

# **PERTH & KINROSS COUNCIL**

## **Audit Committee**

**26 September 2018**

### **DRAFT AUDITED ANNUAL ACCOUNTS 2017/18 AND DRAFT ANNUAL AUDIT REPORT TO THE MEMBERS OF PERTH & KINROSS COUNCIL AND THE CONTROLLER OF AUDIT FOR THE YEAR ENDED 31 MARCH 2018**

**Report by the Head of Finance (Report No. 18/301)**

#### **PURPOSE OF REPORT**

This report presents the Council's Draft Audited Annual Accounts for financial year 2017/18 in accordance with the Local Authority Accounts (Scotland) Regulations 2014 and includes the Draft Annual Audit Report to the Members of Perth & Kinross Council and the Controller of Audit for the Year Ended 31 March 2018.

#### **1. BACKGROUND**

- 1.1. The Unaudited Annual Accounts for 2017/18 were considered by the Audit Committee on 27 June 2018 (Report No. 18/223 refers) which authorised them to be signed by the Head of Finance and submitted to KPMG, the Council's external auditors, by the statutory deadline of 30 June 2018.
- 1.2. The Annual Accounts are prepared in accordance with the 2017/18 CIPFA Code of Practice on Local Authority Accounting ("the Code").
- 1.3. These accounts also comply with the Local Authority Accounts (Scotland) Regulations 2014 which revoked the Local Authority Accounts (Scotland) Regulations 1985.
- 1.4. The Unaudited Annual Accounts were available for public inspection between 2 July and 20 July 2018 (inclusive). During this period KPMG received no objections to the draft Unaudited Annual Accounts.

#### **2. ANNUAL ACCOUNTS 2017/18**

- 2.1 The audit of the 2017/18 Annual Accounts took place between July and mid-September 2018. The audit considered not only the financial statements but also areas such as financial performance and corporate governance.
- 2.2 Since the Unaudited Accounts for 2017/18 were considered by the Audit Committee there have been a number of adjustments which are set out in Appendix Five of the Draft Annual Audit Report to Members of Perth & Kinross Council and the Controller of Audit for the year ended 31 March 2018

at Appendix A. These adjustments have no impact on the level of resources available to the Council. In addition there was an adjustment to the Pension Fund valuation that is set below.

### Pension Fund Valuation

- 2.3 Every financial year, public sector bodies arrange for a report to be received from their actuary which gives a valuation of the pension scheme in accordance with International Accounting Standard 19 (IAS19). The information in the report is used to populate sections of the financial statements. The valuation is as at 31 March each year but, in practice, actuaries often perform the valuation at an earlier date and project forward to 31 March. To ensure that there is no material difference between the projected valuations and the actual valuations, each year Audit Scotland undertake a reasonableness check of the values in the financial statements. In previous years, the differences between projected and actual values have been small and below levels of materiality so no adjustment was required. However, this year, due to a higher degree of fluctuations in the stock market, large differences were noted for most public sector bodies and this resulted in late changes to the financial statements of organisations throughout the UK.
- 2.4 To comply with International Standards on Auditing, and to allow certification that the Accounts of public sector bodies present a true and fair view, all auditors have requested the following from their clients:
- An updated actuarial report which gives the actual valuations of the pension fund at 31 March 2018.
  - Where adjustments are above the level of materiality, amended Accounts to be submitted for audit to reflect the values in the updated actuarial report.
- 2.5 Perth & Kinross Council received an updated actuarial report on 24 August 2018. This report indicated that the valuation of the scheme assets was reduced by £8,280,000 from £764,379,000 to £756,099,000 and the Accounts were amended accordingly. The main areas of the Accounts impacted by this adjustment are the Movement in Reserves Statement, Comprehensive Income and Expenditure Statement, Balance Sheet, Pensions Note and Group Accounts. In addition to this, the figures in the narrative sections of the accounts will be updated to agree with the actuarial report.
- 2.6 There were also a number of small presentational adjustments.
- 2.7 At this time the 2017/18 Audited Annual Accounts remain unsigned. Approval of the Accounts at today's meeting will provide authorisation for the Leader of the Council, the Chief Executive and the Head of Finance to sign them. The Head of Finance will also sign the Letter of Representation that is included at Appendix A. Once signed, the Accounts and Letter of Representation will be passed to KPMG so that they may issue their opinion in the form of an audit certificate.

- 2.8 The Draft Audited Accounts (unsigned) are attached to this report at Appendix B.

### **3 Draft Annual Audit Report to the Members of Perth & Kinross Council and the Controller of Audit for the Year Ended 31 March 2018**

- 3.1 The Draft Annual Audit Report to the Members of Perth & Kinross Council and the Controller of Audit for the year ended 31 March 2018 is set out at Appendix A (the Draft Audit Report). The Draft Audit Report sets out KPMG's opinions and conclusions on the overall audit and their findings to be reported under ISA260: Report to those Charged with Governance. The Draft Audit Report also includes the findings in relation to Perth & Kinross Charitable Trusts which were distributed separately to Trustees.
- 3.2 The key messages from the 2017/18 audit are set out under four themes on page 19 of Appendix 1 and are summarised as follows:

#### **Financial Sustainability**

- The Council has effective arrangements to monitor savings and secure financial sustainability, alongside its relatively strong Reserves position.

#### **Financial Management**

- The Council has sound processes to manage its finances and resources which aids effective planning and budget setting. This includes a three year Revenue Budget, five year Medium Term Financial Plan and ten year Capital Budget. This is good practice.
- During budget setting there is ongoing consultation with members, service users and other key stakeholders. This allows open and transparent budget setting and supports effective financial management.

#### **Governance and Transparency**

- Continued high standards of governance and accountability were in place during 2017/18.
- There was an effective governance framework of committees.

#### **Value for Money**

- The Council has appropriate arrangements for achieving value for money.
  - Options appraisals and business cases are developed to support key decisions and are appropriately scrutinised.
- 3.3 It is anticipated that the final 2017/18 Annual Audit Report to the Members of Perth & Kinross Council and the Controller of Audit for the year ended 31 March 2018 will be issued by KPMG following completion of the final accounts

process. The final Report and the signed Audited Annual Accounts for 2017/18 will be considered by the Council on 3 October 2018.

#### **4. CONCLUSION AND RECOMMENDATIONS**

4.1 KPMG's findings on the 2017/18 Audit are set out in the Draft Annual Audit Report to the Members of Perth & Kinross Council and the Controller of Audit for the year ended 31 March 2018 which is attached Appendix 1 to this report.

4.2 It is recommended that the Committee:

- i. Notes the contents of KPMG's Draft Annual Audit Report to the Members of Perth & Kinross Council and the Controller of Audit for the year ended 31 March 2018.
- ii. Approves the 2017/18 Audited Annual Accounts and authorises the Leader of the Council, the Chief Executive and the Head of Finance to sign them and also authorises the Head of Finance to sign the Letter of Representation.

##### **Author(s)**

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

##### **Approved**

<b>Name</b>	<b>Designation</b>	<b>Date</b>
Stewart Mackenzie	Head of Finance	20 September 2018
Jim Valentine	Depute Chief Executive and Chief Operating Officer	20 September 2018

## ANNEX

### 1. IMPLICATIONS, ASSESSMENTS, CONSULTATION AND COMMUNICATION

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

#### 1. Strategic Implications

##### 1.1. Corporate Plan

1.1.1. The Council's Corporate Plan 2018 – 2023 lays out five outcome focussed strategic objectives which provide clear strategic direction, inform decisions at a corporate and service level and shape resources allocation. They are as follows:

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

1.1.2 This report relates to all of these objectives.

#### 2. Resource Implications

##### 2.1. Financial

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

## 2.2. Workforce

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

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

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

## 3. **Assessments**

### 3.1. Equality Impact Assessment

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

### 3.2 Strategic Environmental Assessment

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

### 3.3 Sustainability

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

#### **4. Consultation**

##### **4.1 Internal**

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

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

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

#### **3. APPENDICES**

Appendix A – KPMG’s Draft Annual Audit Report to the Members of Perth & Kinross Council and the Controller of Audit for the year ended 31 March 2018

Appendix B – 2017/18 Audited Annual Accounts (Unsigned)