Appendix C

REVISED

KPMG

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 2020

16 September 2020

DRAFT

Contents

DRAFT

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 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 scoping and purpose 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 Michael Wilkie, who is the engagement leader for our services to Perth and Kinross Council, telephone 0141 300 5890 or email to michael.wilkie@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 by emailing hugh.harvie@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 Diane McGiffen, Audit Scotland, 4th Floor, 102 West Port, Edinburgh, EH3 9DN.

Executive summary

Significant risks

Pages 7-12

– Management override of controls fraud risk	Page 7
– Fraud risk from income recognition and expenditure	Page 8
– Revaluation of property, plant and equipment, and investment property	Page 9
– Retirement benefits	Page 11
Wider scope areas *(no significant risks identified)*	Page 18

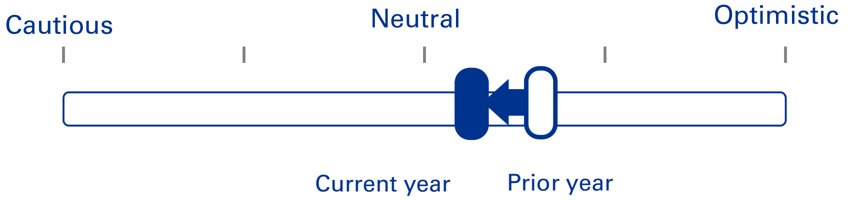
Open recommendations

Appendix three

	Number
Significant recommendations	0
Other recommendations	0
Minor recommendations (inclusive of a 2018-19 recommendation)	4

Accounting judgements related to estimates

Page 13



Overall we are satisfied with the key accounting judgments taken and that discussion of these matters in the section of the accounting policies appropriately addresses the matters we have communicated to you.

Period of appointment

DRAFT

In June 2020, we were notified of Audit Scotland's intention to extend the audit appointment an additional year to mitigate any potential impact on the appointments process as a result of Covid-19, this equally applies Perth and Kinross Charitable Trusts. We have been appointed to 2021-22 inclusive

Going concern

As part of the revised requirements of the Financial Reporting Council, we completed detailed testing of management's assertion that the Council is a going concern.
We consider that the Council has sufficient net assets, and sufficient tax raising powers to support this assertion.
We also report that legislation ultimately requires the Council and Group accounts to be prepared on a going concern basis, and we were satisfied with this assessment.

Misstatements

We reported no misstatements corrected or uncorrected. There were some minor presentational changes, and changes arising during the audit through circumstances outwith management's control. We did not consider these to be misstatements.

Scope and responsibilities

DRAFT

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 engagement has been extended by Audit Scotland to 2021-22 in order to mitigate any potential impact of Covid-19 on the process for the next period of appointment.

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 the Council and the Controller of Audit. The scope and nature of our audit are set out in our audit strategy document which was presented to the audit committee on 5 February 2020.

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 wider scope areas. The reports incorporates both aspects of the Code.

Accountable officer responsibilities

The Code sets out the 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) ("ISA") issued by the Financial Reporting Council ("FRC") and the Code. Appendix seven 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 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 report to those charged with governance and our presentation to audit committee, together with previous reports to the audit committee throughout the year, discharges the requirements of ISA 260.

Limitations on work performed

This Report is separate from our audit report in the annual accounts and does not provide an additional opinion on the Council's annual accounts nor does it add to or extend or alter our duties and responsibilities as auditors in accordance with the Code.

We have not designed or performed procedures outside those required of us as auditors for the purpose of identifying or communicating any of the matters covered by this Report.

Audit conclusions

DRAFT

Audit opinion
Following approval of the annual accounts by the audit committee, we expect to issue an unqualified opinion on the truth and fairness of the state of the Council's affairs as at 31 March 2020, and of the deficit on the provision of services 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 Trusts' affairs as at 31 March 2020. 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 annual accounts in accordance with International Financial Reporting Standards ("IFRS"), as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2019-20 ("the CIPFA Code"), and in accordance with the Local Authority Accounts (Scotland) Regulations 2014. Our audit confirmed that the annual accounts have been prepared in accordance with the CIPFA Code and relevant legislation. The Perth and Kinross Council Charitable Trust's financial statements are prepared in accordance with the Charities SORP (FRS 102), the Charities and Trustee Investment (Scotland) Act 2005 and regulation 8 of the Charities Accounts (Scotland) Regulations 2006 (as amended). Our audits confirmed that the annual accounts have been prepared in accordance with the relevant charity accounting legislation.
Annual accounts preparation and audit readiness
The accounts were made available to us on 29 June 2020, and were subsequently considered by the Audit Committee on 22 July 2020. The Council's finance team continued to perform well in its delivery of high quality annual accounts, particularly considering the operational impact of Covid-19. We appreciate that management effectively prioritised preparation of the financial statements and worked with KPMG to ensure continued responsiveness to audit. In 2018-19, a recommendation was made to review the accounts preparation process. All parties agreed that this work would be deferred until 2020-21 in order to support council delivery of key services during the Covid-19 pandemic.
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
We have not identified any audit misstatements.
Written representations
Our representation letter does not include any additional representations to those that are standard as required for our audit.

Materiality and summary of risk areas

DRAFT

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 £9.5 million for the Council's standalone financial statements, and £9.8 million for the Group financial statements. The Council's materiality equates to 1.9% of Council gross expenditure on the provision of services, adjusted for revaluation charges recognised in the year, and funding provided to the Perth and Kinross Integration Joint Board ("the IJB") . We designed our procedures to detect errors in specific accounts at a lower level of precision than our materiality. For the standalone accounts our performance materiality was £7.1 million, and for the Group accounts it was £7.4 million. We report all identified 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 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 judgements 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, including private sessions with members, and to update our understanding of the key governance processes.

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;
- Fraud risk from income recognition and expenditure;
- Revaluation of property, plant and equipment, and investment property; and
- Retirement benefits.

We also report on the previously identified audit focus area in respect of Capital Expenditure.

As described in more detail on page 12, we updated our understanding of the risks relating to retirement benefits as a result of the legal judgements on McCloud and GMP but did not change our assessment of the risk overall. No other changes to significant risks or other matters were identified during the course of our audit.

Most significant assessed risks of material misstatement

We set out on pages 7 through 12 the significant risks identified in the audit, together with our conclusions. The audit opinion within the annual accounts includes a reference to the most significant assessed risks of material misstatement, which equates to the significant risks included in this annual audit report. This annual audit report does not constitute our audit opinion; the opinion is included within the annual accounts.

Significant risks

We set out below the significant risk identified in the audit, together with our conclusion. The audit opinion within the annual accounts includes a reference to the most significant assessed risks of material misstatement, which is the significant risk included in this annual audit report. This annual audit report does not constitute our audit opinion; the opinion is included within the annual accounts.

DRAFT

SIGNIFICANT RISK	OUR RESPONSE	AUDIT CONCLUSION
Management override of controls fraud risk A presumed risk we are required to consider covers fraud risk from management override of control. Management is typically in a position to perpetrate fraud owing to its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Our audit methodology incorporates the risk of management override as a default significant risk. This is an assumed risk per ISA 240 *The Auditor's responsibilities related to fraud in the audit of financial statements*.	Our audit methodology incorporates the risk of management override as a default significant risk. We did not identify any specific additional risks of management override relating to the audit of the Council. Strong oversight of finances by management provides additional review of potential material errors caused by management override of controls. Our audit procedures included: — controls testing and substantive procedures, including over journal entries and accounting estimates (such as over property revaluations and pensions); and — review of significant transactions that are outside the Council's normal course of business, or are otherwise unusual.	*We did not identify any indicators of management bias or management fraud during the audit or as a result of our controls testing as presented on page 22.* Our testing of journal entries was satisfactory and we have obtained sufficient audit evidence as a result of our planned procedures. No issues were identified. We did not identify any significant transactions that are outside the Council's normal course of business, or are otherwise unusual.

Significant risks (continued)

DRAFT

SIGNIFICANT RISK	OUR RESPONSE	AUDIT CONCLUSION
Fraud risk from income recognition and expenditure Under ISA 240 there is a presumed risk that income may be misstated due to improper recognition of income. This requirement is modified by Practice Note 10, issued by the FRC, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. We consider that the Council's significant income streams, which include taxation and non-specific grant income are free of management judgement or estimation. We do not consider recognition of remaining income to represent a significant risk for the Council as there are limited incentives or opportunities to manipulate income recognition, and these are not likely to be materially inappropriate. We rebut this risk and did not incorporate specific work in this area beyond our standard fraud procedures. We consider that there is not a risk of improper recognition of expenditure in respect of payroll costs, financing and investment expenditure, or depreciation. These costs are routine in nature and not at risk of manipulation. We rebutted the risk of fraud over other operating expenditure on the basis of materiality. We did not rebut the assumed risk in respect of the remaining expenditure.	In respect of material income: – non-ringfenced government grants are agreed in advance of the year, with any changes requiring government approval. There is no estimation or judgement in recognising this stream of income and we do not regard the risk of fraud to be significant. We agreed significant grants to supporting documentation. – the other major sources of income are from annual local taxes and rental income (council tax, non-domestic rates and housing incomes). These incomes are prescribed by law and other specific regulations, which prescribe the period in which annual local taxes and rental income is recognised as income. We performed tests of detail and substantive analytical procedures in our audit of these sources of income. We performed procedures in respect of expenditure to: – compare the outturn with the in year budget monitoring, considering variances; – test controls specific to confirm correct capital vs revenue allocation; – test expenditure cut-off including a search for unrecorded liabilities and journals posted towards the year end; – test transactions focusing on the areas of greatest risk, including debtors, creditors, accruals, prepayments and provisions to challenge completeness and existence of these balances; and – review and challenge of management in respect of estimates for evidence of bias.	*We have concluded that that income and expenditure are appropriately recognised.* Our review of variances of actual performance against budget did not highlight any errors. We undertook a detailed search for unrecorded liabilities, as well as testing estimates over accruals which did not identify any errors in expenditure cut off. No exceptions were identified in respect of the specific controls testing, and expenditure testing covering purchase ledger, and journals. No indications of management bias were identified.

Significant risks (continued)

DRAFT

SIGNIFICANT RISK	OUR RESPONSE	AUDIT CONCLUSION
Revaluation of property, plant and equipment and investment property The CIPFA Code requires that where assets are subject to revaluation, their year-end carrying value should reflect the appropriate fair value at that date. In common with other councils, the Council has adopted a rolling revaluation model which sees all land and buildings revalued over a five year cycle. In 2019-20 HRA housing stock, shops, miscellaneous non-operational properties, investment properties, and industrial properties were subject to revaluation. The revaluation model also includes revaluation of assets with significant capital investment, and consideration of impairment indicators for all Council assets. In 2019-20, all valuations were performed internally with the exception of the HRA housing stock which was carried out by the District Valuer Service (DVS). The Council uses a valuation date of the 1 April 2019 for the 31 March 2020 year end and 1 August 2019 for all investment properties. The HRA valuation date was 30 September 2019. We consider there to be a risk of material movement between these dates.	Our procedures included: **Control design:** We tested a control ensuring sufficient segregation of duties and authorisation of valuations before being submitted to Corporate Accounting. **Assets revalued in the year:** A number of the Council's assets are revalued on an annual basis, including investment properties and assets held for sale. In relation to those assets which have been revalued during the year we assessed the valuer's qualifications, objectivity and independence to carry out such valuations. We tested the accounting treatment for assets revalued to challenge whether the accounting treatment is appropriate and consider valuation inputs and assumptions using the approach above. We also assessed the risk of the valuation changing materially during the year, or between the date of valuation and the year end. **Assessing methodology choice and benchmarking assumptions:** We reviewed management's assessment of impairment indicators and assessed for completeness. We utilised our internal specialist to assess the methodology used including testing the underlying data inputs and assessing the assumptions used in comparison to available market information. We selected a representative sample of 8 HRA properties and agreed the comparable sales data used in their valuation to third party sources. We selected a further sample of 10 assets to agree calculation inputs to supporting evidence, consider in detail the revaluation calculations and challenge the underlying assumptions. These assets were considered representative of the asset categories subject to revaluation in the year.	*We found the resulting valuation of council dwellings, other land and buildings, surplus assets and investment properties to be acceptable on an appropriate basis, which resulted in a net decrease in the assets revalued.* We tested a sample of 15 revaluations to confirm that the Senior Estates Surveyor had reviewed revaluations, and that senior colleagues responsible for review and valuation were appropriately qualified. We inspected management's roll forward of valuations from the date of valuation to the year end date and confirmed it was completed. Our internal valuation specialist, in conjunction with the audit team, concluded that the valuation methodology used by the Council's valuer and the DVS was appropriate and consistent with the requirements of the CIPFA Code. We challenged the assumptions used in calculating the valuations including Building Cost Information Service ("BCIS") rates, estimated useful lives, and comparable data. The supporting documentation provided for the assumptions was readily available and of sufficient quality.

Significant risks (continued)

DRAFT

SIGNIFICANT RISK	OUR RESPONSE	AUDIT CONCLUSION
Revaluation of property, plant and equipment and investment property (continued) Given the quantum of the asset carrying values and the inherent use of assumptions in their valuation, we consider there to be a significant risk of misstatement. The 2019-20 code also requires consideration that the carrying amount of assets do not differ materially from the current value at the end of the reporting period. Therefore, we consider there to be a risk in relation to the assets not revalued in the year, as their current value at year end may be materially different.	Continued… We considered whether there are any indicators for impairment across the region that would suggest an impairment review is required. **Assets not revalued in the year:** We reviewed the approach that the Council has adopted to assess the risk that assets not subject to valuation are materially misstated and consider the robustness of that approach, including any indicators of impairment.	Continued… Due to the level of uncertainty in the property market as a result of the Covid-19 pandemic, both the Council's valuer and the DVS have included material uncertainty clauses in their respective valuation reports. This reflects the risk that property values could be impacted in the coming months. There is currently insufficient evidence available to make a reliable estimate as to the extent of the impact. In light of this uncertainty, management have performed an impairment review which considers the potential impact on all significant categories of assets. We reviewed this assessment and did not identify any indicators of impairment that required further review.

Significant risks (continued)

DRAFT

SIGNIFICANT RISK	OUR RESPONSE	AUDIT CONCLUSION
Retirement benefits The net pension liability (£121.4m as at 31 March 2020, including assets of £740.8m) represents a material element of the Council's Balance Sheet. The Council is an admitted body of Tayside Pension Fund, which had its last triennial valuation completed as at 31 March 2017. The valuation of the Local Government Pension Scheme relies on a number of assumptions, most notably around the actuarial assumptions, and actuarial methodology which results in the Council's overall valuation. There are financial assumptions and demographic assumptions used in the calculation of the pension liability estimate, such as the discount rate, inflation rates, mortality rates etc. The assumptions should also reflect the profile of the Council's employees, and should be based on appropriate data. The basis of the assumptions should be derived on a consistent basis year to year, or updated to reflect any changes. There is a risk that the assumptions and methodology used in the valuation of the Council's pension obligation are not balanced. This could have a material impact to net pension liability accounted for in the financial statements.	Our audit approach included: **Control design:** — Testing the design and operating effectiveness of controls over the provision of membership information to the actuary who uses it, together with management's review of assumptions, to calculate the pension obligation. **Benchmarking assumptions:** — Challenging, with the support of our own actuarial specialists, the key assumptions used by the actuary (the discount rate, inflation rate and mortality/life expectancy) against externally derived data. — Challenging the rate of increase in pensionable salaries assumption, by comparing it to other evidence such as business and transformation plans and our understanding of Government and staff expectations. — Considering the consistency of methodology **Assessing transparency:** — Considering the adequacy of the disclosures in respect of the sensitivity of the deficit to these assumptions — Assessing if the disclosures within the financial statements are in accordance with the 2019-20 CIPFA Code's requirements.	*We are satisfied that the retirement benefit obligation:* — *is correctly recognised on the balance sheet as at 31 March 2020;* — *has been accounted for and disclosed correctly in line with International Accounting Standard ("IAS") 19 Retirement benefits; and* — *assumptions used in calculating this estimate and management's judgements are appropriate and within a range which we consider to be acceptable (see Appendix nine)* Results of testing of controls in respect of provision of information to the actuary were satisfactory. The disclosures in the annual accounts are in line with the CIPFA Code's requirements, including relevant sensitivity analysis. Assumption Change Our actuarial specialists identified a change in the methodology of calculating CPI. This change was identified as a result of the UK Chancellor and UK Statistics Authority jointly publishing a change in the calculation of RPI which is linked to CPI. This change in methodology has been observed on a significant number of pension funds in the UK, and our actuarial specialist concluded the change was reasonable, and the CPI assumption remains within our normally acceptable range.

Significant risks (continued)

DRAFT

SIGNIFICANT RISK	OUR RESPONSE	AUDIT CONCLUSION
Retirement benefits (continued) **Guaranteed minimum pensions ("GMP") equalisation** Following a UK High Court judgement on 26 October 2018, the Government published the outcome to its indexation and equalisation of GMP in public service pension schemes consultation, concluding that the requirement for public service pension schemes to fully price protect the GMP element of individuals' public service pension would be extended to those individuals reaching State Pension Age ("SPA") before 6 April 2021. **Updates to our significant risks** Two significant court cases were concluded upon in the prior year, relating to Gross Minimum pensions equalisation, and the McCloud case. Both judgements are considered by KPMG to have an impact on the pension liability due to the level of estimation and assumptions used by management and the actuary. We therefore included these areas within our significant risk. In addition, CIPFA issued guidance during the year relating to the Goodwin case, which relates to a male survivor of a female scheme member and is alleging direct sexual orientation discrimination.	We discussed with management any updates regarding this matter, and how these impacted the audit.	Continued… Guaranteed minimum pensions ('GMP') equalisation Full allowance for GMP equalisation was taken into account by the Council during 2018-19. We confirmed that no additional changes were required in 2019-20. McCloud consultation The council, informed by its actuary, concluded no adjustment was required in respect of the value placed on the liability for McCloud in 2019-20. Formal consultation on how the McCloud judgement will be implemented began in July 2020 and is expected to conclude in October 2020. We agreed with management's assertion that the impact is unlikely to be material but requested additional disclosure be included in the financial statements to explain that there is some uncertainty surrounding the outcome of the consultation. Goodwin case During the annual accounts audit, we discussed the inclusion of a contingent liability in the accounts. We concluded that it was prudent to include such disclosure, and did not view it as a misstatement of omission.

Other areas of audit focus

DRAFT

Other area of audit focus	OUR RESPONSE	AUDIT CONCLUSION
Capital expenditure The Council has a ten year £576 million capital plan, which includes the Cross Tay Link Road, A9/A85 road junction improvement project and Perth City Hall upgrade. The initial budget in 2019-20 was £74 million. Due to the significance of this capital investment programme and complexity of some of the projects, we consider there to be a risk of misstatement. This is in respect of ensuring that the classification of costs between operating and capital expenditure is appropriate and in respect of capturing all relevant costs and contributions. We also consider that any large capital project inherently brings a fraud risk to an entity, which we consider appropriate for the Council. We note that this was not a fraud risk relating to the financial statements.	Our audit approach includes: **Control design:** – Testing the design and operating effectiveness of controls in respect of the review of costs allocated to capital and income projects. **Control re-performance:** – Comparing the total capital expenditure reported in the financial statements with that reported in reports to those charged with governance. **Tests of detail:** – Use of substantive sampling methods to evaluate the appropriateness of capital or income accounting classification by reference to supporting documentation. – Assessing a sample of items allocated to revenue expenditure to determine whether they are correctly classified. – Review and corroboration of manual journals.	The controls tested were found to be effective. No exceptions were identified in the tests of detail, with supporting documentation available for each item sampled. *We have concluded that the treatment of capital expenditure is satisfactory.*

Going concern (this is draft wording awaiting central review)

DRAFT

Going concern

Going concern means the ability of the Council to remain solvent for the twelve month period from the accounts being signed.

The Council had net assets of £557.7 million (2018-19 £544.8 million) as at the balance sheet date. Net assets increased on 2018-19 by £12.9 million, reflecting the total comprehensive expenditure for the year and accounting adjustments required by the CIPFA Code (see page 20 for further detail).

Management considers it appropriate to continue to adopt the going concern assumption for the preparation of the annual accounts. The Council is in a net asset position, and it considers that the confirmed Scottish Government funding (which includes non-domestic rates income) of £271 million is sufficient to meet debts as they fall due. The council also has reasonable certainty over income sources, such as Council Tax income. Financial assets comprising short term investments, and cash and cash equivalents were £207.0 million (2018-19: £47.8 million) as at 31 March 2020. This is offset by an increase of £162.5 million in long-term borrowings.

The council has produced its five year medium term financial plan (MTFP) in each October of our appointment, though this was postponed in October 2019 owing to uncertainty over Brexit negotiations, and subsequently delayed until October 2020 as a result of continued uncertainty resulting from Covid-19. However, the Council have produced a three year revenue budget, which supports the ability of the Council to continue as a going concern.

In recent financial years, there has been managed reduction in the overall cost base and further efficiency savings are incorporated into budgets. The Council endorsed a 2019-20 savings requirement of £16.5 million in the October 2018 medium term financial plan. The Council approved a savings target of £4.0 million in the 2019-20 budget across a wide range of the activities of the Council, in order to achieve a balanced budget.

In addition to planned savings of £4.0 million, the 2020-21 budget identifies the planned use of £5.2 million of general fund reserves to achieve a balanced budget. This would reduce the general fund reserve to £44.1 million, of which £7.4 million is not earmarked.

In a typical year, the council would develop and approve a five-year medium term financial plan, however, we accept the decision of management to delay this process during 2019-20 due to continuous changes and uncertainty due to Brexit.

Whilst the current MTFP has not been updated, it continues to demonstrate the medium term planning intent by management.

In February 2019, a ten-year composite capital budget was approved which takes a longer-term view in respect of financial planning. This demonstrates strong financial oversight, and planning of future pressures. This supports our assessment that the forecasting undertaken by management, and the comprehension of key financial pressures will mean management can take action to mitigate or resolve in future years.

Going Concern (continued)

DRAFT

Response to Covid-19

The financial implications of the Covid-19 pandemic were assessed by the Council and submitted to the Convention of Scottish Local Authorities (COSLA) as part of a national data collection exercise in June 2020. The findings were also submitted by the Head of Finance in a report at the 24 June 2020 Council meeting. The report provided an update on the financial position of the council, highlighting the additional expenditure pressures and expected reduction in income. It also provided information on the additional funding made available to support the Council in its response. The potential gross cost to the Council was estimated to be between £21.8 million and £26.2 million in 2020-21 as reported to members on 31 August 2020.

Due to the continuing level of uncertainty, the financial impact of the pandemic will require regular review in the coming months. Further work is planned to set out the impact on the Council's budget and to inform a review of the MTFP in September 2020. It is likely that a significant revision to the 2020-21 revenue budget will be required, and officers intend to present a proposed revision to council on 30 September 2020.

This presents an additional challenge to the delivery of a balanced budget and will increase the need to identify and deliver savings. Despite this, we do not believe the impact of Covid-19 brings into question the use of the going concern assumption.

Conclusion

The Council has a strong net assets position and a significant value of available financial assets. It has put in place savings plans and prepared short, medium and long term financial forecasts. These are inherently dependent on a number of assumptions out with the Council's control although the Council is currently performing broadly in line with budget. Management has demonstrated strong leadership in taking action on overspends to ensure tight budgetary control.

In light of the financial position, the short-term and medium-term forecasts, the confirmation of general revenue grant and the reasonable certainty over other significant income streams, we are content that the going concern assumption is appropriate.

Management reporting in financial statements

DRAFT

REPORT	SUMMARY OBSERVATIONS	AUDIT CONCLUSION
Management commentary	The Local Authority Accounts (Scotland) Regulations 2014 require the inclusion of a management commentary within the annual accounts, similar to the Companies Act requirements for listed entity financial statements. The requirements are outlined in the Local Government finance circular 5/2015. We are required to read the management commentary and express an opinion as to whether it is consistent with the information provided in the annual accounts. We also review the contents of the management commentary against the guidance contained in the local government finance circular 5/2015.	We are satisfied that the information contained within the management commentary is consistent with the annual accounts. We reviewed the contents of the management commentary against the guidance contained in the local government finance circular 5/2015 and, following some suggested enhancements are content with the proposed report.
Remuneration report	The remuneration report was included within the unaudited annual accounts and supporting reports and working papers were provided.	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. Our independent auditor's report confirms that the part of the remuneration report subject to audit has been properly prepared. In accordance with the relevant regulations.
Annual governance statement	The statement for 2019-20 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 the governance framework and annual governance statement to be appropriate for the Council. The arrangements and disclosures surrounding Covid-19 were sufficient and, following some suggested enhancements, we are content that the annual governance statement complies with guidance and reflects our understanding of the Council.

Group financial statements

DRAFT

Our audit appointment of the Council extends to the audit of the Perth and Kinross Council Charitable Trusts and Perth and Kinross Integration Joint Board. Appendix five sets out the group structure. The table below sets out the key audit findings from these entities and also significant matters discussed with the component auditor. There are no findings to report in relation to other group entities.

ENTITY	WORK PERFORMED	AUDIT CONCLUSION
Charitable Trusts	We assessed materiality based on our knowledge and understanding of the charities' risk profile and annual accounts balances. Materiality was determined at 3% of total assets. We planned our materiality for the charitable trusts based on the closing 2018-19 total asset position. As a result of Covid-19, the total assets of the charitable trusts fell from £1.58 million to £1.46 million, resulting in a materiality of £43,500 and a reporting threshold of £2,100. We considered and confirm our independence as auditor and our quality procedures, together with the objectivity of the audit director and audit staff. The engagement lead in 2019-20 was Michael Wilkie.	We expect to issue an unqualified audit opinion on the charitable trusts.
Common Good	Perth and Kinross Council Common Good does not prepare separate financial statements, and is incorporated as disclosure notes within the Council's financial statements. Common Good holds investment properties as well as other assets.	The Common Good amounts are included within the Group financial statements, for which we expect to issue an unqualified opinion.
Integration Joint Board ('IJB')	A separate annual audit report is planned to be presented to the Audit and Performance Committee of the Perth and Kinross Integration Joint Board on 23 September 2020. No significant exceptions were identified during the audit.	We expect to issue an unqualified audit opinion for the IJB on 14 September.

New accounting standards

DRAFT

Future accounting and audit developments

In March 2020, CIPFA/LASAAC agreed to delay the implementation of IFRS 16 *Leases* until the 2021-22 financial year as a result of the COVID-19 pandemic. The standard removes the previous classifications of operating and finance leases for lessees (with exemptions for short-term and low value leases) and requires a right-of-use asset to be recognised, with a corresponding lease liability. It is expected that this standard will now be incorporated in to the 2021-22 CIPFA Code.

The Council planned to perform a detailed review of the impact IFRS 16 will have on its balance sheet during 2020. However, owing to the council prioritising key services as a result of Covid-19, this project has been delayed. We will report on the Council's progress as part of our audit strategy for the 2021-22 audit, and will consider the accounting of IFRS 16 as part of our audit of the 2021-22 financial statements

Amendments to IAS 29 *Employee Benefits* will be implemented in to the 2020-21 CIPFA Code. Where a pension scheme amendment, curtailment or settlement occurs during the year, the amended assumptions are to be applied in relation to the benefits for the remainder of the year.

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 CIPFA 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 44). 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 CIPFA Code, relevant legislation and IFRS. No departures from these requirements were identified.

Wider scope 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. The dimensions are: financial management; financial sustainability; 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 work carried out by internal audit and other scrutiny bodies to ensure our work meets the proportionate and integrated principles contained within the Code.

All appointed auditors are also required to consider areas of focus identified by Audit Scotland, we include our view on each area as within the relevant wider scope section.

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.

In 2018-19, a BVAR was prepared for the Council, and was presented to the Accounts Commission in August 2019. A copy of this report can be found on Audit Scotland's website.

As part of our planned audit procedures, we followed up those recommendations made in the BVAR, and where our work is reported as a result of these recommendations, these have been highlighted as 'recommendation'.

Strategic Audit Priorities

The Accounts Commission agreed five strategic audit priorities as part of the Code:

– the clarity of Council priorities and quality of long-term planning to achieve these;
– how effectively councils are 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

In our fourth year of audit work was planned to, and has covered the following areas as set out in our audit strategy:

- Demand pressures, and the Transformation programme (page 24);
- Medium and long term planning (page 23);
- EU withdrawal (page 25);
- Partnership working and empowering communities (page 32);
- Performance and outcomes (page 27); and
- Fraud and corruption in procurement (page 31).

Conclusion

We concluded that the council has reasonable procedures and practices in place to support a positive conclusion. We consider that overall, the council is working towards achieving areas of best value where they are recognised, and there is a positive attitude towards maintaining this pace.

Financial management

DRAFT

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

2019-20 financial performance

The Comprehensive Income and Expenditure Statement shows a deficit on the provision of services of £3.2 million for the year to 31 March 2020, of which £6.4 million deficit relates to the General Fund and £3.2 million surplus on the Housing Revenue Account. The Council set a net revenue expenditure budget of £353.8 million on the general fund and a gross revenue budget of £29.6 million on the HRA for 2019-20. The core outturn is a surplus of £12.2 million being on the General Fund and HRA in respect of the net cost of services. After minor variances relating to income and finance and investment income and expenditure, the total variance against budget was a £13.9 million underspend, which increased reserves by £1.9 million.

General Fund

A balanced budget was approved in February 2019. The £3.0 million General Fund surplus represents 1.0 % of the net services expenditure, as a net result of over and underspends and re-profiling of Loans Fund charges. The largest underspends were:

- Education and Children's services (£8.9 million), reflecting underspend on teachers and support staff costs, and supplies and services. In addition, £3.0 million was received in 2019-20 but transferred to earmarked reserves for future use.
- Housing and Environment (£4.0 million), reflecting deferred expenditure relating to projects covering flood management, winter maintenance and staff costs.

We continue to highlight the good practice of budget flexibility, which encourages Council services to plan longer term, in which an estimated £2.3 million was carried forward as part of the 2020-21 budget.

Financial headlines

Deficit on provision of services **£3.2 million** *2018-19: £22.3 million*	**Surplus on general fund** **£3.0 million** *2018-19: £3.0 million surplus*
Total reserves **£557.7 million** *2018-19: £544.8 million*	**General fund reserve** **£49.3 million** *2018-19: £47.4 million*
Pension liability ***£121.4 million*** *2018-19 £118.6 million*	**Capital financing requirement** **£583.7 million** *2018-19 £540.3 million*

(Source: audited annual accounts)

Financial management (continued)

DRAFT

2019-20 financial performance (continued)

Housing Revenue Account ("HRA")

The Council is required by legislation to maintain a separate HRA and to ensure that rents are set to cover the costs of its social housing provision. Rent levels are set in order to achieve a breakeven position based on forecast expenditure. The capital HRA budget was approved in January 2019 by the Housing & Communities Committee, and set a budget of £12.5 million revised to £14.3 million. The increase in budget was as a result of higher than forecast Council Buy-Backs and an increased investment in Central Heating and Rewiring works. The final outturn was £14.8 million.

Financial reporting and budgetary control

Regular financial reporting is provided to the Strategic Policy and Resources Committee ("SP&R"), comprising details of budget, a revised budget, and detailed explanations of movements against budget. A final outturn is included as part of the Management Commentary in the audited annual accounts. We have focused upon 'utilisation of reserves, as this is the key driver for performance against budget for the Council and its members. The General Fund reserve allows the Council to smooth out financial pressures over a number of years.

The forecast outturn for the 2019-20 £351.1 million general fund budget as reported quarterly is presented below, with the full year forecast as reported at each quarter [illegible]

Forecast outturn (£000)	Sep-19	Nov-19	Jan-20	Mar-20	Final
Budgeted use of reserves	14,071	14,045	12,824	11,771	12,064
Variance of financed from/ (returned to) reserves against budget	3,380	1,875	(295)	(1,053)	(13,919)

We note that the March 2020 monitoring report was not taken to committee owing to the suspension of committees as a result of Covid-19. The section 95 officer authorised the changes to budget under the council's emergency powers, which were subsequently considered by council as required. The final outturn was included as part of the financial statements review in July 2020 to the audit committee, and we understand will be considered by the full council when it reviews the accounts in October 2020. Whilst we note an underspend of £13.9 million against budget, there has been an overall increase in usable reserves of £1.9 million.

The annual accounts advised of a £13.9 million underspend across the Council as part of its management commentary. This was made up of underspends in Education & Children's Services (£8.9 million), Housing & Environment (£4.0 million), Corporate & Democratic Services (£0.4 million) and other corporate budgets (£1.0 million). This was partially offset by a projected overspend on Health & Social Care (£1.2 million).

The final under spend for the Council was £13.9 million – a movement of £14.2 million on the position reported to SP&R in January.

We conclude that management reported regularly, and in sufficient detail to members in order that timely decisions could be made by the Council.

Capital budget

The Composite Capital Budget approved in February 2019 for the period 2019-20 set net expenditure of £62.1 million, against a final net budget of £48.1 million reported at year end.

Significant expenditure was undertaken in respect of the School Modernisation programme of £14.1 million, roads Structural Maintenance of £12.8 million, and Perth Transport Futures programme of £1.2 million.

The final outturn of budget against actual was net expenditure of £42.9 million, and underspend of £5.2 million on budget.

The net budget reduced during the year owing to the re-phasing of projects, such as the School Modernisation programme, Environmental Place-making Programme, and the Cultural Attractions programme.

Financial management (continued)

DRAFT

Accounts and audit process

Draft annual accounts were authorised for issue under the council's emergency powers on 29 June 2020. In line with legislation, the audit committee considered the draft annual accounts on 22 July 2020 as required before 31 August. We received a copy of the draft annual accounts on 29 June 2020.

We note that management would usually present the annual accounts for consideration to the audit committee prior to submission to us, which we consider to be best practice and allows members to challenge the unaudited accounts before the audit commences. As committees were suspended due to Covid-19 restrictions, management presented the unaudited annual accounts to committee for consideration on 22 July 2020, which we consider to be in compliance with The Local Authority Accounts (Scotland) Regulations 2014.

Owing to Covid-19, the way that Council has operated since 23 March 2020 has changed significantly. We recognise the efforts of the finance team given significant Covid-19 pressures to deliver a set of accounts with no identified misstatements to us in accordance with the normal timeframes. Members of the finance team have been retasked during the pandemic in order to support key council services. In this context, this represents a significant achievement.

High quality working papers were provided at the start of the audit fieldwork and management responded effectively to our queries. No significant issues arose during the audit and no audit misstatements were identified.

Internal control

We consider that the Council has a robust control environment. We tested the operating effective controls within certain financial processes, where reliance upon them enabled an efficient testing approach. No exceptions were identified from the testing and the controls tested were:

- Review of valuations (relates to a significant risk).
- Transfer of pensionable data and management review of assumptions and assets (relates to a significant risk).
- Capital and revenue budget monitoring (relates to a significant risk)
- Bank reconciliations.
- Procurement: contract awards.
- BACS authorisations.
- HRA income reconciliation.
- Council tax and non-domestic rates assessor report reconciliation, and council tax and non-domestic rates reliefs.

In 2018-19 we made a total of two recommendations and a summary of their status is presented below. The action plan detail is shown on page 37 onwards. We report that one recommendation has been carried forward to 2020-21 in agreement with officers, and the other was implemented with no further recommendations made.

Status	Grade one	Grade two	Grade three
Implemented	-	1	-
Deferred	-	-	1

Internal audit review of controls

As part of its annual plan and reporting, internal audit made 18 control objective recommendations, down from 26 in 2018-19. As noted on page 29, this is despite more focused work by the internal audit function and demonstrates the role that internal audit play in supporting service improvement.

Our view – financial management

We consider that the approach to financial management, including budget setting and monitoring is appropriate with clear supporting governance arrangements. The Council demonstrates good practice, in a local authority context, through regular financial reporting

The controls tested for the purposes of forming an opinion on the annual accounts were found to be effective.

Financial sustainability

DRAFT

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

The best value assurance report considered that the Council has robust financial planning and management arrangements, including effective monitoring and reporting and medium-term financial planning. The financial outlook is challenging, but the council is well placed to address projected funding gaps through its transformation programme and savings identified as part of the medium-term financial plan.

Annual budget presentation

The annual budget for 2019-20 was approved by Council on 20 February 2019. The budget report set out the general fund revenue budget for 2019-20, together with the provisional general fund revenue budget for 2020-21 and 2021-22. The capital budget was set for the period 2019-20 to 2028-29.

The Council is required to set a balanced budget in each financial year, and in 2019-20 proposed budget flexibility of £3.2 million (underspends from the prior year), and utilisation of reserves totalling £6.1 million.

BVAR

Recommendation: The council should build on its strong financial management and consider developing a longer-term financial plan covering a five to ten-year period as part of its modernisation agenda.

The council have historically produced its five-year medium-term financial plan. As noted on page 23, the preparation of the October 2019 MTFP was firstly delayed to the uncertainty as a result of Brexit, then the Covid-19 pandemic. This draft included a six-year plan to extend financial planning into the longer term as a response to the best value recommendation.

The full council will consider a revised six-year plan for 2020-2026 in September 2020. In addition, the council is developing a thirty-year Capital Investment Blueprint plan, which is anticipated to be considered in early 2021.

The council have built on existing strong financial management, and have developed financial models to demonstrate long term planning.

We consider the development of a six year plan is an appropriate response to the recommendation and will support longer term financial planning. However, in light of the global pandemic, the need to develop further long-term financial planning beyond six years is further highlighted.

Other focus area: Medium-term financial plan

In October 2019, council Officers noted that due to uncertainty over the UK's withdrawal from the EU, there would be a planned deferral of the production of a medium-term financial plan until such time that Officers could present a forecast with assumptions based on known outcomes.

The plan was subsequently deferred due to the Covid-19 pandemic which introduced further uncertainty, and all Council officers were prioritised to delivering key council services.

Given the Council's primary function is to deliver services, we consider the deferral of the medium-term financial plan to be reasonable. Our inquiry of management indicates that the financial planning arrangements will resume once restrictions are lifted.

The October 2018 medium-term financial plan was prepared by the Council for making planning assumptions on future finances, covering the following five years. When preparing this medium-term financial plan, the Council considered assumptions over increasing service demands, pay settlements and uncertainty in respect of Local Government grant settlements. The MTFP highlighted that a significant level of recurring savings will continue to be needed. The total mid-range value required to 2023-24 is forecast as £52.3 million, and the pessimistic outlook is £106.8 million. The plan does not account for the outcome of the UK's withdrawal from the EU, nor the impact of Covid-19 on its income and expenditure.

As highlighted on page 26, members were given financial updates during the pandemic in June 2020.

Financial sustainability (continued)

DRAFT

Other focus area: Demand pressures

The council considers the increasing demand on its services through a number of routes.

The primary document covering demand pressures is the MTFP, which in the October 2018 update highlighted pressures covering social care, changing demographics and the need to invest in the school estate. Through the MTFP, council officers communicate the broad direction of travel for financial management, with further details and options for managing pressures being considered as part of the revenue budget process.

The detailed demand pressures are highlighted as part of the revenue budget in February of each year. Such pressures included refuse collection and waste disposal in the February 2019 budget report. As such revenue budgets are considered in detail by both council officers and members of the Council, we consider this appropriate oversight of pressures.

The council's largest area of demand pressure relates to the delivery of social care in partnership with the integration joint board ('IJB'). In order to best manage increased pressures, the IJB and council work together to set a budget in order to deliver these services, with the IJB's budget including analysis of the demand pressures there. The council has allocated all additional funding in respect of social care to the IJB, as well as additional funding in 2019-20 and 2020-21 budgets to support the management of these demand pressures.

The Chief Officer of the IJB is also a member of the council's executive officer team, and is therefore able to work with senior management of the council to share information and align strategies and resources to address demand pressures in respect of social care.

Other focus area: Transformation programme

The councils five year transformation programme covering 2015-20 ended during the 2019-20 financial year. Progress is reported to the Strategic Policy and Resources Committee approximately every two months, and we consider that best practice would be to review the outcomes of this transformation programme to determine whether the overall strategy has been a success.

Recommendation one

As part of the development of a programme for 2021 onwards, bids for new projects were submitted to the Strategic Investment and Improvement Board ('SIIB') at the end of 2019 for evaluation and prioritisation. The outcome of these discussions – a prioritised list of new projects and continuing projects - was subsequently submitted to the executive officer team for consideration.

Further work to refine and align bids with the Perth and Kinross Offer was requested, and work continued to identify funding sources during March 2020, when council resources were reprioritised to deal with the Covid-19 pandemic.

The development of these plans has led to the scope of work being extended, which demonstrates that a wider view is being taken to support efficient and best value transformation, though has resulted in the several projects end date being delayed. Covid-19 has also resulted in transformation projects such as Mobile working/online services, which had a planned end date of 2023 being amended in order to respond to a new way of working.

Financial sustainability (continued)

DRAFT

Use of reserves

The Council continued to invest its reserves in the future of the organisation during 2019-20, including £3.8 million in respect of the earmarked Transformation Programme. The Council increased the total of the General Fund reserve by £1.9 million in delivering the 2019-20 financial outturn.

As at 31 March 2020, the Council had uncommitted general fund reserves of £12.9 million which equates to 3.6% of actual Net Cost of Services (3.6% as at 31 March 2019). These reserves are to support the delivery of services in the case of unexpected issues, and a reserves strategy is in place.

We consider that this level of reserves is reasonable for a Council of the size of Perth and Kinross Council. The total held is in line with the Reserves Strategy approved in March 2020, which targets an uncommitted reserves balance between 2% and 4%. However the risk for the Council is the non-delivery of savings which would impact on these reserves.

General Fund Reserves	31 March 19 £000	Increase /(utilisation) £000	31 March 20 £000
Transformation Programme	9,106	(3,784)	5,322
Other Earmarked Reserves	25,661	5,392	31,053
Uncommitted General Fund Reserve	12,674	247	12,921
Total General Fund Reserves	47,441	1,855	49,296

Borrowing

Total borrowing as at 31 March 2020 was £173.1 million greater than as at 31 March 2019, with overall borrowing being £564.8 million. The increase in borrowing is primarily funding investment in capital. The Council undertook £130 million of new long-term borrowing during the summer of 2019 to take advantage of exceptional low rates to secure funding for the Capital Plan.

Cash and Short Term Investments

Liquidity	31 March 2019 £000	31 March 2020 £000	Movement £000
Cash and cash equivalents	22,503	67,611	45,108
Short term investments	25,317	139,395	114,078
Short term borrowing	(18,187)	(28,786)	(10,599)
Current liquidity	**29,633**	**178,220**	**148,587**

As at 31 March 2020 cash and short term investments increased by £148.6 million as a result of significant increases in borrowing that were unutilised at 31 March 2020.

Other focus area: EU withdrawal

As part of the 2018-19 audit, Audit Scotland mandated the consideration of EU withdrawal on the operations of the audited entity. We continued to consider this issue as part of our 2019-20 audit work.

Officers reported that a briefing paper was provided to senior officers and members in June, which detailed updates to EU Withdrawal, and the impact of various outcomes on the economy. The paper also highlighted key areas of concern for the Perth and Kinross region, and reports on current actions to mitigate and resolve these areas.

Our conclusion for EU readiness in our previous annual audit report was that 'We recognise planning for EU withdrawal is challenging for any entity, however, based on key areas highlighted across the public sector, we consider the Council to have been moderately prepared for EU withdrawal. At 29 March 2019, the Council had made clear progress in identifying risks, and developing mitigating actions to reduce potential impact on the delivery of services.'

The council continues to make progress on identifying risks and their actions for mitigation in respect of the uncertainty of the UK's future relationship with the EU.

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 performance.

Governance

The BVAR highlighted several findings regarding the governance arrangements within the Council.

The council operates with a total of 20 committees, ten of which administer common good funds. In addition to the scrutiny committee, the key committees include the strategic policy and resources committee, the lifelong learning committee, the environment and infrastructure committee, the housing and communities committee and the audit committee.

The council established the current committee structure after the last election when the new council decided to review and implement changes to adapt to scrutiny and new challenges. The key changes included reducing the overall number of committees and increasing the membership of the scrutiny committee from seven to 11 members.

Governance arrangements during Covid-19

As a result of the Covid-19 pandemic, the council adopted a command structure that would support rapid decision making where scenarios and demands were changing regularly. The council also adopted Emergency Powers effective under section 15.5 of the Scheme of Administration, and management presented a paper to the Council on 20 May 2020, which was approved by members.

The arrangements were agreed that any decisions made by the Chief Executive, Depute Chief Executive or any Executive Director that would normally require approval would be reported to Council or relevant committee as soon as possible for subsequent ratification and challenge. These emergency powers were given an initial expiry date of 30 September 2020, and management reported to us that the emergency powers expired on 16 August 2020, and the Council returned to normal democratic operating processes. In addition, there were various ‘sounding boards’ of which the corporate board included the senior management team, the leaders of each political party, and independent representatives.

During lockdown, the council introduced service level sounding boards, which also included members with responsibility for the service and heads of services

In order to maintain financial governance, the council provided regular updates to these sounding boards, and updates were made to full council when it was convened. Management provided two Covid-19 financial implications reports to members in June 2020 (on the 1st and on the 24th), discussing key topics such as income at risk, and partnership working. We consider this level of reporting and engagement with elected members to be sufficient and appropriate.

Recommendation: As part of the ongoing governance review the council should consider simplifying arrangements to improve decision-making. BVAR

The council have commenced implementation of smaller changes to governance arrangements primarily covering residential planning.

The Head of Legal and Governance Services has been charged with overseeing a wider review of governance arrangements. This review will be shaped as the Offer continues to be developed to ensure it is fit for purpose and supports closer collaboration with partners and communities. The council’s progress on implementing changes has been delayed by the Covid-19 pandemic, and as part of the Recovery and Renewal programme, key objectives will be identified with linked outcomes to implement.

The council has indicated that other models of decision-making are being considered to ensure that processes or models that support best practice are identified. Any changes will be made in line with the International Framework for Good Governance, and CIPFA’s Framework for Local Government Good Governance, and well as the establishment of a working group to ensure wider stakeholder input.

Governance and transparency (continued)

Best Value focus area: Performance and outcomes

The best value assurance report for 2018-19 reported that the Controller of Audit judged “Overall outcomes for the community are improving. More could be done to consistently demonstrate that performance management drives changes and improvement. Residents are generally satisfied with the council’s services.”

Performance management

The Council produces an annual performance report (“APR”) which summarises its own key performance indicators. This is submitted to the full council, and is also available through the ‘PK Performs’ dashboard within the council’s website.

There are a total of 42 indicators which the council use, of which xx (xx%) improved against 2018-19, xx remained steady, and xx needed further attention. At the time of the report’s publication, a total of xx had no trend data available due to timing pressures which occur in each financial year. There are however subsequently updated on ‘PK Performs’ once available as noted as part of the best value assurance report.

Improvement plans

Each service produces an annual business management improvement plan (‘BMIP’). In relation to service-led improvements, each BMIP has a section focussing on the performance of improvements identified in the prior year, and the action plan for the following year which drives the outcomes and improvements to deliver.

However, it is not always clear those reasons for performance falling below target and the associated actions and the outcomes the service intends to achieve through the improvement plan.

BVAR

Recommendation: The council should consistently demonstrate how it uses performance management and performance reporting to drive continuous improvement.

The council prepared its annual Planning Performance Framework, which is a national monitoring tool scrutinised by Scottish Ministers. The main purpose of this tool is to demonstrate how, as a planning authority the council are working towards achieving a high quality planning service.

This includes both forward and backward consideration of performance, and steps to improve. The report clearly shows the performance against targets, whether delivered, or on target. The report makes clear the planned service improvements for 2020-21 and discusses the intended outcomes

The council is progressing the Modernising Performance Review to review and invest resources to change the way it uses data and information. As part of the best value assurance report, management reported that completion was due by March 2020, however, this has not been achieved.

The council have also introduced a more accountable process for driving improvements within the Education and Children's Service. Performance information is presented to the Senior Management Team before progressing to challenge performance and allow sharing of best practice.

We consider that the council is improving the way it uses its performance reporting, and how it links to improvement and outcomes delivered for service users.

Recommendation: The council needs to make public performance reporting more transparent, clear and balanced. The Annual Performance Report should include ambitious targets and be clear about the reasons for underperformance and planned improvement actions.

BVAR

As a result of the recommendation from the BVAR, the APR was redeveloped to improve transparency and balanced reporting. This included improved narrative describing the indicator, how it is measured, what influences performance. Furthermore, the performance over time, and against target are key inclusions which improve the transparency of the report.

In order to support continuous improvement, the report considers performance against others, and discloses the actions that are being taken to address.

We consider this is an improvement in the level of public performance reporting, which shows how the council is managing its performance at an overarching level. The council continue to seek ways to improve the APR, and note that improvements were not sought in 2019-20 due to pressures arising from Covid-19.

Governance and transparency (continued)

DRAFT

Annual Governance Statement

The Annual Governance Statement within the Council's annual accounts sets out the Council's conclusion on the effectiveness of governance and the basis for that conclusion. It describes the sources of assurance to support the Council's compliance with the seven principles of the CIPFA/SOLACE framework *Delivering Good Governance in Local Government*, and the requirements of Finance Circular 10/2020. The Annual Governance Statement includes areas where there is future development in governance and where governance issues have been identified. It concludes that the Council's governance arrangements operate effectively.

We consider that the Annual Governance Statement shows an appropriate and accurate reflection of the governance arrangements at the Council.

Risk management

During 2019-20, the council further embedded its risk management model within services, running risk workshops across the council. In addition, the Head of Legal and Governance Services supported a refresh of the Risk Management Strategy, refining requirements to bring in best practice.

The Risk Management Strategy was well used during the period of emergency powers, being relied upon to support the decision making process of the Council. For example, each workstream set up by the council completed a risk log, which then fed into the strategic and Covid-19 risk registers which managed the council action and response to identified risks. Management considered the processes in place a demonstration that officers understood the risk management process within the council.

The risk management strategy has also highlighted the long term risks arising from Covid-19, and forms part of the decision making process for how council will respond to the risks, whether that be at a strategic level, or an operational level to be delivered by services.

National Fraud Initiative ("NFI")

The NFI in Scotland brings together data from local government, health boards and other public sector bodies. Matching data obtained from the systems of participating bodies allows the identification of potentially fraudulent claims on the public purse including housing benefit fraud, occupational pension fraud and payroll fraud. In 2019-20, we considered progress against our reporting from 2018-19. The NFI exercise for 2018-19 was deemed complete, and the results reported to the audit committee in February 2020.

This included that 84% of the high risk matches were investigated, which resulted in the council has begun to recover the small level expenditure as a result of error, not fraud. We completed a questionnaire considering the Council's participation in NFI for submission in February 2020, with a generally positive conclusion.

Standards of conduct for prevention and detection of fraud and error

The Council has a range of procedures for preventing and detecting fraud and irregularity including: a whistleblowing policy; fraud, bribery and bribery policy; and codes of conduct for members and officers. We assessed these to confirm that they were appropriate, readily available to staff and are regularly reviewed to ensure they remain relevant and current.

We consider that the Council has appropriate arrangements for the prevention and detection of bribery and corruption.

Recommendation: Following completion of its updated maturity assessment the council should revise its digital strategy in line with its ambition. BVAR

The Council's current digital strategy spans 2016-20, and progress is being made to complete a revision which is scheduled for release during 2021. The ICT Transformation Board previously oversaw digital development, however, as part of the planned revision, the Board has been renamed to the Digital Board, with changed terms of reference and membership to improve oversight and challenge.

As part of the revision, three separate audits have been carried out to inform developments, including from Audit Scotland and the Local Government Digital Office with feedback due in national reports during 2020.

It is clear that developments have continued, and the council is working towards revising a digital strategy informed by external stakeholders which will support its ambition to improve.

Governance and transparency (continued)

DRAFT

Internal audit

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.

We reviewed internal audit reports and conclusions, and consider that they do not indicate additional risks and there was no impact on our audit approach. Internal audit's annual report confirmed, "In the Chief Internal Auditor's opinion, reasonable reliance can be placed on the Council's risk management and governance arrangements, and systems of internal control for 2018/19, subject to management implementation of the agreed actions detailed in Internal Audit reports and summarised within this report."

Internal audit completed 13 of the 17 planned audits per the 2019-20 Internal Audit Plan, and where Council projects extend into 2019-20, these have been carried forward. Of those audits not completed, audit work has been completed for two, with the final reports being agreed with services. In addition, internal audit completed 31 pieces of unplanned work or requests for advice, a significant increase over the prior year. This represents the drive to use internal audit to improve and support service delivery.

Internal audit recommendations are considered by officers in each service and the actions reviewed by Internal Audit prior to closure. As detailed in the Internal Audit Report 2019-20, 61 actions were identified as a result of the work undertaken. The Chief Internal Auditor highlighted that there were 22 high risk actions to implement, compared to 7 in 2018-19. In our opinion this increase in high risk actions is as a result of the changes implemented in 2018-19 which redirected the internal audit function to focus on issues that were identified or considered as high risk.

Our view – governance and transparency

We consider that the Council operates in an appropriately transparent manner.

The Council has good governance arrangements, with sufficient scrutiny offered from Council members through the Scrutiny Committee, and from an internal audit service that is sufficiently independent from finance and service delivery.

Value for money

DRAFT

Best value is assessed over the five-year audit appointment, as part of the annual audit work. In addition, a Best Value Assurance Report ("BVAR") for each council will be considered by the Accounts Commission at least once in this five-year period. The BVAR for Perth and Kinross was published on 8 August 2019, with the Commission's findings on 22 August 2019. As part of our audit cycle, we consider the council's responses and actions to recommendations made, factoring in the delays and changes that may arise as a result of the Covid-19 pandemic.

BVAR

Recommendation: It is important that the council maintains the pace of development of the Perth and Kinross Offer as part of the framework and timeline it is currently developing.

The Perth and Kinross Offer ("the Offer") aims to change how services are designed and delivered, and aims to further improvement in respect of areas such as equality, economy and environment.

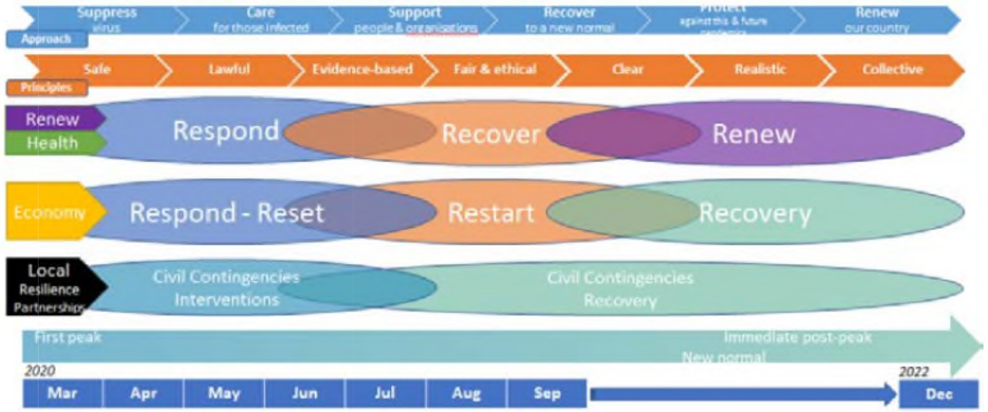
In December 2019, the full council were provided with an update on progress made between June and December. This included reporting the appointment of a Lead Officer on a secondment basis to lead an implementation team, and 40 engagement opportunities delivered by the Executive Officer Team and the Offer team, engaging with over 1000 participants. Work to collate feedback and suggestions to form collaboration and projects in the five key areas of the offer were underway.

There has also been work to engage local elected members to determine how to continue the development of the framework. This Steering Group has agreed to continue to offer direction, focus and ongoing input into the development of the Offer.

Council officers were also invited to form a working group, with 50 members giving feedback and input into key workstreams and projects arising from the offer.

As a result of the Covid-19 pandemic, the Council introduced the Recovery and renewal programme. The Perth and Kinross Offer now overarches this programme, which has been introduced to deal with the financial, welfare and economic impact on the region and is based on the principals of the Offer, and key stakeholders were consulted as part of this strategy creation.

The programme agreed to build upon the 5Es: Education and Learning, Economy, Environment, Equality and Empowerment.



The council continue to progress the Offer, supported by the renewal and recovery programme as it seeks to determine the impact of Covid-19 on the region, and how the council can support recovery, whilst undertake its own workstreams to improve its own performance.

Value for money (continued)

DRAFT

Audit Scotland area of focus: Fraud and corruption in procurement

As highlighted in our audit strategy, this is a matter of focus as directed in the annual planning guidance for 2019-20.

The council produced its Procurement Strategy for 2019-20 as a result of its 2019-20 budget, and linked strategy with a Contract Delivery Plan. The plan gave estimated costs where contracts to be procured could be reasonably predicted, with others unknown at time of publication.

In addition, the Council make their contracts register publicly available for both corporate and private citizen use as required by statutory legislation.

The SP&R committee is responsible for oversight of expenditure including procurement expenditure, through the revenue monitoring reports throughout the year. Variances in excess of £100k are reported to this committee, and explanations made for these variances. Members of all committees are required to notify the Convenor of potential conflicts of interests. We have observed a standing item in key committees which gives members the opportunity to raise these as necessary to prevent members voting on contracts that may require committee consideration.

The risk of fraud and corruption within procurement is not on the corporate risk register, which as the highest level register is overseen by members and senior officers. Given the nature of the procurement function covers all areas and services delivered by the council, such prominence on the key risk register would allow for an appropriate level of scrutiny by members. The council should consider introducing this risk on its corporate risk register.

Recommendation two

As part of the Internal Audit Annual Report 2019-20, the Chief Internal Auditor reported that the council's Counter-Fraud and Corruption Strategy, along with associated policies, have been in place since February 2015. These remain largely fit for purpose and are currently being refreshed to ensure that they take account of recently highlighted good practice.

The procurement function operates under the new 'Contract Rules' policy, produced by the Head of Legal and Governance Services in November 2019. This document details the rules and processes procurement officers must follow when completing tenders. There are explicit requirements for officers to follow the employee Code of Conduct, and the Conflict of Interest Procedure, which include reporting potential conflicts of interest, and segregation of duties.

The employee code of conduct refers to the Gifts and Hospitality procedure, which is maintained by the Head of Legal and Governance Services. The Gifts and Hospitality Register is available on the council's website, and reaffirms that all gifts and hospitality exceeding £25 received by any officer must be declared.

The Contract Rules policy also highlights that only those officers who have completed appropriate training, specifically accredited by the Corporate Procurement Team may invite and enter into contracts on behalf of the Council. We reviewed the register of training in respect of procurement, and identified that key officers had completed various courses covering quick quotes, how to tender, and procurement awareness training, all within the last 18 months which is appropriate.

The Council also has an appropriate whistle-blowing policy available on the internal intranet. The policy indicates appropriate officers within the council to which issues may be reported, and offers external contacts including Audit Scotland, Public Concern at Work and Police Scotland.

As part of the 2019-20 internal audit plan, an audit covering 'Contracting' was included, which was due to completion in April 2020. As at July 2020, the Chief Internal Auditor reported that all internal audit work had been paused as a result of the Covid-19 pandemic, and internal audit resources were diverted to support the council in supporting the population and region of Perth and Kinross.

Our view – Fraud and corruption in procurement

We consider that overall, the Council has appropriate policies, procedures and controls to prevent and detect material fraud and corruption within the procurement function.

Value for money (continued)

Best Value focus area: Partnership working and empowering communities

The best value assurance report for 2018-19 reported that the Controller of Audit judged "Perth and Kinross Council works well with partners, in particular with regional partners across Tayside. The effectiveness of working arrangements with the integration joint board has improved over the last 12 months. However, the community planning partnership board needs to take a more active role in leading partnership working and strategic direction. Community empowerment is not yet fully embedded in the way the council and its communities work. The Perth and Kinross Offer is a new approach that aims to empower communities and give them more influence over what matters to them."

BVAR

Recommendation: The council should improve how it involves communities. This includes earlier involvement in strategic planning processes, more involvement in budgeting processes, and better promotion of the Community Empowerment (Scotland) Act 2015 and providing appropriate resource to support delivery.

The council have commenced implementation of smaller changes to governance arrangements primarily covering residential planning.

The Head of Legal and Governance Services has been charged with overseeing a wider review of governance arrangements. This review will be shaped as the Offer continues to be developed to ensure it is fit for purpose and supports closer collaboration with partners and communities. The council's progress on implementing changes has been delayed by the Covid-19 pandemic, and as part of the Recovery and Renewal programme, key objectives will be identified with linked outcomes to implement.

The council has indicated that other models of decision-making are being considered to ensure that processes or models that support best practice are identified. Any changes will be made in line with the International Framework for Good Governance, and CIPFA's Framework for Local Government Good Governance, and well as the establishment of a working group to ensure wider stakeholder input.

Engagement with communities

The council has continued to use its Consultation Hub as a way of engagement with communities and its stakeholders. The 2020-21 budget consultation is an example of how the council continues to expand opportunities to engage with communities, which. includes a number of other consultations on businesses and the effect of Covid-19, and review of audit social work and social care contributions policy

In addition, new processes behind the consultation hub include reporting "We Asked, You Said, We Did" which summarises council action and decisions on consultations. A good example observed covered the rent increases for the 2020-21 budget, of which a range of options were provided. The council reported that the rent increase was set at 3.5%, which was the most preferred option. We consider it an opportunity for the council to undertake such an exercise over other significant consultations, particularly the 2020-21 budget consultation. Whilst the council provided a summary of responses, it was not apparent how these were considered in the overall budget. For example, the consultation included a question on Council Tax increases, to which respondents indicated a 1% increase, whereas the budget included 4% though there is no clear link to how the response was factored into the budget setting process.

Recommendation three

The hub improves the transparency and consistency of service consultation with communities and stakeholders. The overall process is managed centrally, supported by champions, though services maintain responsibility for the overall consultation. This central oversight ensures that the standard of consultation is maintained, and that outputs from consultations are explained transparently.

Partnership working

The council continues to work well with partners, in particular the councils within Tayside, and the IJB. We have observed discussion with both councils and the IJB over Covid-19 financial management. Partnership working includes the continued use of Tayside Contracts which delivers services across the Tayside region to support best value for money services.

Our view – Partnership working and empowering communities

The council's ongoing development of the consultation hub drives continuous improvement in how it engages with communities. The council continue to work well with partners to ensure best value for money.

Appendices

Appendix one

Required communications with the Audit Committee

DRAFT

Type	Response
Our draft management representation letter	We have not requested any specific representations in addition to those areas normally covered by our standard representation letter for the year ended 31 March 2020.
Adjusted audit differences	There were no adjusted audit differences identified.
Unadjusted audit differences	There were no unadjusted audit differences identified.
Related parties	There were no significant matters that arose during the audit in connection with the entity's related parties.
Other matters warranting attention by the Audit, Risk and Scrutiny Committee	There were no matters to report arising from the audit that, in our professional judgment, are significant to the oversight of the financial reporting process.
Control deficiencies	We communicated to management in writing all deficiencies in internal control over financial reporting of a lesser magnitude than significant deficiencies identified during the audit that had not previously been communicated in writing.
Actual or suspected fraud, noncompliance with laws or regulations or illegal acts	No actual or suspected fraud involving Group or Component management, employees with significant roles in Group-wide internal control, or where fraud results in a material misstatement in the financial statements were identified during the audit.

Type	Response
Significant difficulties	No significant difficulties were encountered during the audit.
Modifications to auditor's report	None.
Disagreements with management or scope limitations	The engagement team had no disagreements with management and no scope limitations were imposed by management during the audit.
Other information	No material inconsistencies were identified related to other information in the annual accounts. The Management Commentary is fair, balanced and comprehensive, and complies with the law.
Breaches of independence	No matters to report. The engagement team and others in the firm, as appropriate, the firm and, when applicable, KPMG member firms have complied with relevant ethical requirements regarding independence.
Accounting practices	Over the course of our audit, we have evaluated the appropriateness of the Group's accounting policies, accounting estimates and financial statement disclosures. In general, we believe these are appropriate.
Significant matters discussed or subject to correspondence with management	The key audit matters (summarised on pages seven to 11) arising from the audit were discussed, or subject to correspondence, with management.

Auditor independence

DRAFT

Assessment of our objectivity and independence as auditor of Perth and Kinross Council and its Charitable Trusts ("the Council")

Professional ethical standards require us to provide to you at the conclusion 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.

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 FRC Ethical Standard. As a result we have underlying safeguards in place to maintain independence through:

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

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

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

Summary of fees

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 below. Total fees charged by us for the period ended 31 March 2020 can be analysed as follows:

	Current Year £000 (inc VAT)	Prior Year £000s (inc VAT)
Audit of Council	163	162
Audit of Charitable Trusts	4	3
Total Audit	167	165
Tax Advisory services	0	1
Services relating to Taxation	0	1
Total non-audit services	0	1
Total Fees	167	166

Auditor independence (continued)

DRAFT

The ratio of non-audit fees to audit fees for the year was 0:1. 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.

Subsidiaries

We are appointed by the Accounts Commission via Audit Scotland as external auditor of Perth and Kinross Council Charitable Trusts; the Tayside and Central Scotland Transport Partnership and Perth and Kinross Integration Joint Board.

Independence and objectivity considerations relating to other matters

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

Confirmation of audit independence

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

This report is intended solely for the information of the Audit, Risk and Scrutiny Committee 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

Action Plan

The action plan summaries specific recommendations arising from our work, together with related risks and management's responses.

DRAFT

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	Management proposed actions
1. Review of transformation plan goals (Grade three)		
The Council's transformation plan ended during 2020, with as yet no formal review and reporting of the success or development points from the plan.	We encourage management to consider whether the transformation plan achieved the goals as intended, and whether there are any lessons to be learned from during the next transformation plan.	Response: Internal Audit are finalising a review of the 2015-20 Transformation Programme. This review has highlighted some lessons to be learned for future programmes and will inform any future actions. This report will be considered by the Audit Committee in December 2020. Responsible Officer: Head of Innovation When: 31 March 2021
2. Fraud and corruption in procurement (Grade three)		
As part of its planning guidance for 2019-20, Audit Scotland have highlighted the requirement for external audit scrutiny over the processes and procedures in place to prevent and detect fraud and corruption in procurement. In the guidance, there is an expectation that entities consider the risk at a corporate level, such that there is sufficient oversight and scrutiny from members and senior management. We could not identify the risk on the risk register, though accepted that the procurement function have reasonable controls and processes in place.	Management should consider whether the risk of fraud and corruption in procurement be included on the corporate risk register to allow oversight and scrutiny by members.	Response: This will be raised with the Executive Officer Team by the Head of Finance for consideration. Responsible Officer: Head of Finance When: 31 December 2020

Action Plan (continued)

DRAFT

Finding and risk	Recommendation	Management proposed actions
3. Transparency of consultations (Grade three)		
We highlighted the positive developments the Council has made in respect of stakeholder and community consultations, and identifying a number of consultations where responses have been considered and reported upon. We identified that significant consultations should have a clear and transparent response to input made by communities and stakeholders. In particular, it was not fully clear how the consultation to the 2020-21 budget influenced the budget approved in March 2020.	Management should articulate explicitly how the consultation has been passed to members as part of their budgetary discussions.	Response: Agreed Responsible Officer: Chief Accountant When: 31 March 2021

Prior Year Recommendations

DRAFT

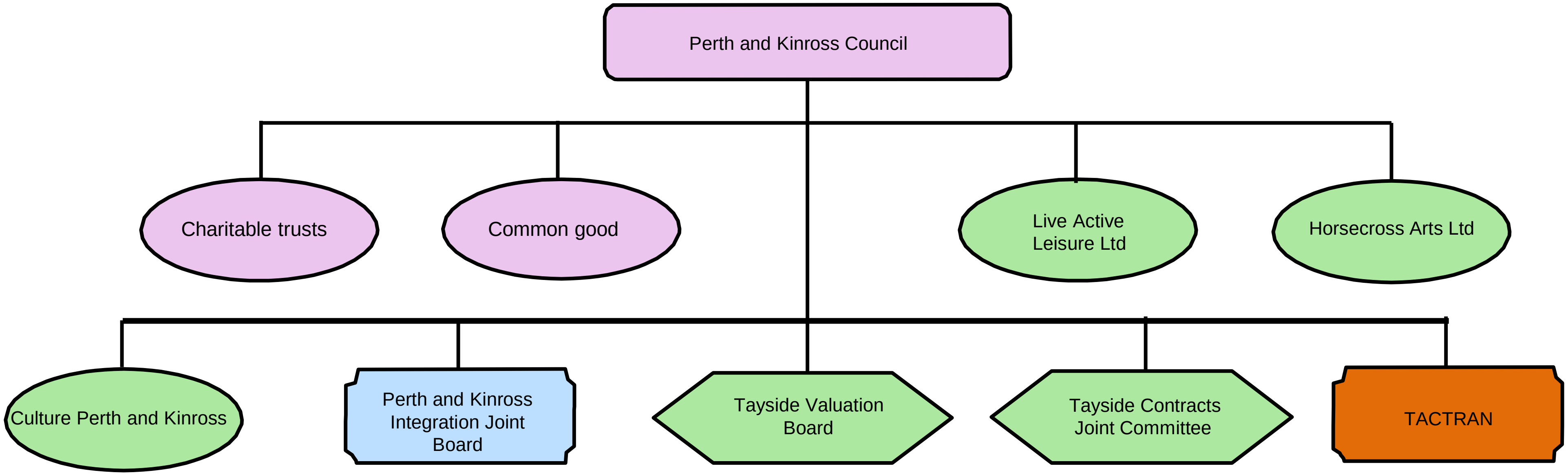
This section provides an update on prior year external audit recommendations, to determine whether they have been addressed. The table below summarises the recommendations made during the 2018-19 audit, and highlights our final conclusion on those recommendations not yet due when we reported in May 2020.

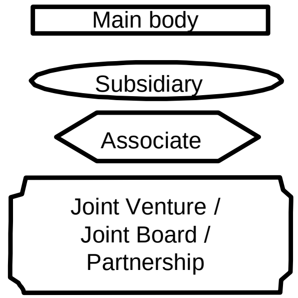
Original finding and risk	Recommendation	Original actions	Status
1. Financial statements preparation (Grade three)			
While the Council has a robust process, as highlighted in the BVAR, it "has a higher number of traditional, manual components than other local authorities". The Council has expanded the number of individuals involved in the financial statement production process to reduce reliance on key individuals.	It is recommended that management continue to work with external audit to consider whether there are opportunities for efficiency.	**Management response:** The Council will build on the existing work with KPMG to identify areas to streamline the preparation of the financial statements. **Implementation date**: 31 March 2020 **Responsible officer**: Chief Accountant	The final accounts process runs from 1 May, until the end of June when financial statements are provided to us. In order to ensure that statutory requirements were achieved, we did not consider it appropriate to challenge management on their financial statements preparation process during a pandemic. We will roll-forward this action to 2020-21, subject to Covid-19 restrictions.
2. Valuation of property, plant and equipment (Grade three)			
We made a recommendation in 2017-18 relating to the use of external valuation firms to support to the ongoing valuation cycle of the Council's property assets. The Council has improved, and engaged two firms to deliver these external valuations.	Building on good practice in 2018-19, management should consider annually and agree with external audit any unusual valuations which may benefit from additional ext. valuation. Where such valuations are obtained and differ significantly from internal valuer's opinion, the explanation for the differences should be documented to support reasonableness of the internal valuations.	**Management response:** The Council's Estates Team will build on the provision of narrative to support how internal valuations are reached. **Implementation date:** 30 June 2020 **Responsible officer:** Senior Estates Surveyor	**Implemented**

Perth and Kinross Council group structure

DRAFT

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





Key

- Audited by KPMG “core team”
- Audited by KPMG – separate auditteam
- Audited by KPMG – separate audit team, not consolidated on the grounds of materiality
- Audited by component auditor – group audit instructions to be issued where considered significant components

Grant claims and WGA return

We set out below the "other reporting" responsibilities of our audit appointment. We will update the audit committee at the September meeting should there be any exceptions arising from the testing.

DRAFT

RETURN	DESCRIPTION	STATUS
Whole Government Accounts ("WGA")	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.	There has been a change in process for the WGA for 2019-20, although no guidance has yet been published to allow bodies to commence audit.
Non Domestic Rates ("NDR")	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. In April each year, authorities submit an estimate of their expected NDR 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 NDR return.
Housing Benefits ("HB")	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. 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. 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.	Our testing is ongoing and we expect to issue an opinion on the HB return in advance of the 30 November deadline.
Education Maintenance Allowance ("EMA")	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. 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.	We did not identify any exceptions in our testing and issued an unqualified opinion on the EMA return.

Appointed auditor's responsibilities

DRAFT

AREA	APPOINTED AUDITOR'S RESPONSIBILTIES	HOW WE HAVE MET OUR RESPONSIBILITIES
Statutory duties	Undertake statutory duties, and comply with professional engagement and ethical standards.	Appendix two outlines our approach to independence.
Financial statements and related reports	Provide an opinion on audited bodies' financial statements and, where appropriate, the regularity of transactions. Review and report on, as appropriate, other information such as annual governance statements, management commentaries, remuneration reports, grant claims and whole of government returns.	Page eight summarises the opinions we have provided. Pages 16 reports on the other information contained in the financial statements, covering the annual governance statement, management commentary and remuneration report. Appendix six reports that we have not yet issued opinions in respect of all grant claims and whole of government accounts.
Financial statements and related reports	Notify the Auditor General or Controller of Audit when circumstances indicate that a statutory report may be required.	On page 22, we concluded on the effectiveness and appropriateness of arrangements and systems of internal control, including risk management, internal audit, financial, operational and compliance controls.
Corporate governance	Participate in arrangements to cooperate and coordinate with other scrutiny bodies.	Page 28 includes arrangements to cooperate and coordinate with other scrutiny bodies.
Wider audit dimensions	Demonstrate compliance with the wider public audit scope by reviewing and providing judgements and conclusions on the audited bodies': - Effectiveness of performance management arrangements in driving economy, efficiency and effectiveness in the use of public money and assets; - Suitability and effectiveness of corporate governance arrangements; - Financial position and arrangements for securing financial sustainability; - Effectiveness of arrangements to achieve best value; and - Suitability of arrangements for preparing and publishing statutory performance information	We set out our conclusions on wider scope and best value in from page 19 onwards.

KPMG's Audit quality framework

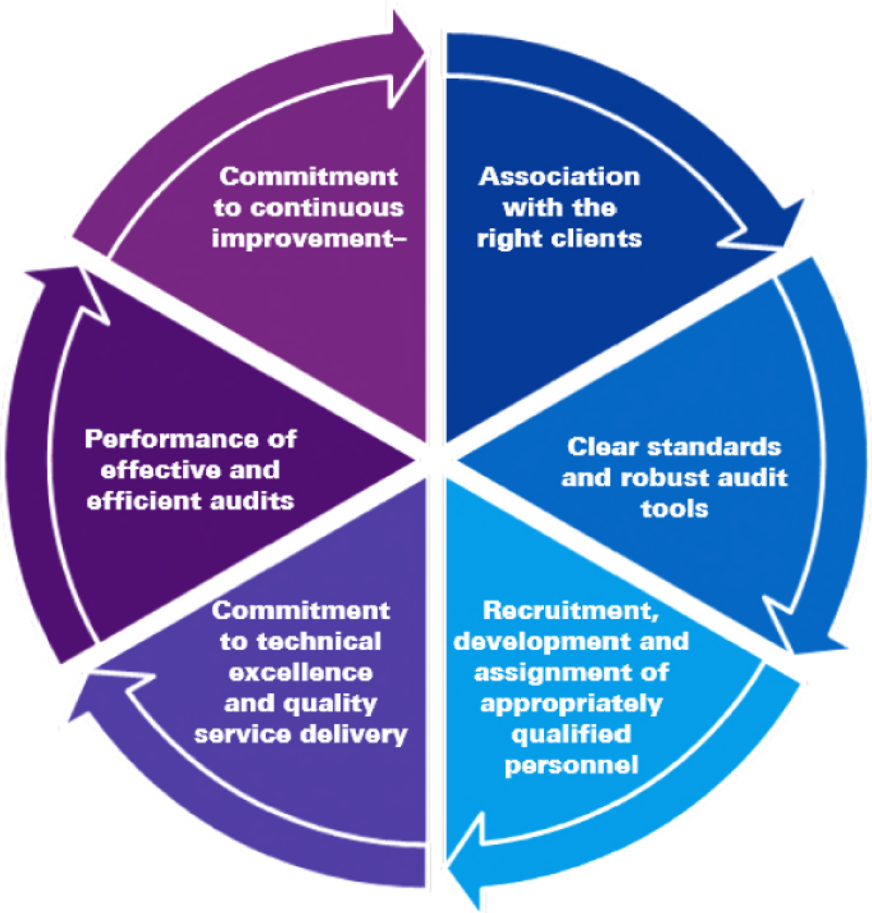
Audit quality is at the core of everything we do at KPMG and we believe that it is not just about reaching the right opinion, but how we reach that opinion.

To ensure that every partner and employee concentrates on the fundamental skills and behaviours required to deliver an appropriate and independent opinion, we have developed our global Audit Quality Framework

- Comprehensive effective monitoring processes
- Proactive identification of emerging risks and opportunities to improve quality and provide insights
- Obtain feedback from key stakeholders
- Evaluate and appropriately respond to feedback and findings

- Professional judgement and scepticism
- Direction, supervision and review
- Ongoing mentoring and on the job coaching
- Critical assessment of audit evidence
- Appropriately supported and documented conclusions
- Relationships built on mutual respect
- Insightful, open and honest two way communications

- Technical training and support
- Accreditation and licensing
- Access to specialist networks
- Consultation processes
- Business understanding and industry knowledge
- Capacity to deliver valued insights



- Select clients within risk tolerance
- Manage audit responses to risk
- Robust client and engagement acceptance and continuance processes
- Client portfolio management

- KPMG Audit and Risk Management Manuals
- Audit technology tools, templates and guidance
- Independence policies

- Recruitment, promotion, retention
- Development of core competencies, skills and personal qualities
- Recognition and reward for quality work
- Capacity and resource management
- Assignment of team members and specialists

Pensions assumptions

Level of prudence compared to KPMG central assumptions

Outside normally acceptable range | *Cautious* | *Balanced* | *Optimistic* | *Outside normally acceptable range*

Acceptable range

Overall assessment of assumptions for IAS 19 for audit consideration	
The overall assumptions adopted by the Employer are considered to be balanced relative to our central rates and within our normally acceptable range overall.	*Balanced*

Underlying review of individual assumptions		Methodology	Consistent methodology to prior year?	Compliant methodology with IAS 19?	Employer	KPMG central	Assessment vs KPMG central	Significant assumptions
Discount rate		AA yield curve	✓	✓	2.35%	2.25%		✓
CPI inflation		Deduction to inflation curve	No, see page 11	✓	1.90%	1.78%		✓
Salary increases		Employer best estimate	✓	✓	CPI plus 1.0%	In line with long-term remuneration policy		✓
Pension increases		In line with CPI	✓	✓	1.90%	1.78%		
Mortality	Base tables	In line with most recent Fund valuation	✓	✓	130% of S2PxA	In line with best-estimate Fund experience		✓
Mortality	Future improvements	In line with most recent Fund valuation	✓	✓	CMI 2018 projections model, 1.5% long-term trend rate and default smoothing and initial addition parameters	CMI 2019 projections model, 1.25% long-term trend rate and default smoothing and initial addition parameters		✓
Other demographics		In line with most recent Fund valuation	✓	✓	Members assumed to commute 50% of the maximum tax-free cash	In line with Fund experience		

We also considered the impact of the McCloud judgement. The Council's actuary estimated a total of £5.29 million relating to pre-2012 actives only where as our estimate would be £7.0 million.

KPMG consider that all active members of the scheme should be included, and therefore a liability of £10.5 million exists, however, we accepted this as a difference of judgement that was within our scope of materiality.

The contacts at KPMG in connection with this report are:

Michael Wilkie

Director

Tel: 0141 300 5890

michael.wilkie@kpmg.co.uk

Christopher Windeatt

Manager

Tel: 0131 451 7738

christopher.windeatt@kpmg.co.uk

Alex Berwick

Assistant Manager

Tel: 0141 309 2825

alex.berwick@kpmg.co.uk