.

1.1.2 This report relates to all of these objectives.

### 2. Assessments

#### 2.1 Equality Impact Assessment

2.1.1 Under the Equality Act 2010, the Council is required to eliminate discrimination, advance equality of opportunity, and foster good relations between equality groups. Carrying out Equality Impact Assessments for plans and policies allows the Council to demonstrate that it is meeting these duties.

2.1.2 The information contained within this report has been considered under the Corporate Equalities Impact Assessment process (EqIA) and has been assessed as **not relevant** for the purposes of EqIA.

## 2.2 Risk

2.2.1 There is a risk to the strength of the control environment if the agreed action plans are not carried out in a timely manner.

## 3. **Consultation**

### 3.1 Internal

3.1.1 The Chief Executive and all Directors have been consulted in the preparation of this report.

## 2. **BACKGROUND PAPERS**

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.

## 3. **APPENDICES**

Appendix A - Summary of Agreed Actions

Appendix B - Audit Follow-Up Corporate & Democratic Services

Appendix C - Audit Follow-Up Education & Children's Services

Appendix D – Audit Follow Up Housing & Community Safety

Appendix E - Audit Follow-Up The Environment Service



### Summary of Agreed Actions

Table 1: All Agreed Actions for Follow-Up as at 30 June 2017 (figures in brackets reported in June 2017). This table includes actions not yet due for completion.

| Service                         | Importance   |                |                |                |              |                 |
|---------------------------------|--------------|----------------|----------------|----------------|--------------|-----------------|
|                                 | Critical     | High           | Medium         | Low            | Not Rated    | Total           |
| Corporate & Democratic Services | 0 (0)        | 3 (1)          | 8 (9)          | 8 (13)         | 1 (2)        | 20 (25)         |
| Education & Children's Services | 0 (0)        | 6 (7)          | 10 (6)         | 8 (7)          | 0 (0)        | 24 (20)         |
| Housing & Community Safety      | 0 (0)        | 1 (4)          | 8 (7)          | 10 (9)         | 0 (0)        | 19 (20)         |
| The Environment Service         | 0 (0)        | 3 (5)          | 16 (22)        | 16 (23)        | 0 (0)        | 35 (50)         |
| <b>All Services</b>             | <b>0 (0)</b> | <b>13 (17)</b> | <b>42 (44)</b> | <b>42 (52)</b> | <b>1 (2)</b> | <b>98 (115)</b> |

Table 2: All Actions Reported as Incomplete on their Original Agreed Date

| Service                                                                                                                        | Importance   |              |                |               |              |                |
|--------------------------------------------------------------------------------------------------------------------------------|--------------|--------------|----------------|---------------|--------------|----------------|
|                                                                                                                                | Critical     | High         | Medium         | Low           | Not Rated    | Total          |
| Corporate & Democratic Services                                                                                                | 0 (0)        | 1 (1)        | 3 (3)          | 3 (4)         | 1 (2)        | 8 (10)         |
| Education & Children's Services                                                                                                | 0 (0)        | 2 (2)        | 2 (2)          | 2 (0)         | 0 (0)        | 6 (4)          |
| Housing & Community Care                                                                                                       | 0 (0)        | 1 (2)        | 1 (1)          | 3 (2)         | 0 (0)        | 5 (5)          |
| The Environment Service                                                                                                        | 0 (0)        | 2 (3)        | 6 (5)          | 3 (0)         | 0 (0)        | 11 (8)         |
| <b>All Services</b>                                                                                                            | <b>0 (0)</b> | <b>6 (8)</b> | <b>12 (11)</b> | <b>11 (6)</b> | <b>1 (2)</b> | <b>30 (27)</b> |
| Actions with a completion date of April to June 2017 which have not been completed and therefore included on Appendices B to E |              |              |                |               |              | 20             |
| Those actions where the agreed date is not April to June 2017 which have been previously reported to Audit Committee           |              |              |                |               |              | 10             |



**Audit Follow-up**  
**Corporate & Democratic Services**  
**(Reporting for All dates on or before: June 2017)**

| Action Plan                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | Dates                                                     | Status/Explanation                                                                                                                                                                                                                                                                                                                                                  |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>15-22 - Self-Directed Support<br/> Action Point : 12 - Responsibility for SDS<br/> Importance: High</p> <p>Audit Committee Date: March 2016</p> <p>The Chief Social Work Officer will review the Scheme of Administration and recommend amendments be made to reflect the Social Care Self-Directed Support (Scotland) Act 2013 roles carried out by Education and Children's Services.</p> <p>(G Taylor, Head of Democratic Services)</p>                                                               | <p>Jun 2016<br/> Oct 2016<br/> Apr 2017<br/> Dec 2017</p> | <p>The Service states that all updates to the Scheme of Administration are being incorporated into the Scheme for publication in August 2017. A revised Scheme will be considered as part of the decision-making structure approved by the Council on 17 May 2017 and is to be reported to Council on 20 December 2017.</p> <p>Internal Audit Opinion: Accepted</p> |
| <p>15-32 - Governance<br/> Arrangements for ALEOs and Statutory Boards<br/> Action Point : 1 - Formal requirement for the review of Scheme of Administration<br/> Importance: Low</p> <p>Audit Committee Date: June 2016</p> <p>It is intended that there will be an updated Scheme submitted to the Council meeting in June 2016. Thereafter, an annual review will take place which will be support the production of the annual governance statement.</p> <p>(G Taylor, Head of Democratic Services)</p> | <p>Jun 2016<br/> Oct 2016<br/> Apr 2017<br/> Dec 2017</p> | <p>The Service states that all updates to the Scheme of Administration are being incorporated into the Scheme for publication in August 2017. A revised Scheme will be considered as part of the decision-making structure approved by the Council on 17 May 2017 and is to be reported to Council on 20 December 2017.</p> <p>Internal Audit Opinion: Accepted</p> |

|                                                                                                                                                                                                                                                                                                                                                                                                                                                |                                           |                                                                                                                                                                                                                                                                                                                                                                                                     |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>16-07 - Financial Assessment &amp; Charging<br/>Action Point : 22 - Scheme of Administration &amp; Scheme of Delegation<br/>Importance: Low</p> <p>Audit Committee Date: September 2016</p> <p>These will be updated at the next available opportunity.</p> <p>(G Taylor, Head of Democratic Services)</p> <p>Required Evidence Of Completion : Updated Scheme of Administration</p>                                                        | <p>Oct 2016<br/>Apr 2017<br/>Dec 2017</p> | <p>The Service states that all updates to the Scheme of Administration are being incorporated into the Scheme for publication in August 2017. A revised Scheme will be considered as part of the decision-making structure approved by the Council on 17 May 2017 and is to be reported to Council on 20 December 2017.</p> <p>Internal Audit Opinion: Accepted</p>                                 |
| <p>16-09 - Housing Options<br/>Action Point : 6 - Scheme of Administration<br/>Importance: Low</p> <p>Audit Committee Date: September 2016</p> <p>The Head of Democratic Services will arrange for the Scheme of Administration to be updated to detail the Committee and the Officer that will be responsible for the exercising the functions contained in the Housing (Scotland) Act 2014</p> <p>(C Flynn, Democratic Services Manager)</p> | <p>Oct 2016<br/>Apr 2017<br/>Dec 2017</p> | <p>The Service states that all updates to the Scheme of Administration are being incorporated into the Scheme for publication in August 2017. A revised Scheme will be considered as part of the decision-making structure approved by the Council on 17 May 2017 and is to be reported to Council on 20 December 2017.</p> <p>Internal Audit Opinion: Accepted</p>                                 |
| <p>16-17 - Pupil Support<br/>Action Point : 4 - Arrangements Under Review<br/>Importance: Medium</p> <p>Audit Committee Date: February 2017</p> <p>HR will document procedures aligning to the process of allocation of Pupil Support Assistant and Pupil Support Teacher resource. This will</p>                                                                                                                                              | <p>Feb 2017<br/>Oct 2017</p>              | <p>The Service anticipates undertaking a 'lessons learned' exercise at the end of August/beginning of September as this year has been the first year that HR have lead on this. HR anticipates that this will involve officers from out-with their Service and this may take time. Any final procedure changes will be identified by October 2017.</p> <p>Internal Audit Opinion: Satisfactory.</p> |

|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |                                           |                                                                                                                                                                                                                                                                                                                                                                                                                          |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>include reference to responsibilities in relation to managing mileage claim length and contract terms and changes; systems of version control and improved record keeping relating to the Pupil Support Assistant transfer process.</p> <p>(S McLeod, Senior HR Officer)</p>                                                                                                                                                                                                                         |                                           |                                                                                                                                                                                                                                                                                                                                                                                                                          |
| <p>Audit Scotland 11 - Annual Audit Report 2014/15<br/>Action Point : 2 - Decision-Making Structure<br/>Importance: N/A</p> <p>Audit Committee Date: September 2015</p> <p>The Council's decision-making arrangements are kept under review to ensure that it reflects changes required by new legislation etc. – a review of the entire decision-making structure will be undertaken in preparation for the local government elections in May 2017.</p> <p>(G Taylor, Head of Democratic Services)</p> | <p>Nov 2016<br/>Apr 2017<br/>Dec 2017</p> | <p>At the last meeting of the Council before the Local Government Elections on 26 April 2017, the Council received a discussion paper by the Chief Executive on options for future decision-making structures.</p> <p>The Council agreed on 17 May 2017 to undertake a review of the decision-making structure and this will be reported to Council on 20 December 2017.</p> <p>Internal Audit Opinion: Satisfactory</p> |



**Audit Follow-up**  
**Education & Children's Services**  
**(Reporting for All dates on or before: June 2017)**

| Action Plan                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | Dates                                                             | Status/Explanation                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>16-05 - Information Sharing<br/>           Action Point : 7 - Information Sharing Management<br/>           Importance: High</p> <p>Audit Committee Date:<br/>           September 2016</p> <p>Finalised/signed Data Sharing protocols held by Services will be identified and submitted to the Information Compliance Manager to ensure appropriate data management across the Council, and to inform the production of the corporate Data Sharing Register which will include review arrangements for each protocol.</p> <p>(S Devlin, Director)</p> | <p>Dec 2016<br/>           May 2017<br/>           March 2018</p> | <p>The Service states that good progress continues to be made with this action however it is taking longer than anticipated chiefly due to reliance on national-level developments or the inputs of partner organisations. In the meantime, additional complex data sharing requirements have arisen (e.g. Scottish National Standardised Assessment) and therefore work in this area will likely always be seen as 'in progress'. Nonetheless significant efforts are being made to ensure complete arrangements where possible.</p> <p>Internal Audit Opinion: Accepted</p> |
| <p>16-05 - Information Sharing<br/>           Action Point : 12 - Review of Data Sharing Protocols<br/>           Importance: High</p> <p>Audit Committee Date:<br/>           September 2016</p> <p>All Data Sharing Protocols held by the Service will be reviewed in line with the requirements of each protocol and good practice. Reviewed protocols will be notified to the Information Compliance Manager to inform the production of the Data Sharing Register.</p> <p>(P Davison, Corporate Research and Information Manager)</p>                | <p>Dec 2016<br/>           May 2017<br/>           March 2018</p> | <p>See Action Point 7 above.</p> <p>Internal Audit Opinion: Accepted</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |

|                                                                                                                                                                                                                                                                                                                                                                        |                                       |                                                                                                                                                                       |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>16-11 - Management of the Relationship with Horsecross Art</p> <p>Action Point : 3 - Skills Matrix</p> <p>Importance: Low</p> <p>Audit Committee Date:<br/>February 2017</p> <p>The Head of Culture and Public Service Reform will ensure that a skills matrix is put in place by Horsecross.</p> <p>(F Robertson, Head of Culture &amp; Public Service Reform)</p> | <p>Apr<br/>2017<br/>Sept<br/>2017</p> | <p>This is a new requirement in the 2017/18 SLA. Horsecross has work underway to prepare the Skills Audit, which is also a Creative Scotland funding requirement.</p> |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------|



**Internal Audit Follow-up  
Housing & Community Care  
(Reporting for All dates on or before: June 2017)**

| Action Plan                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | Dates                                     | Status/Explanation                                                                                                                                                                                                                                                                                                                                                                     |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>16-05 - Information Sharing<br/>Action Point: 5 - Review of Data Sharing Protocols<br/>Importance: High</p> <p>Audit Committee Date:<br/>September 2016</p> <p>All Data Sharing Protocols held by the Service will be reviewed in line with the requirements of each protocol and good practice. Reviewed protocols will be notified to the Information Compliance Manager to inform the production of the Data Sharing Register.</p> <p>(A Taylor, Head of Corporate Revenues and IT)</p> | <p>Dec 2016<br/>Apr 2017<br/>Nov 2017</p> | <p>The Service advises that two of the current data sharing protocols in operation are under review. For this we await input from other agencies; we will review this in November 2017 to ensure protocols are up to date.</p> <p>Audit opinion: Accepted</p>                                                                                                                          |
| <p>16-24 - Commissioned Services - Care at Home<br/>Action Point: 3 - Register of Contracts<br/>Importance: Low</p> <p>Audit Committee Date: April 2017</p> <p>Revised arrangements will be put in place for the management of the new contracts for 2017.</p> <p>(G Peters, Team Leader, Commissioning &amp; Contracting)</p>                                                                                                                                                                | <p>Apr 2017<br/>Aug 2017</p>              | <p>The Service states that the Care at Home contract was issued at a later date than anticipated. Providers will now have to submit monitoring returns as part of the contract award; the Service will update their guidance to reflect this change. The requested amended date to the end of August to allow for a short trial of this system.</p> <p>Audit opinion: Satisfactory</p> |



**Audit Follow-up**  
**The Environment Service**  
**(Reporting for All dates on or before: June 2017)**

| Action Plan                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | Dates                                       | Status/Explanation                                                                                                                                                                                                                                                                                                                                                                                                                           |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>16-05 - Information Sharing<br/> Action Point : 8 - Information Sharing Management<br/> Importance: High</p> <p>Audit Committee Date:<br/> September 2016</p> <p>Finalised/signed Data Sharing protocols held by Services will be identified and submitted to the Information Compliance Manager to ensure appropriate data management across the Council, and to inform the production of the corporate Data Sharing Register which will include review arrangements for each protocol.</p> <p>(B Renton, Director)</p> | <p>Dec 2016<br/> May 2017<br/> Dec 2017</p> | <p>Ongoing. The Service is working with the Information Compliance Officer in this regard. This is more work than first anticipated. A new web page has been created on The Environment Service's intranet site and the Service is concentrating initially on the areas identified by Internal Audit whether Data Sharing agreements may be in place.</p> <p>Internal Audit Opinion:<br/> Accepted</p>                                       |
| <p>16-05 - Information Sharing<br/> Action Point : 11 - Review of Data Sharing Protocols<br/> Importance: High</p> <p>Audit Committee Date:<br/> September 2016</p> <p>All Data Sharing Protocols held by the Service will be reviewed in line with the requirements of each protocol and good practice. Reviewed protocols will be notified to the Information Compliance Manager to inform the production of the Data Sharing Register.</p> <p>(J Dixon, Transformation &amp; Business Manager)</p>                       | <p>Dec 2016<br/> May 2017<br/> Dec 2017</p> | <p>Ongoing. The Service states that this action is ongoing and that it is working with the Information Compliance Officer in this regard. This is more work than first anticipated. A new web page has been created on The Environment Service's intranet site and the Service is concentrating initially on the areas identified by Audit whether Data Sharing agreements may be in place.</p> <p>Internal Audit Opinion:<br/> Accepted</p> |

|                                                                                                                                                                                                                                                                                                                                                                                                             |                                      |                                                                                                                                                                                                                                                                                                                                                                                                                       |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>16-15 - Fuel Management<br/>Action Point : 6 - Vehicle Use<br/>Performance Monitoring<br/>Importance: Medium</p> <p>Audit Committee Date: June 2016</p> <p>The FMS will liaise with the Transformation team to develop a procedure and set of standards to enable clarity of expectations of service monitoring.</p> <p>(B Morton, Fleet Manager)</p>                                                    | <p>Jun<br/>2017<br/>Dec<br/>2018</p> | <p>Trackers are in the process of being installed on PKC vehicles; this is due for completion in August 2017. It is necessary to have 12 months data before a detailed analysis can be made of the data collected, including developing a monitoring system and develop a set of mileage related standards to measure performance at Service, user and vehicle level.</p> <p>Internal Audit Opinion:<br/>Accepted</p> |
| <p>16-21 - Property Maintenance<br/>Action Point : 1 - Property Maintenance Strategy &amp; Policy<br/>Importance: Medium</p> <p>Audit Committee Date: November 2016</p> <p>The Service will formulate and document a Corporate Property Maintenance Strategy and will update the Corporate Building Maintenance Policy in line with changes.</p> <p>(J Beveridge, Service Manager (Corporate Landlord))</p> | <p>Apr<br/>2017<br/>Oct<br/>2017</p> | <p>The final drafts are to be presented to the Service Management Team for discussion during August 2017. Any revisions will take place before publication to the staff.</p> <p>Internal Audit Opinion:<br/>Satisfactory</p>                                                                                                                                                                                          |
| <p>16-21 - Property Maintenance<br/>Action Point : 2 - Written Procedures<br/>Importance: Low</p> <p>Audit Committee Date: November 2016</p> <p>The Service will develop procedures to reflect the full scope of the work of the Helpdesk Operator and Maintenance Officers.</p> <p>(R Graham, Maintenance Team Leader)</p>                                                                                 | <p>Apr<br/>2017<br/>Oct<br/>2017</p> | <p>The final drafts to be presented to the Service Management Team for discussion during August 2017. Any revisions will take place before publication to the staff.</p> <p>Internal Audit Opinion:<br/>Satisfactory</p>                                                                                                                                                                                              |
| <p>16-21 - Property Maintenance<br/>Action Point : 3 - Audit Trail &amp; Oversight</p>                                                                                                                                                                                                                                                                                                                      | <p>Apr<br/>2017<br/>Oct</p>          | <p>The final drafts to be presented to the Service Management Team for discussion during August 2017. Any</p>                                                                                                                                                                                                                                                                                                         |

|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |                              |                                                                                                                                                                                                |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>Importance: Medium</p> <p>Audit Committee Date: November 2016</p> <p>The Service will include a section on audit trail within procedure documents. This will include making notes and uploading relevant correspondence to the property management system, Concerto, to evidence why the term contractor has not been selected and relevant health and safety documentation where necessary. Direction will also be given to staff to this effect. The invoice sample checking process will be documented and a record of invoices checked will be maintained. A review of authorisation requirements on Concerto will be undertaken.</p> <p>(J Beveridge, Service Manager (Corporate Landlord))</p> | <p>2017</p>                  | <p>revisions will take place before publication to the staff.</p> <p>Internal Audit Opinion: Satisfactory</p>                                                                                  |
| <p>16-21 - Property Maintenance<br/>Action Point : 4 - Key Person Dependency<br/>Importance: Medium</p> <p>Audit Committee Date: November 2016</p> <p>Service Management will review areas identified within audit actions to try to negate areas of key person dependency.</p> <p>(J Beveridge, Service Manager (Corporate Landlord))</p>                                                                                                                                                                                                                                                                                                                                                              | <p>Apr 2017<br/>Dec 2017</p> | <p>The Service Management Team will be discussing the key person dependency during August 2017.</p> <p>Internal Audit Opinion: Satisfactory</p>                                                |
| <p>16-22 - Roads Maintenance Partnership<br/>Action Point : 10 - Monitoring of Files<br/>Importance: Low</p> <p>Audit Committee Date: April 2017</p> <p>Feedback has now been provided for the most recent independent</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | <p>May 2017<br/>Oct 2017</p> | <p>Monitoring by the Head of Service has commenced, with no issues to note. A formal template is being developed to record this going forward.</p> <p>Internal Audit Opinion: Satisfactory</p> |

|                                                                                                                                                                                                                                                                                                                                                               |                               |                                                                                                                                                                                                                                                                                                                                    |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>monitoring visit. The Deputy Partnership Manager will liaise with the Head of Service to ensure that timely feedback is provided in future.</p> <p>(S D'All, Deputy Roads Maintenance Partnership Manager)</p>                                                                                                                                             |                               |                                                                                                                                                                                                                                                                                                                                    |
| <p>16-22 - Roads Maintenance Partnership<br/>Action Point : 11 - Monitoring of Files<br/>Importance: Low</p> <p>Audit Committee Date: April 2017</p> <p>A request will be submitted to the Road Management System working group regarding the system producing RMP management information.</p> <p>(S D'All, Deputy Roads Maintenance Partnership Manager)</p> | <p>May 2017<br/>July 2018</p> | <p>The Roads Maintenance Partnership is progressing this piece of work with the Purchases to Review Working Group in conjunction with Corporate Asset Management and IT. Management Reporting is a key work-stream, and completion of the project is expected to be July 2018.</p> <p>Internal Audit Opinion:<br/>Satisfactory</p> |

## PERTH AND KINROSS COUNCIL

## Audit Committee

27 September 2017

## INTERNAL AUDIT UPDATE

## Report by Chief Internal Auditor

**PURPOSE OF REPORT**

This report presents a summary of Internal Audit's work against the 2017/18 annual plan.

**1. BACKGROUND / MAIN ISSUES**

- 1.1 The Public Sector Internal Audit Standards (PSIAS) require that the Chief Internal Auditor reports periodically to the Audit Committee on internal audit activity and on performance relative to the approved plan.
- 1.2 Work has continued on assignments included within the Internal Audit Plan for 2017/18, as approved by Audit Committee in April 2017 (report 17/150).
- 1.3 Since April 2017, Internal Audit has been contacted on 9 occasions to provide advice, assurance and / or assistance to services regarding specific issues. Internal Audit will follow up on these areas during the year, where necessary. This unplanned workload is contained within the resources allocated as part of the Internal Audit Planning process. The Audit Committee will be informed if there is any change to this situation.
- 1.4 Internal Audit has continued to work with colleagues in NHS Tayside to support the Audit and Performance Committee of the Integrated Joint Board. In addition, Internal Audit has continued to facilitate the National Fraud Initiative to ensure that Services are investigating relevant data matches appropriately.
- 1.5 Appendix A details those assignments where work has been completed since the last report to the Audit Committee. Where appropriate, Internal Audit Reports for these assignments will be presented to the Audit Committee.
- 1.6 Appendix B shows a summary of each audit previously approved as part of the 2016/17 plan, along with the date that the outcome has been considered by Audit Committee.

**2. OUTCOMES FROM CONSULTANCY WORK**

- 2.1 Within Appendix A, there are a number of assignments which were identified as 'consultancy' within the Internal Audit Plan (report 17/150 refers). Following approval from the Audit Committee of a revised reporting process for consultancy assignments (report 16/306 refers), this report provides a

summary of the completed work with regard to such assignments, where appropriate.

- 2.2 The scope of assignment 17-09, Child's Plan, was to review the implementation of the Tayside format for a single Child's Plan, based on the assessment of need; to identify further areas for development to enhance the quality of plans and planning for individual children; and to provide advice for a Framework of assessment for future reviews of Child's Plans to be undertaken by the Service. This assignment is complete.
- 2.3 Assignment 17-11, IR35, provided a resource for the Service to draw upon in designing a process for Corporate & Democratic Services to support Services in the implementation of IR35, the short name used for the 'intermediaries legislation', which is a set of tax rules that apply to you if you work for a client through an intermediary. This can be a limited company or "personal service company" which is how many contractors operate. This assignment is complete.
- 2.4 The outcomes from consultancy assignments are taken into consideration when considering the Internal Audit universe, from which future Internal Audit plans are derived.

### 3. CONCLUSION AND RECOMMENDATIONS

- 3.1 This report presents a summary of Internal Audit's work against the 2017/18 annual plan.
- 3.2 It is recommended that the Committee notes the progress of work against the plan for 2017/18.

#### Author(s)

| Name         | Designation            | Contact Details                                                        |
|--------------|------------------------|------------------------------------------------------------------------|
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If you or someone you know would like a copy of this document in another language or format, (on occasion only, a summary of the document will be provided in translation), this can be arranged by contacting *Jackie Clark*



Council Text Phone Number 01738 442573



## 1. IMPLICATIONS, ASSESSMENTS, CONSULTATION AND COMMUNICATION

| <b>Strategic Implications</b>                       | <b>Yes / None</b> |
|-----------------------------------------------------|-------------------|
| Community Plan / Single Outcome Agreement           | None              |
| Strategic Plan                                      | Yes               |
| <b>Resource Implications</b>                        |                   |
| Financial                                           | None              |
| Workforce                                           | None              |
| Asset Management (land, property, IST)              | None              |
| <b>Assessments</b>                                  |                   |
| Equality Impact Assessment                          | Yes               |
| Strategic Environmental Assessment                  | None              |
| Sustainability (community, economic, environmental) | None              |
| Legal and Governance                                | None              |
| Risk                                                | Yes               |
| <b>Consultation</b>                                 |                   |
| Internal                                            | Yes               |
| External                                            | None              |
| <b>Communication</b>                                |                   |
| Communications Plan                                 | None              |

### 1. Strategic Implications

#### 1.1 Corporate Plan

1.1.1 The Council's Corporate Plan 2013 – 2018 lays out five outcome focussed strategic objectives which provide clear strategic direction, inform decisions at a corporate and service level and shape resources allocation. They are as follows:

- (i) Giving every child the best start in life;
- (ii) Developing educated, responsible and informed citizens;
- (iii) Promoting a prosperous, inclusive and sustainable economy;
- (iv) Supporting people to lead independent, healthy and active lives; and
- (v) Creating a safe and sustainable place for future generations.

1.1.2 This report relates to all of these objectives.

### 2. Assessments

#### 2.1 Equality Impact Assessment

2.1.1 Under the Equality Act 2010, the Council is required to eliminate discrimination, advance equality of opportunity, and foster good relations between equality groups. Carrying out Equality Impact Assessments for plans and policies allows the Council to demonstrate that it is meeting these duties.

2.1.2 The information contained within this report has been considered under the Corporate Equalities Impact Assessment process (EqIA) and has been assessed as **not relevant** for the purposes of EqIA.

## 2.2 Risk

2.2.1 The risks are associated with the level of assurance provided on the control environment in the event that Internal Audit's planned work is not completed on time.

## 3. **Consultation**

### 3.1 Internal

3.1.1 The Chief Executive and Head of Finance have been consulted in the preparation of this report.

## 2. **BACKGROUND PAPERS**

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.

## 3. **APPENDICES**

Appendix A – Audit Activity Completed Since the Last Report to Audit Committee

Appendix B – Progress with Assignments Approved In the Internal Audit Plan for 2016/17

## INTERNAL AUDIT UPDATE

## Internal Audit Activity Completed Since the Last Report to Audit Committee

| <b>Audit No.</b> | <b>Audit Title</b>                                   | <b>Service</b>                  |
|------------------|------------------------------------------------------|---------------------------------|
| 17-02            | Financial Management of Schools: Kinross High School | Education & Children's Services |
| 17-04            | Partnership Working – Community Justice Partnership  | Housing & Community Safety      |
| 17-05            | Management of Contracts                              | All Services                    |
| 17-09            | Childs Plan                                          | Education & Children's Services |
| 17-11            | IR35                                                 | Corporate & Democratic Services |
| 17-17            | Bus Service Operators Grant*                         | The Environment Service         |

\* No report is required for this assignment as no control issues were highlighted during the grant certification process.



## Progress with Assignments Approved In the Internal Audit Plan for 2017/18 as at May 2017

| <b>Audit No.</b> | <b>Audit Title</b>                                                                 | <b>Original Anticipated Audit Committee</b>                                      | <b>Assignment brief approved</b> | <b>Factual accuracy confirmed</b> | <b>Draft Report issued</b> | <b>Final Report issued</b> | <b>Audit Committee Date ^</b>       |
|------------------|------------------------------------------------------------------------------------|----------------------------------------------------------------------------------|----------------------------------|-----------------------------------|----------------------------|----------------------------|-------------------------------------|
| 17-01            | General Outcome Focussed Assessment                                                | September 2017                                                                   | August 2017                      |                                   |                            |                            |                                     |
| 17-02            | Financial Management of Secondary Schools:<br>Perth Academy<br>Kinross High School | June 2017<br>September 2017                                                      | April 2017<br>April 2017         | May 2017<br>August 2017           | May 2017<br>August 2017    | May 2017<br>August 2017    | <b>June 2017<br/>September 2017</b> |
| 17-03            | Capital Programme                                                                  | June 2017                                                                        | April 2017                       | May 2017                          | May 2017                   | May 2017                   | <b>June 2017</b>                    |
| 17-04            | Partnership Working – Community Justice Partnership                                | November 2017                                                                    | July 2017                        | August 2017                       | August 2017                | August 2017                | <b>September 2017</b>               |
| 17-05            | Management of Contracts                                                            | September 2017                                                                   | May 2017                         | August 2017                       | August 2017                | August 2017                | <b>September 2017</b>               |
| 17-06            | Northgate Housing                                                                  | November 2017                                                                    |                                  |                                   |                            |                            |                                     |
| 17-07            | Financial Assessment and Charging Follow Up                                        | November 2017                                                                    | July 2017                        | September 2017                    |                            |                            |                                     |
| 17-08            | Integrated Adult & Social Care                                                     | Not applicable. Outcomes will be reported directly to the Integrated Joint Board |                                  |                                   |                            |                            |                                     |
| 17-09            | Child's Plan                                                                       | September 2017                                                                   | June 2017                        | August 2017                       | August 2017                | August 2017                | <b>September 2017</b>               |
| 17-10            | Embedding new Risk Management Arrangements                                         | March 2018                                                                       |                                  |                                   |                            |                            |                                     |

| <b>Audit No.</b> | <b>Audit Title</b>                  | <b>Original Anticipated Audit Committee</b> | <b>Assignment brief approved</b>                                                                                                                                                                      | <b>Factual accuracy confirmed</b> | <b>Draft Report issued</b> | <b>Final Report issued</b> | <b>Audit Committee Date ^</b> |
|------------------|-------------------------------------|---------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------|----------------------------|----------------------------|-------------------------------|
| 17-11            | IR35                                | September 2017                              | Not applicable. General advice provided at the start of the financial year.                                                                                                                           |                                   |                            |                            | <b>September 2017</b>         |
| 17-12            | Arm's Length External Organisations | November 2017                               |                                                                                                                                                                                                       |                                   |                            |                            |                               |
| 17-13            | Transformation                      | March 2018                                  |                                                                                                                                                                                                       |                                   |                            |                            |                               |
| 17-14            | Corporate Governance                | March 2018                                  |                                                                                                                                                                                                       |                                   |                            |                            |                               |
| 17-15            | Community Empowerment               | November 2017                               | August 2017                                                                                                                                                                                           |                                   |                            |                            |                               |
| 17-16            | New Process Development             | November 2017                               |                                                                                                                                                                                                       |                                   |                            |                            |                               |
| 17-17            | Bus Service Operators Grant         | September 2017                              | It is not anticipated that reports will be required to be issued for the certification of grant claims. Reports will only be issued where weaknesses in controls are identified which require action. |                                   |                            |                            |                               |

It is not anticipated that reports will be required to be issued for the certification of grant claims. Reports will only be issued where weaknesses in controls are identified which require action.

Internal Audit Report  
Education & Children's Service  
Financial Management of Schools  
Kinross High School 17-02(b)  
August 2017

## Final Report

Legal & Governance  
Corporate and Democratic Services  
Perth & Kinross Council  
Council Offices  
2 High Street  
Perth  
PH1 5PH

## Internal Audit

“Internal Audit is an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes”. Public Sector Internal Auditing Standards (PSIAS)

The Council’s Audit Committee approved the PSIAS as the relevant standard for its Internal Audit activity.

## Background and Introduction

This audit was carried out as part of the audit plan for 2017/18, which was presented to the Audit Committee on 18 April 2017.

Financial Policies and Procedures have been prepared by the Education & Children’s Services (ECS) Finance Support Team. They provide the framework for financial management in establishments within the Service.

Kinross High School is a six year comprehensive school located within Loch Leven Community Campus.

## Scope and Limitations

In order to arrive at an opinion on the achievement of the control objectives, the audit included interviews with the staff in ECS’s Finance Support Team and visits to Kinross High School to review and test Financial Policies and Procedures. Visits to the school took place during April 2017 and May 2017.

## Control Objectives and Opinions

This section describes the purpose of the audit and summarises the results. A ‘control objective’ is a management objective that requires the maintenance of adequate and effective internal controls to ensure that it is achieved. Each control objective has been given a rating describing, on the basis of the audit work done, the actual strength of the internal controls found to be in place. Areas of good or poor practice are described where appropriate.

|                                                                                                                                                                                                                                                                                                                                                                                                |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Control Objective: To ensure that the school is managed in accordance with the Financial Procedures as laid down by Education and Children’s Service.                                                                                                                                                                                                                                          |
| Internal Audit Comments: The Council’s Financial Regulations are supplemented by ECS’s Financial Policies and Procedures which support financial management of schools and are published on Eric.                                                                                                                                                                                              |
| Professional Electronic Commerce on Line System (PECOS) is used for all Council ordering of goods and supply of services. Testing confirmed that purchases are being carried out in accordance with the procedural requirements.                                                                                                                                                               |
| The financial management information was up to date. Monthly monitoring statements were being prepared, reflecting the current budget, committed and spend to date with the projected outturn highlighting any over/under spends. These statements are reviewed by the Campus Business Manager, and the school’s financial management system is updated to reflect current spend and out turn. |



## Internal Audit Report

The petty cash was found to be held securely, controlled and authorised adequately with proof of purchases available for transactions; in accordance with procedural requirements.

At the time of the internal audit review the school was unable to provide a copy of the specific written procedures for the daily office routines/duties to be followed, for use in the event of unplanned staff absences. In addition the key handover sheet which is required to be completed during periods of staff absence had not been prepared.

Testing confirmed that there would be benefit in strengthening the arrangements in respect of the school fund committee.

The School Funds records were found to be segregated from other Council monies; with a separate bank account in operation.

ECS policies and procedures state that a School Funds annual Income and Expenditure Account with Movement in Reserves, and a Bank Reconciliation at 31 July must be prepared by 30 September each year. These documents are to be certified by a Finance Officer. At the time of the internal audit monthly reconciliation of the School Fund cashbook to the bank statements had not been carried out since March 2017 and the independent examination of the school fund records for 2015/16 had not taken place. Finance Officers subsequently visited the school and were able to confirm that appropriate reconciliations had been carried out and were now up to date and that an independent examination of the school funds had been carried out for 2015/16.

The school currently does not use the recommended school fund package. It has been agreed with the Finance Officers that this package will be installed and operational for the beginning of the next academic year.

|                                |          |
|--------------------------------|----------|
| Strength of Internal Controls: | Moderate |
|--------------------------------|----------|

### Management Action and Follow-Up

Responsibility for the maintenance of adequate and effective internal controls rests with management.

Where the audit has identified areas where a response by management is required, these are listed in Appendix 1, along with an indication of the importance of each 'action point'. Appendix 2 describes these action points in more detail, and records the action plan that has been developed by management in response to each point.

It is management's responsibility to ensure that the action plan presented in this report is achievable and appropriate to the circumstances. Where a decision is taken not to act in response to this report, it is the responsibility of management to assess and accept the risks arising from non-implementation.

Achievement of the action plan is monitored through Internal Audit's 'follow up' arrangements.

Management should ensure that the relevant risk profiles are reviewed and updated where necessary to take account of the contents of Internal Audit reports. The completeness of risk profiles will be examined as part of Internal Audit's normal planned work.

## Acknowledgements

Internal Audit acknowledges with thanks the co-operation of Education and Children's Services Finance Support Team and the staff at Kinross High School during this audit.

## Feedback

Internal Audit welcomes feedback, in connection with this audit or with the Internal Audit service in general.

## Distribution

This report has been distributed to:

B Malone, Chief Executive

J Fyffe, Senior Depute Chief Executive, ECS (Equality, Community Planning and Public Service Reform)

S Devlin, Executive Director, Education & Children's Services

R Hill, Head of Education (Secondary & Inclusion)

S Johnston Head of Education (Early Years & Primary)

K McNamara, Head of Strategic Commissioning and Organisational Development

L Simpson, Head of Legal and Governance Services

G Taylor, Head of Democratic Services

S Mackenzie, Head of Finance

S Brown, Head Teacher and Campus Leader, Kinross High School

G Boland, Senior Business and Resources Manager

J Cockburn, Finance and Governance Manager

L Oswald, Assistant Finance Manager

External Audit

## Authorisation

The auditor for this assignment was J O'Connor. The supervising auditor was M Morrison.

This report is authorised for issue:

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Jacqueline Clark

Chief Internal Auditor

Date: 23 August 2017

## Appendix 1: Summary of Action Points

| No. | Action Point                          | Risk/Importance |
|-----|---------------------------------------|-----------------|
| 1   | Internal procedures                   | Low             |
| 2   | Security and Receipting               | Low             |
| 3   | School Funds – Committee Arrangements | Medium          |
| 4   | School Funds – Accounts package       | Medium          |
| 5   | School Funds Independent Examinations | Medium          |

## Appendix 2: Action Plan

### Action Point 1 - Internal Procedures

It was noted that there was a lack of documented internal procedures. Whilst staff are aware of their day to day duties, in the event of absence of a member of staff, the daily routines may not be followed in their entirety and as such, control checks may not be carried out correctly.

There is a risk that without the required level of guidance daily routines will not be carried out in an efficient manner particularly if there is an unplanned staff absence.

### Management Action Plan

Daily routines will be documented providing clear actions to be taken in the event of the absence of a member of clerical staff.

|                                     |                                     |
|-------------------------------------|-------------------------------------|
| Importance:                         | Low                                 |
| Responsible Officer:                | L Prentice, Campus Business Manager |
| Lead Service:                       | Education & Children's Services     |
| Date for Completion (Month / Year): | March 2018                          |
| Required Evidence of Completion:    | Documented daily routines           |

### Auditor's Comments

Satisfactory

## Action Point 2 – Security and Receipting

Policies and procedures state that the transfer of keys during periods of staff absence should be controlled by a formal documented handover record signed by both parties. The service confirmed that such a handover document had not been prepared.

### Management Action Plan

A documented handover record to be prepared and completed on each occasion when there is a transfer of keys

|                                     |                                     |
|-------------------------------------|-------------------------------------|
| Importance:                         | Low                                 |
| Responsible Officer:                | L Prentice, Campus Business Manager |
| Lead Service:                       | Education and Children's Services   |
| Date for Completion (Month / Year): | August 2017                         |
| Required Evidence of Completion:    | Handover record.                    |

### Auditor's Comments

Satisfactory

### Action Point 3 – School Funds - Committee Arrangements

- 1) Although the school have an elected School Fund Committee with an up to date constitution, meetings are not held on a regular basis and do not present financial information as required by ECS Financial Policies and Procedures.
- 2) Furthermore, procedures require all committee members to read and adhere to the Financial Policy and Procedure for School Funds. A signed and dated declaration stating this by each member had not been completed.

### Management Action Plan

- 1) School Fund Committee to hold at least quarterly meetings with the minutes of the previous meeting and the date of the next meeting being agreed at each meeting. A financial report to be presented at each meeting.
- 2) A signed and dated declaration to be prepared which states that all committee members have read and will adhere to the Financial Policy & Procedures for School funds

|                                     |                                                                                                                                                  |
|-------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------|
| Importance:                         | Medium                                                                                                                                           |
| Responsible Officer:                | L Prentice, Campus Business Manager                                                                                                              |
| Lead Service:                       | Education and Children's Services                                                                                                                |
| Date for Completion (Month / Year): | 1) March 2018<br>2) September 2017                                                                                                               |
| Required Evidence of Completion:    | 1) Evidence that meetings are being held regularly and financial information is being presented at each meeting<br>2) Copy of signed declaration |

### Auditor's Comments

Satisfactory

#### Action Point 4 – School Funds – Accounts Package

The school does not currently use the schools fund package which is recommended by Education & Children's Services. Finance officers have agreed with the school that this package will be installed for the beginning of the next academic year.

#### Management Action Plan

Education & Children's Services' recommended School Fund package will be installed and operational for the beginning of the next academic year.

|                                     |                                                                             |
|-------------------------------------|-----------------------------------------------------------------------------|
| Importance:                         | Medium                                                                      |
| Responsible Officer:                | C Palmer, Assistant Finance Manager                                         |
| Lead Service:                       | Education and Children's Services                                           |
| Date for Completion (Month / Year): | September 2017                                                              |
| Required Evidence of Completion:    | Confirmation that the school package has been installed and is operational. |

#### Auditor's Comments

Satisfactory

## Action Point 5 – School Funds – Independent Examinations

ECS policies and procedures state that an annual Income and Expenditure Account with Movement in Reserves, and a Bank Reconciliation at 31 July must be prepared by 30 September each year. In addition these documents are to be certified by a Finance Officer. As reported this had not been carried out at the time of the internal audit visit.

### Management Action Plan

- 1) ECS Finance Officers to undertake a risk assessment of the financial management of schools. An outcome of this assessment will be the determination of the frequency of the Examination of School Funds. It is anticipated that an independent examination of all schools will be carried out over a 3 year rolling period.
- 2) Financial Procedures and Policies to be updated to reflect the above change.

|                                     |                                                                                                                                  |
|-------------------------------------|----------------------------------------------------------------------------------------------------------------------------------|
| Importance:                         | Medium                                                                                                                           |
| Responsible Officer:                | C Palmer, Assistant Finance Manager                                                                                              |
| Lead Service:                       | Education and Children's Services                                                                                                |
| Date for Completion (Month / Year): | 1) November 2017<br>2) December 2017                                                                                             |
| Required Evidence of Completion:    | 1) Outcome of risk assessment<br>2) Updated Procedures reflecting the change to the frequency of the Examination of School Funds |

### Auditor's Comments

Satisfactory





Internal Audit Report  
Housing and Community Safety  
Partnership Working – Community Justice Partnership  
17-04  
August 2017

## Final Report

Legal and Governance  
Corporate and Democratic Services  
Perth & Kinross Council  
Council Offices  
2 High Street  
Perth  
PH1 5PH

### Internal Audit

“Internal Audit is an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes”. Public Sector Internal Auditing Standards (PSIAS)

The Council’s Audit Committee has approved the PSIAS as the relevant standard for its Internal Audit activity.

### Background and Introduction

This audit was carried out as part of the audit plan for 2017/18, which was presented to the Audit Committee on 18 April 2017. Audit testing was carried out in July 2017.

The Community Justice (Scotland) Act 2016 was passed by the Scottish Parliament last year. The purpose of the Act was to establish a new model for the governance and delivery of Community Justice in Scotland. The Act dissolved the Community Justice Authorities (CJA) from 1 April 2017 and replaced them with Community Justice Partnerships in each of the 32 local authority areas in Scotland. The Act defines Community Justice and also the 8 Statutory Partners.

Report 17/24 to the Community Safety Committee on 18 January 2017 advised that at its meeting on 24 February 2016 the Council approved the establishment of a shadow Community Justice Partnership to ensure the development of the necessary arrangements for the changeover from CJAs to the local Community Justice Partnership in 2017.

The above report advised that the Perth and Kinross Community Planning Partnership has agreed that the Community Justice Partnership should be part of the local community planning process and will report to it. Most Community Justice Partnerships in Scotland are being positioned in local Community Planning Partnerships and the Scottish Government considers this to be best practice.

### Scope and Limitations

The scope of this assignment was to review the Community Justice arrangements and controls in place within the Housing and Community Safety Service regarding the changes required by The Community Justice (Scotland) Act 2016. The audit did not review the workings of the Statutory Partners.

The audit included reviews and testing carried out at the Criminal Justice Service based at St Martins House, Perth.

### Control Objectives and Opinions

This section describes the purpose of the audit and summarises the results. A ‘control objective’ is a management objective that requires the maintenance of adequate and effective internal controls to ensure that it is achieved. Each control objective has been given a rating describing, on the basis of the audit work done, the actual strength of the internal controls found to be in place. Areas of good or poor practice are described where appropriate.

|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |                   |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|
| Control Objective: To provide assurance over the arrangements in place within Community Justice regarding the changes as a result of The Community Justice (Scotland) Act 2016                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |                   |
| <p>Internal Audit Comments:</p> <p>The undernoted provides assurance over the arrangements in place within Community Justice regarding the changes as a result of The Community Justice (Scotland) Act 2016 and details scope to enhance some of these arrangements.</p> <p>The Outcomes Improvement Plan (OIP) details Community Justice improvement actions aimed at collectively demonstrating delivery of the new arrangements. Actions are led by the Council or another nominated lead agency such as a statutory partner. The OIP details the seven Community Justice Outcomes as per the Scottish Government's National Outcomes, Performance and Improvement Framework and are linked to the National Strategy for Community Justice.</p> <p>Awareness presentations have been delivered to various audiences for example: a Community Justice Reform presentation which referred to the statutory and non-statutory partners, improvement actions, outcomes, performance, scrutiny and inspection and the need to develop an improvement plan.</p> <p>Work is progressing to document the links between the OIP and the Local Outcomes Improvement Plan. A monitoring framework will be devised to measure and report on progress against the improvement actions.</p> <p>On 17 May 2017, the Council agreed to combine the responsibilities of the Housing and Health Committee and the Community Safety Committee to form a new Housing and Communities Committee (HCC). The Scheme of Administration will be updated to reflect the changes to new Committee's responsibilities as part of the ongoing work relating to the review of the political decision-making structure within the Council which is due to be reported to Council in December 2017. The HCC endorsed the OIP at its first meeting on 31 May 2017.</p> <p>Community Justice Scotland reviewed the OIP in June 2017. The Service advised they were awaiting their formal response and that verbal feedback was that the timescales for some activities were too tight. This is similar to the audit finding that many of the improvement actions have a completion date of September 2017.</p> <p>There is benefit in publishing Community Justice information on the Council's internet and intranet sites which could improve the awareness of the topic to the wider audience.</p> <p>The audit was carried out at the early stages of this process. There is benefit therefore in considering the inclusion of a future audit assignment which focusses again on the arrangements and also the delivery of the OIP.</p> |                   |
| Strength of Internal Controls:                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | Moderately Strong |

## Management Action and Follow-Up

Responsibility for the maintenance of adequate and effective internal controls rests with management.

## Internal Audit Report

Where the audit has identified areas where a response by management is required, these are listed in Appendix 1, along with an indication of the importance of each 'action point'. Appendix 2 describes these action points in more detail, and records the action plan that has been developed by management in response to each point.

It is management's responsibility to ensure that the action plan presented in this report is achievable and appropriate to the circumstances. Where a decision is taken not to act in response to this report, it is the responsibility of management to assess and accept the risks arising from non-implementation.

Achievement of the action plan is monitored through Internal Audit's 'follow up' arrangements.

Management should ensure that the relevant risk profiles are reviewed and updated where necessary to take account of the contents of Internal Audit reports. The completeness of risk profiles will be examined as part of Internal Audit's normal planned work.

### Acknowledgements

Internal Audit acknowledges with thanks the co-operation of J Irons, Community Justice Co-ordinator and C Cranmer, Team Leader, Community Safety during the audit.

### Feedback

Internal Audit welcomes feedback, in connection with this audit or with the Internal Audit service in general.

### Distribution

This report has been distributed to:

B Malone, Chief Executive

J Fyffe, Senior Depute Chief Executive

J Valentine, Depute Chief Executive

L Cameron, Interim Director (Housing and Community Safety)

L Simpson, Head of Legal & Governance Services

D Fraser, Head of Adult Social Work and Social Care

K McNamara, Head of Community Planning, Strategic Commissioning and Organisational Development

G. Taylor, Head of Democratic Services

N Rogerson, Service Manager - Community Safety

J Irons, Community Justice Co-ordinator

C Cranmer, Team Leader - Community Safety.

External Audit

### Authorisation

The auditor for this assignment was D McCreddie. The supervising auditor was M Morrison.

This report is authorised for issue:

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Jacqueline Clark  
Chief Internal Auditor  
Date: 24 August 2017

## Appendix 1: Summary of Action Points

| No. | Action Point                                                | Risk/Importance |
|-----|-------------------------------------------------------------|-----------------|
| 1   | <a href="#">Governance Arrangements</a>                     | Low             |
| 2   | <a href="#">Published Information</a>                       | Low             |
| 3   | <a href="#">Community Justice Outcomes Improvement Plan</a> | Medium          |
| 4   | <a href="#">Monitoring of the Plan</a>                      | Medium          |
| 5   | <a href="#">Local Outcomes Improvement Plan</a>             | Medium          |

## Appendix 2: Action Plan

### Action Point 1 - Governance Arrangements

The 18 January 2017 Community Safety Committee and the 31 May 2017 Committee reports state that the Community Justice National Strategy will have seven outcomes. However, whilst the National Strategy refers to some of the outcomes, it does not detail all seven outcomes.

A separate 19 February 2016 Community Planning Partnership Board (CPPB) presentation stated that the Board will sign off a draft local Strategy. However, the Service advised there will be no local Strategy and this is not required under the relevant Act and the National Strategy will be followed.

To avoid misunderstandings there is benefit in updating Committee and the CPPB of the current position with the Strategy.

### Management Action Plan

- a) A future Community Justice report to the HCC will advise of the linkage of the Outcomes in the Improvement Plan to the National Strategy.
- b) The Community Planning Partnership Board will be advised that there will be no Community Justice local strategy as the National Strategy will be followed.

|                                     |                                                             |
|-------------------------------------|-------------------------------------------------------------|
| Risk/Importance:                    | Low                                                         |
| Responsible Officer:                | C Cranmer, Team Leader - Community Safety.                  |
| Lead Service:                       | Housing and Community Safety                                |
| Date for Completion (Month / Year): | a) May 2018<br>b) June 2018                                 |
| Required Evidence of Completion:    | a) Extract from HCC report.<br>b) Extract from CPPB report. |

### Auditor's Comments

Satisfactory

## Action Point 2 - Published Information

An 18 January 2017 paper to the Communities Safety Committee reports the need for statutory partners to publish a participation statement on their engagement with the third sector and communities as part of the community justice planning process. The paper also stated that the community justice outcomes improvement plan should be published.

However, the participation statement is not published on [www.pkc.gov](http://www.pkc.gov) or the intranet site, Eric and whilst the outcomes improvement plan is published, it is not a separate publication but part of committee papers which may make the information less easy to find.

The publication of such information on the Council's internet and intranet sites and as part of a new Community Justice section could improve the awareness of the topic to the wider audience.

## Management Action Plan

The Service will arrange for a Community Justice section to be published on the Council's internet and Eric sites.

This section will include the community justice outcomes improvement plan and a participation statement regarding the engagement with the third sector and communities.

|                                     |                                                                                                                                          |
|-------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------|
| Risk/Importance:                    | Low                                                                                                                                      |
| Responsible Officer:                | C Cranmer, Team Leader - Community Safety.                                                                                               |
| Lead Service:                       | Housing and Community Safety                                                                                                             |
| Date for Completion (Month / Year): | September 2017                                                                                                                           |
| Required Evidence of Completion:    | Community Justice extract from <a href="http://pkc.gov">pkc.gov</a> and Eric regarding the participation statement and improvement plan. |

## Auditor's Comments

Satisfactory



### Action Point 3 - Community Justice Outcomes Improvement Plan

There is benefit in reviewing the completion dates detailed in the Community Justice Partnership outcomes improvement plan as some dates may not be achievable. For example, the date for the nine improvement actions for outcome two is September 2017 with the same date for seven of the eleven actions for outcome three. This finding is aligned with verbal feedback from a recent Community Justice Scotland visit that the timescales for some activities are too tight. There is also scope to ensure that the lead agencies named as responsible for actions in the plan are indeed partners as two were found to be third parties.

There are links between the Structural Outcomes Indicators and the majority, but not all of the improvement actions. The Service advised this was due to some activities being outwith the control of the partners with other activities not requiring specific improvement actions as they are to be monitored as part of business as usual routines. To avoid misunderstanding there is benefit in the plan explaining why there may not be actions in respect of every single indicator.

As the plan evolves there is benefit in introducing a document history and version control system which may help ensure that all partners are working to the same version of the plan.

### Management Action Plan

The Service will carry out a review of the completion dates detailed in the outcomes improvement plan. This review will also ensure that only partners are named as responsible for actions in the plan.

A section will be added to the plan that explains why there may not be improvement actions in respect of every single indicator.

The above changes will be summarised in a newly introduced document history and version control system.

|                                     |                                                                      |
|-------------------------------------|----------------------------------------------------------------------|
| Risk/Importance:                    | Medium                                                               |
| Responsible Officer:                | C Cranmer, Team Leader - Community Safety.                           |
| Lead Service:                       | Housing and Community Safety                                         |
| Date for Completion (Month / Year): | September 2017                                                       |
| Required Evidence of Completion:    | Document history detailing updates to the outcomes improvement plan. |

### Auditor's Comments

Satisfactory

## Action Point 4 - Monitoring of the Plan

The outcomes improvement plan details a number of improvement actions. The plan had just been implemented; therefore the Auditor was unable to test the monitoring of the plan.

The Service advised that the mechanisms for monitoring the plan were being discussed with partners and the Community Justice Partnership meeting of 31 August 2017 will include this as an agenda item.

A framework will also be devised to measure and report on the actions in the plan.

## Management Action Plan

a) The 31 August 2017 Community Justice Partnership agenda will include an item regarding a monitoring mechanism for the outcomes improvement plan.

b) A framework will also be devised to measure and report on the actions in the plan. This framework will also be presented to the Community Justice Partnership.

|                                     |                                                                                                                                        |
|-------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------|
| Risk/Importance:                    | Medium                                                                                                                                 |
| Responsible Officer:                | C Cranmer, Team Leader - Community Safety.                                                                                             |
| Lead Service:                       | Housing and Community Safety                                                                                                           |
| Date for Completion (Month / Year): | a) September 2017<br>b) September 2017                                                                                                 |
| Required Evidence of Completion:    | a) CJP agenda item detailing monitoring.<br>b) Framework which monitors the outcomes improvement plan and relevant CJP minute extract. |

## Auditor's Comments

Satisfactory

## Action Point 5 - Local Outcomes Improvement Plan

The Housing and Communities Committee meeting of the 31 May 2017 advised that the Community Justice (Scotland) Act 2016 requires partners take account of the National Strategy for Community Justice and the Local Outcomes Improvement Plan (LOIP) when developing their Outcomes Improvement Plan (OIP).

Whilst the OIP is linked to the National Strategy there a need to evidence the process that links the LOIP and the OIP. The Service advised that this process was at an early stage and a template being devised to assist with this.

### Management Action Plan

The Service will provide evidence as to the linkages between the outcomes improvement plan and the local outcomes improvement plan. This will be evidenced by the completion of a template which will assist with this process.

|                                     |                                                                       |
|-------------------------------------|-----------------------------------------------------------------------|
| Importance:                         | Medium                                                                |
| Responsible Officer:                | C Cranmer, Team Leader - Community Safety.                            |
| Lead Service:                       | Housing and Community Safety                                          |
| Date for Completion (Month / Year): | October 2017                                                          |
| Required Evidence of Completion:    | Completed template evidencing the links between the OIP and the LOIP. |

### Auditor's Comments

Satisfactory





Internal Audit Report  
All Services  
Management of Contracts  
Assignment 17-05  
August 2017

## Final Report

Legal and Governance  
Corporate and Democratic Services  
Perth & Kinross Council  
Council Offices  
2 High Street  
Perth  
PH1 5PH

### Internal Audit

“Internal Audit is an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes”. Public Sector Internal Auditing Standards (PSIAS)

The Council’s Audit Committee approved the PSIAS as the relevant standard for its Internal Audit activity.

### Background and Introduction

This audit was carried out as part of the audit plan for 2017/18, which was presented to the Audit Committee on 18<sup>th</sup> April 2017. Audit testing was carried out in June and July 2017.

Procurement work can positively support the achievement of objectives set out in the Community and Corporate plans for Perth and Kinross. Effective contract and supplier management plays a key part in this, assisting in ensuring that the Council achieves best value and minimises risk.

Each year the Council spends around £200 million with third party suppliers, including commissioned services, and the procurement of goods and services. Contracts are formed and managed either by collaborative partnerships; such as Scottish Procurement; Scotland Excel; Tayside Procurement Consortium; or locally by Council Services and Officers. The latter represents the largest portion both in terms of contracts held and expenditure.

There is a detailed Procurement Strategy and improvement action plan being progressed in tandem with a Corporate Transformation project. The scope of this includes; achieving further savings from procurement activities through closer management of suppliers, developing professional procurement skills for staff, improving monitoring and reporting systems, and managing demand through re-specifying products and services. This includes phased implementation of an electronic contract management tool provided by the Scottish Government.

### Scope and Limitations

The audit focused on assessing how contracts are being managed within Services. The outcomes from this review will inform and support the Corporate Procurement Manager and Services with ongoing procurement reform activity and best practice.

In order to arrive at an opinion on the achievement of the control objective a sample of 8 contracts across the Council was selected. The audit included interviews with relevant Officers, alongside a review of systems and documents provided as evidence of contract management.

This audit did not review contract management arrangements for contracts arranged and administered by collaborative partnerships, commissioned services and service level agreements. These areas have been, or will be, examined elsewhere by Internal Audit.

## Control Objectives and Opinions

This section describes the purpose of the audit and summarises the results. A 'control objective' is a management objective that requires the maintenance of adequate and effective internal controls to ensure that it is achieved. Each control objective has been given a rating describing, on the basis of the audit work done, the actual strength of the internal controls found to be in place. Areas of good or poor practice are described where appropriate.

|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |          |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|
| Control Objective: To ensure there is adequate and effective management of contracts within Services                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |          |
| <p>Audit Comments:</p> <p>The majority of contracts reviewed demonstrated appropriate contract management practices. A summary of the management of each contract sampled has been discussed with each Service contact and the Corporate Procurement Manager; this includes suggested learning points.</p> <p>All but 1 of the contracts under review identified a single person as having contract management responsibility. In the case of the exception, advice was given regarding clarification of roles.</p> <p>All of the auditees had access to a form of contract, which set out sufficient information to facilitate good contract management practices, although inconsistencies were observed in relation to contract authorisation and publication processes.</p> <p>Overall, those managing the contracts understood the outcomes they wanted to achieve through their contract, and what monitoring they felt was required. Evidence was provided of implementation meetings and regular contact with suppliers concerning operational matters. It was noted on some contracts, however, that supplier review meetings and performance information provided were not in line with contract expectations, and that general contract administration could be improved.</p> <p>Although there is evidence of financial information being reported to Senior Managers, there was less information being provided regarding contract performance; and few of the contracts reviewed had a mechanism, such as a performance dashboard, in place to track the performance of the contract throughout its life cycle.</p> <p>Whilst covered as part of broader training provided by Procurement, there is scope to provide targeted contract management training to all officers with relevant responsibilities. Such training would provide clarity on improvement areas identified within the audit.</p> |          |
| Strength of Internal Controls:                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | Moderate |

## Management Action and Follow-Up

Responsibility for the maintenance of adequate and effective internal controls rests with management.

## Internal Audit Report

Where the audit has identified areas where a response by management is required, these are listed in Appendix 1, along with an indication of the importance of each 'action point'. Appendix 2 describes these action points in more detail, and records the action plan that has been developed by management in response to each point.

It is management's responsibility to ensure that the action plan presented in this report is achievable and appropriate to the circumstances. Where a decision is taken not to act in response to this report, it is the responsibility of management to assess and accept the risks arising from non-implementation.

Achievement of the action plan is monitored through Internal Audit's 'follow up' arrangements.

Management should ensure that the relevant risk profiles are reviewed and updated where necessary to take account of the contents of Internal Audit reports. The completeness of risk profiles will be examined as part of Internal Audit's normal planned work.

### Acknowledgements

Internal Audit acknowledges with thanks the co-operation of all Service contacts and the Corporate Procurement team during this audit.

### Feedback

Internal Audit welcomes feedback, in connection with this audit or with the Internal Audit service in general.

### Distribution

This report has been distributed to:

B Malone, Chief Executive

J Valentine, Depute Chief Executive

J Fyffe, Senior Depute Chief Executive

S Devlin, Executive Director (Education & Children's Services)

B Renton, Director (Environment)

L Cameron, Interim Director (Housing and Community Safety)

L Simpson, Head of Legal & Governance Services

S MacKenzie, Head of Finance

G Taylor, Head of Democratic Services

A Taylor, Head of Corporate IT and Revenues

K McNamara, Head of Community Planning, Strategic Commissioning and Organisational Development

K Donaldson, Corporate Human Resources Manager

M Mitchell, Corporate Procurement Manager

External Audit



## Authorisation

The auditor for this assignment was L Ferguson. The supervising auditor was M Morrison.

This report is authorised for issue:

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Jacqueline Clark  
Chief Internal Auditor  
Date: 23 August 2017

Appendix 1: Summary of Action Points

| No. | Action Point                                      | Risk/Importance |
|-----|---------------------------------------------------|-----------------|
| 1   | <a href="#">Authority to Enter Into Contracts</a> | Medium          |
| 2   | <a href="#">Contract Publication Requirements</a> | High            |
| 3   | <a href="#">Contract Management Training</a>      | Medium          |

## Appendix 2: Action Plan

### Action Point 1 - Authority to Enter Into Contracts

Limitations for financial authority are defined within Service-specific authorised signatory lists and schemes of delegated authority. Audit testing revealed that 3 of the contract award letters were signed by officers who do not have the appropriate financial authority to do so.

The Financial Systems team are currently compiling a database which will replace authorised signatory lists. Due to enhancements, this will provide further clarity as to who has authorisation to enter into contracts. However, officers should still be aware of their financial authorisation limits, and comply with these.

### Suggested Management Action Plan

The Chief Accountant will raise the issues highlighted regarding the levels of authority to enter into contracts with Financial Controllers in order to reiterate the importance of operating within agreed authority limits. The Financial Controllers will agree a procedure for ensuring that these limits are not breached in this manner.

|                                     |                                                                                                       |
|-------------------------------------|-------------------------------------------------------------------------------------------------------|
| Importance:                         | Medium                                                                                                |
| Responsible Officer:                | S Walker, Chief Accountant                                                                            |
| Lead Service:                       | All                                                                                                   |
| Date for Completion (Month / Year): | September 2017                                                                                        |
| Required Evidence of Completion:    | Minutes from the Financial Controllers meeting demonstrating implementation of agreed actions arising |

### Auditor's Comments

Satisfactory

## Action Point 2 - Contract Publication Requirements

To ensure compliance with statutory requirements defined within Procurement legislation, contract awards exceeding the value of £50,000 must be published within set timescales. In addition, all contracts must appear as an entry within the Councils contract register. Corporate Procurement has advised that they systematically provide Services with information where contract award notices have not been published, and engage with Services to resolve any issues.

Audit testing revealed that 2 of the contracts were not notified to Public Contracts Scotland within the appropriate time limit.

One further contract, which was awarded in March 2017, remains unpublished and therefore does not appear on either Public Contracts Scotland or the Councils contract register.

### Management Action Plan

1. The Corporate Procurement Manager will work with the Service to publish the outstanding contract award notice.
2. The Corporate Procurement Manager will work with Senior Management Team to ensure appropriate controls are in place for each Service to publish notices within the required 30 days.

|                                     |                                                                                                       |
|-------------------------------------|-------------------------------------------------------------------------------------------------------|
| Importance:                         | High                                                                                                  |
| Responsible Officer:                | M Mitchell, Corporate Procurement Manager                                                             |
| Lead Service:                       | Corporate & Democratic Services                                                                       |
| Date for Completion (Month / Year): | 1. September 2017<br>2. October 2017                                                                  |
| Required Evidence of Completion:    | 1. Extract from contract register<br>2. System generated report produced on first Monday of the month |

### Auditor's Comments

Satisfactory

### Action Point 3 - Contract Management Training

Contract Management is covered as part of broader training, provided by Procurement, prior to access being granted to the Public Contracts Scotland system. However, not all contract managers are required to undertake this training as they do not need access to this system. As a result, whilst the majority of auditees advised that they had been supported by Procurement, only a small number indicated that they had received specific contract management training.

Contract managers are identified when contract strategies are developed. There is scope to ensure that these officers have received, or are provided with targeted contract management training as required.

Whilst the Corporate Procurement team are rolling out an electronic contract management system to Services, which will provide performance dashboard reporting, this will take a number of years to be fully embedded. As a number of the contracts did not have a performance tracker in place with minimal provision of information to managers on contract and supplier performance, there is scope to ensure that the targeted training includes consideration of these matters.

### Management Action Plan

1. Targeted contract management training will be developed from existing training and will include sections on performance tracking and reporting.
2. Contract strategy information will be used to identify contract managers and targeted training offered as appropriate

|                                     |                                                                                                                                            |
|-------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------|
| Importance:                         | Medium                                                                                                                                     |
| Responsible Officer:                | M Mitchell, Corporate Procurement Manager                                                                                                  |
| Lead Service:                       | Corporate & Democratic Services                                                                                                            |
| Date for Completion (Month / Year): | December 2017                                                                                                                              |
| Required Evidence of Completion:    | <ol style="list-style-type: none"> <li>1. Targeted training material</li> <li>2. Process for identifying and providing training</li> </ol> |

### Auditor's Comments

Satisfactory



**PERTH AND KINROSS COUNCIL****Audit Committee****27 September 2017****INTERNAL AUDIT STRATEGY & PLAN 2017/18****Report by Chief Internal Auditor****PURPOSE OF REPORT**

This report presents the strategy for the delivery of Internal Audit and the proposed Internal Audit Plan for the October 2017 to March 2018.

**1. BACKGROUND**

- 1.1 Internal Audit, as defined in the Public Sector Internal Audit Standards (PSIAS), is an independent, objective assurance and consulting activity designed to add value and improve the effectiveness of the Council's operations. It helps the Council to accomplish its objectives by bringing a systematic, disciplined approach to the evaluation and improvement of risk management, control and governance processes.
- 1.2 The PSIAS require the Chief Internal Auditor to prepare a risk based Internal Audit Plan (the Plan) setting out the team's annual work programme. The Plan should take account of the Council's objectives, risk and performance management arrangements.
- 1.3 In order to ensure compliance with the PSIAS requirement of undertaking an annual risk assessment, a detailed exercise reviewing the 'audit universe' (which includes all significant activities and systems that contribute to the achievement of the Council's objectives) has been undertaken. This includes a review of the main priorities, aims and objectives of the Council and its key partners, as set out in the Single Outcome Agreement, the Corporate Plan, Service BMIPs and the Business Plan.
- 1.4 In February 2017, the Strategic Policy and Resources Committee approved revised arrangements for the corporate management of risk (report 17/63). The embedding of these changes may change the shape of Internal Audit plans going forward and will provide an improved position for Internal Audit to place reliance on the Council's risk management arrangements. A working group has been established to develop and embed the strategy both corporately and within Services and training has been delivered to the relevant key officers responsible for these tasks.
- 1.5 This Internal Audit Plan has further benefited from taking into consideration the outcomes from the self-assessment exercise and evidence that supports the Annual Governance Statement, which is included as part of the final accounts provided to External Audit in June.

- 1.6 Internal Audit has therefore taken these developments into account and presents for approval a plan for the period October 2017 to March 2018. This plan, taken together with the plan previously approved by Audit Committee in April 2017 (Report 17/150 refers), will constitute Internal Audit work for the financial year 2017/18.
- 1.7 In developing this Plan, outcomes from the 2016/17 Annual Governance Statement (AGS) process and the ongoing improvements to the corporate management of risk have been taken into consideration. The Local Area Network of external scrutiny bodies undertakes a strategic risk assessment for Perth & Kinross Council and produces an Assurance and Improvement Plan, which is the assessment of the level of external scrutiny required for each council, and this has been examined and a discussion has taken place with the Council's External Auditors regarding their priorities and in order to ensure that there is no duplication of audit effort. Previous Internal Audit activity and information regarding complaints to the Council have also contributed to the development of the audit universe. Consultation has also taken place with Services regarding Internal Audit coverage for the period covered by the Plan.
- 1.8 Each potential audit subject is assigned a priority rating which derives from an assessment of four factors:
- (i) the significance of the activity or system in relation to the Council's objectives;
  - (ii) the likely consequences of a failure of control, whether in financial, legal, health & safety, reputational or other ways;
  - (iii) the degree of change in the activity or system, whether legislative, managerial or in other ways;
  - (iv) the assessed strength of the internal controls in place, where known, and reported performance.
- 1.9 The priority ratings are assigned independently by Internal Audit; however, the process benefits greatly from the information provided by Services during consultation.
- 1.10 Once the priority ratings have been assigned, a review of the available resources is undertaken. For the year 2017/18, some resources will be utilised by working collaboratively with Highland Council to augment the capacity of the Internal Audit team in order to deliver more technical IT audits. This will ensure that a greater number and more technical audits can be undertaken within the year.
- 1.11 Each audit assignment has been assessed with regard to the indicative scope and has been assigned an appropriate level of resource in order to deliver the assignment. The allocation of resources is based on the assumption that there will be no significant issues arising from the audit which require any detailed investigative work over and above the anticipated assurance work on the control environment.



- 1.12 An allocation of resources has been set aside to enable Internal Audit to respond to requests for ad hoc advice or requests for unplanned consultancy during the year. The allocation also provides for resources to be available to support the Counter-Fraud and Corruption Strategy and to undertake investigations as required. This resource equates to roughly 10% of resources available for Internal Audit activity.
- 1.13 A further allocation of resources has been set aside within the Plan to support the Chief Internal Auditor of NHS Fife, Tayside and Forth Valley in delivering the Internal Audit Plan for the Integrated Joint Board. Detailed work in this area will be approved by, and reports will be submitted to, the Integrated Joint Board.
- 1.14 Internal Audit has acquired a data analytics tool to assist in some assurance audits. This tool, IDEA, will enable Internal Audit to analyse large volumes of data and target resources appropriately. It can also facilitate further data matching and counter fraud work. As a result, development time has been included within the plan to ensure that this tool is utilised to the greatest benefit of the Council.

## 2. PROPOSALS

- 2.1 Appendix A shows a summary of the forecast internal audit resources for October 2017 to March 2018. The 'Days available for allocation to PKC Internal Audit Plan' equates to 14 audit assignments plus the IT audit to be delivered by Highland Council. This represents the 'core' audit plan for the Council and is in addition to other direct audit work, including:
- (i) supporting the Chief Internal Auditor for the Integrated Joint Board;
  - (ii) the certification of Council grant claims;
  - (ii) facilitating the Council's response to the National Fraud Initiative; and
  - (iii) other ad-hoc audit assignments.
- 2.2 Appendix B shows the assignments which are proposed to be undertaken during October 2017 to March 2018. It highlights the areas to be audited, along with the indicative scope of the assignment. The number of audit days attributable to each audit has been estimated and is included here for information, along with the indicative time scales for each audit. The 2017/18 Audit Plan is summarised in the table below:

| Quarter | Title                       | Lead Service                    |
|---------|-----------------------------|---------------------------------|
| 3       | Creditors                   | Corporate & Democratic Services |
| 3       | Elected Members' Allowances | Corporate & Democratic Services |
| 3       | Council Tax                 | Housing & Communities           |
| 3       | Corporate Health & Safety   | The Environment Service         |
| 3       | LEADER                      | The Environment Service         |
| 3       | European Social Fund        | The Environment Service         |
| 3       | Early Learning & Child Care | Education & Children's Services |

| <b>Quarter</b>     | <b>Title</b>                                                           | <b>Lead Service</b>                                           |
|--------------------|------------------------------------------------------------------------|---------------------------------------------------------------|
| 3                  | IT Change Management                                                   | Corporate & Democratic Services                               |
| 4                  | Housing Repairs & Improvements<br>Service Financial Controls           | Housing & Communities                                         |
| 4                  | IR35                                                                   | Corporate & Democratic Services / All Services                |
| 4                  | Pupil Equity Fund                                                      | Education & Children's Services                               |
|                    |                                                                        |                                                               |
| Through-out year   | Integrated Adult Health & Social Care                                  | Integrated Joint Board                                        |
| Through-out year   | Grant claim certification as required                                  | The Environment Service                                       |
|                    |                                                                        |                                                               |
| <i>Consultancy</i> |                                                                        |                                                               |
| 3 & 4              | Commissioning Strategy                                                 | Education & Children's Services                               |
| 3 & 4              | System Developments to support the General Outcome Focussed Assessment | Housing & Community Safety / Health & Social Care Partnership |
| 4                  | General Data Protection Regulations                                    | Corporate & Democratic Services / All Services                |
| Through-out year   | Arms Length External Organisations (ALEOs)                             | Corporate                                                     |
| Through-out year   | Supporting the embedding of new Risk Management arrangements           | Corporate                                                     |
| Through-out year   | Transformation                                                         | Corporate                                                     |
| Through-out year   | Corporate Governance                                                   | Corporate & Democratic Services                               |
| Through-out year   | Community Empowerment                                                  | Corporate & Democratic Services                               |

- 2.3 Appendix B also highlights a division between assurance and planned consultancy activity, which may take place over a longer period. The consultancy assignments are a more pro-active, enabling audit approach and aim to support management in building in controls at the outset for the implementation of systems, processes and procedures and also for the provision of specific assurance for particular projects or issues at the request of management. This approach is consistent with the PSIAS and with the Internal Audit Charter, which is presented for approval by this Committee.
- 2.4 The listing of audit subjects by Council Service and Division in Appendix B is intended only as a guide. It does not necessarily imply that sole responsibility for that activity or system rests with the Service named or that the audit will be restricted to the work of that Service. In particular, many subjects of a 'corporate' nature (including most of the Council's financial systems) may require access to records across all Services.

- 2.5 It is not the purpose of this part of the planning process to specify the content of each audit in detail, but the high-level indicative scope has been captured to indicate the areas which will be subject to review. This will minimise the time taken in the detailed scoping of assignments at a future date.
- 2.6 The planned work will take place from October 2017 to March 2018.
- 2.7 The responsibility for implementing and maintaining the appropriate controls in each area rests with management. The purpose of the internal audit process is to provide independent assurance to the Council that these controls are appropriate and are operating effectively. The aim of the prioritisation process described above is to ensure that this assurance is directed to those areas where it is of most benefit in supporting the delivery of the Council's objectives.
- 2.8 The achievement of the audit plan is based on the assumption of the availability of the anticipated financial and staffing resources. It is also reliant upon the co-operation of Council Services throughout the process, from agreeing the scope of the audit to the implementation of agreed actions.

### 3. CONCLUSION AND RECOMMENDATION

- 3.1 It is recommended that the Audit Committee considers and approves the proposed internal audit plan for the period October 2017 to March 2018.

#### Author(s)

| Name         | Designation            | Contact Details                                                        |
|--------------|------------------------|------------------------------------------------------------------------|
| Jackie Clark | Chief Internal Auditor | <a href="mailto:LegalServices@pkc.gov.uk">LegalServices@pkc.gov.uk</a> |

If you or someone you know would like a copy of this document in another language or format, (on occasion only, a summary of the document will be provided in translation), this can be arranged by contacting *Jackie Clark*



Council Text Phone Number 01738 442573

## 1. IMPLICATIONS, ASSESSMENTS, CONSULTATION AND COMMUNICATION

| <b>Strategic Implications</b>                       | <b>Yes / None</b> |
|-----------------------------------------------------|-------------------|
| Community Plan / Single Outcome Agreement           | None              |
| Strategic Plan                                      | Yes               |
| <b>Resource Implications</b>                        |                   |
| Financial                                           | None              |
| Workforce                                           | None              |
| Asset Management (land, property, IST)              | None              |
| <b>Assessments</b>                                  |                   |
| Equality Impact Assessment                          | Yes               |
| Strategic Environmental Assessment                  | None              |
| Sustainability (community, economic, environmental) | None              |
| Legal and Governance                                | None              |
| Risk                                                | Yes               |
| <b>Consultation</b>                                 |                   |
| Internal                                            | Yes               |
| External                                            | Yes               |
| <b>Communication</b>                                |                   |
| Communications Plan                                 | None              |

### 1. Strategic Implications

#### 1.1 Corporate Plan

1.1.1 The Council's Corporate Plan 2013 – 2018 lays out five outcome focussed strategic objectives which provide clear strategic direction, inform decisions at a corporate and service level and shape resources allocation. They are as follows:

- (i) Giving every child the best start in life;
- (ii) Developing educated, responsible and informed citizens;
- (iii) Promoting a prosperous, inclusive and sustainable economy;
- (iv) Supporting people to lead independent, healthy and active lives; and
- (v) Creating a safe and sustainable place for future generations.

1.1.2 This report relates to all of these objectives.

### 2. Assessments

#### 2.1 Equality Impact Assessment

2.1.1 Under the Equality Act 2010, the Council is required to eliminate discrimination, advance equality of opportunity, and foster good relations between equality groups. Carrying out Equality Impact Assessments for plans and policies allows the Council to demonstrate that it is meeting these duties.

- 2.1.2 The information contained within this report has been considered under the Corporate Equalities Impact Assessment process (EqIA) and has been assessed as **not relevant** for the purposes of EqIA.

## 2.2 Risk

- 2.2.1 The risks are associated with the level of assurance provided on the control environment in the event that Internal Audit's planned work is not completed on time.

## 3. **Consultation**

### 3.1 Internal

- 3.1.1 The Chief Executive, Depute Chief Executives, Directors, the Head of Finance, the Head of Legal and Governance Services, relevant Heads of Service and Elected Members on the Audit Committee have been consulted in the preparation of this report.

### 3.2 External

- 3.2.2 The Council's External Auditors, KPMG, have been consulted in the preparation of this report.

## 2. **BACKGROUND PAPERS**

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.

## 3. **APPENDICES**

Appendix A – Internal Audit Resources (Audit Days) for October 2017 to March 2018

Appendix B – The Internal Audit Plan for October 2017 to March 2018



**Internal Audit Resources (Audit Days) for October 2017 to March 2018**

| Description                                                                                                                                                                    | 2017/18<br>Quarters 3 & 4 |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------|
| Days Attendance at Work (Net of Public Holidays, Annual Leave and Sickness Allowance)                                                                                          | 455                       |
| Less: Time on Other Non-Audit Activity (Team and Other Meetings, Training, Personnel and Other Management Tasks)                                                               | (50)                      |
| Days Available for internal audit activity                                                                                                                                     | 405                       |
| Less: Time on 'Core' Audit Work (Follow-Up, Strategic Audit Planning, Supporting the Audit Committee, Development of Policies & Procedures, Supervision and Quality Assurance) | (85)                      |
| Grant certification, supporting the National Fraud Initiative and IJB audit work                                                                                               | (40)                      |
| Allocation of resources for unplanned work, ad-hoc advisory work, investigations and Counter-Fraud and Corruption                                                              | (40)                      |
| <b>Days available for allocation to specified assignments</b>                                                                                                                  | <b>240</b>                |
|                                                                                                                                                                                |                           |
| Equivalent Assignments                                                                                                                                                         | 13                        |
| Anticipated externally delivered assignments                                                                                                                                   | 1                         |
| <b>Total assignments included within the 2017/18 Internal Audit Plan for October 2017 to March 2018</b>                                                                        | <b>14</b>                 |
| <b>Total assignments included within the whole year's planned activity for 2017/18</b>                                                                                         | <b>29</b>                 |





# **The Internal Audit Plan for October 2017 to March 2018**

## Internal Audit Assignments:

| <b>Service</b>                  | <b>Division</b>                        | <b>Title</b>               | <b>Indicative Scope</b>                                                                                                                                                                                     | <b>Internal Audit Priority rating</b> | <b>Total days</b> | <b>Quarter</b> |
|---------------------------------|----------------------------------------|----------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------|-------------------|----------------|
| Corporate & Democratic Services | Finance Division                       | Creditors                  | To provide assurance over the effectiveness of controls within the Creditors system                                                                                                                         | Medium                                | 20                | 3              |
| Corporate & Democratic Services | Finance Division                       | IR35                       | To provide assurance to the Head of Finance on Service compliance with processes for the Inland Revenue's intermediaries legislation, known as IR35                                                         | High                                  | 15                | 4              |
| Corporate & Democratic Services | Finance Division / Democratic Services | Elected Members Allowances | To provide assurance over the controls in place for the payment of elected member allowances and expenses.                                                                                                  | Medium                                | 20                | 3              |
| Corporate & Democratic Services | Corporate IT                           | IT Change Management       | To provide assurance over the arrangements in place for the management of change within the IT environment.                                                                                                 | Medium                                | *                 | 3/4            |
| Education & Children's Services | Education Services                     | Early Learning & Childcare | To provide assurance over the Council's preparations for the implementation of 1140 hours of early learning and childcare.                                                                                  | Medium                                | 25                | 3              |
| Education & Children's Services | Education Services                     | Pupil Equity Fund          | To provide assurance that arrangements are in place and are effective to ensure that schools and the Council can demonstrate that pupil equity funding is appropriately targeted in line with requirements. | High                                  | 25                | 4              |
| Housing & Community Safety      | Finance & Revenues                     | Council Tax                | To provide assurance over the effectiveness of the controls within the Council Tax system                                                                                                                   | Medium                                | 25                | 3              |

| <b>Service</b>                                            | <b>Division</b>         | <b>Title</b>              | <b>Indicative Scope</b>                                                                                                                | <b>Internal Audit Priority rating</b> | <b>Total days</b> | <b>Quarter</b> |
|-----------------------------------------------------------|-------------------------|---------------------------|----------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------|-------------------|----------------|
| Housing & Community Safety                                | Housing                 | Financial Control         | To provide assurance over financial controls within the Housing Repairs and Improvements Service                                       | Medium                                | 20                | 4              |
| The Environment Service                                   | Performance & Resources | Corporate Health & Safety | To provide assurance over the effectiveness of the model for ensuring that the Council manages its responsibility for Health & Safety. | Medium                                | 25                | 3              |
| The Environment Service                                   | Economic Development    | LEADER                    | To undertake an audit of LEADER                                                                                                        | High                                  | 20                | 3              |
| The Environment Service                                   | Economic Development    | European Social Fund      | To undertake an audit of the European Social Fund                                                                                      | Medium                                | 10                | 3              |
| <i>Total days allocated to traditional audit activity</i> |                         |                           |                                                                                                                                        |                                       | <b>205</b>        |                |

\* highlights an assignment to be undertaken through an externally-procured arrangement.

Consultancy Assignments:

| <b>Service</b>                   | <b>Division</b>                   | <b>Title</b>                        | <b>Indicative Scope</b>                                                                                                            | <b>Internal Audit Priority rating</b> | <b>Total days</b> | <b>Quarter</b> |
|----------------------------------|-----------------------------------|-------------------------------------|------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------|-------------------|----------------|
| Education & Children's Services  | Whole Service                     | Commissioning Strategy              | To provide advice and support to the Service for the implementation and monitoring of the Strategy                                 | Medium                                | 7                 | 3 & 4          |
| Health & Social Care Partnership | Adult Social Work and Social Care | General Outcome Focussed Assessment | To provide advice and support to the Business Improvement Team in developing improvements to the automation of the GOFA processes. | High                                  | 8                 | 3 & 4          |

| Service                                                           | Division                                                                   | Title                               | Indicative Scope                                                                                                                               | Internal Audit Priority rating | Total days                       | Quarter |
|-------------------------------------------------------------------|----------------------------------------------------------------------------|-------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------|----------------------------------|---------|
| Corporate & Democratic Services                                   | Legal and Governance Services                                              | General Data Protection Regulations | To provide assurance regarding Services preparedness for the Regulations being enacted in May 2018                                             | High                           | 20                               | 4       |
| Corporate                                                         | All Services                                                               | Corporate Risk Management           | To continue to support Services with embedding adequate arrangements in line with the approved risk management policy and strategy.            | High                           | Ongoing for the whole of 2017/18 |         |
| Corporate                                                         | All Services                                                               | Corporate Risk Management           | To continue to support Services with embedding adequate arrangements in line with the approved risk management policy and strategy.            | High                           | Ongoing for the whole of 2017/18 |         |
| Corporate                                                         | Corporate & Democratic Services                                            | ALEOs                               | To continue to provide resources to ensure that there is an appropriate governance framework for the ALEOs                                     | High                           | Ongoing for the whole of 2017/18 |         |
| Corporate                                                         | Various                                                                    | Transformation                      | To continue to provide resources to support the transformation agenda                                                                          | High                           | Ongoing for the whole of 2017/18 |         |
| Corporate & Democratic Services                                   | Community Planning, Strategic Commissioning and Organisational Development | Community Planning                  | To continue to act as a 'critical friend' and contribute to the governance framework for the development in relation to community empowerment. | High                           | Ongoing for the whole of 2017/18 |         |
| <i>Total days allocated to planned consultancy audit activity</i> |                                                                            |                                     |                                                                                                                                                |                                | 35                               |         |
|                                                                   |                                                                            |                                     |                                                                                                                                                |                                |                                  |         |
| <b>TOTAL AUDIT DAYS</b>                                           |                                                                            |                                     |                                                                                                                                                |                                | <b>240</b>                       |         |



**PERTH AND KINROSS COUNCIL****Audit Committee****27 September 2017****INTERNAL AUDIT GOVERNANCE****Report by Chief Internal Auditor****PURPOSE OF REPORT**

This report presents the reviewed and revised Internal Audit Charter, in line with the Public Sector Internal Audit Standards.

**1. BACKGROUND / MAIN ISSUES**

- 1.1 In 2013, CIPFA and the Chartered Institute of Internal Auditors collaborated on a project which ensures the consistence of internal audit standards throughout all sectors. As a result, the Public Sector Internal Audit Standards (PSIAS) were published and came into effect from April 2013. These were adopted as the relevant standards for Internal Audit in Perth & Kinross Council in March 2013 (report 13/147 refers).
- 1.2 Subsequently, there have been some revisions to the PSIAS and there is value in members of the Audit Committee being presented with the updated document. The PSIAS is therefore attached at Appendix A.
- 1.3 An assessment of Internal Audit's conformance with the Standards is undertaken annually and reported to Audit Committee as part of the Annual Report. The most recent annual report was considered by Audit Committee in April 2017 (report 17/151 refers) and concluded that Internal Audit is generally compliant with the PSIAS. This view was supported by the previous external auditors, Audit Scotland (reports 15/395 and 16/158 refer).
- 1.4 To conform with the PSIAS, Internal Audit is subject to a periodic External Quality Assessment. This is due to be completed within the current financial year. The form of this validation was agreed in the External Quality Assessment report considered by Audit Committee in February 2014 (report 14/38).
- 1.5 The validation of the self-assessment is due to be led by the Chief Internal Auditor of the City of Edinburgh Council. The outcomes from this exercise will be reported to Audit Committee early in 2018.
- 1.6 The PSIAS also requires that the purpose of and authority and responsibility for internal audit activity be formally documented in an Internal Audit Charter and that this is subject to periodic review. In 2015, the Audit Committee endorsed the Internal Audit Charter (report 15/545 refers).

- 1.7 A review of the Charter has taken place. The outcome of this review is the proposed Internal Audit Charter which is attached at Appendix B to this report. The revised Charter is based upon the Chartered Institute of Internal Auditor's Best Practice.

## 2. CONCLUSION AND RECOMMENDATIONS

- 2.1 This report presents the PSIAS to Audit Committee along with an Internal Audit Charter which is consistent with the PSIAS.
- 2.2 It is recommended that the Committee:
- 2.2.1 Notes the updated PSIAS as the relevant standard for Internal Audit in Perth & Kinross Council;
  - 2.2.2 approves the Internal Audit Charter as the purpose of and authority and responsibility for internal audit activity in Perth & Kinross Council; and
  - 2.2.3 a report be submitted to the Audit Committee early in 2018 on the self-assessment outcomes.

### Author(s)

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If you or someone you know would like a copy of this document in another language or format, (on occasion only, a summary of the document will be provided in translation), this can be arranged by contacting *Jackie Clark*



Council Text Phone Number 01738 442573

## 1. IMPLICATIONS, ASSESSMENTS, CONSULTATION AND COMMUNICATION

| <b>Strategic Implications</b>                       | <b>Yes / None</b> |
|-----------------------------------------------------|-------------------|
| Community Plan / Single Outcome Agreement           | None              |
| Strategic Plan                                      | Yes               |
| <b>Resource Implications</b>                        |                   |
| Financial                                           | None              |
| Workforce                                           | None              |
| Asset Management (land, property, IST)              | None              |
| <b>Assessments</b>                                  |                   |
| Equality Impact Assessment                          | Yes               |
| Strategic Environmental Assessment                  | None              |
| Sustainability (community, economic, environmental) | None              |
| Legal and Governance                                | None              |
| Risk                                                | Yes               |
| <b>Consultation</b>                                 |                   |
| Internal                                            | Yes               |
| External                                            | None              |
| <b>Communication</b>                                |                   |
| Communications Plan                                 | None              |

### 1. Strategic Implications

#### 1.1 Corporate Plan

1.1.1 The Council's Corporate Plan 2013 – 2018 lays out five outcome focussed strategic objectives which provide clear strategic direction, inform decisions at a corporate and service level and shape resources allocation. They are as follows:

- (i) Giving every child the best start in life;
- (ii) Developing educated, responsible and informed citizens;
- (iii) Promoting a prosperous, inclusive and sustainable economy;
- (iv) Supporting people to lead independent, healthy and active lives; and
- (v) Creating a safe and sustainable place for future generations.

1.1.2 This report relates to all of these objectives.

### 2. Assessments

#### 2.1 Equality Impact Assessment

2.1.1 Under the Equality Act 2010, the Council is required to eliminate discrimination, advance equality of opportunity, and foster good relations between equality groups. Carrying out Equality Impact Assessments for plans and policies allows the Council to demonstrate that it is meeting these duties.

2.1.2 The information contained within this report has been considered under the Corporate Equalities Impact Assessment process (EqIA) and has been assessed as **not relevant** for the purposes of EqIA.

## 2.2 Risk

2.2.1 The risks are associated with the level of assurance placed on the work of Internal Audit by external agencies and adherence to professional standards.

## 3. **Consultation**

### 3.1 Internal

3.1.1 The Chief Executive and Head of Legal and Governance Services have been consulted in the preparation of this report.

## 2. **BACKGROUND PAPERS**

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.

## 3. **APPENDICES**

Appendix A – Public Sector Internal Audit Standards

Appendix B – Internal Audit Charter



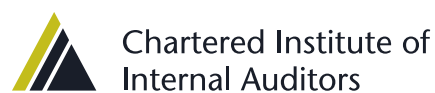
# Public Sector Internal Audit Standards

Applying the IIA International Standards to  
the UK Public Sector

**Issued by the Relevant Internal Audit Standard Setters:**



**In collaboration with:**



# Public Sector Internal Audit Standards

Applying the IIA International Standards to  
the UK Public Sector

Updated March 2017

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# Introduction

---

A professional, independent and objective internal audit service is one of the key elements of good governance, as recognised throughout the UK public sector.

This document is therefore addressed to accounting officers, accountable officers, board and audit committee members, heads of internal audit, internal auditors, external auditors and other stakeholders such as chief financial officers and chief executives.

## Framework overview

The Relevant Internal Audit Standard Setters (RIASS)<sup>1</sup> have adopted this common set of Public Sector Internal Audit Standards (PSIAS) from 1 April 2017. The PSIAS encompass the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF) as follows:

- Definition of Internal Auditing
- *Code of Ethics*, and
- International Standards for the Professional Practice of Internal Auditing (including interpretations and glossary).

Additional requirements and interpretations for the UK public sector have been inserted in such a way as to preserve the integrity of the text of the mandatory elements of the IPPF.

The overarching principle borne in mind when all potential public sector interpretations and/or specific requirements were considered was that only the minimum number of additions should be made to the existing IIA Standards. The criteria against which potential public sector requirements were judged for inclusion were:

- where interpretation is required in order to achieve consistent application in the UK public sector
- where the issue is not addressed or not addressed adequately by the current IIA Standards, or
- where the IIA standard would be inappropriate or impractical in the context of public sector governance (taking into account, for example, any funding mechanisms, specific legislation etc).

At the same time, the following concepts were also considered of each requirement or interpretation being proposed:

- materiality
- relevance
- necessity, and
- integrity (the additional commentary does not cause inconsistency elsewhere).

---

<sup>1</sup> The Relevant Internal Audit Standard Setters are: HM Treasury in respect of central government; the Scottish Government, the Department of Finance Northern Ireland and the Welsh Government in respect of central government and the health sector in their administrations; the Department of Health in respect of the health sector in England (excluding Foundation Trusts); and the Chartered Institute of Public Finance and Accountancy in respect of local government across the UK.

Wherever reference is made to the International Standards for the Professional Practice of Internal Auditing, this is replaced by the PSIAS. Chief audit executives are expected to report conformance on the PSIAS in their annual report.

## Purpose of the PSIAS

The objectives of the PSIAS are to:

- define the nature of internal auditing within the UK public sector
- set basic principles for carrying out internal audit in the UK public sector
- establish a framework for providing internal audit services, which add value to the organisation, leading to improved organisational processes and operations, and
- establish the basis for the evaluation of internal audit performance and to drive improvement planning.

Additional guidance is a matter for the RIASS.

## Scope

The PSIAS apply to all internal audit service providers, whether in-house, shared services or outsourced.

All internal audit assurance and consulting services fall within the scope of the Definition of Internal Auditing (see section 3). The provision of assurance services is the primary role for internal audit in the UK public sector. This role requires the chief audit executive to provide an annual internal audit opinion based on an objective assessment of the framework of governance, risk management and control. Consulting services are advisory in nature and are generally performed at the specific request of the

organisation, with the aim of improving governance, risk management and control and contributing to the overall opinion.

The *Code of Ethics* promotes an ethical, professional culture (see section 4). It does not supersede or replace internal auditors' own professional bodies' Codes of Ethics or those of employing organisations. Internal auditors must also have regard to the Committee on Standards of Public Life's *Seven Principles of Public Life*.

In common with the IIA IPPF on which they are based, the PSIAS comprise Attribute and Performance Standards. The Attribute Standards address the characteristics of organisations and parties performing internal audit activities. The Performance Standards describe the nature of internal audit activities and provide quality criteria against which the performance of these services can be evaluated. While the Attribute and Performance Standards apply to all aspects of the internal audit service, the Implementation Standards apply to specific types of engagements and are classified accordingly:

- Assurance (A) and
- Consulting (C) activities.

The *Standards* employ terms that have been given specific meanings that are included in the Glossary.

## Key governance elements

Within the PSIAS, the terms 'board' and 'senior management' need to be interpreted in the context of the governance arrangements within each UK public sector organisation, as these arrangements vary in structure and terminology between sectors and from one organisation and the next within in the same sector.

It is also necessary for the chief audit executive to understand the role of the accounting or accountable officer, chief financial officer, chief executive, the audit committee and other key officers or relevant decision-making groups as well as how they relate to each other. Key relationships with these individuals and groups are defined for each internal audit service within its charter.



# Applicability

The Relevant Internal Audit Standard Setters for the various parts of the UK public sector are shown below, along with the types of organisations in which the PSIAS should be applied.

| SECTOR /<br>RELEVANT<br>INTERNAL AUDIT<br>STANDARD SETTER | Central Government                                                                                    | NHS                                                             | Local Government                                                                                                                                                                                                                                                                                                                                                |
|-----------------------------------------------------------|-------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>CIPFA</b>                                              |                                                                                                       |                                                                 | <b>UK</b><br>Local authorities.<br><br><b>England and Wales only</b><br>The Office of the Police and Crime Commissioner, constabularies, fire authorities, fire and rescue services, National Park authorities, joint committees and joint boards in the UK.<br><br><b>Scotland only</b><br>Integration joint boards and Strathclyde Partnership for Transport. |
| <b>HM Treasury</b>                                        | <b>UK*</b><br>Government departments and their executive agencies and non-departmental public bodies. |                                                                 |                                                                                                                                                                                                                                                                                                                                                                 |
| <b>Department of Health</b>                               |                                                                                                       | <b>England</b><br>Clinical Commissioning Groups.<br>NHS Trusts. |                                                                                                                                                                                                                                                                                                                                                                 |

| SECTOR /<br>RELEVANT<br>INTERNAL AUDIT<br>STANDARD SETTER     | Central Government                                                                                                                                                                                                                                                                                                                                  | NHS                                                                                                                                                                                  | Local Government |
|---------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|
| <b>Scottish Government</b>                                    | <b>Scotland</b><br>The Scottish Government, the Crown Office and Procurator Fiscal Service, Executive Agencies and non-ministerial departments, non-departmental public bodies, public corporations, the Scottish Parliament Corporate Body and bodies sponsored / supported by the Scottish Government and the Scottish Parliament Corporate Body. | <b>Scotland</b><br>NHS Boards, Special NHS Boards, NHS Board partnership bodies in the public sector (eg joint ventures, Community Health Partnerships etc), NHS Board subsidiaries. |                  |
| <b>Welsh Government</b>                                       | <b>Wales</b><br>The Welsh Government, executive agencies and non-ministerial departments, Welsh Government sponsored bodies, public corporations, the National Assembly for Wales and bodies sponsored/supported by the Welsh Government and the National Assembly for Wales.                                                                       | <b>Wales</b><br>Health Boards and Trusts.                                                                                                                                            |                  |
| <b>Northern Ireland Executive: Department of Finance (NI)</b> | Government departments, executive agencies, non-ministerial departments, non-departmental public bodies, NI health and social care bodies and other relevant sponsored bodies.                                                                                                                                                                      |                                                                                                                                                                                      |                  |

\* Unless the body falls under the jurisdiction of the devolved governments.

# Mission of Internal Audit

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The Mission of Internal Audit articulates what internal audit aspires to accomplish within an organisation. Its place in the IPPF is deliberate, demonstrating how practitioners should leverage the entire framework to facilitate their ability to achieve the Mission.

To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.

# Definition of Internal Auditing

---

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

# Core Principles for the Professional Practice of Internal Auditing

---

The Core Principles, taken as a whole, articulate internal audit effectiveness. For an internal audit function to be considered effective, all Principles should be present and operating effectively. How an internal auditor, as well as an internal audit activity, demonstrates achievement of the Core Principles may be quite different from organisation to organisation, but failure to achieve any of the Principles would imply that an internal audit activity was not as effective as it could be in achieving internal audit's mission (see Mission of Internal Audit).

- Demonstrates integrity.
- Demonstrates competence and due professional care.
- Is objective and free from undue influence (independent).
- Aligns with the strategies, objectives, and risks of the organisation.
- Is appropriately positioned and adequately resourced.
- Demonstrates quality and continuous improvement.
- Communicates effectively.
- Provides risk-based assurance.
- Is insightful, proactive, and future-focused.
- Promotes organisational improvement.

# Code of Ethics

---

### Public sector requirement

Internal auditors in UK public sector organisations (as set out in the Applicability section) must conform to the *Code of Ethics* as set out below. If individual internal auditors have membership of another professional body then he or she must also comply with the relevant requirements of that organisation.

The purpose of The Institute's *Code of Ethics* is to promote an ethical culture in the profession of internal auditing. A code of ethics is necessary and appropriate for the profession of internal auditing, founded as it is on the trust placed in its objective assurance about risk management, control and governance.

The Institute's *Code of Ethics* extends beyond the definition of internal auditing to include two essential components:

### Components

- 1 Principles that are relevant to the profession and practice of internal auditing.
- 2 Rules of Conduct that describe behaviour norms expected of internal auditors. These rules are an aid to interpreting the Principles into practical applications and are intended to guide the ethical conduct of internal auditors.

The *Code of Ethics* provides guidance to internal auditors serving others. 'Internal auditors' refers to Institute members and those who provide internal auditing services within the definition of internal auditing.

## Applicability and Enforcement

This *Code of Ethics* applies to both individuals and entities that provide internal auditing services. For Institute members, breaches of the *Code of Ethics* will be evaluated and administered according to The Institute's Disciplinary Procedures. The fact that a particular conduct is not mentioned in the Rules of Conduct does not prevent it from being unacceptable or discreditable and therefore, the member liable to disciplinary action.

### Public sector interpretation

The 'Institute' here refers to the IIA. Disciplinary procedures of other professional bodies and employing organisations may apply to breaches of this *Code of Ethics*.

## 1 Integrity

### Principle

The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgement.

### Rules of Conduct

Internal auditors:

- 1.1 Shall perform their work with honesty, diligence and responsibility.
- 1.2 Shall observe the law and make disclosures expected by the law and the profession.
- 1.3 Shall not knowingly be a party to any illegal activity, or engage in acts that are discreditable to the profession of internal auditing or to the organisation.
- 1.4 Shall respect and contribute to the legitimate and ethical objectives of the organisation.

## 2 Objectivity

### Principle

Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating and communicating information about the activity or process being examined.

Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgements.

### Rules of Conduct

Internal auditors:

- 2.1 Shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organisation.
- 2.2 Shall not accept anything that may impair or be presumed to impair their professional judgement.
- 2.3 Shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.

## 3 Confidentiality

### Principle

Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.

### Rules of Conduct

Internal auditors:

- 3.1 Shall be prudent in the use and protection of information acquired in the course of their duties.
- 3.2 Shall not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organisation.

## 4 Competency

### Principle

Internal auditors apply the knowledge, skills and experience needed in the performance of internal auditing services.

### Rules of Conduct

Internal auditors:

- 4.1 Shall engage only in those services for which they have the necessary knowledge, skills and experience.
- 4.2 Shall perform internal auditing services in accordance with the International Standards for the Professional Practice of Internal Auditing.
- 4.3 Shall continually improve their proficiency and effectiveness and quality of their services.

#### Public sector requirement

Internal auditors who work in the public sector must also have regard to the Committee on Standards of Public Life's *Seven Principles of Public Life*, information on which can be found at [www.public-standards.gov.uk](http://www.public-standards.gov.uk)



# Standards

## 1000 Purpose, Authority, and Responsibility

The purpose, authority and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the *Mission of Internal Audit* and the mandatory elements of the International Professional Practices Framework (the *Core Principles for the Professional Practice of Internal Auditing*, the *Code of Ethics*, the *Standards* and the *Definition of Internal Auditing*). The chief audit executive must periodically review the internal audit charter and present it to senior management and the board for approval.

### *Interpretation:*

The internal audit charter is a formal document that defines the internal audit activity's purpose, authority and responsibility. The internal audit charter establishes the internal audit activity's position within the organisation, including the nature of the chief audit executive's functional reporting relationship with the board; authorises access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities. Final approval of the internal audit charter resides with the board.

### Public sector requirement

The internal audit charter must also:

- define the terms 'board' and 'senior management' for the purposes of internal audit activity
- cover the arrangements for appropriate resourcing
- define the role of internal audit in any fraud-related work, and
- describe safeguards to limit impairments of independence or objectivity if internal audit or the chief audit executive undertakes non-audit activities.<sup>2</sup>

### 1000.A1

The nature of assurance services provided to the organisation must be defined in the internal audit charter. If assurances are to be provided to parties outside the organisation, the nature of these assurances must also be defined in the internal audit charter.

### 1000.C1

The nature of consulting services must be defined in the internal audit charter.

<sup>2</sup> These requirements should be read in conjunction with Standards 2030 Resource Management and 1112 Chief Audit Executive Roles Beyond Internal Auditing.

## 1010 Recognising Mandatory Guidance in the Internal Audit Charter

The mandatory nature of the *Core Principles for the Professional Practice of Internal Auditing*, the *Code of Ethics*, the *Standards* and the *Definition of Internal Auditing* must be recognised in the internal audit charter. The chief audit executive should discuss the Mission of Internal Audit and the mandatory elements of the International Professional Practices Framework with senior management and the board.

## 1100 Independence and Objectivity

The internal audit activity must be independent and internal auditors must be objective in performing their work.

### *Interpretation:*

Independence is the freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner. To achieve the degree of independence necessary to effectively carry out the responsibilities of the internal audit activity, the chief audit executive has direct and unrestricted access to senior management and the board. This can be achieved through a dual-reporting relationship. Threats to independence must be managed at the individual auditor, engagement, functional and organisational levels.

Objectivity is an unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires that internal auditors do not subordinate their judgment on audit matters to others. Threats to objectivity must be managed at the individual auditor, engagement, functional and organisational levels.

## 1110 Organisational Independence

The chief audit executive must report to a level within the organisation that allows the internal audit activity to fulfil its responsibilities. The chief audit executive must confirm to the board, at least annually, the organisational independence of the internal audit activity.

### *Interpretation:*

Organisational independence is effectively achieved when the chief audit executive reports functionally to the board. Examples of functional reporting to the board involve the board:

- approving the internal audit charter
- approving the risk based internal audit plan
- approving the internal audit budget and resource plan
- receiving communications from the chief audit executive on the internal audit activity's performance relative to its plan and other matters
- approving decisions regarding the appointment and removal of the chief audit executive
- approving the remuneration of the chief audit executive, and
- making appropriate enquiries of management and the chief audit executive to determine whether there are inappropriate scope or resource limitations.

### **Public sector requirement**

The chief audit executive must report functionally to the board. The chief audit executive must also establish effective communication with, and have free and unfettered access to, the chief executive (or equivalent) and the chair of the audit committee.

### Public sector interpretation

Governance requirements in the UK public sector would not generally involve the board approving the CAE's remuneration specifically. The underlying principle is that the independence of the CAE is safeguarded by ensuring that his or her remuneration or performance assessment is not inappropriately influenced by those subject to audit. In the UK public sector this can be achieved by ensuring that the chief executive (or equivalent) undertakes, countersigns, contributes feedback to or reviews the performance appraisal of the CAE and that feedback is also sought from the chair of the audit committee.

### 1110.A1

The internal audit activity must be free from interference in determining the scope of internal auditing, performing work and communicating results. The chief audit executive must disclose such interference to the board and discuss the implications.

### 1111 Direct Interaction with the Board

The chief audit executive must communicate and interact directly with the board.

### 1112 Chief Audit Executive Roles Beyond Internal Auditing

Where the chief audit executive has or is expected to have roles and/or responsibilities that fall outside of internal auditing, safeguards must be in place to limit impairments to independence or objectivity.

#### *Interpretation:*

The chief audit executive may be asked to take on additional roles and responsibilities outside of internal auditing, such as responsibility for compliance or risk management activities. These roles and responsibilities may impair, or appear to impair, the organisational independence of the internal audit activity or the individual objectivity of the internal auditor. Safeguards are those oversight activities, often undertaken by the board, to address these potential impairments, and may include such activities as periodically evaluating reporting lines and responsibilities and developing alternative processes to obtain assurance related to the areas of additional responsibility.

### Public sector interpretation

When asked to undertake any additional roles/responsibilities outside of internal auditing, the chief audit executive must highlight to the board any potential or perceived impairment to independence and objectivity having regard to the principles contained within the *Code of Ethics* as well as any relevant requirements set out by other professional bodies to which the CAE may belong.

The board must approve and periodically review any safeguards put in place to limit impairments to independence and objectivity (see also Standard 1000 Purpose, Authority and Responsibility).

## **1120 Individual Objectivity**

Internal auditors must have an impartial, unbiased attitude and avoid any conflict of interest.

### *Interpretation:*

Conflict of interest is a situation in which an internal auditor, who is in a position of trust, has a competing professional or personal interest. Such competing interests can make it difficult to fulfil his or her duties impartially. A conflict of interest exists even if no unethical or improper act results. A conflict of interest can create an appearance of impropriety that can undermine confidence in the internal auditor, the internal audit activity and the profession. A conflict of interest could impair an individual's ability to perform his or her duties and responsibilities objectively.

## **1130 Impairment to Independence or Objectivity**

If independence or objectivity is impaired in fact or appearance, the details of the impairment must be disclosed to appropriate parties. The nature of the disclosure will depend upon the impairment.

### *Interpretation:*

Impairment to organisational independence and individual objectivity may include, but is not limited to, personal conflict of interest, scope limitations, restrictions on access to records, personnel and properties and resource limitations, such as funding.

The determination of appropriate parties to which the details of an impairment to independence or objectivity must be disclosed is dependent upon the expectations of the internal audit activity's and the chief audit executive's responsibilities to senior management and the board as described in the internal audit charter, as well as the nature of the impairment.

### **1130.A1**

Internal auditors must refrain from assessing specific operations for which they were previously responsible. Objectivity is presumed to be impaired if an internal auditor provides assurance services for an activity for which the internal auditor had responsibility within the previous year.

### **1130.A2**

Assurance engagements for functions over which the chief audit executive has responsibility must be overseen by a party outside the internal audit activity.

### **1130.A3**

The internal audit activity may provide assurance services where it had previously performed consulting services, provided the nature of the consulting did not impair objectivity and provided individual objectivity is managed when assigning resources to the engagement.

### **1130.C1**

Internal auditors may provide consulting services relating to operations for which they had previous responsibilities.

### **1130.C2**

If internal auditors have potential impairments to independence or objectivity relating to proposed consulting services, disclosure must be made to the engagement client prior to accepting the engagement.

### Public sector requirement

Approval must be sought from the board for any significant additional consulting services not already included in the audit plan, prior to accepting the engagement.

## 1200 Proficiency and Due Professional Care

Engagements must be performed with proficiency and due professional care.

### 1210 Proficiency

Internal auditors must possess the knowledge, skills and other competencies needed to perform their individual responsibilities. The internal audit activity collectively must possess or obtain the knowledge, skills and other competencies needed to perform its responsibilities.

#### *Interpretation:*

Proficiency is a collective term that refers to the knowledge, skills, and other competencies required of internal auditors to effectively carry out their professional responsibilities. It encompasses consideration of current activities, trends and emerging issues, to enable relevant advice and recommendations. Internal auditors are encouraged to demonstrate their proficiency by obtaining appropriate professional certifications and qualifications, such as the Certified Internal Auditor designation and other designations offered by The Institute of Internal Auditors and other appropriate professional organisations.

### Public sector requirement

The chief audit executive must hold a professional qualification (CMIIA, CCAB or equivalent) and be suitably experienced.

#### 1210.A1

The chief audit executive must obtain competent advice and assistance if the internal auditors lack the knowledge, skills, or other competencies needed to perform all or part of the engagement.

#### 1210.A2

Internal auditors must have sufficient knowledge to evaluate the risk of fraud and the manner in which it is managed by the organisation, but are not expected to have the expertise of a person whose primary responsibility is detecting and investigating fraud.

#### 1210.A3

Internal auditors must have sufficient knowledge of key information technology risks and controls and available technology-based audit techniques to perform their assigned work. However, not all internal auditors are expected to have the expertise of an internal auditor whose primary responsibility is information technology auditing.

#### 1210.C1

The chief audit executive must decline the consulting engagement or obtain competent advice and assistance if the internal auditors lack the knowledge, skills, or other competencies needed to perform all or part of the engagement.

## 1220 Due Professional Care

Internal auditors must apply the care and skill expected of a reasonably prudent and competent internal auditor. Due professional care does not imply infallibility.

### 1220.A1

Internal auditors must exercise due professional care by considering the:

- Extent of work needed to achieve the engagement's objectives
- Relative complexity, materiality or significance of matters to which assurance procedures are applied
- Adequacy and effectiveness of governance, risk management and control processes
- Probability of significant errors, fraud, or non-compliance, and
- Cost of assurance in relation to potential benefits.

### 1220.A2

In exercising due professional care internal auditors must consider the use of technology-based audit and other data analysis techniques.

### 1220.A3

Internal auditors must be alert to the significant risks that might affect objectives, operations or resources. However, assurance procedures alone, even when performed with due professional care, do not guarantee that all significant risks will be identified.

### 1220.C1

Internal auditors must exercise due professional care during a consulting engagement by considering the:

- Needs and expectations of clients, including the nature, timing and communication of engagement results
- Relative complexity and extent of work needed to achieve the engagement's objectives, and
- Cost of the consulting engagement in relation to potential benefits.

## 1230 Continuing Professional Development

Internal auditors must enhance their knowledge, skills and other competencies through continuing professional development.

## 1300 Quality Assurance and Improvement Programme

The chief audit executive must develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity.

### *Interpretation:*

A quality assurance and improvement programme is designed to enable an evaluation of the internal audit activity's conformance with the *Standards* and an evaluation of whether internal auditors apply the *Code of Ethics*. The programme also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement. The chief audit executive should encourage board oversight in the quality assurance and improvement programme.

### 1310 Requirements of the Quality Assurance and Improvement Programme

The quality assurance and improvement programme must include both internal and external assessments.

### 1311 Internal Assessments

Internal assessments must include:

- Ongoing monitoring of the performance of the internal audit activity.
- Periodic self-assessments or assessments by other persons within the organisation with sufficient knowledge of internal audit practices.

*Interpretation:*

Ongoing monitoring is an integral part of the day-to-day supervision, review and measurement of the internal audit activity. Ongoing monitoring is incorporated into the routine policies and practices used to manage the internal audit activity and uses processes, tools and information considered necessary to evaluate conformance with the *Code of Ethics* and the *Standards*.

Periodic assessments are conducted to evaluate conformance with the *Code of Ethics* and the *Standards*.

Sufficient knowledge of internal audit practices requires at least an understanding of all elements of the International Professional Practices Framework.

### 1312 External Assessments

External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. The chief audit executive must discuss with the board:

- The form of external assessments.
- The qualifications and independence of the external assessor or assessment team, including any potential conflict of interest.

*Interpretation:*

External assessments may be accomplished through a full external assessment, or a self-assessment with independent external validation. The external assessor must conclude as to conformance with the *Code of Ethics* and the *Standards*; the external assessment may also include operational or strategic comments.

A qualified assessor or assessment team demonstrates competence in two areas: the professional practice of internal auditing and the external assessment process. Competence can be demonstrated through a mixture of experience and theoretical learning. Experience gained in organisations of similar size, complexity, sector or industry and technical issues is more valuable than less relevant experience. In the case of an assessment team, not all members of the team need to have all the competencies; it is the team as a whole that is qualified. The chief audit executive uses professional judgment when assessing whether an assessor or assessment team demonstrates sufficient competence to be qualified.

An independent assessor or assessment team means not having either an actual or a perceived conflict of interest and not being a part of, or under the control of, the organisation to which the internal audit activity belongs. The chief audit executive should encourage board oversight in the external assessment to reduce perceived or potential conflicts of interest.

#### Public sector requirement

The chief audit executive must agree the scope of external assessments with an appropriate sponsor, eg the accounting/accountable officer or chair of the audit committee as well as with the external assessor or assessment team.

### 1320 Reporting on the Quality Assurance and Improvement Programme

The chief audit executive must communicate the results of the quality assurance and improvement programme to senior management and the board. Disclosure should include:

- The scope and frequency of both the internal and external assessments.
- The qualifications and independence of the assessor(s) or assessment team, including potential conflicts of interest.
- Conclusions of assessors.
- Corrective action plans.

#### *Interpretation:*

The form, content and frequency of communicating the results of the quality assurance and improvement programme is established through discussions with senior management and the board and considers the responsibilities of the internal audit activity and chief audit executive as contained in the internal audit charter. To demonstrate conformance with the *Code of Ethics* and the *Standards*, the results of external and periodic internal assessments are communicated upon completion of such assessments and the results of ongoing monitoring are communicated at least annually. The results include the assessor's or assessment team's evaluation with respect to the degree of conformance.

#### **Public sector requirement**

The results of the quality and assurance programme and progress against any improvement plans must be reported in the annual report.

### 1321 Use of "Conforms with the International Standards for the Professional Practice of Internal Auditing"

Indicating that the internal audit activity conforms with the *International Standards for the Professional Practice of Internal Auditing* is appropriate only if supported by the results of the quality assurance and improvement programme.

#### *Interpretation:*

The internal audit activity conforms with the *Code of Ethics* and the *Standards* when it achieves the outcomes described therein. The results of the quality assurance and improvement programme include the results of both internal and external assessments. All internal audit activities will have the results of internal assessments. Internal audit activities in existence for at least five years will also have the results of external assessments.

### 1322 Disclosure of Non-conformance

When non-conformance with the *Code of Ethics* or the *Standards* impacts the overall scope or operation of the internal audit activity, the chief audit executive must disclose the non-conformance and the impact to senior management and the board.

#### **Public sector requirement**

Such non-conformances must be highlighted by the chief audit executive to be considered for inclusion in the governance statement.



# Performance Standards

## 2000 Managing the Internal Audit Activity

The chief audit executive must effectively manage the internal audit activity to ensure it adds value to the organisation.

### *Interpretation:*

The internal audit activity is effectively managed when:

- It achieves the purpose and responsibility included in the internal audit charter.
- It conforms with the *Standards*.
- Its individual members conform with the *Code of Ethics* and the *Standards*.
- It considers trends and emerging issues that could impact the organisation.

The internal audit activity adds value to the organisation and its stakeholders when it considers strategies, objectives and risks; strives to offer ways to enhance governance, risk management, and control processes; and objectively provides relevant assurance.

## 2010 Planning

The chief audit executive must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation's goals.

### *Interpretation:*

To develop the risk-based plan, the chief audit executive consults with senior management and the board and obtains an understanding of the organisation's strategies, key business objectives, associated risks and risk management processes. The chief audit executive must review and adjust the plan, as necessary, in response to changes in the organisation's business, risks, operations, programmes, systems, and controls.

### **Public sector requirement**

The risk-based plan must take into account the requirement to produce an annual internal audit opinion and the assurance framework. It must incorporate or be linked to a strategic or high-level statement of how the internal audit service will be delivered and developed in accordance with the internal audit charter and how it links to the organisational objectives and priorities.

### **2010.A1**

The internal audit activity's plan of engagements must be based on a documented risk assessment, undertaken at least annually. The input of senior management and the board must be considered in this process.

### **2010.A2**

The chief audit executive must identify and consider the expectations of senior management, the board and other stakeholders for internal audit opinions and other conclusions.

### **2010.C1**

The chief audit executive should consider accepting proposed consulting engagements based on the engagement's potential to improve management of risks, add value and improve the organisation's operations. Accepted engagements must be included in the plan.

## 2020 Communication and Approval

The chief audit executive must communicate the internal audit activity's plans and resource requirements, including significant interim changes, to senior management and the board for review and approval. The chief audit executive must also communicate the impact of resource limitations.

## 2030 Resource Management

The chief audit executive must ensure that internal audit resources are appropriate, sufficient and effectively deployed to achieve the approved plan.

### *Interpretation:*

Appropriate refers to the mix of knowledge, skills and other competencies needed to perform the plan. Sufficient refers to the quantity of resources needed to accomplish the plan. Resources are effectively deployed when they are used in a way that optimises the achievement of the approved plan.

### **Public sector requirement**

The risk-based plan must explain how internal audit's resource requirements have been assessed.

Where the chief audit executive believes that the level of agreed resources will impact adversely on the provision of the annual internal audit opinion, the consequences must be brought to the attention of the board.

## 2040 Policies and Procedures

The chief audit executive must establish policies and procedures to guide the internal audit activity.

### *Interpretation:*

The form and content of policies and procedures are dependent upon the size and structure of the internal audit activity and the complexity of its work.

## 2050 Coordination and Reliance

The chief audit executive should share information, coordinate activities and consider relying upon the work of other internal and external assurance and consulting service providers to ensure proper coverage and minimise duplication of efforts.

### *Interpretation:*

In coordinating activities, the chief audit executive may rely on the work of other assurance and consulting service providers. A consistent process for the basis of reliance should be established, and the chief audit executive should consider the competency, objectivity and due professional care of the assurance and consulting service providers. The chief audit executive should also have a clear understanding of the scope, objectives and results of the work performed by other providers of assurance and consulting services. Where reliance is placed on the work of others, the chief audit executive is still accountable and responsible for ensuring adequate support for conclusions and opinions reached by the internal audit activity.

## 2060 Reporting to Senior Management and the Board

The chief audit executive must report periodically to senior management and the board on the internal audit activity's purpose, authority, responsibility and performance relative to its plan and on its conformance with the *Code of Ethics* and the *Standards*. Reporting must also include significant risk and control issues, including fraud risks, governance issues and other matters that require the attention of senior management and/or the board.

#### *Interpretation:*

The frequency and content of reporting are determined collaboratively by the chief audit executive, senior management and the board. The frequency and content of reporting depends on the importance of the information to be communicated and the urgency of the related actions to be taken by senior management and/or the board.

The chief audit executive's reporting and communication to senior management and the board must include information about:

- The audit charter.
- Independence of the internal audit activity.
- The audit plan and progress against the plan.
- Resource requirements.
- Results of audit activities.
- Conformance with the *Code of Ethics* and the *Standards*, and action plans to address any significant conformance issues.
- Management's response to risk that, in the chief audit executive's judgment, may be unacceptable to the organisation.

These and other chief audit executive communication requirements are referenced throughout the *Standards*.

### **2070 External Service Provider and Organisational Responsibility for Internal Auditing**

When an external service provider serves as the internal audit activity, the provider must make the organisation aware that the organisation has the responsibility for maintaining an effective internal audit activity.

#### *Interpretation:*

This responsibility is demonstrated through the quality assurance and improvement programme which assesses conformance with the *Code of Ethics* and the *Standards*.

### **2100 Nature of Work**

The internal audit activity must evaluate and contribute to the improvement of the organisation's governance, risk management, and control processes using a systematic, disciplined, and risk-based approach. Internal audit credibility and value are enhanced when auditors are proactive and their evaluations offer new insights and consider future impact.

#### **2110 Governance**

The internal audit activity must assess and make appropriate recommendations to improve the organisation's governance processes for:

- making strategic and operational decisions
- overseeing risk management and control
- promoting appropriate ethics and values within the organisation
- ensuring effective organisational performance management and accountability
- communicating risk and control information to appropriate areas of the organisation, and
- coordinating the activities of and communicating information among the board, external and internal auditors other assurance providers and management.

### **2110.A1**

The internal audit activity must evaluate the design, implementation and effectiveness of the organisation's ethics-related objectives, programmes and activities.

### **2110.A2**

The internal audit activity must assess whether the information technology governance of the organisation supports the organisation's strategies and objectives.

## **2120 Risk Management**

The internal audit activity must evaluate the effectiveness and contribute to the improvement of risk management processes.

### *Interpretation:*

Determining whether risk management processes are effective is a judgment resulting from the internal auditor's assessment that:

- organisational objectives support and align with the organisation's mission
- significant risks are identified and assessed
- appropriate risk responses are selected that align risks with the organisation's risk appetite, and
- relevant risk information is captured and communicated in a timely manner across the organisation, enabling staff, management and the board to carry out their responsibilities.

The internal audit activity may gather the information to support this assessment during multiple engagements. The results of these engagements, when viewed together, provide an understanding of the organisation's risk management processes and their effectiveness.

Risk management processes are monitored through ongoing management activities, separate evaluations, or both.

### **2120.A1**

The internal audit activity must evaluate risk exposures relating to the organisation's governance, operations and information systems regarding the:

- achievement of the organisation's strategic objectives
- reliability and integrity of financial and operational information
- effectiveness and efficiency of operations and programmes
- safeguarding of assets, and
- compliance with laws, regulations, policies, procedures and contracts.

### **2120.A2**

The internal audit activity must evaluate the potential for the occurrence of fraud and how the organisation manages fraud risk.

### **2120.C1**

During consulting engagements, internal auditors must address risk consistent with the engagement's objectives and be alert to the existence of other significant risks.

### **2120.C2**

Internal auditors must incorporate knowledge of risks gained from consulting engagements into their evaluation of the organisation's risk management processes.

### **2120.C3**

When assisting management in establishing or improving risk management processes, internal auditors must refrain from assuming any management responsibility by actually managing risks.

### **2130 Control**

The internal audit activity must assist the organisation in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement.

#### **2130.A1**

The internal audit activity must evaluate the adequacy and effectiveness of controls in responding to risks within the organisation's governance, operations and information systems regarding the:

- achievement of the organisation's strategic objectives
- reliability and integrity of financial and operational information
- effectiveness and efficiency of operations and programmes
- safeguarding of assets, and
- compliance with laws, regulations, policies, procedures and contracts.

#### **2130.C1**

Internal auditors must incorporate knowledge of controls gained from consulting engagements into evaluation of the organisation's control processes.

## **2200 Engagement Planning**

Internal auditors must develop and document a plan for each engagement, including the engagement's objectives, scope, timing and resource allocations. The plan must consider the organisation's strategies, objectives and risks relevant to the engagement.

### **2201 Planning Considerations**

In planning the engagement, internal auditors must consider:

- The strategies and objectives of the activity being reviewed and the means by which the activity controls its performance.
- The significant risks to the activity's objectives, resources and operations and the means by which the potential impact of risk is kept to an acceptable level.
- The adequacy and effectiveness of the activity's governance, risk management and control processes compared to a relevant framework or model.
- The opportunities for making significant improvements to the activity's governance, risk management and control processes.

#### **2201.A1**

When planning an engagement for parties outside the organisation, internal auditors must establish a written understanding with them about objectives, scope, respective responsibilities and other expectations, including restrictions on distribution of the results of the engagement and access to engagement records.

#### **2201.C1**

Internal auditors must establish an understanding with consulting engagement clients about objectives, scope, respective responsibilities and other client expectations. For significant engagements, this understanding must be documented.

## 2210 Engagement Objectives

Objectives must be established for each engagement.

### 2210.A1

Internal auditors must conduct a preliminary assessment of the risks relevant to the activity under review. Engagement objectives must reflect the results of this assessment.

### 2210.A2

Internal auditors must consider the probability of significant errors, fraud, non-compliance and other exposures when developing the engagement objectives.

### 2210.A3

Adequate criteria are needed to evaluate governance, risk management and controls. Internal auditors must ascertain the extent to which management and/or the board has established adequate criteria to determine whether objectives and goals have been accomplished. If adequate, internal auditors must use such criteria in their evaluation. If inadequate, internal auditors must identify appropriate evaluation criteria through discussion with management and/or the board.

*Interpretation:*

Types of criteria may include:

- Internal (eg policies and procedures of the organisation).
- External (eg laws and regulations imposed by statutory bodies).
- Leading practices (eg industry and professional guidance).

#### Public sector interpretation

In the public sector, criteria are likely to include value for money.

### 2210.C1

Consulting engagement objectives must address governance, risk management and control processes to the extent agreed upon with the client.

### 2210.C2

Consulting engagement objectives must be consistent with the organisation's values, strategies and objectives.

## 2220 Engagement Scope

The established scope must be sufficient to satisfy the objectives of the engagement.

### 2220.A1

The scope of the engagement must include consideration of relevant systems, records, personnel and physical properties, including those under the control of third parties.

### 2220.A2

If significant consulting opportunities arise during an assurance engagement, a specific written understanding as to the objectives, scope, respective responsibilities and other expectations should be reached and the results of the consulting engagement communicated in accordance with consulting standards.

## **2220.C1**

In performing consulting engagements, internal auditors must ensure that the scope of the engagement is sufficient to address the agreed-upon objectives. If internal auditors develop reservations about the scope during the engagement, these reservations must be discussed with the client to determine whether to continue with the engagement.

## **2220.C2**

During consulting engagements, internal auditors must address controls consistent with the engagement's objectives and be alert to significant control issues.

## **2230 Engagement Resource Allocation**

Internal auditors must determine appropriate and sufficient resources to achieve engagement objectives based on an evaluation of the nature and complexity of each engagement, time constraints and available resources.

### *Interpretation:*

Appropriate refers to the mix of knowledge, skills, and other competencies needed to perform the engagement. Sufficient refers to the quantity of resources needed to accomplish the engagement with due professional care.

## **2240 Engagement Work Programme**

Internal auditors must develop and document work programmes that achieve the engagement objectives.

## **2240.A1**

Work programmes must include the procedures for identifying, analysing, evaluating and documenting information during the engagement. The work programme must be approved prior to its implementation and any adjustments approved promptly.

## **2240.C1**

Work programmes for consulting engagements may vary in form and content depending upon the nature of the engagement.

## **2300 Performing the Engagement**

Internal auditors must identify, analyse, evaluate and document sufficient information to achieve the engagement's objectives.

## **2310 Identifying Information**

Internal auditors must identify sufficient, reliable, relevant and useful information to achieve the engagement's objectives.

### *Interpretation:*

Sufficient information is factual, adequate and convincing so that a prudent, informed person would reach the same conclusions as the auditor. Reliable information is the best attainable information through the use of appropriate engagement techniques. Relevant information supports engagement observations and recommendations and is consistent with the objectives for the engagement. Useful information helps the organisation meet its goals.

## **2320 Analysis and Evaluation**

Internal auditors must base conclusions and engagement results on appropriate analyses and evaluations.

## 2330 Documenting Information

Internal auditors must document sufficient, reliable, relevant and useful information to support the engagement results and conclusions

### 2330.A1

The chief audit executive must control access to engagement records. The chief audit executive must obtain the approval of senior management and/or legal counsel prior to releasing such records to external parties, as appropriate.

### 2330.A2

The chief audit executive must develop retention requirements for engagement records, regardless of the medium in which each record is stored. These retention requirements must be consistent with the organisation's guidelines and any pertinent regulatory or other requirements.

### 2330.C1

The chief audit executive must develop policies governing the custody and retention of consulting engagement records, as well as their release to internal and external parties. These policies must be consistent with the organisation's guidelines and any pertinent regulatory or other requirements.

## 2340 Engagement Supervision

Engagements must be properly supervised to ensure objectives are achieved, quality is assured and staff is developed.

### *Interpretation:*

The extent of supervision required will depend on the proficiency and experience of internal auditors and the complexity of the engagement. The chief audit executive has overall responsibility for supervising the engagement, whether performed by or for the internal audit activity, but may designate appropriately experienced members of the internal audit activity to perform the review. Appropriate evidence of supervision is documented and retained.

## 2400 Communicating Results

Internal auditors must communicate the results of engagements.

### 2410 Criteria for Communicating

Communications must include the engagement's objectives, scope and results.

#### 2410.A1

Final communication of engagement results must include applicable conclusions, as well as applicable recommendations and/or action plans. Where appropriate, the internal auditors' opinion should be provided. An opinion must take into account the expectations of senior management, the board and other stakeholders and must be supported by sufficient, reliable, relevant and useful information.

### *Interpretation:*

Opinions at the engagement level may be ratings, conclusions or other descriptions of the results. Such an engagement may be in relation to controls around a specific process, risk or business unit. The formulation of such opinions requires consideration of the engagement results and their significance.

#### 2410.A2

Internal auditors are encouraged to acknowledge satisfactory performance in engagement communications.



### **2410.A3**

When releasing engagement results to parties outside the organisation, the communication must include limitations on distribution and use of the results.

### **2410.C1**

Communication of the progress and results of consulting engagements will vary in form and content depending upon the nature of the engagement and the needs of the client.

## **2420 Quality of Communications**

Communications must be accurate, objective, clear, concise, constructive, complete and timely.

### *Interpretation:*

Accurate communications are free from errors and distortions and are faithful to the underlying facts. Objective communications are fair, impartial and unbiased and are the result of a fair-minded and balanced assessment of all relevant facts and circumstances. Clear communications are easily understood and logical, avoiding unnecessary technical language and providing all significant and relevant information. Concise communications are to the point and avoid unnecessary elaboration, superfluous detail, redundancy and wordiness. Constructive communications are helpful to the engagement client and the organisation and lead to improvements where needed. Complete communications lack nothing that is essential to the target audience and include all significant and relevant information and observations to support recommendations and conclusions. Timely communications are opportune and expedient, depending on the significance of the issue, allowing management to take appropriate corrective action.

### **2421 Errors and Omissions**

If a final communication contains a significant error or omission, the chief audit executive must communicate corrected information to all parties who received the original communication.

## **2430 Use of "Conducted in Conformance with the International Standards for the Professional Practice of Internal Auditing"**

Indicating that engagements are "conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*" is appropriate only if supported by the results of the quality assurance and improvement programme.

### **2431 Engagement Disclosure of Non-conformance**

When nonconformance with the *Code of Ethics* or the *Standards* impacts a specific engagement, communication of the results must disclose the:

- Principle(s) or rule(s) of conduct of the *Code of Ethics* or the *Standard(s)* with which full conformance was not achieved.
- Reason(s) for non-conformance.
- Impact of non-conformance on the engagement and the communicated engagement results.

### **2440 Disseminating Results**

The chief audit executive must communicate results to the appropriate parties.

### *Interpretation:*

The chief audit executive is responsible for reviewing and approving the final engagement communication before issuance and deciding to whom and how it will be disseminated. When the chief audit executive delegates these duties, he or she retains overall responsibility.

#### **2440.A1**

The chief audit executive is responsible for communicating the final results to parties who can ensure that the results are given due consideration.

#### **2440.A2**

If not otherwise mandated by legal, statutory, or regulatory requirements, prior to releasing results to parties outside the organisation the chief audit executive must:

- assess the potential risk to the organisation
- consult with senior management and/ or legal counsel as appropriate, and
- control dissemination by restricting the use of the results.

#### **2440.C1**

The chief audit executive is responsible for communicating the final results of consulting engagements to clients.

#### **2440.C2**

During consulting engagements, governance, risk management and control issues may be identified. Whenever these issues are significant to the organisation, they must be communicated to senior management and the board.

### **2450 Overall Opinions**

When an overall opinion is issued, it must take into account the strategies, objectives and risks of the organisation and the expectations of senior management, the board and other stakeholders. The overall opinion must be supported by sufficient, reliable, relevant and useful information.

#### *Interpretation:*

The communication will include:

- the scope including the time period to which the opinion pertains
- scope limitations
- consideration of all related projects including the reliance on other assurance providers
- a summary of the information that supports the opinion
- the risk or control framework or other criteria used as a basis for the overall opinion, and
- the overall opinion, judgment or conclusion reached.

The reasons for an unfavourable overall opinion must be stated.

#### **Public sector requirement**

The chief audit executive must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement.

The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

The annual report must also include a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme.

## 2500 Monitoring Progress

The chief audit executive must establish and maintain a system to monitor the disposition of results communicated to management.

### 2500.A1

The chief audit executive must establish a follow-up process to monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action.

### 2500.C1

The internal audit activity must monitor the disposition of results of consulting engagements to the extent agreed upon with the client.

## 2600 Communicating the Acceptance of Risks

When the chief audit executive concludes that management has accepted a level of risk that may be unacceptable to the organisation, the chief audit executive must discuss the matter with senior management. If the chief audit executive determines that the matter has not been resolved, the chief audit executive must communicate the matter to the board.

### *Interpretation:*

The identification of risk accepted by management may be observed through an assurance or consulting engagement, monitoring progress on actions taken by management as a result of prior engagements, or other means. It is not the responsibility of the chief audit executive to resolve the risk.

# Glossary

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## Add Value

The internal audit activity adds value to the organisation (and its stakeholders) when it provides objective and relevant assurance, and contributes to the effectiveness and efficiency of governance, risk management and control processes.

## Adequate Control

Present if management has planned and organised (designed) in a manner that provides reasonable assurance that the organisation's risks have been managed effectively and that the organisation's goals and objectives will be achieved efficiently and economically.

### Public sector definition: Assurance Framework

This is the primary tool used by a board to ensure that it is properly informed on the risks of not meeting its objectives or delivering appropriate outcomes and that it has adequate assurances on the design and operation of the systems in place to mitigate those risks.

## Assurance Services

An objective examination of evidence for the purpose of providing an independent assessment on governance, risk management and control processes for the organisation. Examples may include financial, performance, compliance, system security and due diligence engagements.

### Public sector definition: Audit Committee

The governance group charged with independent assurance of the adequacy of the risk management framework, the internal control environment and the integrity of financial reporting.

## Board

The highest level governing body (eg a board of directors, a supervisory board, or a board of governors or trustees) charged with the responsibility to direct and/or oversee the organisation's activities and hold senior management accountable. Although governance arrangements vary among jurisdictions and sectors, typically the board includes members who are not part of management. If a board does not exist, the word "board" in the *Standards* refers to a group or person charged with governance of the organisation. Furthermore, "board" in the *Standards* may refer to a committee or another body to which the governing body has delegated certain functions (eg an audit committee).

## Charter

The internal audit charter is a formal document that defines the internal audit activity's purpose, authority and responsibility. The internal audit charter establishes the internal audit activity's position within the organisation; authorises access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities.

## Chief Audit Executive

Chief audit executive describes the role of a person in a senior position responsible for effectively managing the internal audit activity in accordance with the internal audit charter and the mandatory elements of the International Professional Practices Framework. The chief audit executive or others reporting to the chief audit executive will have appropriate professional certifications and qualifications. The specific job title and/or responsibilities of the chief audit executive may vary across organisations.

## Code of Ethics

The *Code of Ethics* of The Institute of Internal Auditors (IIA) are Principles relevant to the profession and practice of internal auditing and Rules of Conduct that describe behaviour expected of internal auditors. The *Code of Ethics* applies to both parties and entities that provide internal audit services.

The purpose of the *Code of Ethics* is to promote an ethical culture in the global profession of internal auditing.

## Compliance

Adherence to policies, plans, procedures, laws, regulations, contracts, or other requirements.

## Conflict of Interest

Any relationship that is, or appears to be, not in the best interest of the organisation. A conflict of interest would prejudice an individual's ability to perform his or her duties and responsibilities objectively.

## Consulting Services

Advisory and related client service activities, the nature and scope of which are agreed with the client, are intended to add value and improve an organisation's governance, risk management and control processes without the internal auditor assuming management responsibility. Examples include counsel, advice, facilitation and training.

## Control

Any action taken by management, the board and other parties to manage risk and increase the likelihood that established objectives and goals will be achieved. Management plans, organises and directs the performance of sufficient actions to provide reasonable assurance that objectives and goals will be achieved.

## Control Environment

The attitude and actions of the board and management regarding the importance of control within the organisation. The control environment provides the discipline and structure for the achievement of the primary objectives of the system of internal control. The control environment includes the following elements:

- Integrity and ethical values.
- Management's philosophy and operating style.
- Organisational structure.
- Assignment of authority and responsibility.
- Human resource policies and practices.
- Competence of personnel.

## Control Processes

The policies, procedures (both manual and automated), and activities that are part of a control framework, designed and operated to ensure that risks are contained within the level that an organisation is willing to accept.

## Core Principles for the Professional Practice of Internal Auditing

The Core Principles for the Professional Practice of Internal Auditing are the foundation for the International Professional Practices Framework and support internal audit effectiveness.

## Engagement

A specific internal audit assignment, task, or review activity, such as an internal audit, control self-assessment review, fraud examination, or consultancy. An engagement may include multiple tasks or activities designed to accomplish a specific set of related objectives.

## Engagement Objectives

Broad statements developed by internal auditors that define intended engagement accomplishments.

## Engagement Opinion

The rating, conclusion and/or other description of results of an individual internal audit engagement, relating to those aspects within the objectives and scope of the engagement.

## Engagement Work Programme

A document that lists the procedures to be followed during an engagement, designed to achieve the engagement plan.

## External Service Provider

A person or firm outside of the organisation that has special knowledge, skill and experience in a particular discipline.

## **Fraud**

Any illegal act characterised by deceit, concealment or violation of trust. These acts are not dependent upon the threat of violence or physical force. Frauds are perpetrated by parties and organisations to obtain money, property or services; to avoid payment or loss of services; or to secure personal or business advantage.

## **Governance**

The combination of processes and structures implemented by the board to inform, direct, manage and monitor the activities of the organisation toward the achievement of its objectives.

### **Public sector definition: Governance Statement**

The mechanism by which an organisation publicly reports on its governance arrangements each year.

## **Impairment**

Impairment to organisational independence and individual objectivity may include personal conflict of interest, scope limitations, restrictions on access to records, personnel and properties and resource limitations (funding).

## **Independence**

The freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner.

## **Information Technology Controls**

Controls that support business management and governance as well as provide general and technical controls over information technology infrastructures such as applications, information, infrastructure and people.

## **Information Technology Governance**

Consists of the leadership, organisational structures and processes that ensure that the enterprise's information technology supports the organisation's strategies and objectives.

## **Internal Audit Activity**

A department, division, team of consultants, or other practitioner(s) that provides independent, objective assurance and consulting services designed to add value and improve an organisation's operations. The internal audit activity helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management and control processes.

## International Professional Practices Framework

The conceptual framework that organises the authoritative guidance promulgated by The IIA. Authoritative guidance is composed of two categories – (1) mandatory and (2) recommended.

### Public sector interpretation

Only the Mission and the mandatory elements apply for the purposes of the Public Sector Internal Audit Standards.

### Public sector interpretation: International Standards for the Professional Practice of Internal Auditing

The Public Sector Internal Audit Standards take the place of the International Standards where applicable.

## Must

The *Standards* use the word “must” to specify an unconditional requirement.

## Objectivity

An unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires that internal auditors do not subordinate their judgment on audit matters to others.

## Overall Opinion

The rating, conclusion and/or other description of results provided by the chief audit executive addressing, at a broad level, governance, risk management and/or control processes of the organisation. An overall opinion is the professional judgement of the chief audit executive based on the results of a number of individual engagements and other activities for a specific time interval.

## Risk

The possibility of an event occurring that will have an impact on the achievement of objectives. Risk is measured in terms of impact and likelihood.

## Risk Appetite

The level of risk that an organisation is willing to accept.

## Risk Management

A process to identify, assess, manage and control potential events or situations to provide reasonable assurance regarding the achievement of the organisation’s objectives.



## Should

The *Standards* use the word should where conformance is expected unless, when applying professional judgment, circumstances justify deviation.

## Significance

The relative importance of a matter within the context in which it is being considered, including quantitative and qualitative factors, such as magnitude, nature, effect, relevance and impact. Professional judgment assists internal auditors when evaluating the significance of matters within the context of the relevant objectives.

## Standard

A professional pronouncement promulgated by the Internal Audit Standards Board that delineates the requirements for performing a broad range of internal audit activities and for evaluating internal audit performance.

## Technology-based Audit Techniques

Any automated audit tool, such as generalised audit software, test data generators, computerised audit programmes, specialised audit utilities and computer-assisted audit techniques (CAATs).



**Perth & Kinross Council**  
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**APPENDIX B**

**1. Purpose and Mission**

- 1.1. The purpose of Perth and Kinross Council's (the Council) Internal Audit function is to provide an independent, objective assurance and consulting service designed to add value and improve the Council's operations. Internal Audit helps Perth & Kinross Council accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management, and control processes.
- 1.2. The mission of Internal Audit is to enhance and protect organisational value by providing risk-based and objective assurance, advice, and insight.

**2. Applicable Professional Standards**

- 2.1. Internal Audit will work in compliance with the Institute of Internal Audit's Public Sector Internal Audit Standard (PSIAS) which were approved as the applicable professional standards for the Council's Internal Audit function by the Audit Committee (who act as the Board under PSIAS) in March 2013. The Chief Internal Auditor will report periodically to senior management and the Audit Committee regarding Internal Audit's compliance with the Code of Ethics and the Standards.

**3. Authority**

- 3.1. In order to establish, maintain, and assure that Perth & Kinross Council's Internal Audit function has sufficient authority to fulfil its duties, the Audit Committee will:
  - 3.1.1. Approve the Internal Audit's Charter (this document);
  - 3.1.2. Approve the risk-based Internal Audit plan;
  - 3.1.3. Approve Internal Audit's budget and resource plan;
  - 3.1.4. Receive communications from the Chief Internal Auditor on Internal Audit's performance relative to its plan and other matters; and
  - 3.1.5. Make appropriate inquiries of management and the Chief Internal Auditor to determine whether there is inappropriate scope or resource limitations.
- 3.2. Audit Committee also authorises the Chief Internal Auditor to:
  - 3.2.1. Have full, free, and unrestricted access to all functions, records, property, and personnel pertinent to carrying out any engagement, subject to accountability for confidentiality and safeguarding of records and information;
  - 3.2.2. Allocate resources, set frequencies, select subjects, determine scopes of work, apply techniques required to accomplish audit objectives, and issue reports; and
  - 3.2.3. Obtain assistance from the necessary Council personnel as well as other specialised services from within or outwith Perth & Kinross Council, in order to complete the engagement.
- 3.3. The Chief Internal Auditor will report functionally to the Audit Committee and administratively (i.e., day-to-day operations) to the Council's Head of Legal and Governance Services (the Council's Monitoring Officer). The Chief Internal Auditor will have access to the Chief Executive, to all Council officers and to the elected members of the Audit Committee in connection with any relevant matter
- 3.4. The Chief Internal Auditor will have unrestricted access to, and communicate and interact directly with, the Audit Committee, including in private meetings without management present.

**4. Independence and Objectivity**

- 4.1. The Chief Internal Auditor leads the Internal Audit function and is the Chief Audit Executive as defined in the PSIAS.
- 4.2. The Chief Internal Auditor will ensure that the Internal Audit function remains free from all conditions that threaten the ability of Internal Auditors to carry out their responsibilities in an

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unbiased manner, including matters of audit selection, scope, procedures, frequency, timing, and report content. If the Chief Internal Auditor determines that independence or objectivity may be impaired in fact or appearance, the details of impairment will be disclosed to appropriate parties.

- 4.3. Internal Auditors will maintain an unbiased mental attitude that allows them to perform engagements objectively and in such a manner that they believe in their work product, that no quality compromises are made, and that they do not subordinate their judgment on audit matters to others.
- 4.4. Internal Auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, Internal Auditors will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair their judgment, including:
  - 4.4.1. Assessing specific operations for which they had direct responsibility within the previous two years;
  - 4.4.2. Performing any operational duties for the Council or its affiliates;
  - 4.4.3. Initiating or approving transactions external to the Internal Audit function; and
  - 4.4.4. Directing the activities of any Council employee not employed by Internal Audit, except to the extent that such employees have been appropriately assigned to auditing teams or to otherwise assist Internal Auditors.
- 4.5. Where the Chief Internal Auditor has or is expected to have roles and/or responsibilities that fall outside of Internal Auditing, safeguards will be established to limit impairments to independence or objectivity.
- 4.6. Internal Auditors will:
  - 4.6.1. Disclose any impairment of independence or objectivity, in fact or appearance, to appropriate parties;
  - 4.6.2. Exhibit professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined;
  - 4.6.3. Make balanced assessments of all available and relevant facts and circumstances; and
  - 4.6.4. Take necessary precautions to avoid being unduly influenced by their own interests or by others in forming judgments.
- 4.7. The Chief Internal Auditor will confirm to the Audit Committee, at least annually, the organisational independence of Internal Audit.
- 4.8. The Chief Internal Auditor will disclose to the Audit Committee any interference and related implications in determining the scope of Internal Auditing, performing work, and/or communicating results.

## 5. Scope of Internal Audit Activities

- 5.1. The scope of Internal Audit activities encompasses, but is not limited to, objective examinations of evidence for the purpose of providing independent assessments to the Audit Committee, management, and outside parties on the adequacy and effectiveness of governance, risk management, and control processes (the control environment) for Perth & Kinross Council, including the full range of activities undertaken by the Council.
- 5.2. Internal Audit assessments include evaluating the Council's control environment with regard to whether:
  - 5.2.1. Risks relating to the achievement of the Council's strategic objectives are appropriately identified and managed;
  - 5.2.2. The actions of Council's officers, employees, and contractors are in compliance with Perth & Kinross Council's policies, procedures, and applicable laws, regulations, and governance standards;

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- 5.2.3. The results of operations or programs are consistent with established goals and objectives;
- 5.2.4. Operations or programs are being carried out effectively and efficiently;
- 5.2.5. Established processes and systems enable compliance with the policies, procedures, laws, and regulations that could significantly impact the Council;
- 5.2.6. Information and the means used to identify, measure, analyse, classify, and report such information are reliable and have integrity; and
- 5.2.7. Resources and assets are acquired economically, used efficiently, and protected adequately.
- 5.3. As requested by the Council, Internal Audit may provide consultancy services to provide advice as to the more effective and efficient use of resources and in the development of significant systems to improve risk management pertinent to their area of operation. Any requests for such work will be assessed in accordance with the risk to the Council and the impact such activity would have on the Annual Audit Plan.
- 5.4. The Chief Internal Auditor will report periodically to senior management and the Audit Committee regarding:
  - 5.4.1. Internal Audit's purpose, authority, and responsibility;
  - 5.4.2. Internal Audit's plan and performance relative to its plan;
  - 5.4.3. Internal Audit's compliance with The IIA's Code of Ethics and Standards, and action plans to address any significant compliance issues;
  - 5.4.4. Significant risk exposures and control issues, including fraud risks, governance issues, and other matters requiring the attention of, or requested by, the Audit Committee;
  - 5.4.5. Results of audit engagements or other activities;
  - 5.4.6. Resource requirements; and
  - 5.4.7. Any response to risk by management that may be unacceptable to Perth & Kinross Council.
- 5.5. The Chief Internal Auditor will make the necessary arrangements for resources to be available to comply with requirements from external bodies such as Scottish Government for the auditing of grant claims or to work with partners such as the Integration Joint Board, as part of the planning process.
- 5.6. The Chief Internal Auditor will, in drawing up the audit plan, consider the resources necessary to complete such work of this nature as is required by the Council. Where the level of work is excessive, the Chief Internal Auditor will report on the situation, setting out the likely impact on planned audit work.
- 5.7. The Chief Internal Auditor also coordinates activities, where possible, and considers relying upon the work of other internal and external assurance and consulting service providers as needed. Internal Audit may perform advisory and related client service activities, the nature and scope of which will be agreed with the client, provided Internal Audit does not assume management responsibility. All such activities are to be agreed with the Audit Committee in advance.
- 5.8. Opportunities for improving the efficiency of governance, risk management, and control processes may be identified during engagements. These opportunities will be communicated to the appropriate level of management.

## **6. Responsibility**

- 6.1. The Chief Internal Auditor has the responsibility to:
  - 6.1.1. Submit, at least annually, to senior management and the Audit Committee a risk-based Internal Audit plan for review and approval;

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- 6.1.2. Communicate to senior management and the Audit Committee the impact of resource limitations on the Internal Audit Plan;
- 6.1.3. Review and adjust the Internal Audit Plan, as necessary, in response to changes in Perth & Kinross Council's business, risks, operations, programmes, systems, and controls;
- 6.1.4. Communicate to senior management and the Audit Committee any significant interim changes to the Internal Audit plan;
- 6.1.5. Ensure each engagement of the Internal Audit Plan is executed, including the establishment of objectives and scope, the assignment of appropriate and adequately supervised resources, the documentation of work programs and testing results, and the communication of engagement results with applicable conclusions and recommendations to appropriate parties;
- 6.1.6. Follow up on engagement findings and corrective actions, and report periodically to senior management and the Audit Committee any corrective actions not effectively implemented;
- 6.1.7. Ensure the principles of integrity, objectivity, confidentiality, and competency are applied and upheld;
- 6.1.8. Ensure Internal Audit collectively possesses or obtains the knowledge, skills, and other competencies needed to meet the requirements of the Internal Audit Charter;
- 6.1.9. Ensure trends and emerging issues that could impact Perth & Kinross Council are considered and communicated to senior management and the Audit Committee as appropriate;
- 6.1.10. Ensure emerging trends and successful practices in Internal Auditing are considered;
- 6.1.11. Establish and ensure adherence to policies and procedures designed to guide the Internal Audit function;
- 6.1.12. Ensure adherence to Perth & Kinross Council's relevant policies and procedures, unless such policies and procedures conflict with the Internal Audit Charter. Any such conflicts will be resolved or otherwise communicated to senior management and the Audit Committee; and
- 6.1.13. Ensure compliance of Internal Audit with the applicable Standards, with the following qualifications:
  - 6.1.13.1. If Internal Audit is prohibited by law or regulation from compliance with certain parts of the Standards, the Chief Internal Auditor will ensure appropriate disclosures and will ensure compliance with all other parts of the Standards; and
  - 6.1.13.2. If the Standards are used in conjunction with requirements issued by other authoritative bodies, the Chief Internal Auditor will ensure that Internal Audit conforms with the applicable Standards, even if Internal Audit also conforms with the more restrictive requirements of other authoritative bodies.
- 6.2. The Chief Internal Auditor will ensure oversight of the implementation of the Counter-Fraud and Corruption Strategy:
  - 6.2.1. To provide assurance that Council management have assessed the risks of fraud and corruption and put sufficient systems and controls in place to prevent, detect and deter fraud and corruption;
  - 6.2.2. To establish sufficient resources to investigate cases of suspected irregularity (and for which may seek support from Services or Human Resources where appropriate to do so);
  - 6.2.3. To make reasonable arrangements to ensure that Internal Audit is equipped to undertake this type of work;
  - 6.2.4. To ensure that a reasonable allowance is made for the resources likely to be required for investigation-related work;

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- 6.2.5. To facilitate the Council's involvement with the National Fraud Initiative and will deal with enquiries from other public sector bodies, including through the National Anti-Fraud Network; and
- 6.2.6. To recommend changes in procedures and improvements in control to prevent losses due to fraud to the Council.

## **7. Quality Assurance and Improvement Programme**

- 7.1. The Chief Internal Auditor will maintain a quality assurance and improvement programme that covers all aspects of its activity. The programme will include an evaluation of Internal Audit's compliance with the applicable Standards and an evaluation of whether Internal Auditors apply the IIA's Code of Ethics. The programme will also assess the efficiency and effectiveness of Internal Audit and identify opportunities for improvement.
- 7.2. The Chief Internal Auditor will communicate to senior management and the Audit Committee on Internal Audit's quality assurance and improvement programme, including results of internal assessments (both ongoing and periodic) and external assessments conducted at least once every five years by a qualified, independent assessor or assessment team from outside Perth & Kinross Council.

## **8. Approval and Review**

- 8.1. The Chief Internal Auditor will review this document annually and will advise the Audit Committee on any amendments considered necessary.
- 8.2. No change to the Internal Audit Charter shall be made unless the Chief Internal Auditor has been consulted and has been given a reasonable opportunity to present to the Audit Committee their views on the proposed changes.

Signatures

Chief Internal Auditor | Date

Audit Committee Chair | Date

[Chief Executive Officer] | Date

