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Council Building
2 High Street
Perth
PH1 5PH

20/03/2023

A hybrid meeting of the **Audit and Risk Committee** will be held in the **Council Chamber** on **Monday, 27 March 2023** at **13:00**.

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

THOMAS GLEN
Chief Executive

Those attending the meeting are requested to ensure that all notifications are silent on their device and other devices are in silent mode.

Please note that the meeting will be broadcast online and recorded. The recording will be publicly available on the Council's website following the meeting.

Members:

Councillor David Illingworth (Convener)
Councillor Andy Chan (Vice-Convener)
Councillor Liz Barrett
Councillor Ken Harvey
Councillor Iain MacPherson
Councillor Colin Stewart
Councillor Grant Stewart

Audit and Risk Committee

Monday, 27 March 2023

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/SUBSTITUTES**
- 2 DECLARATIONS OF INTEREST**
- 3 MINUTE OF MEETING OF THE AUDIT AND RISK COMMITTEE 5 - 6
OF 7 DECEMBER 2022 FOR APPROVAL
(copy herewith)**
- 4 ANNUAL AUDIT PLAN 2022/23 7 - 28
Report by Audit Scotland (copy herewith 23/99)**
- 5 INTERNAL AUDIT UPDATE 29 - 32
Report by Chief Internal Auditor (copy herewith 23/100)**
- 6(i) COMMUNITIES**
Due to capacity both within Internal Audit and Services it has not been possible to have full consultation and agreement on all aspects of these reports and they will therefore be submitted to the next meeting of the Audit & Risk Committee.
- 6(i)(a) AGENCY WORKERS**
Withdrawn from this agenda
- 6(i)(b) TAY CITIES DEAL**
Withdrawn from this agenda

IT IS RECOMMENDED THAT THE PUBLIC AND PRESS SHOULD BE EXCLUDED DURING CONSIDERATION OF THE FOLLOWING ITEM(S) IN ORDER TO AVOID THE DISCLOSURE OF INFORMATION WHICH IS EXEMPT IN TERMS OF SCHEDULE 7A TO THE LOCAL GOVERNMENT (SCOTLAND) ACT 1973

- P1 INTERNAL AUDIT FOLLOW UP**
- Exempt Reason 1 - Information relating to a particular employee, former employee or applicant to become an employee of, or a particular office holder, former office holder or applicant to become an office holder under the authority.

- Exempt Reason 14 - Any action taken or to be taken in connection with the prevention, investigation or prosecution of crime.

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AUDIT AND RISK COMMITTEE

Minute of Meeting of the Audit and Risk Committee held hybrid on Wednesday 7 December 2022 at 10.00am.

Present: Councillors D Illingworth, L Barrett, A Chan, K Harvey, I MacPherson, C Stewart and G Stewart.

In Attendance: J Clark, S MacKenzie, F Crofts, J Cockburn, K Molley, A Brown, and M Pasternak (all Corporate and Democratic Services).

Councillor D Illingworth, Convener, Presiding.

1. WELCOME AND APOLOGIES/SUBSTITUTIONS

The Convener welcomed everyone to the meeting.

2. DECLARATIONS OF INTEREST

There were no declarations of interest made in terms of the Councillors' Code of Conduct.

3. MINUTE OF MEETING OF THE AUDIT AND RISK COMMITTEE OF 27 SEPTEMBER 2022 FOR APPROVAL

The minute of meeting of the Audit and Risk Committee of 27 September 2022 was submitted and approved as a correct record.

4. OUTSTANDING BUSINESS STATEMENT

Resolved:

The Outstanding Business Statement be noted and updated accordingly.

5. INTERNAL AUDIT FOLLOW UP

There was submitted a report by Chief Internal Auditor (22/300) presenting a current summary of Internal Audit's 'follow up' work relating to actions due for completion up to November 2022.

In response to a question from Councillor C Stewart regarding follow up audits on the outcomes of actions, J Clark advised that there is not enough resource to check all actions in depth. However, she confirmed that those with high risk are followed up to ensure that the implemented action has made significant difference to the control environment.

Resolved:

The current position in respect of the agreed actions arising from Internal Audit's work, be noted.

6. INTERNAL AUDIT UPDATE

There was submitted a report by the Chief Internal Auditor (22/301) presenting a summary of Internal Audit's work undertaken as part of the Internal Audit Plans for 2021/22 and 2022/23.

In response to a question from Councillor L Barrett regarding staffing resources, J Clark advised that one member of the team is seconded at present, but with the addition of the new Senior Internal Auditor, significant progress has been made in increasing resources.

Resolved:

The progress with Internal Audit activity, be noted.

DRAFT

Perth & Kinross Council

Annual Audit Plan 2022/23



 AUDIT SCOTLAND

Prepared for Perth & Kinross Council
March 2023

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Introduction

Summary of planned audit work

1. This document summarises the work plan for our 2022/23 external audit of Perth & Kinross Council (the council). The main elements of our work include:

- evaluation of the key controls within the main accounting systems
- an audit of the 2022/23 annual accounts and provision of an Independent Auditor's Report
- an audit opinion on the other statutory information published within the annual accounts including the Management Commentary, the Annual Governance Statement, and the audited part of the Remuneration Report
- consideration of arrangements in relation to wider scope areas
- consideration of Best Value arrangements
- providing assurance on the Housing Benefit Subsidy Claim and Non-Domestic Rates Return
- review of the council's arrangements for preparing and publishing statutory performance information.

Audit Appointment

2. We are pleased to be appointed as the external auditor of Perth & Kinross Council for the period 2022/23 to 2026/27 inclusive. You can find a brief biography of senior members of your audit team in the [Appendix](#).

3. In the first year of the audit appointment, we invest significant time gaining an understanding of your business and identifying and assessing the risks of material misstatement to the financial statements. While we use our initial assessment of risk to inform our planned audit approach, we keep our assessment of risks under review as the audit progresses. We will inform you of any significant changes in assessed risks and any resulting changes in our planned audit work.

4. The audit team will actively engage with you over the course of the audit to ensure our audit work continues to be focused on risk.

Adding value

5. We aim to add value to the council through our external audit work by being constructive and forward looking, by attending meetings of the Audit and Risk Committee and by recommending and encouraging good practice. In so doing, we will help the council promote improved standards of governance, better management and decision making and more effective use of resources.

Respective responsibilities of the auditor and the council

6. The [Code of Audit Practice 2021](#) sets out in detail the respective responsibilities of the auditor and the council. Key responsibilities are summarised below.

Auditor responsibilities

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

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

Council responsibilities

9. The council is responsible for maintaining accounting records and preparing financial statements that give a true and fair view.

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

Communication of fraud or suspected fraud

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

Financial statements audit planning

Introduction

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

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

Materiality

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

Materiality levels for the 2022/23 audit

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

Exhibit 1

2022/23 materiality levels for Perth & Kinross Council and its group

Materiality	Council	Group
Planning materiality – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. Materiality has been set based on our assessment of the needs of the users of the financial statements and the nature of the council's operations. For the year ended 31 March 2023 we have set our materiality at 2% of gross expenditure based on the audited financial statements for 2021/22.	£13 million	£13.2 million
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this could indicate that further audit procedures should be considered. Using our	£7.8 million	£7.9 million

professional judgement, we have assessed performance materiality at 60% of planning materiality.

Reporting threshold (ie clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount.	£250,000	£250,000
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Source: Audit Scotland

Significant risks of material misstatement to the financial statements

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

17. Based on our risk assessment process, we identified the following significant risks of material misstatement to the financial statements. These are risks which have the greatest impact on our planned audit procedures. We also identify any other non-significant risks of material misstatement that require a specific audit response over and above our standard audit procedures. [Exhibit 2](#) summarises the nature of the risk, the sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurance over the risk.

Exhibit 2

Significant and non-significant risks of material misstatement for the 2022/23 financial statements

Nature of risk	Sources of assurance	Planned audit response
Significant risks of material misstatement		
1. Risk of material misstatement due to fraud caused by management override of controls As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.	Owing to the nature of this risk, assurances from management are not applicable in this instance	<ul style="list-style-type: none"> Assess the design and implementation of controls over journal entry processing. Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments. Test journals at the year-end and post-closing entries and focus on significant risk areas.

Nature of risk	Sources of assurance	Planned audit response
		<ul style="list-style-type: none"> Consider the need to test journal entries and other adjustments during the period. Evaluate significant transactions outside the normal course of business. Assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year. Substantively test income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year. Test accounting accruals and prepayments focusing on significant risk areas.
<p>2. Estimation in the valuation of council dwellings</p> <p>The council's housing stock was last revalued in 2019/20 by the District Valuer Service (DVS).</p> <p>Valuations are based on specialist assumptions including the discount factor to apply for social housing. Changes in these assumptions can result in material changes to valuations.</p> <p>There has been limited adjustment to the valuation of council dwellings since the 2019/20 valuation exercise.</p> <p>There is a risk that the carrying amount in the accounts at 31 March 2023 does not appropriately reflect movements and changes in assumptions since the last revaluation.</p>	<ul style="list-style-type: none"> Council Dwellings are revalued in line with the 5 year programme, the next valuation is due in 2024/25. The Corporate Finance team review the carrying value of Council Dwellings annually to ensure the value remains reasonable, and average values per unit remain broadly in line with the previous valuation. The DVS provided sensitivity analysis in mid-2020 for the potential movement in EUV-SH values in the event the Adjustment Factor moved by +/- 5%. 	<ul style="list-style-type: none"> Examine management's assessment of fair value of council dwellings not subject to full revaluation in 2022/23. We will critically assess if this is based on expert valuer's opinion/ and assess the appropriateness of any assumptions. If undertaken, we will review the information provided to the external valuer and complete a walkthrough of the valuation process for council dwellings to obtain an understanding of the process, including the methodologies and assumptions applied. Test the reconciliation between the financial ledger and the property asset register and any valuation reports to check asset valuations and useful lives.

Nature of risk	Sources of assurance	Planned audit response
<p>3. Estimation in the valuation of other land and buildings (OLB)</p> <p>There is a significant degree of subjectivity in the valuation of other land and buildings. Valuations are based on specialist assumptions and changes in these can result in material changes to valuations.</p> <p>OLB are revalued on a five-year rolling basis. Values may change between periodic valuations and recently have resulted in increases of between 3 and 6 percent each year.</p> <p>OLB are valued at 01 April and there is a risk of material movement between the date of valuation and the balance sheet date.</p> <p>It is important that the council undertakes fair value assessments to ensure the financial statements accurately reflect the carrying value of the land and buildings at 31 March 2023.</p>	<ul style="list-style-type: none"> Other land and buildings (OLB) are revalued in line with the 5 year revaluation programme by the Council's valuers in line with the RICS Red Book. The annual revaluation process includes an impairment review by the valuers. Sites regarded as high risk in terms of potential misstatement are also valued by JLL, the appointed external valuers. The Corporate Finance team perform an annual review of the potential impact of movement in BCIS indices on OLB values for sites valued on a DRC basis. The review includes the potential movement from last valuation for all sites to 1 April and 31 March. An impairment review for all OLB is completed by the Corporate Finance team at the financial year end. 	<ul style="list-style-type: none"> Review the information provided to the external valuer to assess for completeness. Evaluate the competence, capabilities, and objectivity of the professional valuer. Complete a walkthrough of the valuation process for OLB to obtain an understanding of the process, including the methodologies and assumptions applied. Review reports from the valuer to confirm overall asset valuation. Obtain an understanding of management's involvement in the valuation process for OLB to assess if appropriate oversight has occurred. Examine management's assessment of fair value of OLB assets not revalued in 2022/23. We will critically assess if this is based on expert valuer's opinion/ and assess the appropriateness of any assumptions. Test the reconciliation between the financial ledger and the property asset register and any valuation report to check asset valuations and useful lives.
<p>4. Changes to core financial systems</p> <p>The council is implementing a new cash management system during the 2022/23, with a 'go-live' date very close to the year-end. There has also been a significant upgrade to the main financial ledger system during the year.</p> <p>Information required for the financial systems is at risk of</p>	<ul style="list-style-type: none"> The Integra daily Control Sheet was fully reconciled prior to Integra being closed. The same reports were produced when the system went back on line to ensure the integrity of the data. <p>These included:-</p> <ul style="list-style-type: none"> Purchase Ledger Control Account 	<ul style="list-style-type: none"> Review and assess the adequacy of controls put in place by management to ensure the integrity of data transfer between systems Perform checks on the completeness and accuracy of opening balances to transferred to the new system Ensure early bank reconciliations are prepared following the introduction of the new system, assess the volume of reconciling items compared

Nature of risk	Sources of assurance	Planned audit response
<p>material error if the system does not operate as planned, or inadequate control processes are in place to ensure the integrity of data transfer between old and new systems.</p>	<ul style="list-style-type: none"> • Sales Ledger Control Account • GL/PAY360 Interface • GL/PAY360 Consolidate Purge • Trial Balance • Master File update • PRL, NML, SLS, RSS Sysdoc Purges • Failed Workflow Alerts • RSS Orders • RSS GRNI • POI Orders/Receipts. 	<p>to the previous system and test any significant reconciling items.</p>
Other non-significant risks of material misstatement		
<p>5. Estimation in the valuation of pension assets and liabilities</p> <p>Actuarial estimates are a complex combination of liabilities over significant future periods based on life expectancy, CPI growth and discounting (based on corporate bond rates).</p> <p>Assets are based on an individual employer body's share of assets at the last triennial valuation. Roll forward adjustments are provided to members data and to asset valuations.</p> <p>There is a risk that small changes in the assumptions used can lead to large changes in the resulting valuations resulting in material misstatement in the annual accounts.</p>	<ul style="list-style-type: none"> • Use of professional actuaries appointed by the Pension Fund to value pension adjustments required by IAS19 • Actuarial valuations are reviewed by qualified finance staff for reasonableness including confirmation of the accuracy of the source data used to produce them. 	<ul style="list-style-type: none"> • Assess the scope, independence and competence of the professionals engaged in providing estimates for pensions. • Review the appropriateness of actuarial assumptions and results including comparison with other councils and the pension fund as a whole. • Establish officers' arrangements for ensuring the reasonableness of professional estimations and the accuracy of information provided to the actuary by the council.
<p>6. Estimation in PFI/DBFM models</p> <p>The council has acquired assets under PFI and DBFM contracts with a fair value of</p>	<ul style="list-style-type: none"> • The PFI accounting model used for the IIL Community Campuses and DBFM Bertha Park was developed by PwC. The input data was 	<ul style="list-style-type: none"> • Obtain the PFI and DPFM models and assess them for reasonableness, based on whether they have been

Nature of risk	Sources of assurance	Planned audit response
<p>£164 million at 31 March 2022. The accounts also include amounts due to contractors under these contracts totalling £127 million.</p> <p>Unitary charge payments to contractors require to be divided into the service and construction elements using estimation techniques.</p> <p>In addition, the council has agreed to adopt the financial flexibilities set out in finance circular 10/2022 within its 2022/23 accounts.</p> <p>There is a risk of misstatement in the associated liability if inappropriate assumptions have been made, particularly given recent changes to RPI/CPI and associated indices.</p>	<p>sourced from the project models at Financial Close.</p> <ul style="list-style-type: none"> • Inflation assumptions are updated annually in line with the actual rate for the current financial year, and reflect the current unitary charge. • The accounting model provides the required data for the year-end accounting entries. • Report 23/43 considered by Council on 8 February 2023 outlines the retrospective and future benefits arising from the adoption of LG FC 10/2022. 	<p>updated to reflect current unitary charges</p> <ul style="list-style-type: none"> • Determine management's processes for updating the models to reflect the future impact of recent changes in RPI/CPI, based on the requirements of the original contract indexation terms. • Confirm the impact of the financial flexibilities on the PFI and DBFM loans fund repayments.

Source: Audit Scotland

18. As set out in International Standard on Auditing (UK) 240: *The auditor's responsibilities relating to fraud in an audit of financial statement*, there is a presumed risk of fraud over the recognition of revenue. We have considered the risk over income recognition and the risk of fraud over expenditure (in accordance with *Practice Note 10 (Audit of Financial Statements and Regularity of Public Sector Bodies in the UK)*).

19. We have rebutted the presumption that a risk of material misstatement exists, with the exception of management override of controls, as detailed at point 1 in [Exhibit 2](#) above. Our assessment is on the basis that:

- there are generally no incentives for staff to commit fraudulent financial reporting
- a significant portion of the council's income comes from government grants and contributions that can be readily agreed to funding letters
- most expenditure is in low-risk areas where individual transactions are well-controlled (for example salaried staff costs in a well-defined grading system) and individual transactions are relatively small in scale

- evidence of external fraud from counter fraud services and the National Fraud Initiative does not indicate material risks
- experience in the sector, including a review of past misstatements as reported by the predecessor auditor, does not indicate a significant risk.

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

Revisions to ISA (UK) 315 on auditors' responsibility to identify and assess the risks of material misstatement

21. The revised International Standard on Auditing (UK) 315 includes a revised requirement for auditors to understand a body's use of IT, as part of our understanding of the wider control environment, and to consider the related risks.

22. As part of our 2022/23 audit planning work, we will undertake an assessment of the council's IT systems to obtain an understanding of the use of IT in financial reporting. This will consider the nature and characteristics of the council's IT applications and IT infrastructure.

23. Any risks of material misstatement identified from our assessment of the council's IT systems and infrastructure will be communicated to management and reflected in our approach to the audit of the 2022/23 financial statements.

Group Consideration

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

25. The council has a group which comprises component entities, including subsidiaries, associates, and joint ventures. The IJB is a significant component, and we will undertake work to gain assurance over the funding and expenditure (which is taken from financial reports of the council and NHS Tayside). The audits of the financial information of three of the subsidiaries are performed by other auditors. We will obtain sufficient appropriate audit evidence in relation to the consolidation process, including analytical review on which to base our group audit opinion.

Audit of the trusts registered as Scottish charities

26. Members of Perth & Kinross Council are sole trustees for 6 trusts registered as Scottish charities, with net assets of approximately £2.4 million. The preparation and audit of financial statements of registered charities is regulated by the Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006.

27. The 2006 Regulations require charities to prepare annual accounts and require an accompanying auditor's report where any legislation requires an audit.

The Local Government (Scotland) Act 1973 specifies the audit requirements for any trust fund where some or all members of a council are the sole trustees. Therefore, a full and separate audit and independent auditor's report is required for each registered charity where members of the Council are sole trustees, irrespective of the size of the charity.

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

Materiality levels for the 2022/23 audit of trusts registered as Scottish charities

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

Exhibit 3

2022/23 Materiality levels for charitable trusts

Materiality	Amount
Planning materiality – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. For the year ended 31 March 2023 we have set our materiality at 2% of gross assets based on the audited financial statements for 2021/22.	£47,000
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this could indicate that further audit procedures should be considered. Using our professional judgement, we have assessed performance materiality at 75% of planning materiality.	£35,000
Reporting threshold (ie clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount.	£2,000

Source: Audit Scotland

Wider Scope and Best Value

Introduction

30. The [Code of Audit Practice 2021](#) sets out the four areas that frame the wider scope of public sector audit. The Code of Audit Practice requires auditors to consider the adequacy of the arrangements in place for the wider scope areas in audited bodies.

31. In summary, the four wider scope areas cover the following:

- **Financial management** - means having sound financial control processes. We will consider these arrangements and comment on financial management in our Annual Audit Report.
- **Financial sustainability** - as auditors, we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit and comment on the 2022/23 financial position and sustainability in our Annual Audit Report.
- **Vision, leadership, and governance** - we will conclude on the arrangements in place to deliver the council's vision, strategy, and priorities. We will also consider the effectiveness of the governance arrangements and comment in our Annual Audit Report.
- **Use of resources to improve outcomes** - audited bodies must make best use of their resources to meet stated outcomes and improvement objectives. We will consider how the council demonstrates economy, efficiency, and effectiveness through the use of financial and other resources and comment in our Annual Audit Report.

Wider scope risks

32. Our planned work on our wider scope responsibilities is risk based and proportionate. We have not identified any additional local wider scope risks for the 2022/23 audit of Perth & Kinross Council.

Climate Change

33. The Auditor General and Accounts Commission are developing a programme of work on climate change. In 2022/23, we will gather information on the council's arrangements for responding to climate change covering areas such as the development of climate change strategies and the monitoring and reporting of progress against targets for reducing emissions.

Cyber Security

34. As noted in [paragraph 22](#), we are undertaking a wider review of ICT systems and in 2022/23, we will consider the council's arrangements for managing and mitigating cyber security risks.

Best Value

35. Under the [Code of Audit Practice 2021](#), the audit of Best Value in councils is fully integrated within our annual audit work.

36. Best Value at the council will be assessed comprehensively over the period of the audit appointment and will include an annual evaluation of the council's approach to demonstrating improvement in its services and public performance reporting. We will also follow up findings reported previously on Best Value to assess the pace and depth of improvement. This work will be integrated within our thematic reporting below.

37. In addition to our annual work on Best Value we will conduct thematic reviews as directed by the Accounts Commission. In 2022/23 the thematic review across the sector will be on the effectiveness of council leadership in developing new local strategic priorities following the elections in May 2022. Our conclusions and judgements will be reported in a separate report to management and summarised in our Annual Audit Report.

38. At least once every five years, the Controller of Audit will report to the Accounts Commission on the council's performance in meeting its Best Value duties. The first year of the programme will be from October 2023 to August 2024 and will cover the councils listed in [Exhibit 4](#). Perth & Kinross Council is not part of the first-year programme of reporting.

Exhibit 4 Controller of Audit reports

Falkirk	South Ayrshire
Moray	Dumfries and Galloway
Clackmannanshire	West Dunbartonshire
Orkney Islands	City of Dundee

Source: Audit Scotland

Reporting arrangements, timetable, and audit fee

Reporting arrangements

39. Audit reporting is the visible output for the annual audit. This Annual Audit Plan and the outputs, as detailed in [Exhibit 5](#), and any other outputs on matters of public interest will be published on our website: www.audit-scotland.gov.uk.

40. 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 relevant officers to confirm factual accuracy.

41. We will provide an independent auditor's report to the members of Perth & Kinross Council and the Accounts Commission setting out our opinions on the annual accounts. We will also provide the council and the Accounts Commission with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

42. [Exhibit 5](#) outlines the target dates for our audit outputs.

Exhibit 5

2022/23 Audit outputs

Audit Output	Target date	Audit and Risk Committee Date
Annual Audit Plan	31 March 2023	27 March 2023
Best Value Management Report	31 October 2023	25 September 2023
Independent Auditor's Report	31 October 2023	By 31 October 2023
Annual Audit Report	31 October 2023	By 31 October 2023

Source: Audit Scotland

43. The Local Authority Accounts (Scotland) Regulations 2014 require local authorities to 'aim to approve the audited accounts for signature no later than 30 September immediately following the financial year to which the accounts relate' and that the signed accounts 'must be published no later than 31 October'. Due to the legacy of the late completion of prior year audits due to Covid-19 and ongoing resourcing challenges within Audit Scotland, we are unable to complete the



council's audit by the 30 September but aim to have it completed in time to publish the audited accounts by 31 October. We acknowledge that this planned timetable is determined by the availability of the audit process and not by the council, which proposes to present unaudited accounts for audit by the 30 June 2023.

Timetable

44. We have included a proposed timetable for the audit at [Exhibit 6](#) that has been discussed with management.

Exhibit 6

Proposed annual report and accounts timetable

 Key stage	 Provisional Date
Consideration of the unaudited annual accounts by those charged with governance	26 June 2023
Latest submission date for the receipt of the unaudited annual accounts with complete working papers package	30 June 2023
Latest date for final clearance meeting with the Head of Finance	03 October 2023
Agreement of audited unsigned annual accounts	22 October 2023
Issue of Annual Audit Report including ISA260 report to those charged with governance (Audit and Risk Committee)	
Audit and Risk Committee meeting to consider the Annual Audit Report and approve the audited annual accounts for signature	By 31 October 2023
Signed Independent Auditor's Report	By 31 October 2023

Source: Audit Scotland

45. Covid-19 has had a considerable impact on the conduct and timeliness of the audit. We recognise that it is in the best interests of public accountability to get the reporting of audited accounts back to pre-pandemic timelines. We are identifying ways to work more efficiently to expedite the 2022/23 audits whilst at the same time maintaining high standards of quality.

46. We intend to undertake the 2022/23 audit remotely. We will continue to work closely with management to identify the most efficient approach as appropriate and will keep timeframes and logistics for the completion of the audit under review. Progress will be discussed with management and finance officers over the course of the audit.

Audit fee

47. In determining the audit fee, we have taken account of the risk exposure of the council and the planned management assurances in place. The proposed audit fee for 2022/23 is £330,000 (2021/22: £303,290), an increase of 8.8 per cent. We also agreed a fee of £6,000 (2021/22: £8,000) for the charitable trusts.

48. Fees have increased in 2022/23 and this reflects the current audit market and the rising costs in delivering high quality audit work. These include increased regulatory expectations and a widening in the scope of audit work.

49. In setting the fee for 2022/23 we have assumed that the council and charitable trusts have effective governance arrangements in place and will prepare comprehensive and accurate accounts for audit in line with the agreed timetable. The audit fee also assumes there will be no major change in respect of the scope of the audit during the year. Where our audit cannot proceed as planned, a supplementary fee may be levied.

Other matters

Internal audit

50. It is the responsibility of the council to establish adequate internal audit arrangements. The internal audit function at the council is provided in-house. We have reviewed internal audit's plan as part of our planning process.

51. While we are not planning to place formal reliance on the work of internal audit in 2022/23, we will review internal audit reports and assess the impact of the findings on our financial statements and wider scope audit responsibilities.

Independence and objectivity

52. Auditors appointed by the Auditor General for Scotland or Accounts Commission must comply with the [Code of Audit Practice](#) and relevant supporting guidance. When auditing the financial statements, auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors.

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

54. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. The appointed auditor for Perth & Kinross Council is Brian Howarth, Audit Director, and for the charitable trusts is Maggie Bruce, Senior Audit Manager. We are not aware of any such relationships pertaining to the audit of Perth & Kinross Council or the charitable trusts.

Audit quality

55. Quality is at the core of public audit in Scotland and is the foundation for building consistency and confidence across all audit work. High quality audits provide assurance, add value, and can support public bodies to achieve their objectives. Until 2021/22, the applicable audit quality standard was International Standard on Quality Control 1 (ISQC (UK) 1). This set out an audit practice's responsibilities for its system of quality control for audits.

56. ISQC(UK) 1 has been replaced by two new audit quality standards: Internal Standards on Quality Management (ISQM (UK) 1) applicable from 15 December 2022 and (ISQM(UK) 2) effective for the 2023/24 audits. Work is underway at Audit Scotland to meet the requirements of these quality standards.

57. Audit Scotland is committed to delivering high quality audits. 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](#) (and supplementary guidance) issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards, Audit Scotland conducts peer reviews and internal quality reviews. Additionally, the Institute of Chartered Accountants of England and Wales (ICAEW) have been commissioned to carry out external quality reviews.

58. 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 welcome feedback at any time, and this may be directed to the appointed auditor.

Appendix. Your audit team

59. The senior team involved in the audit of Perth & Kinross Council have significant experience in public sector audit.



Brian Howarth, Audit Director

Brian is the appointed auditor for a portfolio of health, local government, and central government bodies, including Perth & Kinross City Council, Dundee City Council, Shetland Islands Council, and the associated IJBs, as well as Tayside Pension Fund, Shetland Islands Pension Fund, NHS Tayside, and NHS Shetland. He has 30 years' experience of public sector audit with Audit Scotland and is a member of the Chartered Institute of Management Accountants.



Maggie Bruce, Senior Audit Manager

Maggie has over 30 years of public sector audit experience and is a member of the Institute of Chartered Accountants of Scotland. She has delivered external audit services to a range of bodies including local authorities, health boards and central government bodies.



Pamela Bryan, Senior Auditor

Pamela has considerable experience in planning and delivering audits in the local, central government and health sectors and is a member of the Institute of Chartered Accountants of Scotland. Pamela will coordinate the work of the team and will be the main point of contact for the audit.

60. The local audit team is supported by a specialist technical accounting team, all of whom have significant experience of public bodies and work with accounting regulatory bodies.

61. Where possible and appropriate, we use our data analytics team to enable us to capture whole populations of your financial data. This analysis allows us to identify specific exceptions and anomalies within populations to enhance the focus of audit testing and support efficiency.

Perth & Kinross Council

Annual Audit Plan 2022/23

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AUDIT & RISK COMMITTEE

27 MARCH 2023

INTERNAL AUDIT UPDATE

**Report by Chief Internal Auditor
(Report No. 23/100)**

1. PURPOSE

- 1.1 This report presents a summary of Internal Audit's work undertaken as part of the Internal Audit Plans for 2021/22 and 2022/23.

2. RECOMMENDATION

- 2.1 It is recommended that the Committee notes progress with Internal Audit activity.

3. STRUCTURE OF REPORT

- 3.1 This report is structured over the following sections:

- Section 4: Background
- Section 5: Progress Update
- Appendix

4. BACKGROUND

- 4.1 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.
- 4.2 Work has continued on assignments from Perth & Kinross Council's Internal Audit Plans. In addition, work has continued to be undertaken in connection with the Internal Audit provision for the Integration Joint Board.
- 4.3 Work has continued to support the 2022/23 National Fraud Initiative exercise, with supporting Services to identify main contacts to undertake the investigation and to provide training where relevant. Matches have been released and Services have commenced reviewing and investigating their matches. Outcomes from this will be reported later in the year once all matched have been reviewed and investigations into all datasets have been completed.

5. PROGRESS UPDATE

- 5.1 Appendix 1 shows the status of audits arising from the Internal Audit Plans, together with those assignments which will continue into 2022/23.

- 5.2 There has been a change to one assignment, namely assignment G22-09 Bus Service Operators Grant. The name of this has now changed to Network Support Grant, with some slight changes to the terms and conditions involved in the grant certification process. This grant claim has now been authorised and discussions have taken place with the Public Transport Unit to ensure that there is a clear understanding of expectations for Internal Audit to be able to authorise these grant claims in future.

Authors

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APPENDICES

- Appendix 1 Internal Audit Activity

Appendix 1

INTERNAL AUDIT UPDATE

Internal Audit Activity

Audit No.	Title	Lead Service(s)	Status as at February 2023	Audit Committee
2021/22				
A21-05	Tay Cities Deal	Communities	Report in Discussion	June 2023
A21-07	Agency Workers	Communities	Report in Discussion	June 2023
2022/23				
A22-01	LEADER	Communities	Completed	September 2022
A22-02	Climate Change	Communities	Ongoing	June 2023
A22-03	Partnership Working	All	Ongoing	June 2023
C22-04	Mosaic	Corporate	Ongoing	June 2023
A22-05	Community Engagement	Communities		June 2023
A22-06	IT Assets	Corporate & Democratic Services	Ongoing	June 2023
C22-07	Transformation Reviews	Corporate	Ongoing	June 2023
A22-08	Payroll	Corporate & Democratic Services		June 2023
G22-09	Bus Service Operators Grant (Now Network Support Grant)	Communities	Completed	February 2023

