

Perth & Kinross Council

Annual Audit Plan 2013/14



Prepared for Members of Perth & Kinross Council
March 2014

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. We help the Auditor General for Scotland and the Accounts Commission check that organisations spending public money use it properly, efficiently and effectively.

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Summary

Introduction

1. Our audit is focused on the identification and assessment of the risk of material misstatement in Perth & Kinross Council's (the Council) financial statements. This report summarises our assessment of the key challenges and risks facing the Council and sets out the audit work that we propose to undertake in 2013/14. Our plan reflects:
 - the risks and priorities facing the Council
 - current national risks relevant to local circumstances
 - the impact of changing international auditing and accounting standards
 - our responsibilities under the Code of Audit Practice as approved by the Auditor General for Scotland and the Accounts Commission
 - issues brought forward from previous audit reports.
2. The Charities Accounts (Scotland) Regulations 2006 specifies the accounting and auditing rules for Scottish registered charities. Irrespective of the size of the charity, as a consequence of the interaction of section 106 of the Local Government (Scotland) Act 1973 with the regulations, a full audit is required from 2013/14 of all registered charities where the local authority is the sole trustee. The Assistant Auditor General wrote to local government section 95 officers in June 2013 advising them of these new arrangements and the Accounts Commission's decision to appoint the auditor of each council as the auditor of its relevant charitable trusts. The Council are intending to use the connected charities provision which will result in one audit for charities in 2013/14, with net assets of £1.529 million as at 31 March 2013. Accordingly, we will perform the audit of the Council's charitable trusts in parallel with the audit of the Council's financial statements and provide audit opinions as necessary.

Summary of planned audit activity

3. Our planned work in 2013/14 includes:

- an audit of the financial statements and provision of an opinion on whether:
 - they give a true and fair view of the financial position of the Council, and its group, as at 31 March 2014 and its income and expenditure for the year then ended
 - the accounts have been properly prepared in accordance with the Local Government (Scotland) Act 1973 and the 2013/14 Code of Practice on Local Authority Accounting in the United Kingdom (the Code)
- an audit of the financial statements and provision of an opinion for the charitable trusts where the local authority is the sole trustee
- reporting the findings of the shared risk assessment process in an Assurance and Improvement Plan Update. This will consist of the Local Area Network (LAN) examining new evidence in terms of its impact on existing risk assessments and will include updated scrutiny plans for the period April 2014 to March 2017 for the Council
- a review and assessment of the Council's governance and performance arrangements in a number of key areas including: internal controls; the adequacy of internal audit and Statutory Performance Indicators
- provision of an opinion on a number of grant claims and returns, including Whole of Government Accounts
- review of National Fraud Initiative arrangements
- review of local impact of national studies
- provision of the annual report on the audit addressed to Perth & Kinross Council and the Controller of Audit.

Responsibilities

4. The audit of the financial statements does not relieve management or the Audit Committee, as the body charged with governance, of their responsibilities.

Responsibility of the appointed auditor

5. Our responsibilities, as independent auditor, are established by the Local Government (Scotland) Act 1973 and the Code of Audit Practice, and guided by the auditing profession's ethical guidance.
6. Auditors in the public sector give an independent opinion on the financial statements. We also review and report on the arrangements set in place by the audited body to ensure the proper conduct of its financial affairs and to manage its performance and use of resources. In doing this, we aim to support improvement and accountability.

Responsibility of the Council and the Head of Finance

7. It is the responsibility of the Council 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; and to manage its affairs to secure economic, efficient and effective use of resources and safeguard assets.
8. It is the responsibility of the Head of Finance, as the appointed "proper officer", to prepare the financial statements in accordance with relevant legislation and the Code of Practice on Local Authority Accounting in the United Kingdom (the Code). This means:
 - acting within the law and ensuring the regularity of transactions by putting in place appropriate systems of internal control
 - maintaining proper accounting records
 - preparing financial statements timeously which give a true and fair view of the financial position of the Council, and its group, as at 31 March 2014 and its expenditure and income for the year then ended.

Responsibilities of the charities trustees

9. The trustees are responsible for preparing the Trustees' Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).
10. The law applicable to charities in Scotland requires the trustees to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the charity and of the incoming resources and application of resources of the charity for that period. The trustees are required to:
 - select suitable accounting policies and then apply them consistently
 - observe the methods and principles of the Charities Statement of Recommended Practice
 - make judgments and estimates that are reasonable and prudent
 - state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements
 - prepare the financial statements on the going concern basis unless it is inappropriate to presume that the charity will continue in business.
11. The trustees are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the charity and enable them to ensure that the financial statements comply with the Charities and Trustee Investment (Scotland) Act 2005, Charities Accounts (Scotland) Regulations 2006 (as amended) and the provisions of the charity's constitution. They are also responsible for safeguarding the assets of the charity and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Format of the accounts

12. The financial statements should be prepared in accordance with the Code which constitutes proper accounting practice. The Council also prepares a Whole of Government Accounts consolidation pack annually for the Scottish Government. To enable summarisation common accounting principles and standard formats should be used.

Audit Approach

Our approach

13. Our audit approach is based on an understanding of the characteristics, responsibilities, principal activities, risks and governance arrangements of the Council. We also consider the key audit risks and challenges in the local government sector generally. This approach includes:
- understanding the business of the Council and the risk exposure which could impact on the financial statements
 - assessing the key systems of internal control, and considering how risks in these systems could impact on the financial statements
 - identifying major transaction streams, balances and areas of estimation and understanding how the Council will include these in the financial statements
 - assessing and addressing the risk of material misstatement in the financial statements
 - determining the nature, timing and extent of the audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements give a true and fair view.
14. We have also considered and documented the sources of assurance which will make best use of our resources and allow us to focus audit testing on higher risk areas during the audit of the financial statements. The main areas of assurance for the audit come from planned management action and reliance on systems of internal control. Management action being relied on for 2013/14 includes:
- comprehensive closedown procedures for the financial statements accompanied by a timetable issued to all relevant staff
 - clear responsibilities for preparation of financial statements and the provision of supporting working papers
 - delivery of unaudited financial statements to agreed timescales with a comprehensive working papers package
 - completion of the internal audit programme.
15. Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to rely on the work of internal audit wherever possible and as part of our planning process we carry out an early assessment of the internal audit function. Internal audit is provided by the internal audit section within the Council. Overall, we concluded that the internal audit service operates largely in accordance with Public Sector Internal Audit Standards (PSIAS), and is working towards full compliance.

16. We plan to place formal reliance on aspects of the work of internal audit in payroll and non domestic rates to support our audit opinion on the financial statements. In respect of our wider governance and performance audit work we also plan to review the findings and consider other areas of internal audit work including:

- revenue monitoring
- capital programme
- welfare reform
- council tax reduction scheme
- IT audit - interfaces
- financial assessments.

Materiality

17. International Standard on Auditing 320 provides guidance on the concept of materiality. We consider materiality and its relationship to audit risk when planning the nature, timing and extent of our audit and conducting our audit procedures. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.
18. For 2013/14 we have set a planning materiality level of 1% of gross expenditure which equates to £4 million. This is based on the fact that there have been few misstatements in previous years' accounts, and there have been no major changes to the Code.
19. When considering, in the context of a possible qualification, whether the misstatement of an item, or a number of items taken together, is material in terms of its monetary value, we use professional judgement and experience and internal guidelines from peers. An item may be judged material for reasons other than its monetary value. An inaccuracy, which would not normally be regarded as material, may be important for other reasons. When such an item affects a critical point in the accounts, its materiality has to be viewed in a narrower context (for example the failure to achieve a statutory requirement, or an item contrary to law). Such matters would normally fall to be covered in an explanatory paragraph in the independent auditor's report.

Reporting arrangements

20. The Local Government (Scotland) Act 1973 requires that unaudited financial statements are presented to the Council and Controller of Audit within three months of the end of the financial year. The Controller of Audit requires audit completion and issue of an independent auditor's report (opinion) by 30 September each year. A high level timetable is included at Appendix A of this plan, which takes account of submission requirements and planned Audit Committee dates.

21. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the responsible head of service and relevant officers to confirm factual accuracy. Responses to draft reports are expected within three weeks of submission. A copy of all final agreed reports will be sent to the Chief Executive, Head of Finance, relevant head of service, internal audit and Audit Scotland's Performance Audit and Best Value Group.
22. Planned outputs for 2013/14 are summarised at Exhibit 1. Findings from the charities audits are highlighted within this plan and will be documented in the report of audit matters to those charged with governance and the annual report to Members.

Exhibit 1: Planned outputs

Planned outputs	Final report issued by
Governance/Performance	
Annual Audit Plan	31 March 2014
Assurance and Improvement Plan Update (jointly prepared with other local government scrutiny bodies)	16 May 2014
Internal controls management letter	30 June 2014
Performance	
Local impact of national performance audits: <i>Health inequalities in Scotland (2012)</i>	31 March 2014
Targeted follow-up: <i>Arm's Length External Organisations: Are you getting it right? (2011)</i>	31 May 2014
Targeted follow-up: <i>Major capital investment in councils (2013)</i>	30 June 2014
Financial statements	
Report to Audit Committee in terms of ISA 260 (Communication of audit matters to those charged with governance)	17 September 2014
Independent auditor's report on the financial statements	30 September 2014
Independent auditor's report on charitable trusts financial statements	30 September 2014
Audit opinion on Whole of Government Accounts	October 2014
Annual report to Members and the Controller of Audit	31 October 2014
Grants	
Certification of a number of grant claims and statements of expenditure (Education Maintenance Allowance; Criminal Justice in Social Work; Non Domestic Rates Income return; and Housing Benefit & Council Tax Benefit subsidy)	In line with grant requirements

23. We will provide an independent auditor's report to the Council and the Accounts Commission that the audit of the financial statements has been completed in accordance with applicable statutory requirements. After completion of the audit we will provide Members and the Controller of Audit with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the course of the audit. All annual reports produced are published on Audit Scotland's website: (www.audit-scotland.gov.uk).

National performance audit studies - impact and follow up

24. Audit Scotland's Performance Audit and Best Value Group undertake a programme of studies on behalf of the Auditor General and Accounts Commission. In line with Audit Scotland's strategy to support improvement through the audit process and to maximise the impact of national performance audits, we will follow up a number of studies at a local level. In 2013/14 this will involve the completion of impact reports to describe how the Council has considered the national performance report *Health inequalities in Scotland* (published in December 2012).
25. Impact reports and a targeted follow-up review will also be undertaken, with the findings incorporated in the Annual report to Members, for the following studies:
- *Arms Length External Organisations: Are you getting it right?* (published in June 2011)
 - *Major capital investment in councils* (published in March 2013)

Quality control

26. International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires that a system of quality control is established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and legal requirements are being complied with and that the independent auditor's report or opinion is appropriate in the circumstances. The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice. To ensure that we achieve the required quality standards Audit Scotland conducts peer review, internal quality reviews and has engaged the Institute of Chartered Accountants of Scotland (ICAS) to conduct a programme of external review.
27. As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We do, however, welcome feedback at any time and this may be directed to the engagement lead, Stephen Boyle.

Independence and objectivity

28. Auditors appointed by Audit Scotland must comply with the Code of Audit Practice. When auditing the financial statements, auditors must also comply with professional standards issued by the Auditing Practices Board (APB) and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has in place robust arrangements to ensure compliance with these standards including an annual “fit and proper” declaration for all members of staff. The arrangements are overseen by the Assistant Auditor General, who serves as Audit Scotland’s Ethics Partner.
29. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of Perth & Kinross Council.

Audit issues and risks

Audit issues and risks

30. Councils are operating within a context of significant change as a result of the challenging financial environment and the public service reform agenda. The Scottish Government's reform agenda emphasises the importance of place, people, partnership, prevention and performance in public services. The Council's public service reform arrangements have been considered through the shared risk assessment process and the Council's current position in implementing the Scottish Government's reform agenda will be reported in the *Assurance and Improvement Plan Update 2014 - 17*, specifically in relation to:
- community planning and new Single Outcome Agreements
 - police and fire oversight arrangements
 - health and social care integration
 - welfare reform.
31. Based on our discussions with staff, attendance at committee meetings and a review of supporting information, we have identified the following other main financial statements risk areas for your organisation.
32. **Financial management and sustainability** - The Council continues to show a good understanding of the financial challenges it faces, and has been proactive in preparing financial plans to manage budget reductions. It has a clear understanding of its costs and the impact efficiency savings have on service delivery. The reserves strategy and medium term financial plan allow the Council to mitigate the risks associated with the current financial climate and service pressures. The Council's total usable reserves increased to £60.7 million in 2012/13 (£53.4 million 2011/12) and is projected to increase to around £63 million in 2013/14.

We previously reported that the Council does not have a long term financial plan covering its operations and assets and liabilities. However, the Council consider that a longer term approach to financial planning might have had a significant adverse effect on service delivery. It has therefore decided to set future provisional revenue budgets in line with local government settlements announced by the Scottish Government to ensure that any decisions taken are based on expected levels of funding available to the Council rather than estimates. In addition over a number of years the Council has introduced "budget headroom" which set corporate savings targets in excess of the anticipated reductions in grant funding and agreed corporate pressures. This budget headroom provides members with flexibility in choosing between different budget options and creates capacity to offset future budget pressures in the medium term. The most recent update of the medium term financial plan was considered by the Council in October 2013 and in February 2014 the Council agreed the budget for 2014/15 and a provisional budget for 2015/16.

The Council have also taken action to improve delivery of the capital programmes against budgets. We will continue to monitor the Council's approach to financial management and efficiencies and ensure the Council monitor the potential impact this has on service performance.

- 33. Group entities** - One of the Council's subsidiaries, Horsecross Arts Ltd, highlighted material uncertainty surrounding solvency of its operations during 2012/13. The Council worked with Horsecross Arts Ltd to resolve the uncertainty around its financial position for 2012/13 with the audit certificate for Horsecross Arts Ltd being agreed in December 2013. For 2013/14 we will seek assurances from the management and auditors of the subsidiaries that a going concern basis for preparation of the accounts is appropriate. We are also undertaking a targeted study on the national report *Arms Length External Organisations: Are you getting it right?* (published in June 2011). This review will encompass the governance arrangements for ALEOs including what management information is shared by the ALEO to demonstrate financial control and best value.

Services provided by Tayside Contracts Joint Committee (TCJC) are jointly administered and controlled by Perth & Kinross Council, Dundee City Council and Angus Council. The accounting treatment of TCJC was agreed in 2012/13 however it was highlighted that arrangements set out in the Minute of Agreement were significantly different from Tayside Contract's working practices. It is anticipated that a revised Minute of Agreement will be put in place during 2014 and we will review these updated arrangements.

The Council's group boundaries in 2013/14 have also changed following the introduction of the Police and Fire Reform (Scotland) Act in 2013 resulting in a single Scottish police force and a single fire and rescue service in April 2013. This has removed Tayside Joint Police Board and Tayside Fire and Rescue Service from the Council's group.

- 34. Common Good Borrowing** - Kinross Common Good Fund has been in debt to the Council over several years and at 31 March 2013 the outstanding balance was £0.017 million. Common Good funds do not have powers to receive advances from the Council's loans fund and this is therefore technically a breach of statute. Officers have advised that the outstanding balance will be repaid from the sale of Kinross Town Hall which is expected to conclude during 2013/14.

Summary assurance plan

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

Fees and resources

Audit fee

36. In determining the audit fee we have taken account of the risk exposure of the Council, the management assurances in place, and the level of reliance we plan to take from the work of internal audit. We have assumed receipt of a complete set of unaudited financial statements and comprehensive working papers package by 30 June 2014.
37. The agreed audit fee for the 2013/14 audit of Perth & Kinross Council is £280,570, as summarised in Exhibit 2. This includes £1,500 in respect of the audit of the charitable trusts. Our fee covers:
- all of the work and outputs described in this plan
 - a contribution towards the costs of national performance studies and statutory reports by the Controller of Audit and the work of the Accounts Commission
 - attendance at Audit Committee meetings
 - access to advice and information on relevant audit issues
 - access to workshops/seminars on topical issues
 - travel and subsistence costs.

Exhibit 2: Audit fee

Description	Audit fee 2011/12	Audit fee 2011/12	Audit fee 2012/13	Audit fee 2013/14
Total audit fee	£323,892	£302,755	£283,200	£280,570
% cash reduction on prior year	-	-6.5%	-6.5%	-0.9%
Cumulative % real reduction, including GDP deflator since 2010/11	-	-7.9%	-15.7%	-18.1%

38. Where our audit cannot proceed as planned through, for example, late receipt of the unaudited financial statements or being unable to take planned reliance from the work of internal audit, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises outwith our planned audit activity.

Audit team

39. Stephen Boyle, Assistant Director, Audit Services is your appointed auditor. The local audit team will be led by Pearl Tate, Senior Audit Manager, who will be responsible for the day to day management of the audit and who will be your primary contact. Details of the experience and skills of our team are provided at Appendix C. The core audit team will call on other specialist and support staff, as necessary.

Appendix A - Financial statements audit timetable

Key stage	Date
Testing and review of internal control systems and transactions	March/April 2014
Meetings with officers to clarify expectations of detailed working papers and financial system reports	April 2014
Submission of unaudited Council financial statements with working papers package	30 June 2014
Submission of unaudited charitable trust financial statements with working papers	30 June 2014
Progress meetings with lead officers on emerging issues	As required
Latest date for submission of unaudited Whole of Government Accounts (WGA) return for external audit	To be confirmed
Latest date for final clearance meeting with Head of Finance or other senior officers	12 September 2014
Agreement of unsigned financial statements for Audit Committee agenda, and issue of report to the Audit Committee on the audit of financial statements (ISA 260)	17 September 2014
Independent auditors report signed	30 September 2014
Latest date for signing of WGA return	October 2014
Annual report to Members and the Controller of Audit	31 October 2014

Appendix B - Summary assurance plan

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

Risk	Source of assurance	Planned audit action
Financial management and sustainability		
<p>Financial management</p> <p>Along with all other public bodies in Scotland, the Council is facing the prospect of having to make significant budget savings. At the same time as the Council aims to support the local economy and maintain service provision, it is likely to face a reduction in resources.</p> <p><i>Risk:</i> the Council may not be able to secure the efficiencies required without impacting on services.</p>	<p>The Council's Securing the Future Toward 2015 and Beyond Strategy sets out the path which will allow it to achieve the required modernisation and efficiencies to meet the financial challenges and future service demand.</p> <p>The medium term financial plan is updated on an on-going basis and used to inform the annual budget setting process.</p> <p>Budget monitoring reports are presented to members on a regular basis.</p>	<p>On-going monitoring and include in report to members as appropriate.</p>

Risk	Source of assurance	Planned audit action
<p>Performance Management</p> <p>The Council's performance indicates a relatively positive picture overall with only a few areas of performance declining. However, effectively managing performance will remain a key challenge as financial pressures increase. The Council will need to use its performance information to understand and manage the impact of spending decisions.</p> <p><i>Risk: the Council's resources are not directed at priority areas and outcomes are not demonstrated.</i></p>	<p>A robust approach to performance management and monitors large numbers of local performance indicators which cover the wider community planning partnership area. These, along with the statutory performance indicators, are reported in the annual performance report.</p>	<p>Review of processes to collate statutory performance indicators</p> <p>On-going monitoring of the performance management framework and report to members as appropriate.</p>
<p>Governance & Accountability</p>		
<p>Control environment</p> <p>A robust system of internal financial controls is essential to reduce the risk of material error in the financial statements. In times of economic challenge, the Council's financial systems may be exposed to increased risk of fraud or manipulation.</p> <p><i>Risk: the Council's financial position is exposed to error. Fraud and manipulation may not be detected.</i></p>	<p>Regular budget monitoring and reporting.</p> <p>Robust internal controls in financial systems to mitigate risks of error or manipulation.</p> <p>Internal audit coverage of internal controls.</p> <p>Participation in the National Fraud Initiative.</p> <p>Annual Governance Statement and Local Code of Corporate Governance.</p>	<p>Testing of key internal financial controls.</p> <p>Review of internal audits work in specific areas (e.g. Payroll and Non Domestic Rates).</p> <p>Targeted testing of risk areas and report to members as appropriate.</p> <p>Review the Council's involvement in the National Fraud Initiative.</p>

Risk	Source of assurance	Planned audit action
<p>Prevention & detection of fraud and irregularities</p> <p>The Council's Fraud and Corruption Policy has not been updated since 2006 and therefore does not include specific reference to the requirements of the Bribery Act 2010.</p> <p>The Council did not submit the electoral register as part of the National Fraud Initiative submission. There is no evidence that the Council have undertaken data matching using the register to identify potential frauds.</p> <p><i>Risk: Council policies and procedures in relation to the detection and prevention of fraud are not up to date and do not reflect current legislation.</i></p>	<p>The Council are in the process of drawing up a programme of training and risk assessment across the Council and amending its guidance in respect of the Bribery Act 2010.</p> <p>The Council is currently working with Police Scotland to establish an Intergrity Group within the Council to develop the approach to the prevention of fraud and corruption and to update the fraud & corruption policy.</p> <p>The Council is undertaking data matching using the electoral register.</p>	<p>Review the Council's policies and procedures for the prevention and detection of fraud and irregularities.</p> <p>Review the Council's involvement in the National Fraud Initiative.</p> <p>On-going monitoring and include in report to members as appropriate.</p>
<p>Capital expenditure</p> <p>In 2012/13 the Council's general fund capital programme was underspent by 38% and the housing revenue capital programme by 21%.</p> <p><i>Risk: through delay of investment or improvement to the asset base the Council is unable to deliver efficient and effective services and contribute to a prosperous, sustainable and inclusive economy for its area.</i></p>	<p>Actions have been undertaken by the Council to take forward the delivery of the capital programmes including establishing a Strategic Investment Group chaired by the Chief Executive and appointing a Capital Programme Manager.</p>	<p>Review of capital budget, plans and monitoring reports.</p> <p>Targeted follow-up of the Council's response to Audit Scotland's '<i>Major capital investment in councils</i>' report (published 14 March 2013).</p> <p>Reliance on internal audit's review of the capital programme.</p>

Risk	Source of assurance	Planned audit action
<p>Welfare reform</p> <p>The reform agenda is highlighted in our <i>Assurance and Improvement Plan Update 2014-17</i>.</p> <p>The Council are assessing the impact of the welfare reform on Council tenant's arrears. In 2012/13 rent arrears have increased with further increases anticipated during 2013/14.</p> <p>In addition on 1 April 2013 council tax benefit was replaced by a council tax reduction scheme to be administered by the Council. The Council needs to ensure that it has robust controls in place to effectively administer the scheme.</p> <p><i>Risk: the Council do not meet the challenges arising from the implementation of the welfare reform.</i></p>	<p>The Council continues to deliver on the on-going welfare reform agenda. All changes are effectively communicated to relevant stakeholders and planned implementation processes are in place. A joint Welfare Reform Steering Group works in partnership to ensure a joined-up approach to dealing with the challenges of welfare reform.</p> <p>Internal audit has undertaken a review to ensure controls are operating effectively for the council tax reduction scheme.</p>	<p>Reliance on internal audits review of welfare reform, including the review of the council tax reduction scheme.</p> <p>On-going monitoring and include in report to members as appropriate.</p>
<p>Group sustainability</p> <p>One of the Council's subsidiaries (Horsecross Arts Ltd) highlighted material uncertainty surrounding solvency of its operations last year. The 2012/13 audited accounts have however now been received and Horsecross Arts Ltd accounts have been prepared on a going concern basis.</p> <p><i>Risk: the Council's group entities are unable to provide services.</i></p>	<p>The Council are working with Horsecross Arts Ltd to establish a sustainable financial model for the future.</p>	<p>Targeted follow-up of the Council's response to Audit Scotland's <i>Arms Length External Organisations: Are you getting it right?</i> (published in June 2011).</p> <p>Ongoing discussions with group entities external auditors.</p> <p>On-going monitoring and include in report to members as appropriate.</p>

Risk	Source of assurance	Planned audit action
<p>Housing benefit subsidy</p> <p>In the last two years the Council has lost subsidy of £0.227 million as a result of exceeding the lower threshold for local authority error.</p> <p>A recent audit of housing and council tax benefit identified that there is no routine analysis of overpayments raised to determine the cause and to identify any necessary changes or additions to processes, procedures or training that could minimise error and subsequently financial losses for the council.</p> <p><i>Risk: benefit subsidy is lost through inaccuracies in the Council processing benefit claims.</i></p>	<p>The Council have merged all quality checks, random and risk based, and is to report accuracy on the overall results.</p> <p>Local authority error overpayments will be addressed with individual team members for training and development purposes. With individual performance challenged where necessary.</p> <p>An action plan has been submitted to Audit Scotland following the recent audit of housing benefit and council tax benefit. The first quarters performance information will be submitted to Audit Scotland in July 2014.</p>	<p>Undertake HBCount audit of subsidy claim.</p> <p>Additional case testing to ensure coverage of the previously identified error types.</p>
<p>Business Continuity</p> <p>A recent internal audit report highlighted weaknesses in the Council's business continuity management arrangements, including ensuring:</p> <ul style="list-style-type: none"> the adequacy of procedures to be followed in the event of an incident the Council's processes prioritise the recovery of critical services ongoing review and testing of these arrangements. <p><i>Risk: roles, responsibilities and critical services are unknown leading to disruption of service delivery.</i></p>	<p>The Council agreed remedial actions to address the issues highlighted by internal audit.</p>	<p>Reliance on internal audit follow-up of actions in relation to business continuity.</p>

Risk	Source of assurance	Planned audit action
<p>Workforce planning</p> <p>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 whilst avoiding compulsory redundancies. A voluntary severance scheme (for non teaching staff) was launched in 2013/14.</p> <p><i>Risk: adverse impact on the continuation and quality of services provided.</i></p>	<p>The Council Workforce Plan 2013-18 is to be used to inform a review of the actions in support of the objectives set out in 'Our People Strategy (2010-2015)', and to support the Council's transformation approach as set out in 'Securing the Future – Towards 2015 and Beyond'.</p> <p>The Council's Workforce Planning process is driven by the Corporate Plan, the Medium Term Financial Plan, and a modernisation of service delivery and working practices. There is an Annual workforce report to the Council each December.</p> <p>The Council involves staff in reviewing services and the Annual Securing the Future Awards recognise innovative approaches for service delivery.</p> <p>The Council engages with its trade unions on workforce implications of the Medium Term Financial Plan.</p>	<p>On-going monitoring and include in report to members as appropriate.</p>

Risk	Source of assurance	Planned audit action
<p>Public Services Network (PSN)</p> <p>The Council exchanges data with many other public bodies and in so doing makes use of Cabinet Office sponsored arrangements to share electronic data with other public sector bodies. The PSN is the mechanism that allows the Council to share data and services. The Council must re-apply annually to the Cabinet Office to be allowed to connect to the government secure network.</p> <p>The Council's PSN Code of Connection Compliance Certificate is subject to annual renewal.</p> <p><i>Risk: disruption to service delivery across the Council.</i></p>	<p>A significant amount of information security work was carried out in 2013 in order to obtain PSN accreditation, which was achieved in November.</p> <p>Further work is required for the September 2014 accreditation renewal. This has been recognised in the Council's 2014/15 agreed budget.</p>	<p>We will monitor the Council's preparedness for renewal of its certification as part of our 2013/14 audit.</p>
Financial Statements		
<p>Tayside Contracts</p> <p>The Council has an interest in Tayside Contracts Joint Committee (TCJC) and this body is included in the group accounts. In 2012/13 the accounting treatment was agreed and it was noted that the Minute of Agreement would be revisited to ensure it reflected the actual operation and governance of TCJC.</p> <p><i>Risk: the minute of agreement does not reflect the actual operation of TCJC.</i></p>	<p>Legal representatives from the three Councils are close to concluding a revised legal agreement which will reflect operating practice.</p>	<p>Review of arrangements for TCJC.</p>

Risk	Source of assurance	Planned audit action
<p>Charitable bodies</p> <p>The Charities Accounts (Scotland) Regulations 2006 as amended set out the accounting and auditing rules for Scottish registered charities. These apply to all local authority registered charities and from 2013/14 an audit of a registered charity's financial statements where the local authority is sole trustee is required.</p> <p>Some charities are recognised as being connected by having common or related purposes, or by having a common controlling body or administration, for instance a group of trustees that meet quarterly to consider a number of trusts at the same time. These charities have the option of preparing a single set of accounts to send to OSCR instead of preparing individual accounts.</p> <p><i>Risk: the Council does not comply with these regulations and statutory reporting requirements.</i></p>	<p>The Council continues to amalgamate smaller charities with a view to streamlining the administrative requirements.</p> <p>Officers have also advised that the Council are intending to use the connected charities provision and this provision has been used in the submissions to OSCR in 2012/13.</p>	<p>Audit of the charities opening balances as at 1 April 2013.</p> <p>Audit of the 2013/14 charities financial statements to ensure compliance with requirements.</p> <p>On-going monitoring and include in report to members as appropriate.</p>

Risk	Source of assurance	Planned audit action
<p>Common Good Borrowing</p> <p>The Kinross Common Good has been in debt to the council over several years and as at 31 March 2013 the outstanding balance was £0.017 million. Common Good funds do not have powers to receive advances from the Council's loans fund and in our view this is therefore technically a breach of statute.</p> <p><i>Risk: this technical breach is not resolved prior to the 2013/14 financial statements preparation.</i></p>	<p>Debt to be repaid following the sale of Kinross Town Hall.</p>	<p>On-going monitoring and include in independent auditors report and/or report to members as appropriate.</p>

Appendix C - Audit team

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

Stephen Boyle BAcc CPFA

Assistant Director

Stephen has 17 years experience of public sector finance. He trained as an accountant with a Big 4 firm, before joining Audit Scotland in 2002. He later worked as Head of Finance and Corporate Services for Cube Housing Association, before spending three years with Glasgow Housing Association as Assistant Director of Finance. He re-joined Audit Scotland in June 2013.

Pearl Tate BAcc (Hons), CPFA

Senior Audit Manager

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

Neil O'Connor CA

Senior Auditor (Acting Senior Audit Manager)

Neil trained as an auditor with Carters Chartered Accountants before joining Audit Scotland in April 1997. He has eighteen years experience auditing local government and the health sector.

Christopher Gardner MA CPFA

Senior Auditor

Christopher joined Audit Scotland in 2013 after working for the Audit Commission and a private audit firm for a number of years. He has experience of auditing a wide variety of local government and health bodies.

Chris Brown

Auditor (Professional Trainee)

Chris joined Audit Scotland as an ICAS professional trainee in 2011 having worked as a transport engineering consultant for a number of years.