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Council Building
2 High Street
Perth
PH1 5PH

18 March 2019

A Meeting of the **Audit Committee** will be held in **the Council Chamber, 2 High Street, Perth, PH1 5PH** on **Wednesday, 27 March 2019** at **09:30** .

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

KAREN REID
Chief Executive

Those attending the meeting are requested to ensure that all electronic equipment is in silent mode.

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

Members:

Councillor Eric Drysdale (Convener)
Councillor Stewart Donaldson (Vice-Convener)
Councillor Audrey Coates
Councillor David Illingworth
Councillor Xander McDade
Councillor Mike Williamson
Councillor Willie Wilson

Audit Committee

Wednesday, 27 March 2019

AGENDA

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

- | | | |
|------------------|--|-----------------|
| 1 | WELCOME AND APOLOGIES | |
| 2 | DECLARATIONS OF INTEREST | |
| 3 | MINUTE OF MEETING OF THE AUDIT COMMITTEE OF 30 JANUARY 2019 FOR APPROVAL AND SIGNATURE
(copy herewith) | 5 - 8 |
| 4 | INTERNAL AUDIT FOLLOW UP
Report by Chief Internal Auditor (copy herewith 19/96) | 9 - 20 |
| 5 | INTERNAL AUDIT UPDATE
Report by Chief Internal Auditor (copy herewith 19/97) | 21 - 28 |
| 5(i) | ALL SERVICES | |
| 5(i)(a) | 18-16 SALES LEDGER
(copy herewith 19/98) | 29 - 38 |
| 5(ii) | CORPORATE AND DEMOCRATIC SERVICES | |
| 5(ii)(a) | 18-21 GENERAL DATA PROTECTION REGULATION
(copy herewith 19/99) | 39 - 48 |
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(copy herewith 19/101) | 59 - 70 |
| 6 | PERTH AND KINROSS COUNCIL EXTERNAL AUDIT STRATEGY
(copy herewith 19/102) | 71 - 108 |

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PERTH AND KINROSS COUNCIL
AUDIT COMMITTEE
30 JANUARY 2019

AUDIT COMMITTEE

Minute of meeting of the Audit Committee held in the Council Chamber, 2 High Street, Perth on Wednesday 30 January 2019 at 9.30am.

Present: Councillors E Drysdale, S Donaldson, A Coates, D Illingworth, X McDade, M Williamson and W Wilson.

In Attendance: J Clark, C Irons, S Mackenzie, M Morrison, C Robertson, L Simpson and L Gowans (all Corporate and Democratic Services); C Taylor (Education and Children's Services); F Crofts and S Merone (Housing and Environment).

Also In Attendance : N Duncan and M Stewart, Internal Audit.

Councillor Drysdale, Convener, Presiding.

40. WELCOME AND APOLOGIES/SUBSTITUTIONS

The Convener welcomed everyone to the meeting. There were no apologies.

41. DECLARATIONS OF INTEREST

Councillors S Donaldson and X McDade declared a non-financial Interest in Art. 45(iii)(a) on LEADER in terms of the Councillors' Code of Conduct.

42. MINUTE

The minute of meeting of the Audit Committee of 7 November 2018 (Arts 649-658) was submitted and approved as a correct record and authorised for signature.

In relation to Article 656, it was noted that the two contracts which had not been notified to Public Contracts Scotland within the appropriate time limit had been fifteen and twenty-eight weeks outwith the time limit.

43. INTERNAL AUDIT FOLLOW UP

There was submitted a report by the Chief Internal Auditor (19/24) presenting a current summary of Internal Audit's follow up work.

It was noted that in respect of action plan 17-22 relating to Elected Members Allowances, that a decision had been made not to progress the action. L Simpson confirmed that a pragmatic approach had been taken as Elected Members were not subject to the Maximising Attendance Policy introduced for staff.

Resolved:

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

44. INTERNAL AUDIT UPDATE

There was submitted a report by the Chief Internal Auditor (19/25) presenting a summary of Internal Audit's work.

In response to a question from Councillor S Donaldson, J Clark advised that usually Internal Audit were contacted by a Team Leader to provide advice, assurance and/or assistance to services regarding specific issues where a process was being reviewed or changed. J Clark would confirm to Councillor Donaldson whether or not the eleven occasions they were asked for advice this year was higher than last year.

Resolved:

The progress of assignments from the 2018/19 Audit Plan, be noted.

45. INTERNAL AUDIT UPDATE

(i) Education and Children's Services

(a) 18-11 –School Estate Strategy

There was submitted a report by the Chief Internal Auditor (19/26) on an audit to ensure (1) there was a clear vision and strategy of how the School Estate was managed; (2) that consideration was given to appropriate matters, such as condition, suitability and sufficiency of the School Estate and (3) that there were robust governance arrangements in place and operating effectively for School Estate planning.

It was noted that the School Estate Sub-Committee and the Property Sub-Committee had been amalgamated for one Committee to deal with all property issues.

Resolved:

Internal Audit's findings, as detailed in Report 19/26, be noted.

(b) 18-17 – Remodelling of Residential Care For Children and Young People

There was submitted a report by the Chief Internal Auditor (19/27) on an audit to ensure the adequacy of arrangements relating to the REACH (Review and remodelling of residential care for Children and Young People) Project.

Councillor W Wilson asked why this audit had been included in the audit plan when there had been strong controls and J Clark advised it had been agreed as part of the audit plan approved by Committee in June 2018 as it was important to look at areas of significant change or risk.

PERTH AND KINROSS COUNCIL
AUDIT COMMITTEE
30 JANUARY 2019

It was noted that the Committee should not only focus on areas of concern and lessons can be learned from audits where the internal controls are strong and there were lessons to be learned and applied elsewhere.

Resolved:

Internal Audit's findings, as detailed in report 19/27, be noted.

(ii) Corporate and Democratic Services

(a) 18-02 – Review of Internal Controls

There was submitted a report by the Chief Internal Auditor (19/28) on an audit to ensure (1) the adequacy of segregation of duties, controls and ensuring access to systems were restricted to appropriate levels (to negate the possibility of individuals processing transactions all the way through the payments process); (2) that feeder systems were effectively reconciled to other systems – specifically the Purchase ledger, using third party information (suppliers statements) and reconciling with payments system for payments of creditors; (3) that system documentation was maintained which detailed key controls to be carried out by staff to prevent fraud or error in payment of creditors and (4) that budget monitoring was at a level that allowed budget holders to identify anomalous payments to suppliers at an early stage.

S Mackenzie advised members that all actions had now been completed and a new software system was being used which checked for anomalies prior to a payment being made and the effectiveness of this would be tested over the next twelve months.

Resolved:

- (i) Internal Audit's findings, as detailed in Report 19/28, be noted.
- (ii) A training session be held for members on the IT systems in place within the Council.

(b) 18-15 – Payroll

There was submitted a report by the Chief Internal Auditor (19/29) on an audit to ensure (1) that the payment of employee salaries, including temporary variations and deductions, are timely, accurate and authorised: (2) that the adequacy of controls in respect of bona fide new employees and leavers were appropriately and adequately authorised and input promptly to the payroll system and (3) that managers were receiving accurate reports on the employees for whom they have responsibility.

PERTH AND KINROSS COUNCIL
AUDIT COMMITTEE
30 JANUARY 2019

Resolved:

Internal Audit's findings, as detailed in Report 19/29, be noted.

(iii) Housing and Environment

(a) 18-19 – LEADER

There was submitted a report by the Chief Internal Auditor (19/30) on an audit to (1) ensure regulatory requirements were met by reviewing the systems in place to deliver LEADER as well as the financial processes and (2) assess compliance with the Service Level Agreement and conduct a review of a selection of LEADER projects.

S Merone advised that claims to the Scottish Government were up-to-date.

Resolved:

Internal Audit's findings, as detailed in Report 19/30, be noted.

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# PERTH AND KINROSS COUNCIL

## Audit Committee

27 March 2019

### INTERNAL AUDIT FOLLOW UP

#### Report by Chief Internal Auditor (Report No.19/96)

#### PURPOSE OF REPORT

This report presents a current summary of Internal Audit's 'follow up' work.

#### 1. BACKGROUND AND MAIN ISSUES

- 1.1 The Public Sector Internal Audit Standards (PSIAS) require the Chief Internal Auditor to establish a follow-up process to monitor and ensure that management actions have been effectively implemented. To assist the Audit Committee, the appendices to this report provide information on those actions that have not been implemented in accordance with the original agreed timetable, or where there is insufficient information on the current situation. Some dates have been revised and agreed with Services in recognition of the need for more time to complete the actions.
- 1.2 Internal Audit has evaluated evidence provided for actions with an expected completion date of November 2018 to January 2019.
- 1.3 Appendix 1 presents a summary of the number of actions arising from internal and external audit reports.
  - Table 1 shows the total number of actions to be completed arising from Internal Audit reports. These total 49.
  - Table 2 shows the number of actions which have not been completed by their originally agreed date. These total 16, of which 6 had a completion date of November 2018 to January 2019 and are therefore detailed in Appendices 2 to 4.
  - A further 10 actions not completed by their original date have been allocated revised dates for completion after January 2019 and progress will be reported on these at a future Committee.
  - The number of actions which have yet to be followed up as their completion date is after January 2019 is 33.
- 1.4 In both tables, the actions are grouped by Service and reported by 'importance' of the agreed actions. The importance of each action is documented in the original Internal Audit reports considered by the Audit Committee. Reported importance ratings range from 'critical', where there are significant financial, reputation, legal, performance, or safety issues, to 'low', where the risks are lower but there may be opportunities for improving processes and procedures. Reports produced by external audit do not explicitly state the importance of each individual action and are therefore included in the tables as 'not rated'.

- 1.5 Appendices 2 to 4 present detailed follow-up information in respect of actions agreed for completion in the period of November 2018 to January 2019. Internal Audit's opinion on the implementation of the actions is that, whilst the actions have not been undertaken within the originally agreed timeframe, satisfactory progress is being made. There are no incomplete actions for Health & Social Care Partnership within the period November 2018 to January 2019.
- 1.6 The Audit Committee has requested information regarding any action with a 'critical' or 'high' risk rating which has not been completed on its originally agreed date. Table two highlights two such instance of 'high' risk actions and these both relate to the audit on Personalisation. One action relates to the development and approval of a Council-wide strategy for Self-Directed Support and the second, in respect of monitoring risk, is included within Appendix 3.

## 2. PROPOSALS

- 2.1 It is recommended that the Committee seeks assurance that there are clear and achievable action plans for completing the agreed actions noted above.

## 3 CONCLUSION AND RECOMMENDATIONS

- 3.1 The Audit Committee is asked to consider the most appropriate action to be taken to progress the agreed Action Plans.
- 3.2 It is recommended that the Audit Committee:
- (i) Note the current position in respect of the agreed actions arising from internal and external work; and
  - (ii) Consider the most appropriate action to be taken to progress the agreed action plans, taking into account the recorded audit opinions.

### Author

| Name         | Designation            | Contact Details                                                        |
|--------------|------------------------|------------------------------------------------------------------------|
| Jackie Clark | Chief Internal Auditor | <a href="mailto:InternalAudit@pkc.gov.uk">InternalAudit@pkc.gov.uk</a> |

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Council Text Phone Number 01738 442573

## 1. IMPLICATIONS, ASSESSMENTS, CONSULTATION AND COMMUNICATION

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

### 1. Strategic Implications

#### Corporate Plan

- 1.1 The Council's Corporate Plan 2018– 2022 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.

- 1.2 This report relates to all of these objectives.

### 2. Assessments

#### Equality Impact Assessment

- 2.1 Under the Equality Act 2010, the Council is required to eliminate discrimination, advance equality of opportunity, and foster good relations between equality groups. Carrying out Equality Impact Assessments for plans and policies allows the Council to demonstrate that it is meeting these duties.

- 2.2 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.

#### Risk

- 2.3 There is a risk to the strength of the control environment if the agreed action plans are not carried out in a timely manner.

### **3. Consultation**

#### Internal

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

### **2. BACKGROUND PAPERS**

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

### **3. APPENDICES**

Appendix 1 – Summary of Agreed Actions

Appendix 2 – Audit Follow-Up Corporate & Democratic Services

Appendix 3 – Audit Follow-Up Education & Children's Services

Appendix 4 – Audit Follow-Up Housing & Environment

## Appendix 1

## Summary of Agreed Actions

Table 1: All Agreed Actions for Follow-Up as at 31 January 2019. This table includes actions not yet due for completion.

| Service                          | Importance   |              |                |                |                |
|----------------------------------|--------------|--------------|----------------|----------------|----------------|
|                                  | Critical     | High         | Medium         | Low            | Total          |
| Corporate & Democratic Services  | 0 (0)        | 1 (1)        | 15 (10)        | 5 (7)          | 21 (18)        |
| Education & Children's Services  | 0 (0)        | 4 (4)        | 4 (4)          | 0 (0)          | 8 (8)          |
| Health & Social Care Partnership | 0 (0)        | 0 (0)        | 2 (2)          | 0 (0)          | 2 (2)          |
| Housing & Environment            | 0 (0)        | 2 (1)        | 9 (10)         | 7 (9)          | 18 (20)        |
| <b>All Services</b>              | <b>0 (0)</b> | <b>7 (6)</b> | <b>30 (26)</b> | <b>12 (16)</b> | <b>49 (48)</b> |

Table 2: All Actions Reported as Incomplete on their Original Agreed Date

| Service                                                                                                                         | Importance   |              |               |               |                |
|---------------------------------------------------------------------------------------------------------------------------------|--------------|--------------|---------------|---------------|----------------|
|                                                                                                                                 | Critical     | High         | Medium        | Low           | Total          |
| Corporate & Democratic Services                                                                                                 | 0 (0)        | 0 (0)        | 0 (2)         | 1 (3)         | 1 (5)          |
| Education & Children's Services                                                                                                 | 0 (0)        | 2 (2)        | 1 (1)         | 0 (0)         | 3 (3)          |
| Health & Social Care Partnership                                                                                                | 0 (0)        | 0 (0)        | 1 (1)         | 0 (0)         | 1 (1)          |
| Housing & Environment                                                                                                           | 0 (0)        | 0 (0)        | 4 (7)         | 7 (7)         | 11 (14)        |
| <b>All Services</b>                                                                                                             | <b>0 (0)</b> | <b>2 (2)</b> | <b>6 (11)</b> | <b>8 (10)</b> | <b>16 (23)</b> |
| Actions with a completion date up to January 2019 which have not been completed and therefore included on Appendices 2 to 4     |              |              |               |               | 6              |
| Those actions where the revised date for completion is after January 2019 and have been previously reported to Audit Committee. |              |              |               |               | 10             |



## Appendix 2

**Internal Audit Follow-up  
Corporate & Democratic Services  
(Reporting for All dates on or before: January 2019)**

| Action Plan                                                                                                                                                                                                                                                                                                                                                                                                                                                               | Dates                         | Status/Explanation                                                                                                                                                                                                                                                                                                                                                                                                     |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><a href="#">18-12 - Management of Contracts</a></p> <p>Action Point : 8 - Authorised Signatory Database Update<br/>Importance: Low</p> <p>Audit Committee Date:<br/>November 2018</p> <p>The Financial Systems Team is currently reviewing all fields and information captured within the authorised signatory database. Further to this, action will be taken to capture all appropriate information from Services.</p> <p>(L Law, Financial Systems Team Leader)</p> | <p>Dec 2018<br/>July 2019</p> | <p>The Service states that it has taken longer than expected to get agreement with all Services regarding the authorised signatory database. Furthermore, there is a system update which may impact further regarding migration issues which may cause a further delay in its introduction. Therefore, a pragmatic date for implementing this action is July 2019.</p> <p>Internal Audit Opinion:<br/>Satisfactory</p> |





## Appendix 3

**Internal Audit Follow-up  
Education & Children's Services  
(Reporting for All dates on or before: January 2019)**

| Action Plan                                                                                                                                                                                                                                                                                                                                                                                                                                                            | Dates                                                  | Status/Explanation                                                                                                                                                                                           |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><a href="#">16-23 - Personalisation</a><br/>Action Point : 2.2 Risk,<br/>Implementation &amp; Monitoring<br/>Importance: High</p> <p>The outcomes from the review of Audit Scotland's report and Statutory Guidance to identify the key risks will be considered for inclusion within the Service's formal monitoring processes and risk register for 2017/18 as appropriate.</p> <p>(S Cooper, Service Manager, Planning, Performance and Partnership Working)</p> | <p>Oct 2017<br/>Mar 2018<br/>Dec 2018<br/>Apr 2019</p> | <p>The Service is building information regarding the use of SDS into its formal monitoring processes. This is due to be presented to the Children and Families Divisional Management Team in April 2019.</p> |



## Appendix 4

**Internal Audit Follow-up  
Housing & Environment  
(Reporting for All dates on or before: January 2019)**

| Action Plan                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | Dates                                     | Status/Explanation                                                                                                                                                                                                                                                                                                                                                                                                         |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><a href="#">16-22 - Roads Maintenance Partnership</a><br/>Action Point : 7b - Road Maintenance Partnership (RMP) Agreement</p> <p>Importance: Medium</p> <p>Once the RMP plan (as defined in action point 7a of the report) has been clarified the Deputy Manager, RMP will review and update the "Obtaining Best Value in Works Contracts" procedure taking cognisance of agreed way forward in providing the service. Any reference to BS EN ISO 9001/9002 and/or the quality principles will be dependent on the outcome of the review by the collaborative working group.</p> <p>(S D'All, Deputy Roads Maintenance Partnership Manager)</p> | <p>Apr 2018<br/>Jan 2019<br/>Nov 2019</p> | <p>The decision on the way forward for the RMP was taken on 30 November 2018 and a Committee report will go to Environment &amp; Infrastructure Committee in May 2019.</p> <p>The Obtaining Best Value Review Report will follow the ratification of the Partnership Agreement and be presented to E&amp;I Committee in October 2019. Procedures will be developed thereafter.</p> <p>Internal Audit Opinion: Accepted</p> |
| <p><a href="#">17-03 - Capital Programme</a><br/>Action Point : 3a - Manual Recording<br/>Importance: Low</p> <p>Audit Committee Date: June 2017</p> <p>Options for digitising information are being progressed.</p> <p>(N Ballantine, Capital Programme Manager)</p>                                                                                                                                                                                                                                                                                                                                                                               | <p>Dec 2018<br/>Aug 2019</p>              | <p>The Service has developed a contract management module for Concerto and initial training has been provided to appropriate personnel. The Project Management element of this system will go live from April 2019.</p> <p>Further developments are in progress for the financial recording and reporting and these should be in the live environment in July 2019.</p> <p>Internal Audit Opinion: Satisfactory</p>        |

|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |                                             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><a href="#">17-03 - Capital Programme</a><br/> Action Point : 4 - Project Assurance<br/> Importance: Low</p> <p>Audit Committee Date: June 2017</p> <p>The Capital Programme Office has been consulting with relevant Heads of Service and Senior Managers to identify the most appropriate form of key stage evaluation. Once an appropriate format has been determined this will be incorporated into the project management toolkit and procedures for the Capital Programme Office.</p> <p>(N Ballantine, Capital Programme Manager)</p>             | <p>Dec 2017<br/> Dec 2018<br/> Mar 2019</p> | <p>Capital Programme activity analysis was undertaken and considered by the Budget Review Group in 2018 in respect of risk and commitment. A formalised evaluation procedure has yet to be developed, pending governance structure update of Capital and Transformation activity.</p> <p>A paper outlining revised arrangements was considered at Corporate Management Group in November 2018. This has been updated in line with feedback received and will be resubmitted to this forum in March 2019 for approval.</p> <p>Internal Audit Opinion: Accepted</p>                                                                                                           |
| <p><a href="#">17-03 - Capital Programme</a><br/> Action Point : 5b - Evaluation<br/> Importance: Low</p> <p>Audit Committee Date: June 2017</p> <p>The Capital Programme Office will continue to develop systems in regards to evaluation. This will include documenting a template benefits realisation report, agreeing a process and format for reporting and follow up of evaluation outcomes at the appropriate levels and building systems to link this to initial stages of future programmes.</p> <p>(N Ballantine, Capital Programme Manager)</p> | <p>Dec 2018<br/> Oct 2019</p>               | <p>Templates have been designed and are available as part of the Project Management Toolkit.</p> <p>The electronic Capital Programme management system, Concerto, has capability to allow for more robust management of this. This includes an easily accessible database of lessons learned associated with particular project types which can be utilised in the initiation stages of business case development and projects.</p> <p>Development of this module of Concerto is ongoing and final processes and formats will be released further to staged release of project management and financial recording elements.</p> <p>Internal Audit Opinion: Satisfactory</p> |

# **PERTH AND KINROSS COUNCIL**

## **Audit Committee**

**27 March 2019**

### **INTERNAL AUDIT UPDATE**

#### **Report by the Chief Internal Auditor (Report No.19/97)**

#### **PURPOSE OF REPORT**

This report presents a summary of Internal Audit's work.

#### **1. BACKGROUND / MAIN ISSUES**

- 1.1 The Public Sector Internal Audit Standards (PSIAS) require that the Chief Internal Auditor reports periodically to the Audit Committee on internal audit activity and on performance relative to the approved plan.
- 1.2 Work has continued on assignments included within the Internal Audit Plan for 2018/19, as approved by Audit Committee in March 2018 (report 18/109) and June 2018 (report 18/221).
- 1.3 Since April 2018, Internal Audit has been contacted on 12 occasions to provide advice, assurance and / or assistance to services regarding specific issues. Internal Audit will follow up on these areas during the year, where necessary. This unplanned workload is contained within the resources allocated as part of the Internal Audit planning process. Where control issues arise as a result of this work, Internal Audit will provide the Audit Committee with a report.
- 1.4 Internal Audit has undertaken work from the Integrated Joint Board's Audit Plan.
- 1.5 Matches as a result of the National Fraud Initiative have been released for the 2018/19 exercise and the process of ensuring that these are appropriately investigated is being facilitated by Internal Audit.
- 1.6 Appendix 1 details those assignments where work has been completed since the last report to the Audit Committee. Where appropriate, Internal Audit Reports for these assignments will be presented to the Audit Committee.
- 1.7 Appendix 2 shows the areas of work being undertaken following the Audit Committee's consideration of the Internal Audit work plan for 2018/19.

## 2. OUTCOMES FROM CONSULTANCY WORK

- 2.1 Within the Internal Audit Plan, there are a number of assignments which were identified as 'consultancy'. Following approval from Audit Committee of a revised reporting process for consultancy assignment (Report 16/306), this report provides a summary of completed work with regard to such assignments, where appropriate.
- 2.2 The scope of 18-25 Community Empowerment was to continue to act as a 'critical friend' and to contribute to the governance framework for the development in relation to community empowerment. The Service has engaged an external consultant review local decision making in the context of community empowerment legislation. This has resulted in an Action Plan being developed which is in the process of being implemented. Internal Audit does not propose to undertake any further work in this area at present.
- 2.X The outcomes from consultancy assignments are taken into account when considering the Internal Audit universe, from which future Internal Audit plans are derived.

## 3. CONCLUSION AND RECOMMENDATIONS

- 3.1 This report presents a summary of Internal Audit's work.
- 3.2 It is recommended that the Committee notes:
- i) The progress with assignments from the Internal Audit Plan for 2018/19
  - ii) The outcome from consultancy work

### Author(s)

| Name         | Designation            | Contact Details                                                          |
|--------------|------------------------|--------------------------------------------------------------------------|
| Jackie Clark | Chief Internal Auditor | <a href="mailto:Internal.Audit@pkc.gov.uk">Internal.Audit@pkc.gov.uk</a> |

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Council Text Phone Number 01738 442573

## 1. IMPLICATIONS, ASSESSMENTS, CONSULTATION AND COMMUNICATION

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

### 1. Strategic Implications

Community Plan/Single Outcome Agreement

Corporate Plan

- 1.1 The Council's Corporate Plan 2018 – 2022 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.

- 1.2 This report relates to all of these objectives.

### 2. Assessments

### Equality Impact Assessment

- 2.1 Under the Equality Act 2010, the Council is required to eliminate discrimination, advance equality of opportunity, and foster good relations between equality groups. Carrying out Equality Impact Assessments for plans and policies allows the Council to demonstrate that it is meeting these duties.
- 2.2 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.

### Risk

- 2.3 The risks are associated with the level of assurance provided on the control environment in the event that Internal Audit's planned work is not completed on time.

## **3. Consultation**

### Internal

- 3.1 The Chief Executive and Head of Legal and Governance have been consulted in the preparation of this report.

## **2. BACKGROUND PAPERS**

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

## **3. APPENDICES**

Appendix 1 – Audit Activity Completed Since The Last Report To Audit Committee

Appendix 2 – Work Commenced from 2018/19 Internal Audit Work Plan



## Appendix 1

### INTERNAL AUDIT UPDATE

#### Internal Audit Activity Completed Since The Last Report To Audit Committee

| <b>Audit No.</b> | <b>Audit Title</b>                           | <b>Service</b>                                |
|------------------|----------------------------------------------|-----------------------------------------------|
| 18-16            | Sales Ledger                                 | Corporate & Democratic Services; All Services |
| 18-20            | Carbon Reduction Commitment / Climate Change | Housing & Environment                         |
| 18-21            | General Data Protection Regulations          | Corporate & Democratic Services               |
| 18-23            | Local Action Partnership                     | Corporate & Democratic Services               |
| 18-25            | Community Empowerment                        | Corporate & Democratic Services               |
| 18-26            | Strategic Planning                           | For the Integrated Joint Board                |



## Appendix 2

## Work Commenced from 2018/19 Internal Audit Work Plan as at February 2019

| Audit No. | Audit Title                                               | Original Anticipated Audit Committee | Assignment brief approved                                                                                                                    | Factual accuracy confirmed | Draft Report issued                                      | Final Report issued | Audit Committee Date ^ |
|-----------|-----------------------------------------------------------|--------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------|----------------------------|----------------------------------------------------------|---------------------|------------------------|
| 18-01     | Initial Review of Controls following a Significant Fraud  | May 2018                             | April 2018                                                                                                                                   | April 2018                 | Outcome provided to Audit Committee. No separate report. |                     | May 2018               |
| 18-02     | Detailed Review of Controls following a Significant Fraud | November 2018                        | April 2018                                                                                                                                   | December 2018              | December 2018                                            | December 2018       | January 2019           |
| 18-04     | Arms Length External Organisations                        | January 2019                         | March 2019                                                                                                                                   |                            |                                                          |                     | May 2019               |
| 18-05     | Transformation                                            | March 2019                           | April 2018                                                                                                                                   |                            |                                                          |                     | May 2019               |
| 18-06     | Corporate Governance                                      | March 2019                           |                                                                                                                                              |                            |                                                          |                     | May 2019               |
| 18-07     | Commissioning Strategy                                    | March 2019                           | March 2019                                                                                                                                   |                            |                                                          |                     | May 2019               |
| 18-08     | (a) Financial Assessment & Charging Follow Up             | June 2018                            | April 2018                                                                                                                                   | May 2018                   | May 2018                                                 | May 2018            | June 2018              |
|           | (b) Further Follow Up of Financial Assessment & Charging  | March 2019                           | February 2019                                                                                                                                |                            |                                                          |                     |                        |
| 18-09     | Bus Service Operators Grant                               | September 2018                       | Completed and grant claim certified. No report required on this occasion.                                                                    |                            |                                                          |                     |                        |
| 18-10     | Bus Service Operators Grant                               | March 2019                           | This grant certification is no longer required as the certification can now be undertaken annually, as confirmed by the Scottish Government. |                            |                                                          |                     |                        |
| 18-11     | School Estate Strategy                                    | November 2018                        | September 2018                                                                                                                               | November 2018              | December 2018                                            | December 2018       | January 2019           |

|       |                                              |                |                |                |                |                |                      |
|-------|----------------------------------------------|----------------|----------------|----------------|----------------|----------------|----------------------|
| 18-12 | Management of Contracts                      | September 2018 | July 2018      | August 2018    | August 2018    | September 2018 | <b>November 2018</b> |
| 18-13 | Workforce Planning                           | January 2019   | March 2019     |                |                |                | <b>May 2019</b>      |
| 18-14 | Welfare Reform                               | January 2019   | March 2019     |                |                |                | <b>May 2019</b>      |
| 18-15 | Payroll                                      | November 2018  | September 2018 | December 2018  | December 2018  | December 2018  | <b>January 2019</b>  |
| 18-16 | Sales Ledger                                 | November 2018  | November 2018  | December 2018  | December 2018  | March 2019     | <b>March 2019</b>    |
| 18-17 | Residential Services                         | January 2019   | November 2018  | December 2018  | December 2018  | December 2018  | <b>January 2019</b>  |
| 18-18 | Tay Cities Deal                              | March 2019     | March 2019     |                |                |                | <b>May 2019</b>      |
| 18-19 | LEADER                                       | November 2018  | September 2018 | November 2018  | November 2018  | November 2018  | <b>January 2019</b>  |
| 18-20 | Carbon Reduction Commitment & Climate Change | March 2019     | February 2019  | February 2019  | February 2019  | March 2019     | <b>March 2019</b>    |
| 18-21 | General Data Protection Regulations          | May 2019       | February 2019  | February 2019  | March 2019     | March 2019     | <b>March 2019</b>    |
| 18-22 | Carers Act                                   | May 2019       | March 2019     |                |                |                | <b>May 2019</b>      |
| 18-23 | Local Action Partnerships                    | May 2019       | February 2019  | February 2019  | March 2019     | March 2019     | <b>March 2019</b>    |
| 18-24 | IDEA Implementation and Continuous Auditing  | March 2019     |                |                |                |                | <b>May 2019</b>      |
| 18-25 | Community Empowerment                        | March 2019     | February 2019  | Not applicable | Not applicable | Not applicable | <b>March 2019</b>    |
| 18-27 | Inclusion Services                           | May 2019       | March 2019     |                |                |                | <b>May 2019</b>      |
| 18-28 | Corporate Risk Management                    | March 2019     |                |                |                |                | <b>May 2019</b>      |

## Internal Audit Report



Internal Audit Report  
All Services  
Sales Ledger  
18-16  
March 2019 (Report No.19/98)

## Final Report

Legal and Governance  
Corporate and Democratic Services  
Perth & Kinross Council  
Council Offices  
2 High Street  
Perth  
PH1 5PH

## Internal Audit

“Internal Audit is an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes”. Public Sector Internal Auditing Standards (PSIAS)

The Council’s Audit Committee approved the PSIAS as the relevant standard for its Internal Audit activity.

## Background and Introduction

This assignment forms part of the Internal Audit plan for 2018/19, presented to Audit Committee on 27<sup>th</sup> June 2018. Audit testing was carried out in November 2018 to January 2019.

The Council’s Sales Ledger function records all sales transactions across the Council, with the exception of Housing Revenue Account rental income, car parking, Council Tax, non-domestic rates, and housing benefit overpayments, where payment has not been made in advance or at the point of sale. Whilst responsibility for raising sales invoices lies with the Services, the systems and processes for control of sales ledger income are established and maintained by Corporate and Democratic Services’ Finance Division. Executive Directors and the Chief Operating Officer are responsible for the prompt and accurate raising of invoices.

## Scope and Limitations

In order to arrive at an opinion on the achievement of the control objectives, the audit included interviews with officers in the corporate Financial Systems team and finance officers in all the Services who raised invoices and credit notes in the Integra Sales Ledger system.

## Control Objectives and Opinions

A ‘control objective’ is a management objective that requires the maintenance of adequate and effective internal controls to ensure that it is achieved. Each control objective has been given a rating describing, on the basis of the audit work done, the actual strength of the internal controls found to be in place. Areas of good or poor practice are described where appropriate.

|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Control Objective 1: To ensure that the Council identifies and properly and timeously records all Sales Ledger transactions.                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| Audit Comments: There are adequate controls to ensure that the Council identifies and properly and timeously records all Sales Ledger transactions.<br><br>There are Sales Ledger Management Guidelines and a Sales Ledger Manual for Integra, both of which were updated in 2018. These are on ERIC and therefore accessible to officers.<br><br>Services issue sales invoices as appropriate for a wide range of services and to recover costs, in accordance with the Council’s financial regulations, scheme of charges and procedures. Testing confirmed that invoices detail the service and |

## Internal Audit Report

value and includes supporting documentation which is appropriately authorised.

Raising of a Credit Note is controlled via an Integra eForm. There is a box for 'Who Raised [invoice]' that should be populated using a drop-down list. This box was not completed for the 21 Credit Notes tested. This box should be populated with the name so that the authoriser can earmark a different officer from the one who entered the invoice in line with the Guidelines. The financial systems team have monthly automated reports sent to each service to highlight where an invoice has been raised and a credit note by the same person.

The Sales Ledger Management Guidelines state that any Officer raising a Credit Note should not have raised the original Invoice. There may be benefit in updating the guidelines to state that the person authorising the Credit Note should not be the person raising the Invoice or requesting the Credit Note.

Testing of 37 Sales Invoices covering all 3 services showed 6 that had not been raised timeously.

At the time of audit it was recognised by the Housing Repairs team management that there was a backlog of invoices to be raised and the situation was being addressed. New procedures had recently been drawn up.

Testing confirmed that there is segregation between the officer who puts the collection of debt on hold from the officer who raised the invoice.

There is segregation between the officer who deactivates customers from the officer who raises the invoices.

|                                |        |
|--------------------------------|--------|
| Strength of Internal Controls: | Strong |
|--------------------------------|--------|

Control Objective 2: To ensure that the Council identifies and pursues outstanding debt appropriately.

Audit Comments: There are adequate controls in place to ensure that the Council identifies and pursues outstanding debt appropriately.

The accounting system (Integra) automatically generates reports which identify accounts for which payment is overdue. A final notice is automatically generated when a debt is unpaid for 28 days after the invoice date and a Legal Letter if the debt remains unpaid after an additional 14 days.

Uncollected debt with the Sheriff Officers and debt collectors are considered by the Sales Ledger team monthly and decisions made on any follow-up action to be taken or debt marked for consideration for write-off. It should be noted that whilst debt is written off for accountancy purposes whenever possible that debt will continue to be pursued.

|                                |        |
|--------------------------------|--------|
| Strength of Internal Controls: | Strong |
|--------------------------------|--------|

## Internal Audit Report

|                                                                                                                                                                                                                                                                                                                                                        |        |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------|
| Control Objective 3: To ensure that adequate system controls are in place to ensure the integrity of the system.                                                                                                                                                                                                                                       |        |
| Audit Comments: There are adequate controls in place to ensure the integrity of the Sales Ledger system.<br><br>Access rights to the Sales Ledger system is controlled using an Integra login eForm, including authorisation.<br><br>Receipts are reconciled to the Sales Ledger daily and the Sales Ledger is reconciled to the General Ledger daily. |        |
| Strength of Internal Controls:                                                                                                                                                                                                                                                                                                                         | Strong |

### Management Action and Follow-Up

Responsibility for the maintenance of adequate and effective internal controls rests with management.

Where the audit has identified areas where a response by management is required, these are listed in Appendix 1, along with an indication of the importance of each 'action point'. Appendix 2 describes these action points in more detail, and records the action plan that has been developed by management in response to each point.

It is management's responsibility to ensure that the action plan presented in this report is achievable and appropriate to the circumstances. Where a decision is taken not to act in response to this report, it is the responsibility of management to assess and accept the risks arising from non-implementation.

Achievement of the action plan is monitored through Internal Audit's 'follow up' arrangements.

Management should ensure that the relevant risk profiles are reviewed and updated where necessary to take account of the contents of Internal Audit reports. The completeness of risk profiles will be examined as part of Internal Audit's normal planned work.

### Acknowledgements

Internal Audit acknowledges with thanks the co-operation of Financial Systems and Sales Ledger teams, and Services finance officers during this audit.

### Feedback

Internal Audit welcomes feedback, in connection with this audit or with the Internal Audit service in general.



## Internal Audit Report

### Distribution

This report has been distributed to:

K Reid, Chief Executive

J Valentine, Depute Chief Executive and Chief Operating Officer

S Devlin, Executive Director, Education and Children's Services

B Renton, Executive Director, Housing and Environment

S Mackenzie, Head of Finance

S Walker, Chief Accountant

C Robertson, Central Services Manager, Corporate and Democratic Services

A Taylor, Head of IT and Revenues

G Boland, Senior Business & Resources Manager, Education & Children's Services

J Cockburn, Finance and Resources Manager, Education and Children's Services

F Crofts, Finance and Resources Manager, Housing and Environment

S Welsh, Finance and Governance Team Leader, Housing and Environment

F Low, Business and Resources Team Leader, Housing and Environment

L Robinson, Team Leader Housing Repairs

L Law, Financial Systems Team Leader

L Simpson, Head of Legal & Governance

Committee Services

External Audit

### Authorisation

The auditor for this assignment was M Stewart. The supervising auditor was M Morrison.

This report is authorised for issue:

---

J Clark

Chief Internal Auditor

Date: 12 March 2019

## Appendix 1: Summary of Action Points

| No. | Action Point                            | Risk/Importance |
|-----|-----------------------------------------|-----------------|
| 1.  | 'Who raised [invoice]' box on the eForm | Low             |
| 2.  | Sales Ledger Management Guidelines      | Low             |
| 3.  | Sales Invoices                          | Medium          |

## Appendix 2: Action Plan

### Action Point 1 - 'Who raised [invoice]' box on the eForm

There was evidence from testing that the 'Who raised [invoice]' box on the eForm to raise a Credit Note is not being completed. Completion of this box assists the authoriser in allocating a different officer from the one who entered the Invoice to the one who entered the Credit Note in the Sales Ledger system in compliance with the corporate Sales Ledger Management Guideline.

Without this box being completed the same officer who entered the invoice may also enter the Credit Note. The financial systems team have monthly automated reports sent to each service to highlight where an invoice has been raised and a credit note by the same person.

Officers should be reminded to complete the 'Who raised [invoice]' box on the eForm.

### Management Action Plan

Financial Systems Team will remind officers to complete the 'Who raised [invoice]' box on the eForm in compliance with Guidelines.

|                                     |                                      |
|-------------------------------------|--------------------------------------|
| Risk/Importance:                    | Low                                  |
| Responsible Officer:                | L Law, Financial Systems Team Leader |
| Lead Service:                       | Corporate & Democratic Services      |
| Date for Completion (Month / Year): | March 2019                           |
| Required Evidence of Completion:    | Extract from updated Guidelines      |

### Auditor's Comments

Satisfactory

## Action Point 2 - Sales Ledger Management Guidelines

Whilst the procedures state that the person raising the Credit Note should not be the person who raised the Invoice, there may be benefit in updating the Guidelines to explicitly state that the person authorising the Credit Note should not be the person raising the Invoice or requesting the Credit Note.

### Management Action Plan

Financial Systems Team Leader will update the Guidelines to explicitly state that the person authorising the Credit Note should not be the person raising the Invoice or requesting the Credit Note.

|                                     |                                      |
|-------------------------------------|--------------------------------------|
| Risk/Importance:                    | Low                                  |
| Responsible Officer:                | L Law, Financial Systems Team Leader |
| Lead Service:                       | Corporate & Democratic Services      |
| Date for Completion (Month / Year): | April 2019                           |
| Required Evidence of Completion:    | Extract from updated Guidelines      |

### Auditor's Comments

Satisfactory

### Action Point 3 - Sales Invoices

Testing of a sample of sales invoices confirmed that there were a number not being raised in a timely manner which is contrary to Council guidelines.

At the time of audit it was recognised by the Housing Repairs Team management that there was a backlog of invoices to be raised and that they were addressing the situation. New procedures had recently been put in place.

There is therefore a risk that the council is not receiving income in a timely manner.

### Management Action Plan

- a) Invoicing for housing repairs will be brought up to date as soon as possible.
- b) Services will issue reminders to relevant staff that invoices require to be raised in a timely manner in accordance with guidelines.

|                                     |                                                                                                |
|-------------------------------------|------------------------------------------------------------------------------------------------|
| Risk/Importance:                    | Medium                                                                                         |
| Responsible Officers:               | a) & b) L Robinson, Team Leader, Housing Repairs<br>c) F Low, Business & Resources Team Leader |
| Lead Service:                       | a) & b) Housing & Environment<br>c) Corporate & Democratic Services                            |
| Date for Completion (Month / Year): | a) Completed<br>b) & c) March 2019                                                             |
| Required Evidence of Completion:    | Evidence of reminders being issued.                                                            |

### Auditor's Comments

Satisfactory



## Internal Audit Report



Internal Audit Report  
Corporate & Democratic Service  
General Data Protection Regulation  
Assignment No 18-21  
March 2019 (Report No.19/99)

## Final Report

Legal and Governance  
Corporate and Democratic Services  
Perth & Kinross Council  
Council Offices  
2 High Street  
Perth  
PH1 5PH

### Internal Audit

“Internal Audit is an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes”. Public Sector Internal Auditing Standards (PSIAS)

The Council’s Audit Committee approved the PSIAS as the relevant standard for its Internal Audit activity.

### Background and Introduction

This audit was carried out as part of the audit plan for 2018/19, which was approved by the Audit Committee on 27<sup>th</sup> June 2018. Audit testing was carried out in January and February 2019.

The General Data Protection Regulation [GDPR] has been effective since May 2018 and introduces changes to the 1998 Data Protection Act regarding controls on personal information. There is a new principle of accountability and increased penalties can be incurred for non-compliance. The Regulation is designed to protect individuals when their personal data is processed. The Data Protection Act 2018 sits alongside the GDPR for its implementation in the UK. Data Protection is generally included, not GDPR specifically, in the Council’s risk register as a strategic risk on arrangements to prevent the Council from keeping our data safe and secure.

The GDPR introduces a duty for public authorities, including the Council, to appoint a Data Protection Officer (DPO). It details the DPO’s tasks and places restrictions on the position and this is supplemented by guidance from the Information Commissioner’s Office. As a controller, the Council is responsible and accountable for processing personal information. Likewise, when the Council shares personal information with its partner organisations, this should be clearly indicated at the point of collecting the personal information.

### Scope and Limitations

Key officers interviewed during the review included the Council’s Information Governance Manager and Records Manager, the Procurement Manager and key Officers for Data Protection in Education and Children’s Services. A review of evidence on the Information Governance Group site was also undertaken.

### Control Objectives and Opinions

This section describes the purpose of the audit and summarises the results. A ‘control objective’ is a management objective that requires the maintenance of adequate and effective internal controls to ensure that it is achieved. Each control objective has been given a rating describing, on the basis of the audit work done, the actual strength of the internal controls found to be in place. Areas of good or poor practice are described where appropriate.

Control Objective: To ensure that Council is progressing with compliance to the new GDPR requirements



Internal Audit Comments:

The Council has a designated Data Protection Officer [DPO], named with contact details provided to the Information Commissioner's Office, recorded on the Council's website and accessible to all. The DPO is the Council's Information Governance Manager, who also acts as the Records Manager, and has a Team resource to assist. The DPO has independence in that the GDPR largely defines their job role, not the Council. The DPO reports to the Council's Head of Legal & Governance as Line Manager, but has access to the Corporate Management Team, the Chief Executive and Executive Officer Team. He has a responsibility for reporting on GDPR compliance to the Executive Officer Team and the Scrutiny Committee at least annually. As it is the first year of GDPR implementation, reporting is planned to take place to the end of March 2019, to be reported in June; discussions between the DPO and the Head of Legal & Governance have been held towards implementing this.

The GDPR requires the Council to have a Statement of Policy. This has been done and sits within the Data Protection Policy, approved by Strategic Policy & Resources Committee in November 2018. There are no specific responsible persons/job roles named and responsibility falls on all in the Council.

This Policy defines the roles and responsibilities of others, including Head of Legal & Governance Services, Service Senior Management Teams, Elected Members, employees, agents and volunteers.

The Policy states that Council Services will identify Lead Officers for Data Protection and meet regularly. In December 2018 the first Data Protection Group meeting was attended by 14 Service representatives, including people who had worked on the previous GDPR Implementation Group until August 2018.

The Corporate and Democratic Services' Business and Management Improvement Plan 2018-2021 has an action to review and revise all policies, processes and procedures in relation to the Council's processing of personal information with a target date for completion by Summer 2019.

The Council has a Register of Processing Activities as required by GDPR. Processing activities listed on the Register during the audit review numbered 43 for Education & Children's Services; 190 for Corporate & Democratic Services; 188 for Housing & Environment; and 29 for Adult Social Care. Work on this register is still progressing. To make clear the legal basis of processing personal data, the Council publishes detailed Privacy Notices on its website with contact details if more information is wanted. When systems or processes which handle personal data are changed or new ones introduced, Data Protection Impact Assessments are carried out in compliance with the GDPR.

Under the GDPR, contracts with suppliers involving personal data should contain clauses defining data protection responsibilities. The Terms and Conditions in Council standard contracts were reviewed and amended to incorporate provisions relevant to the GDPR. This included a 'future proofing' variation clause to enable amendments to incorporate future amends to the Data Protection Laws (including the Data Protection Act 2018 which supplemented GDPR).

The Register of Processing Activities has to record data sharing: it currently lists 23 activities involving data sharing. The Council names 13 organisations it mainly

shares information with on its website and provides the contact details of the DPO for more details as required. In addition, the DPO has a record of 27 completed data sharing agreements by Service, with the status showing more in progress. A template data sharing agreement is available and the DPO offers consultation for Services to complete these.

In the event of a data breach occurring, the Data Protection Policy requires these to be reported to the DPO to investigate and manage, dependent on the circumstances of the breach type and severity. Council officers have been reminded by bulletins on Eric of what to do in the event of a suspected breach, the importance of reporting these timeously, common breach areas and how to avoid these. It is noted that in the event of a breach, the Information Commissioners Office (ICO) has always asked about the staff training of the individuals concerned.

A review in Education & Children's Services found evidence of ECS officers moving GDPR forward, through ECS newsletters, presentations by the DPO and bulletins to all Head Teachers at their conference days in 2018. ECS Research and Performance Team Manager confirmed GDPR training was rolled out to school staff through the Local Management Group meetings.

|                                |                   |
|--------------------------------|-------------------|
| Strength of Internal Controls: | Moderately Strong |
|--------------------------------|-------------------|

## Management Action and Follow-Up

Responsibility for the maintenance of adequate and effective internal controls rests with management.

Where the audit has identified areas where a response by management is required, these are listed in Appendix 1, along with an indication of the importance of each 'action point'. Appendix 2 describes these action points in more detail, and records the action plan that has been developed by management in response to each point.

It is management's responsibility to ensure that the action plan presented in this report is achievable and appropriate to the circumstances. Where a decision is taken not to act in response to this report, it is the responsibility of management to assess and accept the risks arising from non-implementation.

Achievement of the action plan is monitored through Internal Audit's 'follow up' arrangements.

Management should ensure that the relevant risk profiles are reviewed and updated where necessary to take account of the contents of Internal Audit reports. The completeness of risk profiles will be examined as part of Internal Audit's normal planned work.

## Acknowledgements

Internal Audit acknowledges with thanks the co-operation of Council Officers during this audit.

## Feedback

Internal Audit welcomes feedback, in connection with this audit or with the Internal Audit service in general.

## Distribution

This report has been distributed to:

K Reid, Chief Executive

J Valentine, Depute Chief Executive (Chief Operating Officer)

L Simpson, Head of Legal and Governance, CADS

D Henderson, Information Governance Manager, CADS

M Mitchell, Corporate Procurement Manager, CADS

P Davison, Corporate Research and Information Manager, ECS

Committee Services

External Audit

## Authorisation

The auditor for this assignment was N Duncan. The supervising auditor was M Morrison.

This report is authorised for issue:

---

J Clark  
Chief Internal Auditor  
Date: 15 March 2019

## Appendix 1: Summary of Action Points

| No. | Action Point                                                  | Risk/Importance |
|-----|---------------------------------------------------------------|-----------------|
| 1   | <u>Services Lead Officers for Data Protection</u>             | Low             |
| 2   | <u>Privacy Notices and Data Protection Impact Assessments</u> | Medium          |
| 3   | <u>Contracts and Data Sharing Agreements</u>                  | Medium          |
| 4   | <u>Training, guidance and uptake</u>                          | Medium          |

## Appendix 2: Action Plan

### Action Point 1 - Services Lead Officers for Data Protection

The Data Protection Policy refers under Governance to Services identifying Lead Data Protection Officers. These Lead Officers are to meet regularly with the Council's DPO to consider Data Protection practice and procedures.

The first Data Protection Group meeting was held in December 2018 with the DPO and 14 officers representing most Services. More quarterly meetings were planned to follow.

### Management Action Plan

At a future Data Protection Group meeting in 2019 discussion and agreement on roles of Data Protection Lead Officers for each Service to be moved forward towards compliance to the Council's Data Protection policy.

|                                     |                                      |
|-------------------------------------|--------------------------------------|
| Risk/Importance:                    | Low                                  |
| Responsible Officer:                | D Henderson, Data Protection Officer |
| Lead Service:                       | Corporate & Democratic Services      |
| Date for Completion (Month / Year): | December 2019                        |
| Required Evidence of Completion:    | Minutes of Meeting                   |

### Auditor's Comments

Satisfactory

## Action Point 2 - Privacy Notices and Data Protection Impact Assessments

The Council provides privacy information towards compliance to new GDPR standards. In addition to the high level Privacy Notice published on the Council website, other detailed Privacy Notices are also published for specific processes involving personal data. Twenty five were available, with contact details of the Information Governance Team for further details as required. Template Privacy Notice documents are available from the Team and are published on Eric. More Service specific Privacy Notices require to be completed to match the number of processing activities listed on the Register of Processing Activities.

Data Protection Impact Assessments are a mandatory requirement of GDPR when new systems are introduced or when processes which handle personal data are changed. The DPO has provided a template towards assisting Council Services complete these. A review of Data Protection Impact Assessments on the shared Information Governance Group site found that 85 were listed for all Council services, of which 16 had been approved by the asset owner, 40 were in progress and 29 had other statuses.

### Management Action Plan

The DPO will continue to liaise with Services to ensure that all Privacy Notices listed on the Register of Processing Activities and Data Protection Impact Assessments have been completed, as resources allow.

|                                     |                                                                       |
|-------------------------------------|-----------------------------------------------------------------------|
| Risk/Importance:                    | Medium                                                                |
| Responsible Officers:               | D Henderson, Data Protection Officer                                  |
| Lead Service:                       | Corporate & Democratic Services                                       |
| Date for Completion (Month / Year): | December 2019                                                         |
| Required Evidence of Completion:    | Update on the number of Data Protection Impact Assessments progressed |

### Auditor's Comments

Satisfactory

### Action Point 3 - Contracts and Data Sharing Agreements

- a) When contracts were assessed for risk of non-compliance to GDPR prior to implementation in 2017, there were approximately 500 potential suppliers with 700 contracts which may involve personal data. The Procurement Manager reported that the risk of non-compliance with GDPR for contracts has since reduced due to the renewal of transport contracts, which have an element of personal data, in 2018. However there is a residual risk from contracts such as IT suppliers which still have to be identified and managed. This risk review is an action planned for 2019 by the Procurement Manager.
- b) The Council's Contract Rules 2017 are due for review in Sept 2019. The Section 8 Legal Framework does not have specific mention of Data Protection legislation. The general statement 'Every contract must comply with all relevant legislation' is included in section 8 – Legal Framework as a 'catch-all' statement.
- c) The DPO reported that Services are signing off draft Data Sharing Agreements before being reviewed by the DPO.

### Management Action Plan

- a) Procurement to identify most likely contracts involving processing of personal data and contract owners to be notified of GDPR contract requirements [with advice from DPO].
- b) The PKC Contract Rules review to consider specific requirements for GDPR in section 8 – Legal Framework.
- c) Services to be reminded of the need for the DPO to have sight and review of draft for Data Sharing Agreements before final sign off as set out in Council policy.

|                                      |                                                                                                                            |
|--------------------------------------|----------------------------------------------------------------------------------------------------------------------------|
| Risk/Importance:                     | Medium                                                                                                                     |
| Responsible Officers:                | a) M Mitchell, Procurement Manager<br>b) M Mitchell, Procurement Manager<br>c) D Henderson, Data Protection Officer        |
| Lead Service:                        | Corporate & Democratic Services                                                                                            |
| Dates for Completion (Month / Year): | a) May 2019<br>b) September 2019<br>c) March 2019                                                                          |
| Required Evidence of Completion:     | a) Copy of communication<br>b) Confirmation that a review has taken place and evidence thereof<br>c) Copy of communication |

### Auditor's Comments

Satisfactory

## Action Point 4 - Training, Guidance and Uptake

GDPR training is available for users with access to the online platform Learn, Innovate, Grow and GDPR training is mandatory. There were also Learning Lunches, updates on Eric and presentations to Service staff and staff groups. Training areas included for example, Data Protection Impact Assessments, common breaches and how to reduce these occurring.

Across all Council Services, the up-take figures for the latest GDPR on-line training to Feb 2019 showed 373 had completed the GDPR.

This suggests that not all users have completed mandatory GDPR training. It was reported that when there is a breach the ICO always request information about staff training.

## Management Action Plan

- a) Further reminders to staff with links to the training updates continuing to promote the need and uptake of GDPR training, with clear message that this is mandatory.
- b) As part of a review into the Council's approach to encouraging people to undertake training and development, arrangements will be put in place to ensure that managers are aware of what essential training is required to be undertaken by their teams

|                                     |                                                                                                                     |
|-------------------------------------|---------------------------------------------------------------------------------------------------------------------|
| Risk/Importance:                    | Medium                                                                                                              |
| Responsible Officer:                | a) D Henderson, Data Protection Officer<br>b) S Flanigan, Corporate Strategy and Organisational Development Manager |
| Lead Service:                       | Corporate & Democratic Services                                                                                     |
| Date for Completion (Month / Year): | a) June 2019<br>b) August 2019                                                                                      |
| Required Evidence of Completion:    | a) Copy of communication<br>b) Outcome from review and communication with managers                                  |

## Auditor's Comments

Satisfactory



## Internal Audit Report



Internal Audit Report  
Corporate and Democratic Services  
Local Action Partnerships  
18-23  
March 2019 (Report No.19/100)

## Final Report

Legal and Governance  
Corporate and Democratic Services  
Perth & Kinross Council  
Council Offices  
2 High Street  
Perth  
PH1 5PH

### Internal Audit

“Internal Audit is an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes”. Public Sector Internal Auditing Standards (PSIAS)

The Council’s Audit Committee approved the PSIAS as the relevant standard for its Internal Audit activity.

### Background and Introduction

This audit was carried out as part of the audit plan for 2018/19, which was approved by the Audit Committee on 27<sup>th</sup> June 2018. Audit testing was carried out in February 2019.

The Community Empowerment (Scotland) Act 2015 set out a requirement for local authorities and other public bodies to involve communities in decision making and a duty on Community Planning Partnerships to work with communities to prepare and deliver Locality Action Plans which tackle inequalities.

In 2016, Perth and Kinross Community Planning Partnership (CPP) established five Local Action Partnerships to seek to address inequalities by engaging communities in decisions on local priorities and services. In 2018, two of the Local Action Partnerships each decided to split into two.

Local Action Partnerships are not Council Committees. They cannot be directed by Council officers, only supported and enabled to deliver their Local Action Plans.

### Scope and Limitations

In order to arrive at an opinion on the achievement of the control objectives, the audit included a desktop review of documents and interviews with officers in Corporate and Democratic Services Communities team and members of the Eastern Perthshire and Highland Action Partnerships.

The review consisted of interviews with relevant staff and testing to confirm the proper operation of expected controls.

The audit covers the setting up and support of Action Partnerships to cover the Council’s duties under Parts 2 and 10 of The Community Empowerment (Scotland) Act 2015, Community Planning and [community] Participation in Public Decision Making. It does not cover other parts of the Act.

It is recognised that the Local Action Partnerships are accountable to the CPP and not the Council. Our review therefore concentrated on the Council’s responsibility as a member of the CPP in advising and supporting the running of the Local Area Partnerships.

### Control Objectives and Opinions

This section describes the purpose of the audit and summarises the results. A ‘control objective’ is a management objective that requires the maintenance of adequate and effective internal controls to ensure that it is achieved. Each control objective has been given a rating describing, on the basis of the audit work done, the

actual strength of the internal controls found to be in place. Areas of good or poor practice are described where appropriate.

Control Objective 1: To ensure that the Council is making progress towards appropriate arrangements being in place to meet the requirements of the Community Empowerment Act (Scotland) 2015.

Internal Audit Comments: There is evidence that the Council, through the Perth & Kinross Community Planning Partnership (CPP) and its Action Partnerships, a form of local Community Planning Partnership, is making progress to meet the requirements of the Act.

The CPP has produced a Community Plan (Local Outcomes Improvement Plan) 2017-2027 and each Action Partnership produced a locality plan (Local Action Plan) in 2017. These locality plans direct the Action Partnerships in the work that they do using evidence from Stories of Place and Fairness Commission as well as the local knowledge brought by the members of the Action Partnerships.

The Community Empowerment (Scotland) Act 2015 requires CPPs to publish an annual progress report. The CPP Board published its first Annual Performance Report for the Community Plan (Local Outcomes Improvement Plan) 2017-2027 at the end of January 2019 that covers the achievements of the Partnership from 1 October 2017 to 30 September 2018. This reported that in 2017/18 Local Action Partnerships delivered highly successful Participatory Budgeting programmes.

In the last nine months Local Action Partnerships have begun to provide, on a rolling basis, updates to the CPP Board on progress with delivery of their Action Plans. All but one partnership have provided updates in the last six months with Kinross-shire, Almond and Earn due to provide an update in June 2019.

In December 2017 the CPP commissioned What Works Scotland (WWS) to undertake a review of local decision making and provide recommendations for improving and enhancing this role within Community Planning in Perth and Kinross. WWS undertook its evaluation from January to March 2018, using a combination of focus groups, interviews and observation techniques to gather information on Local Action Partnerships and their activities. It considered a number of aspects of local decision making, providing information on: what is currently working well; what the current challenges are; and what additional future challenges are emerging.

An improvement plan for Local Decision Making in Perth & Kinross has been developed in liaison with Local Action Partnerships Chairs and Lead Officers and the Community Planning Partnership Executive Officer Group and was approved by the CPP on 7 December 2018. The plan was based on the evaluation undertaken by WWS. The improvement plan has five themes. Strengthening Foundations; Governance and Administration; Participation and Links; Supporting and Empowering; and Growth and Improvement. The plan contains a number of actions, focusing on building skills and capacity, and creating practical tools to support the Local Action Partnerships in their role.

It was resolved that a commitment be given by Board members to the resource required to deliver on the Improvement Plan over the next twelve months and the CPP Executive Officer Group be instructed to oversee, monitor and report on the implementation of the Improvement Plan, with six monthly reports to the CPP

## Internal Audit Report

Board in June and December 2019.

At the time of the internal audit, two actions dates had passed and in both cases the actions were completed timeously. A communications plan was agreed and implemented and a Local Action Partnership Handbook was prepared, approved and published on the Perth and Kinross Action Partnerships group on Knowledge Hub.

Strength of Internal Controls:

Strong

Control Objective 2: To ensure that Local Action Partnerships are identifying their priorities and are making progress in delivering them.

Internal Audit Comments: Each Action Partnership produced a locality plan (Local Action Plans) in 2017. These plans identify local priorities which are tackled through the Local Action Partnership.

Local Action Partnerships have already demonstrated their ability to allocate local funds effectively through the 2017 and 2018 Participatory Budgeting rounds which significantly increased community participation in financial decision making as referred to in the above objective.

Some members of the Local Action Partnerships are currently involved in assessing projects to make recommendations to an Executive Sub Committee of the Council's Strategic Policy & Resources Committee for the award of funds to community projects from the Council's Community Investment Fund. Applications for a total of £1.6m from 149 projects have been received. All these awards have been assessed against the priorities identified in each Action Plan to address identified inequalities in the area and criteria agreed by the Council's Strategic Policy and Resources Committee.

Internal Audit reviewed two Local Action Partnerships, namely Eastern Perthshire and Highland. Minutes of meetings were reviewed, as were the relevant Local Action Plans to provide assurance that the Local Action Partnership have identified their priorities and are making progress in delivering them. In addition meetings were held with the Lead Officer of Eastern and the Chair of Highland. Eastern Perthshire Action Partnership verbally updated the CPP in December 2018 having identified five local priorities which it is tackling through its Local Action Plan. Highland Action Partnership provided a verbal update in February 2019 which included a presentation on the progress in the last year.

It was noted that none of the Action Plans have been refreshed, however Action Partnerships members have been active in the two annual rounds of Participatory Budgeting process and some of them are currently active in the Community Investment Fund award process. It is intended that they will address refreshing the Action Plans when the Community Investment Fund award process is completed in March 2019.

Strength of Internal Controls:

Moderately Strong

## Management Action and Follow-Up

Responsibility for the maintenance of adequate and effective internal controls rests with management.

Where the audit has identified areas where a response by management is required, these are listed in Appendix 1, along with an indication of the importance of each 'action point'. Appendix 2 describes these action points in more detail, and records the action plan that has been developed by management in response to each point.

It is management's responsibility to ensure that the action plan presented in this report is achievable and appropriate to the circumstances. Where a decision is taken not to act in response to this report, it is the responsibility of management to assess and accept the risks arising from non-implementation.

Achievement of the action plan is monitored through Internal Audit's 'follow up' arrangements.

Management should ensure that the relevant risk profiles are reviewed and updated where necessary to take account of the contents of Internal Audit reports. The completeness of risk profiles will be examined as part of Internal Audit's normal planned work.

## Acknowledgements

Internal Audit acknowledges with thanks the co-operation of the officers in the Community Planning Policy team and also the Lead of the Eastern Perthshire Action Partnership and the Chair of the Highland Action Partnership.

## Feedback

Internal Audit welcomes feedback, in connection with this audit or with the Internal Audit service in general.

## Distribution

This report has been distributed to:

K Reid, Chief Executive

J Valentine, Depute Chief Executive (Chief Operating Officer)

F Robertson, Head of Culture and Community Services

D Stokoe, Service Manager, Communities

L Haxton, Community Planning & Policy Team Leader

L Simpson, Head of Legal and Governance Services

Committee Services

External Audit

## Authorisation

The auditor for this assignment was M Stewart. The supervising auditor was M Morrison

This report is authorised for issue:

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J Clark  
Chief Internal Auditor  
Date: 12 March 2019

Appendix 1: Summary of Action Points

| No. | Action Point                     | Risk/Importance |
|-----|----------------------------------|-----------------|
| 1   | <a href="#">Improvement Plan</a> | Medium          |
| 2   | <a href="#">Action Plans</a>     | Medium          |

## Appendix 2: Action Plan

### Action Point 1 - Improvement Plan

Council officers should ensure that every action that they are responsible for on the improvement plan is completed by the action date.

Failure to do so may lead to accepted improvements required not being realised.

### Management Action Plan

Officers will ensure that six monthly reports are presented to the CPP Board in June and December 2019.

|                                     |                                                                                                                      |
|-------------------------------------|----------------------------------------------------------------------------------------------------------------------|
| Risk/Importance:                    | Medium                                                                                                               |
| Responsible Officer:                | D Stokoe, Service Manager, Communities                                                                               |
| Lead Service:                       | Culture and Community Services                                                                                       |
| Date for Completion (Month / Year): | December 2019                                                                                                        |
| Required Evidence of Completion:    | June and December 2019 CPP Board agendas including submission of a report and sight of the report by Internal Audit. |

### Auditor's Comments

Satisfactory



## Action Point 2 - Action Plans

The Communities team representative(s) and Lead Officer (if a PKC officer) on each Action Partnership should encourage it to revisit its Action Plan and ensure that the priorities are still relevant in addressing the inequalities in the area.

Without a revisit the priorities in the Action Plan may no longer be appropriate and inequalities may not be captured and, therefore, addressed.

Internal Audit understands that this will begin to happen after the completion of the Community Investment Fund award process.

## Management Action Plan

The Communities team representative(s) and Lead Officer if a PKC officer on each Action Partnership should encourage it to revisit its Action Plan and ensure that the priorities are still relevant in addressing the inequalities in the area.

|                                     |                                                                               |
|-------------------------------------|-------------------------------------------------------------------------------|
| Risk/Importance:                    | Medium                                                                        |
| Responsible Officer:                | D Stokoe, Service Manager, Communities                                        |
| Lead Service:                       | Culture and Community Services                                                |
| Date for Completion (Month / Year): | December 2019                                                                 |
| Required Evidence of Completion:    | Sight of refreshed Action Plan for each Action Partnership by Internal Audit. |

## Auditor's Comments

Satisfactory



## Internal Audit Report



Internal Audit Report  
Housing & Environment Service  
Carbon Reduction & Climate Change  
18-20  
March 2019 (Report No.19/101)

## Final Report

Legal and Governance  
Corporate and Democratic Services  
Perth & Kinross Council  
Council Offices  
2 High Street  
Perth  
PH1 5PH

### Internal Audit

“Internal Audit is an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes”. Public Sector Internal Auditing Standards (PSIAS)

The Council’s Audit Committee approved the PSIAS as the relevant standard for its Internal Audit activity.

### Background and Introduction

This audit was carried out as part of the audit plan for 2018/19, which was approved by the Audit Committee on 27<sup>th</sup> June 2018. Audit testing was carried out in January and February 2019.

The Climate Change (Scotland) Act 2009, set out a long-term target to reduce greenhouse gas emissions by 80% by 2050. The Council has duties under section 44 of this Act to contribute to this target in exercising its functions, by acting:

- in the way best calculated to the delivery of the Act’s emissions reduction targets;
- in the way best calculated to deliver any statutory adaptation<sup>1</sup> programmes; and
- in a way that it considers most sustainable.

Since the introduction of this Act, there have been multiple pieces of secondary legislation enacted. This includes the Climate Change (Duties of Public Bodies: Reporting Requirements) (Scotland) Order 2015 which makes mandatory standardised annual reporting on climate change progress for Local Authorities. This is known as the Public Sector Climate Change Duties Report and is reported to the Sustainable Scotland Network.

Further to the UN Paris Agreement 2015, which has strengthened global climate change ambition, the Scottish Government has taken the opportunity to review targets set out in the 2009 Act and increase the overall greenhouse gas reduction target to 90% by 2050. Alongside the establishment of new targets through the Climate Change Act, the Scottish Government will be introducing a series of associated legislation, plans and programmes which will increase duties and obligations on Local Authorities.

Duties for climate change and carbon<sup>2</sup> reduction impact on all areas of the Council. For the purposes of this audit, however, the main liaison will be with members of the Strategy and Policy section within Planning and Development.

### Scope and Limitations

The audit considered how the Council is organised to deliver emissions reductions; its preparedness for dealing with emerging legislative requirements, alongside

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<sup>1</sup> Adaptation can be defined as the adjustment in economic, social or natural systems in response to actual or expected climate change, to limit harmful consequences and exploit beneficial opportunities

<sup>2</sup> ‘Carbon’ is the broad term used to cover the 7 greenhouse gases which form the basis of the emissions reduction targets set out in the Climate Change Scotland Act

## Internal Audit Report

seeking assurance regarding current mandatory reporting arrangements through the Public Sector Climate Duties Report.

The audit consisted of a review of documentation and interviews with Officers.

The audit did not seek to review how the Council is responding to current climate change responsibilities surrounding adaptation. This may be subject to future audit activity.

### Control Objectives and Opinions

This section describes the purpose of the audit and summarises the results. A 'control objective' is a management objective that requires the maintenance of adequate and effective internal controls to ensure that it is achieved. Each control objective has been given a rating describing, on the basis of the audit work done, the actual strength of the internal controls found to be in place. Areas of good or poor practice are described where appropriate.

Control Objective 1: To ensure that the Council has an awareness of current and emerging climate change responsibilities in regards to emissions reductions, and has appropriate arrangements in place to assist in deliverance of these

#### Internal Audit Comments:

The Service has demonstrated that they have an awareness of current and emergent climate change legislation and associated emissions reductions responsibilities. There is evidence that the Service has analysed Scottish Government consultation activity, and is continuing to do so, to understand potential additional responsibilities being placed upon local authorities. There has been communication and engagement with Elected Members and the Executive Officer Team regarding this also.

The Council has ongoing programmes and projects which will assist in delivering targets set out in the Climate Change Act (Scotland) 2009. These aspirations, and some of the associated delivery mechanisms, are reflected within the Councils key strategic documents; including the Local Outcome Improvement Plan, Corporate Plan, Service Business Management Improvement Plans and the Local Development Plan.

Since 2016 there has been a Low Carbon Working Group in operation to allow for co-ordination of ideas and information within Housing and Environment. The Service has highlighted however, that further development of arrangements may be beneficial to enhance co-ordination, direction and optimal impact of future activity, alongside ensuring compliance with emerging legislation. This has been reported through the mandatory Public Sector Climate Change Duties reports, to the Executive Officer Team and to the Environment, Enterprise and Infrastructure Committee respectively. At the time of audit review, arrangements are still being developed and some key documents and processes are yet to be defined, however, progress has been made as outlined below.

In April 2018, a 2 year Low Carbon project was approved as part of phase 4 transformation activity (report 18/137 refers). Since then, a cross-Service Low Carbon/Climate Change Board has been set up and a Low Carbon/Climate Change Transition Co-ordinator has been appointed to progress required activity,

## Internal Audit Report

whilst maintaining a watching brief on developing legislation.

Proposals for actions which will further enhance the control environment are reflected within the Low Carbon/Climate Change Board remit and Co-ordinator job description. These include co-ordination of all climate change related programmes and activities; development of an overarching climate change framework and strategy; communications strategy and monitoring process. There remains, however, the need to create a detailed plan outlining key activity, owners and timelines to ensure that these actions are delivered.

The Service has advised that a Climate Change workshop is scheduled for March 2019, involving members of both the Project Board and Low Carbon Working Group. The aim is that output from this will provide initial insights into the barriers and opportunities arising from low carbon transition activities from which more detailed strategies and plans can be developed.

Strength of Internal Controls:

Moderate

Control Objective 2: To ensure that the Council is complying with the mandatory reporting requirements of the Climate Change (Duties of Public Bodies: Reporting Requirements) (Scotland) Order 2015

Internal Audit Comments:

There is evidence that the Council's Public Sector Climate Change Duties (PSCCD) report has been submitted timeously to the Scottish Sustainable Network (SSN) each year since the Climate Change (Duties of Public Bodies: Reporting Requirements) (Scotland) Order 2015 came into force.

There are controls in place to ensure that information is collated, and the report is submitted in a timeous manner. Internal Audit testing revealed, however, that some sections of PSCCD reports submitted did not reflect all activity being undertaken by the Council and contained inconsistencies in some of the figures being reported.

Whilst in previous years there has been no consistent forum for report validation and approval, the Service indicates that this report will now be considered and approved by the newly created Low Carbon/Climate Change Board. Through this, and liaison with the Low Carbon/Climate Change Transition Co-ordinator, it is anticipated that controls in identification and reporting of all relevant information will be enhanced.

The introduction of additional controls may be beneficial, however, to provide clarity around roles and data capture requirements to ensure consistency of reporting. Additionally, the Service may wish to enhance validation processes through collation of information into a centralised evidence pack for review, and the creation of a timeline for report completion which coincides with the timetable of the Low Carbon/Climate Change Board meeting.

Strength of Internal Controls:

Moderate

## Management Action and Follow-Up

Responsibility for the maintenance of adequate and effective internal controls rests with management.

Where the audit has identified areas where a response by management is required, these are listed in Appendix 1, along with an indication of the importance of each 'action point'. Appendix 2 describes these action points in more detail, and records the action plan that has been developed by management in response to each point.

It is management's responsibility to ensure that the action plan presented in this report is achievable and appropriate to the circumstances. Where a decision is taken not to act in response to this report, it is the responsibility of management to assess and accept the risks arising from non-implementation.

Achievement of the action plan is monitored through Internal Audit's 'follow up' arrangements.

Management should ensure that the relevant risk profiles are reviewed and updated where necessary to take account of the contents of Internal Audit reports. The completeness of risk profiles will be examined as part of Internal Audit's normal planned work.

## Acknowledgements

Internal Audit acknowledges with thanks the co-operation of M Cassidy, Low Carbon/Climate Change Transition Co-ordinator, P Marshall, Strategy and Policy Manager and A Harris, Sustainable Development Officer during this audit.

## Feedback

Internal Audit welcomes feedback, in connection with this audit or with the Internal Audit service in general.

## Distribution

This report has been distributed to:

K Reid, Chief Executive

J Valentine, Depute Chief Executive (Chief Operating Officer)

B Renton, Executive Director, Housing & Environment

K McNamara, Depute Director, Housing & Environment

D Littlejohn, Head of Planning & Development

S Crawford, Head of Property Services

L Simpson, Head of Legal & Governance

S Mackenzie, Head of Finance

P Marshall, Strategy & Policy Manager

G Esson, Sustainability & Policy Research Team Leader

M Cassidy, Low Carbon Transition Co-ordinator

A Harris, Sustainable Development Officer

Committee Services

External Audit

## Authorisation

The auditor for this assignment was L Ferguson. The supervising auditor was M Morrison.

This report is authorised for issue:

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J Clark  
Chief Internal Auditor  
Date: 12 March 2019



Appendix 1: Summary of Action Points

| No. | Action Point                                       | Risk/Importance |
|-----|----------------------------------------------------|-----------------|
| 1   | <a href="#">Action Plan</a>                        | High            |
| 2   | <a href="#">PSCCD Report Guidance</a>              | Medium          |
| 3   | <a href="#">Validation &amp; Approvals Process</a> | Medium          |

## Appendix 2: Action Plan

### Action Point 1 - Action Plan

There is evidence of programmes and projects in place across the Council which will contribute to emissions reductions targets. The Service recognises, however, that further measures would be beneficial and are working towards these. These include:

- Identification and collation of all ongoing and planned activities, policies and strategies relating to climate change and carbon reduction;
- Development of a framework and overarching climate change strategy, incorporating evolving governance, risk management and monitoring processes;
- Communications strategy for raising awareness of climate change to appropriate internal and external stakeholders, including Elected Member engagement; and
- Continued examination of regulation and direction set by the Scottish Government and other appropriate partners and bodies, with reporting to relevant parties as required.

Through this activity it is anticipated that the Council would benefit from enhanced direction, co-ordination and impact of future activity, including accessing appropriate finance and ensuring compliance with emerging legislation.

The Service has yet to define a detailed plan outlining key activities, timelines and owners to progress these aspirations.

### Management Action Plan

A Climate Change workshop is taking place on 1st March 2019 and it is anticipated that output from this will provide initial insights into the barriers and opportunities arising from low carbon transition activities.

The workshop data will contribute to the development of a project plan for the development of a high level PKC low carbon transition strategy. To ensure that there is clarity around how each strand of required activity will be progressed, the plan will set target dates and milestones for the strategy development, through which the Low Carbon/Climate Change Board will be able to monitor and assess progress. It must be recognised, however, that both the plan and resulting strategy will be living documents and subject to revision to reflect an evolving legislative landscape.

Key dates at present include plan development progress reporting (June 2019 Board meeting), full plan approval (Sept 2019 Board meeting) followed by development and implementation of strategy goals by the project end in Sept 2020.

## Internal Audit Report

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|                                     |                                                                                                                                                                                 |
|-------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Risk/Importance:                    | High                                                                                                                                                                            |
| Responsible Officer:                | P Marshall, Strategy & Policy Manager                                                                                                                                           |
| Lead Service:                       | Housing & Environment                                                                                                                                                           |
| Date for Completion (Month / Year): | September 2019                                                                                                                                                                  |
| Required Evidence of Completion:    | Plan which details activities, timelines and action owners for implementing framework and associated documents<br><br>Minutes showing approval of this at the appropriate forum |

### Auditor's Comments

|              |
|--------------|
| Satisfactory |
|--------------|

## Action Point 2 - PSCCD Report Guidance

Annually, the Scottish Sustainable Network provides guidance on using their upload platform, report completion and a generic cross-Council feedback report from the previous year. However, this information is not currently shared with Services who are involved in the provision of information for the PSCCD report.

In addition, Internal Audit review highlighted a lack of documented guidance in regards to the compilation of the PSCCD Report within the Council.

There is therefore opportunity for review of approach and consideration of creation of guidance to ensure there is clarity regarding what information is to be captured, excluded, data sources and any verification processes in operation.

## Management Action Plan

The compiling officer will meet with Service contacts prior to the next annual submission and guidance will be developed to ensure that there is clarity of roles/information to be included in the Council return and any verification processes in place. Guidance will also specify how any changes required, due to updates through SSN guidance or feedback reports, will be identified and processes amended as necessary.

|                                     |                                                                                      |
|-------------------------------------|--------------------------------------------------------------------------------------|
| Risk/Importance:                    | Medium                                                                               |
| Responsible Officer:                | A Harris, Sustainable Development Officer                                            |
| Lead Service:                       | Housing and Environment                                                              |
| Date for Completion (Month / Year): | September 2019                                                                       |
| Required Evidence of Completion:    | Guidance for completion of PSCCD reports including timeline and verification systems |

## Auditor's Comments

Satisfactory

### Action Point 3 - Validation & Approvals Process

Information for the PSCCD report is collated centrally by one Officer, barring one section of the report which is completed directly by the Service on the online form. There is, however, currently a lack of evidence which supports appropriate validation of information.

To date, there has also been no set system of governance over where information in this report should be considered / approved prior to submission to ensure that the most accurate and up-to-date information has been captured. The Service noted that this is due to be mitigated by creation of the Low Carbon/Climate Change Board. However, the Service recognises that the 2018 PSCCD report was signed off without consideration of the Board, which was already active at this time, due to timing constraints and absence of scheduled Board meeting dates.

The Service may therefore wish to consider enhancement of validation processes, through collation of information into a centralised evidence pack and creation of a timeline for report completion which coincides with a pre-arranged timetable of Low Carbon/Climate Change Board meetings. This will also provide appropriate information for a system of planned peer validation which has been highlighted through the PSCCD report.

### Management Action Plan

a) An initial validation process and timetable for 2019 PSCCD report compilation, and scheduled dates for 2019 Board meetings, will be agreed at the next Low Carbon/Climate Change Board.

b) Further to this, the compiling officer will work with Service contacts throughout 2019 to develop guidance, outlining validation activity, timetabling and evidencing processes. Once complete, this will be submitted for consideration and approval by the Low Carbon/Climate Change Board.

|                                     |                                                                                                    |
|-------------------------------------|----------------------------------------------------------------------------------------------------|
| Risk/Importance:                    | Medium                                                                                             |
| Responsible Officer:                | a) P Marshall, Strategy & Policy Manager<br>b) A Harris, Sustainable Development Officer           |
| Lead Service:                       | Housing & Environment                                                                              |
| Date for Completion (Month / Year): | a) June 2019<br>b) September 2019                                                                  |
| Required Evidence of Completion:    | a) Minutes of Low Carbon/Climate Change Board showing approval of 2019 arrangements<br>b) Guidance |

### Auditor's Comments

Satisfactory





# Perth and Kinross Council

**Audit strategy**

**Year ending 31 March 2019**

—

For Audit Committee consideration on 27 March 2019

**(Report No.19/102)**

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## About this report

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

This report is for the benefit of Perth and Kinross Council 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](mailto: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](mailto: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 Fiona Kordiak, Audit Scotland, 4th Floor, 102 West Port, Edinburgh, EH3 9DN.





# Introduction

2018-19 is the third year of our external audit appointment to Perth and Kinross Council ("the Council") and its group ("the Group"), having been appointed by the Accounts Commission as auditor of the Council under the Local Government (Scotland) Act 1973 ("the Act"). The period of appointment is 2016-17 to 2020-21, inclusive. Our appointment includes the audit of the Perth and Kinross Council Charitable Trusts.

## Our planned work in 2018-19 will include:

- an audit of the financial statements and provision of an opinion on whether the financial statements:
  - give a true and fair view in accordance with the applicable law and the Code of Practice on Local Council Accounting in the United Kingdom ("the 2018-19 Code") of the state of the affairs of the Council as at 31 March 2019 and of the income and expenditure of the Council for the year then ended; and
  - have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union, as interpreted and adapted by the 2018-19 Code, the requirements of the Local Government (Scotland) Act 1973, The Local Council Accounts (Scotland) Regulations 2014 and the Local Government in Scotland Act 2003,
- participation in the shared risk assessment as part of the local area network;
- completion of returns to Audit Scotland and grant claims;
- a review and assessment of the Council's governance arrangements and review of the governance statement;
- a review of National Fraud Initiative arrangements;
- a review of arrangements for preparing and publishing statutory performance information;
- contributing to the audit of wider scope through performance of risk assessed work; and
- a Best Value Assurance Report, prepared in conjunction with Audit Scotland.

## Adding value

Throughout the audit, we will consider opportunities to add value and will conclude on this in our annual audit report. We add value through:

- our experience, which brings insight and challenge;
- our tools and approach, which contribute to a world class audit; and
- transparency and efficiency, which improves value for money.

## Our team

The senior team involved in the external audit benefits from continuity in the engagement in-charge, and the recent involvement of the engagement director with the Council. The team has significant experience in the audit of local authorities, and is supported by specialists, all of whom work with a variety of local government and public sector bodies. All members of the team are part of our wider local government network. Senior members of the audit team and their relevant contact details are provided on the back page of this report. Michael Wilkie is the engagement leader, and Claire Connor is the engagement manager.

Our work will be completed in four phases from December 2018 to September 2019. Our key deliverables are this audit strategy document, an interim report and an annual audit report.

## Acknowledgements

We would like to take this opportunity to thank officers and members for their continuing help and co-operation throughout our audit work.

# Headlines

## Materiality

Group materiality for planning purposes is based on last year's gross expenditure and is set at £9.3 million, which equates to 2% of gross expenditure. We will review gross expenditure on receipt of draft accounts for 2018-19, and assess whether we are required to update this calculated group materiality.

In line with the Code of Audit Practice, we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance and this has been set at £0.25 million.

**Page six**

## Audit risks

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error have been identified as:

- management override of controls fraud risk (assumed risk per International Standards of Auditing ("ISA") 240 *The auditor's responsibilities relating to fraud in an audit of financial statements*);
- fraud risk over expenditure recognition (assumed risk per ISA 240 and Practice Note 10 ("PN10"));
- retirement benefits obligations; and
- revaluation of property, plant and equipment.

We consider the revaluation of property, plant and equipment to have the greatest effect on the overall audit strategy, the allocation of resources in the audit and on directing the efforts of the engagement team. We anticipate reporting on these areas in our financial statements annual audit opinion.

The risk with less likelihood of giving rise to a material error, but which is nevertheless worthy of audit understanding, relates to capital expenditure, which is included as another focus area.

**Pages seven to 11**



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## Financial statement audit

Our financial statements audit work follows a four stage audit process which is identified below. **Appendix three** provides more detail on the timeline of these activities. This report concentrates on the audit planning stage of the financial statements audit.



## Wider scope

Auditors are required to assess and provide conclusions in the annual audit report in respect of four wider scope dimensions:

- financial sustainability;
- financial management;
- governance and transparency; and
- value for money.

We test wider scope areas where there are identified risks. We consider that there are wider scope risks in respect of demand pressures and the transformation programme. While the above risks are a common theme across local authorities, we will focus on the specific circumstances of Perth and Kinross. We have not identified wider scope financial statement level risks.

**Pages 14 to 21**

# Headlines (continued)

## Best Value

In June 2016, the Accounts Commission formally agreed the overall framework for the approach to auditing Best Value in councils. The framework introduced a five year approach to Best Value. 2018-19 represents year three of the Best Value plan for the Council during which we, working together with Audit Scotland, will prepare a full Best Value Assurance Report ("BVAR").

**Pages 14 to 21 provide more detail on our work over Best Value and wider scope areas.**

## Group audit

In addition to the Council, we deem the Perth and Kinross Integration Joint Board ("IJB") to be significant in the context of the group audit. KPMG is the auditor of the IJB. Further details regarding our approach can be found at page 13.

**See page 13 and Appendix six**

## Independence

In accordance with ISA 260 *Communication of audit matters with those charged with governance* and the Financial Reporting Council's ("FRC") Ethical Standards, we are required to communicate to you all relationships between KPMG and the Group that may be reasonably thought to have bearing on our independence both:

- at the planning stage; and
- whenever significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place.

**Appendix two** contains our confirmation of independence and any other matters relevant to our independence.

Total fees charged by us for the period ended 31 March 2018 were communicated in our Annual Audit Report issued in September 2018. Total fees for 2018-19 will be presented in our Annual Audit Report issued on completion of the audit. The proposed audit fee for 2018-19 is £161,830 (inc VAT) as explained in **Appendix five**.

## Quality

International Standard on Quality Control (UK and Ireland) 1 ("ISQC1") requires that a system of quality control is established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and legal requirements are being complied with and that the independent auditor's report or opinion is appropriate in the circumstances.

Our Audit Quality Framework (**Appendix nine**) and KPMG Audit Manual comply with ISQC1. Our UK Senior Partner has ultimate responsibility for quality control. Operational responsibility is delegated to our Head of Quality & Risk who sets overall risk management and quality control policies. These are cascaded through our Head of Audit in Scotland and ultimately to Michael Wilkie as the Director leading delivery of services to the Council.

The nature of our services is such that we are subject to internal and external quality reviews. KPMG's annual financial statements include our transparency report which summarises the results of various quality reviews conducted over the course of each year.

We also provide Audit Scotland with details of how we comply with ISQC1 and an annual summary of our achievement of key performance indicators and quality results.

We welcome your comments or feedback related to this strategy and our service overall.

# Financial statements audit planning

## Materiality

We are required to plan our audit to determine with reasonable confidence whether or not the financial statements are free from material misstatement. An omission or misstatement is regarded as material if it would reasonably influence the user of financial statements. This therefore involves an assessment of the qualitative and quantitative nature of omissions and misstatements.

Generally, we would not consider differences in opinion in respect of areas of judgement to represent 'misstatements' unless the application of that judgement results in a financial amount falling outside of a range which we consider to be acceptable.

In respect of the Council's standalone accounts, materiality for planning purposes has been set at £9.0 million, and at £9.3 million for the group accounts, which in both cases equates to 2% percent of an adjusted 2017-18 gross expenditure. We adjusted gross expenditure for plant and property revaluations, to 'smooth' the impact of these movements by taking a five year rolling average of revaluation movements in line with the Council's five year revaluation policy. In addition, expenditure relating to the IJB is removed from our calculation, as income and expenditure is grossed up for presentational purposes within the consolidated income and expenditure account.

We design our procedures to detect errors in specific accounts at a lower level of precision.

## Reporting to the audit committee

Under ISA 260, we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

In the context of the Council and its Group, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.25 million.

If management has corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.



# Financial statements audit planning (continued)

## Significant risks and other focus areas

**Risk assessment:** Our planning work took place during December 2018 to February 2019. This involved: risk assessment; determining the materiality level; and issuing this audit plan to communicate our audit strategy. We use our knowledge of the Council, discussions with management and review of Council papers to identify areas of risk and audit focus categorised into financial risks and wider dimension risks as set out in the Code.

| Significant Risk                                | Why                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | Audit Approach                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
|-------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Financial statement risk</b>                 |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| Fraud risk from management override of controls | <p>A presumed risk we are required to consider covers fraud risk from management override of control.</p> <p>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.</p> <p>This is a presumed risk per ISA 240.</p> | <ul style="list-style-type: none"><li>– Our audit methodology incorporates the risk of management override as a default significant risk. We have not identified any specific additional risks of management override relating to the audit of the Council.</li><li>– There is strong oversight of finances by management which provides additional review of potential material errors caused by management override of controls.</li><li>– In line with our methodology, we will carry out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the Council's normal course of business, or are otherwise unusual.</li></ul> |

# Financial statements audit planning (continued)

## Significant risks (continued)

| Significant Risk                                   | Why                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | Audit Approach                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
|----------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Financial statement risk</b>                    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| Fraud risk from income recognition and expenditure | <p>Under ISA 240 there is a presumed risk that income may be misstated due to improper recognition of income. This requirement is modified by PN10, issued by the FRC, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.</p> <p><b>Income</b></p> <p>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 the remaining income sources to represent a significant risk for the Council as there are limited incentives and opportunities to manipulate the way income is recognised, and these are not likely to be materially inappropriate. We did not identify any such errors or manipulation in the prior year. We therefore rebut this risk and do not incorporate specific work into our audit plan in this area beyond our standard fraud procedures.</p> <p><b>Expenditure</b></p> <p>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. This relates to a significant proportion of council expenditure. As other operating expenditure is unlikely to be material, we also rebut the assumed risk in respect of this account.</p> <p>We have not rebutted the assumed risk in respect of the remaining expenditure of £210.5 million.</p> | <p>In respect of material income:</p> <ul style="list-style-type: none"> <li>– 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 will agree significant grants to supporting documentation.</li> <li>– 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 will perform tests of detail and substantive analytical procedures in our audit of these sources of income.</li> </ul> <p>We will include procedures to:</p> <ul style="list-style-type: none"> <li>– compare the outturn with the in year budget monitoring, considering variances;</li> <li>– test controls specific to confirm correct capital vs revenue allocation;</li> <li>– test expenditure cut-off including a search for unrecorded liabilities;</li> <li>– test transactions focusing on the areas of greatest risk, including debtors, creditors, accruals, prepayments and provisions to challenge completeness and existence of these balances;</li> <li>– review and challenge of management in respect of estimates for evidence of bias; and</li> <li>– test journal entries in relation to expenditure for evidence of management bias.</li> </ul> |

# Financial statements audit planning (continued)

## Significant risks (continued)

| Significant Risk                             | Why                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | Audit Approach                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
|----------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Financial statement risk</b>              |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| Revaluation of property, plant and equipment | <p>The 2018-19 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 2018-19 community centres, day care centres, halls and town halls, hostels, libraries, public toilets, residential homes, miscellaneous operational properties, investment properties, and shops will be subject to revaluation and we expect the movement to be material. The revaluation model also includes revaluation of assets with significant capital investment, and consideration of impairment indicators for all Council assets.</p> <p>The Council uses a valuation date of the 1 April 2018 for the 31 March 2019 year end in respect of all properties except those classed as investment properties which has a valuation date of 1 August 2018. Therefore we consider there to be a risk of a material movement in valuation between these dates.</p> <p>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.</p> | <p>Our procedures will include:</p> <p><b>Control design:</b></p> <p>We will review 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.</p> <p>We will also assess the risk of the valuation changing materially during the year, or between the date of valuation and the year end.</p> <p><b>Assessing valuer's credentials:</b></p> <p>In relation to those assets which have been revalued during the year we will assess the valuer's qualifications, objectivity and independence to carry out such valuations.</p> <p><b>Assessing methodology choice and benchmarking assumptions:</b></p> <p>We will review management's assessment of impairment indicators and assess for completeness.</p> <p>We will utilise 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.</p> <p>We will select a representative sample of assets to agree calculation inputs to supporting evidence, consider in detail the revaluation calculations and challenge the underlying assumptions.</p> <p><b>Other land and buildings</b></p> <p>A number of the Council's assets are revalued on an annual basis, including investment properties and assets held for sale. We will test the accounting treatment for assets revalued to challenge whether the accounting treatment is appropriate and consider valuation inputs and assumptions using the approach above.</p> |

# Financial statements audit planning (continued)

## Significant risks (continued)

| Significant Risk                | Why                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | Audit Approach                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
|---------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Financial statement risk</b> |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| Retirement benefit obligations  | <p>The net pension liability (£98.4 million as at 31 March 2018, including assets of £756.1 million) 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.</p> <p>There are financial assumptions and demographic assumptions used in the calculation of the Council's valuation, 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.</p> <p>There is a risk that the assumptions and methodology used in the valuation of the Council's pension obligation are not reasonable. This could have a material impact to net pension liability accounted for in the financial statements.</p> | <p>Our planned audit approach includes:</p> <p><b>Control design:</b></p> <ul style="list-style-type: none"> <li>– 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.</li> </ul> <p><b>Benchmarking assumptions:</b></p> <ul style="list-style-type: none"> <li>– Challenging, with the support of our own actuarial specialists, the key assumptions applied, being: the discount rate; inflation rate; and mortality/life expectancy against externally derived data.</li> <li>– 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.</li> </ul> <p><b>Assessing transparency:</b></p> <ul style="list-style-type: none"> <li>– Considering the adequacy of the disclosures in respect of the sensitivity of the deficit to these assumptions.</li> <li>– Assessing if the disclosures within the financial statements are in accordance with the Code's requirements.</li> </ul> |



# Financial statements audit planning (continued)

## Other focus area

| Other focus area                      | Why                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | Audit Approach                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
|---------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Financial statement focus area</b> |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| Capital expenditure                   | <p>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 expected spend in 2018-19 is £70.8 million.</p> <p>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.</p> <p>We also consider that any large capital project inherently brings a fraud risk to an entity, which we consider appropriate for the Council.</p> | <p>Our audit approach includes:</p> <p><b>Control design:</b></p> <ul style="list-style-type: none"> <li>– Testing the design and operating effectiveness of controls in respect of the review of costs allocated to capital and income projects.</li> </ul> <p><b>Control re-performance:</b></p> <ul style="list-style-type: none"> <li>– Comparing the total capital expenditure reported in the financial statements with that reported in reports to those charged with governance.</li> </ul> <p><b>Tests of detail:</b></p> <ul style="list-style-type: none"> <li>– Use of substantive sampling methods to evaluate the appropriateness of capital or income accounting classification by reference to supporting documentation.</li> <li>– Assessing a sample of items allocated to income expenditure to determine whether they are correctly classified.</li> <li>– Review and corroboration of manual journals.</li> <li>– There has been ongoing development in the implementation of Gateway reviews. This will be considered as part of our wider scope and Best Value work.</li> </ul> |

# Other matters

## Accounting framework update

The 2018-19 Code is revised each year, incorporating selected changes to the underlying IFRSs, and key accounting changes include:

- revenue from Contracts with Service Recipients following the adoption of IFRS 15 *Revenue from Contracts with Customers*.
- amendments to Presentation of Financial Statements to reflect the disclosure requirements under International Accounting Standard (“IAS”) 7 *Statement of Cash Flows* (Disclosure Initiative);
- clarification to the segmental reporting arrangements under the 2018-19 Code;
- amendments to Property, Plant and Equipment to reflect changes as a result of The Item 8 Credit and Item 8 Debit (General) Determination from 1 April 2017;
- amendments to the Code to introduce the incurred loss model for the impairment of non-contractual debts including relevant disclosure requirements as a consequence of the expected credit loss model for impairment being introduced by the adoption of IFRS 9 *Financial Instruments*;
- amendments to Debtors and Creditors sections to remove the requirement to disclose the analysis of debtors across public sector bodies; and
- a new Financial Instruments section to reflect the Code’s adoption of IFRS 9.

Expected from 2020-21, IFRS 16 *Leases* supersedes IAS 17 *Leases*. IFRS 16 introduces a single lessee accounting model. The Council will be more likely to account for operating leases in a similar way to the current IAS 17 treatment for finance leases. A significant volume of leases which are currently accounted for as operating leases will become financial leases and will be recognised within the Council’s Balance Sheet.

These changes are significant and the Council should consider preparation in advance, particularly where the 2018-19 balances will form the comparatives in future accounts. We will consider the Council’s arrangements for complying with the forthcoming changes.

## Controls testing

In respect of the financial statements, we identify the constituent account balances and significant classes of transactions and focus our work on identified risks. Determining the most effective balance of internal controls and substantive audit testing enables us to ensure the audit process runs smoothly and with the minimum disruption to the Council’s finance team.

In 2017-18 we identified three recommendations in relation to the control environment, and three relating to financial statement audit findings. We will follow-up progress in implementing these recommendations and report any new recommendations arising from our work and report our view of progress. [Appendix three](#) details our approach across each phase of the audit.

## Internal audit

ISA 610 *Considering the work of internal audit* requires us to:

- consider the activities of internal audit and any impact on our audit;
- obtain an understanding of internal audit activities to assist in planning the audit and developing an effective audit approach;
- perform a preliminary assessment of the internal audit function when it appears that internal audit is relevant to our audit of the financial statements in specific audit areas; and
- evaluate and test the work of internal audit, where use is made of that work, in order to confirm its adequacy for our purposes.

We will continue liaison with internal audit and update our understanding of its approach and conclusions where relevant. The general programme of work will be reviewed for significant issues to support our work in assessing the statement of internal control.

# Other matters (continued)

## Group audit considerations

**Appendix six** sets out our understanding of the Group structure and nature of each associated entity.

Perth and Kinross Council, Tactran and the IJB are audited by the same audit team within KPMG. Both the Council and the IJB are consolidated into the group accounts. Tactran is not consolidated on the grounds of materiality.

Perth and Kinross Council Charitable Funds are also audited by KPMG from the same office. Andy Shaw continues to be the engagement leader in their respect. We do not intend to issue group instructions in respect of the Charitable Funds.

We reviewed the remaining components within the group structure, and did not deem any other component significant. We therefore do not intend to issue group audit instructions to any component.

# Wider scope and Best Value

## Approach

We are required to assess and provide conclusions in the Annual Audit Report in respect of four wider scope dimensions: financial sustainability; financial management; governance and transparency; and value for money. We set out below an overview of our approach to wider scope and Best Value requirements of our annual audit. We provide on pages 17 to 21 our risk assessment in respect of these areas. We will provide narrative on these and other areas in the Annual Audit Report where relevant.

### Risk assessment

We consider the relevance and significance of the potential business risks faced by local authorities, and other risks that apply specifically to the Council. These are the significant operational and financial risks in achieving statutory functions and objectives, which are relevant to auditors' responsibilities under the *Code of Audit Practice*.

In doing so we consider:

- The Council's own assessment of the risks it faces, and its arrangements to manage and address its risks.
- Evidence gained from previous audit work, including the response to that work.
- The work of other inspectorates and review agencies, through the Local Area Network ("LAN") which is established for each council.
- Discussion with Audit Scotland and the LAN over the scope of the BVAR on Perth and Kinross Council.

The LAN brings together local scrutiny representatives in a systematic way to agree a shared risk assessment. Michael Wilkie from KPMG is the LAN lead for the shared risk assessment process for the Council. For 2018-19 there is no additional scrutiny required by external audit.

The shared risk assessment process across Scotland has changed for 2019-20 and no local scrutiny plans are prepared. We use the shared risk assessment process to consider if there are wider scope risks relevant to the Annual Audit Report and BVAR.



### Linkages with other audit work

There is a degree of overlap between the work we do as part of the wider scope and Best Value audit and our financial statements audit. For example, our financial statements audit includes an assessment and testing of the Council's organisational control environment, many aspects of which are relevant to our wider scope and Best Value audit responsibilities.

We have always sought to avoid duplication of audit effort by integrating our financial statements and wider scope and Best Value work, and this will continue. We consider information gathered through the shared risk assessment and the Audit Commission's five strategic priorities when planning and conducting our work.



# Wider scope and Best Value (continued)

## Approach (continued)

### Identification of significant risks

The Code identifies a matter as significant 'if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public. Significance has both qualitative and quantitative aspects.'

If we identify significant wider scope and Best Value risks, we will highlight the risk to the Council and consider the most appropriate audit response in each case, including:

- Considering the results of work by the Council, inspectorates and other review agencies.
- Carrying out local risk-based work to form a view on the adequacy of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources.

### Concluding on wider scope and Best Value

At the conclusion of the wider scope and Best Value audit we will consider the results of the work undertaken and assess the assurance obtained against each of the wider scope audit dimensions and Best Value, regarding the adequacy of the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources.

If any issues are identified that may be significant to this assessment, and in particular if there are issues that indicate we may need to consider qualifying our wider scope and Best Value conclusion, we will discuss these with management as soon as possible. Such issues will also be considered more widely as part of KPMG's quality control processes, to help ensure the consistency of auditors' decisions.

In 2018-19, Audit Scotland, in conjunction with KPMG, will undertake a Best Value audit of Perth and Kinross Council. Planning for this audit commenced in January 2019, with reporting due no later than September 2019. This audit will build on work already completed by KPMG in previous years, and planned to be completed in 2018-19, to produce a single report outlining the assessment of the Council in relation to Best Value.

### Reporting

We have completed our initial wider scope and Best Value risk assessment and have not identified any significant risks, as noted on the next page. We will update our assessment throughout the year and should any issues present themselves we will report them in our Annual Audit Report.

We will report on the results of the wider scope and Best Value audit through our Annual Audit Report. This will summarise any specific matters arising, and the basis for our overall conclusion. In addition, the BVAR will be issued by September 2019.

# Wider scope and Best Value (continued)

## Risk assessment

We have not identified any financial statement significant risks in relation to wider scope and Best Value. ★ relates to an identified wider scope focus areas to be specifically addressed through audit procedures, as further explained on the next page.



# Wider scope and Best Value (continued)

## Risk assessment (continued)

| Wider scope area         | Why                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | Audit Approach                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
|--------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Financial sustainability | <p><b>Financial sustainability</b> looks forward to the medium and longer term to consider whether the Council is planning effectively to continue to deliver its services or the way in which they should be delivered.</p> <p><b>Specific identified focus area:</b></p> <p><b>Demand pressures</b></p> <p>The Council faces growing demand pressures, both from the increasing elderly population and increasing number of young people living in Perth and Kinross. Each subset brings unique challenges to services, for healthcare, social care and education.</p> <p>This comes at a time when the workforce is decreasing, which adds pressure to ongoing workforce planning. There are a number of “hard to fill” posts for teachers in rural areas and social care workers, which add to the pressure on the growing demand for service provision.</p> <p>We consider there to be a resultant risk to the sustainability of delivering services with increasing demand and a decreasing workforce.</p> | <ul style="list-style-type: none"> <li>– We will consider the Council's long term financial plans and its ability to adapt to the changing landscape in local government funding. This will involve consideration of the 2019-20 budget and longer term financial plans from 2020-21 and beyond.</li> <li>– We will monitor the Council's key performance indicators and performance reporting, to identify any movements requiring further investigation. We will consider any overspends against budget where demand has caused a significant strain on funding, as well as underspends against budget due to staff slippages where roles have been hard to fill.</li> </ul> |

# Wider scope and Best Value (continued)

## Risk assessment (continued)

| Wider scope area     | Why                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | Audit Approach                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
|----------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Financial management | <p><b>Financial management</b> is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.</p> <p><b>Specific identified focus area:</b></p> <p><b>Medium and long term planning</b></p> <p>In October 2018, the Council reported estimated savings requirements ranging between £9.6 million and £106.8 million, with the 'mid-range' estimate of £52.3 million over the next five years. This plan reported a mid-range forecast highlighting budget pressures of £16.5 million in relation to 2019-20. As part of the budgetary process, the Council approved a three year revenue budget on 20 February 2019, which aids longer term financial management and workforce planning.</p> <p>There is a risk Council are unable to achieve the approved budget.</p> <p><b>Transformation programme</b></p> <p>The Council has an ambitious five year transformation programme from 2015-20. The programme provides a framework for innovation, creativity, flexibility and greater entrepreneurship to meet future challenges.</p> <p>The transformation programme supports identifying savings through redesigning service delivery to maximise efficiencies and support change</p> <p>We consider there to be a risk around delivering the level of planned savings over the next five years, and what impact this may have on service delivery.</p> | <ul style="list-style-type: none"> <li>– We will consider how the Council's transformation programme is progressing and any potential impact on financial and service planning.</li> <li>– We will review the financial results to 31 March 2019 compared to budget to consider if there are indications that savings are not being delivered as planned.</li> <li>– We will consider the Council's approach to setting a balanced budget for 2019-20, and considering implications and delivery of the budget in our Annual Audit Report.</li> </ul> |



# Wider scope and Best Value (continued)

## Risk assessment (continued)

| Wider scope area                                              | Why                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | Audit Approach                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
|---------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Financial sustainability and financial management (continued) | <p><b>Specific identified focus area (continued):</b></p> <p>Audit Scotland planning guidance requires us to consider the following matters which are potential risks to all Public Sector bodies.</p> <p><b>Changing landscape for public financial management</b></p> <p>Scottish public finances are fundamentally changing, with significant tax-raising powers, new powers over borrowing and reserves, and responsibility for 11 social security benefits. The Scottish Government published an initial five-year Medium Term Financial Strategy in May 2018. The Council needs to consider the impact of the new powers on its operations and future budgets.</p> <p><b>EU withdrawal</b></p> <p>The nature and impact of withdrawal from the EU continues to be uncertain and changing.</p> <p>There is a risk that the Council fails to prepare for, or is impacted by changes to employees, citizens, funding or regulations.</p> <p><b>Dependency on key suppliers</b></p> <p>This has brought into focus the risk of key supplier failure and the risk of underperformance in suppliers that are experiencing difficult trading conditions. The risk exists where individual public sector bodies are dependent on key suppliers; and the Scottish public sector as a whole is subject to significant systemic risk.</p> <p>There is a risk that entities are overly dependent on a small number of key suppliers to provide services.</p> | <ul style="list-style-type: none"> <li>— We will consider how the Council reports its funding arrangements, responsibilities and performance through the audit of its management commentary and financial statements.</li> <li>— We will remain alert to the impact of the EU withdrawal on the Council's operations and the environment within which it operates as part of our risk assessment procedures and wider scope responsibilities. We will consider the appropriateness of management's risk assessment and planning for both matters with reference to guidance provided by Audit Scotland.</li> <li>— We will consider how the Council manages the risk of dependency on key suppliers, and seek further understanding on the use of suppliers through procurement.</li> </ul> |

# Wider scope and Best Value (continued)

## Risk assessment (continued)

| Wider scope area            | Why                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | Audit Approach                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
|-----------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Governance and transparency | <p><b>Governance and transparency</b> is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.</p> <p><b>Specific identified focus area:</b></p> <p>Audit Scotland planning guidance requires us to consider the following matters which are potential risks to all Public Sector bodies.</p> <p><b>Openness and transparency</b></p> <p>There are signals of changing and more challenging expectations for openness and transparency in public business. This is an area the Council is expected to keep under review and consider where there is scope to enhance transparency.</p> | <ul style="list-style-type: none"> <li>– We will consider the effectiveness of scrutiny and governance arrangements, by evaluating the challenge and transparency of the reporting of financial and performance information.</li> <li>– We will update our understanding of the controls and processes around capturing officers' and members' interests.</li> <li>– We will obtain and review minutes of meetings of the various committees to assess the level of transparency, and consider the Council's plan for enhancing transparency.</li> </ul> |

# Wider scope and Best Value (continued)

## Risk assessment (continued)

| Wider scope area | Why                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | Audit Approach                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
|------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Value for money  | <p><b>Value for money</b> is concerned with how effectively resources are used to provide services.</p> <p><b>Specific identified focus area:</b></p> <p>Audit Scotland planning guidance requires us to consider the following matters which are potential risks to all Public Sector bodies.</p> <p>Care income, financial assessments and financial guardianship</p> <p>In some councils, responsibility for financial assessments on those receiving care has transferred from social care to finance, and this has revealed issues with backlogs of financial assessment and under-recovery of care charges over long periods of time (more than five years). Audit Scotland identified that officers within some councils may be operating as financial guardians for individuals with a lack of capacity to act in their own interests. This may give rise to a potential conflict of interest when finance officers are in a senior position and the council is issuing invoices to a person for their care.</p> | <ul style="list-style-type: none"> <li>— We will specifically consider statutory performance indicators, performance reporting and arrangements to provide for continuous improvement.</li> <li>— We will undertake a review of the arrangements for financial assessment of those requiring care and assess whether these are subject to delays, and how this is reported.</li> <li>— We will complete a questionnaire return to Audit Scotland providing intelligence on the extent to which officers undertake financial guardianship roles and the reasons for this.</li> </ul> |



# Appendices

## Appendix one

# Mandated communications with the Audit Committee

| Matters to be communicated                                                                                                                                                                                                                                                                                | Link to Audit Committee papers                                                                                                                                                                                                                                       |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Independence and our quality procedures ISA 260.                                                                                                                                                                                                                                                          | See page 25.                                                                                                                                                                                                                                                         |
| The general approach and overall scope of the audit, including levels of materiality, fraud and engagement letter ISA 260.                                                                                                                                                                                | Main body of this paper.                                                                                                                                                                                                                                             |
| Disagreement with management about matters that, individually or in aggregate, could be significant to the entity's financial statements or the auditor's report, and their resolution (AU 380).                                                                                                          | In the event of such matters of significance we would expect to communicate with the Audit Committee throughout the year.<br><br>Formal reporting will be included in our ISA 260 report for the Audit Committee meeting, which focuses on the financial statements. |
| Significant difficulties we encountered during the audit.                                                                                                                                                                                                                                                 |                                                                                                                                                                                                                                                                      |
| Significant matters discussed, or subject to correspondence, with management (ISA 260).                                                                                                                                                                                                                   |                                                                                                                                                                                                                                                                      |
| Our views about the qualitative aspects of the entity's accounting and financial reporting.<br><br>The potential effect on the financial statements of any material risks and exposures, such as pending litigation, that are required to be disclosed in the financial statements (ISA 260 and ISA 540). |                                                                                                                                                                                                                                                                      |
| Audit adjustments, whether or not recorded by the entity, that have, or could have, a material effect on its financial statements. We will request you to correct uncorrected misstatements (including disclosure misstatements) (ISA 450).                                                               |                                                                                                                                                                                                                                                                      |
| The selection of, or changes in, significant accounting policies and practices that have, or could have, a material effect on the entity's financial statements (ISA 570).                                                                                                                                |                                                                                                                                                                                                                                                                      |
| Material uncertainties related to events and conditions that may cast significant doubt on the entity's ability to continue as a going concern (ISA 570).                                                                                                                                                 |                                                                                                                                                                                                                                                                      |
| Expected modifications to the auditor's report (ISA 705).                                                                                                                                                                                                                                                 |                                                                                                                                                                                                                                                                      |
| Related party transactions that are not appropriately disclosed (ISA 550)                                                                                                                                                                                                                                 |                                                                                                                                                                                                                                                                      |

## Appendix one

# Mandated communications with the Audit Committee (continued)

| Matters to be communicated                                                                   | Details                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
|----------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Management's responsibilities (and, where appropriate, those charged with governance)</b> | <p>Prepare financial statements in accordance with the applicable financial reporting framework that are free from material misstatement, whether due to fraud or error.</p> <p>Provide the auditor with access to all information relevant to the preparation of the financial statements, additional information requested and unrestricted access to persons within the entity.</p>                                                                                                                                    |
| <b>Auditor's responsibilities</b>                                                            | <p>Our engagement letter communicates our responsibilities to form and express an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.</p>                                                                                                                                                                        |
| <b>Auditor's responsibilities – Fraud</b>                                                    | <p>This report communicates how we plan to identify, assess and obtain sufficient appropriate evidence regarding the risks of material misstatement of the financial statements due to fraud and to implement appropriate responses to fraud or suspected fraud identified during the audit. See also <a href="#">Appendix eight</a>.</p>                                                                                                                                                                                 |
| <b>Auditor's responsibilities – Other information</b>                                        | <p>Our engagement letter communicates our responsibilities with respect to other information in documents containing audited financial statements. We will report to you on material inconsistencies and misstatements in other information.</p>                                                                                                                                                                                                                                                                          |
| <b>Independence</b>                                                                          | <p>Our independence confirmation letter (<a href="#">Appendix two</a>) discloses matters relating to our independence and objectivity including any relationships that may bear on the firm's independence and the integrity and objectivity of the audit engagement partner and audit staff.</p> <p>We confirm that, in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and that the objectivity of the Director and audit staff is not impaired.</p> |

## Appendix two

# Auditor independence

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

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

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

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

### 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

We have considered the fees charged by us to the council and its affiliates for professional services provided by us during the reporting period.

### 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 letter, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the partner and audit staff is not impaired.

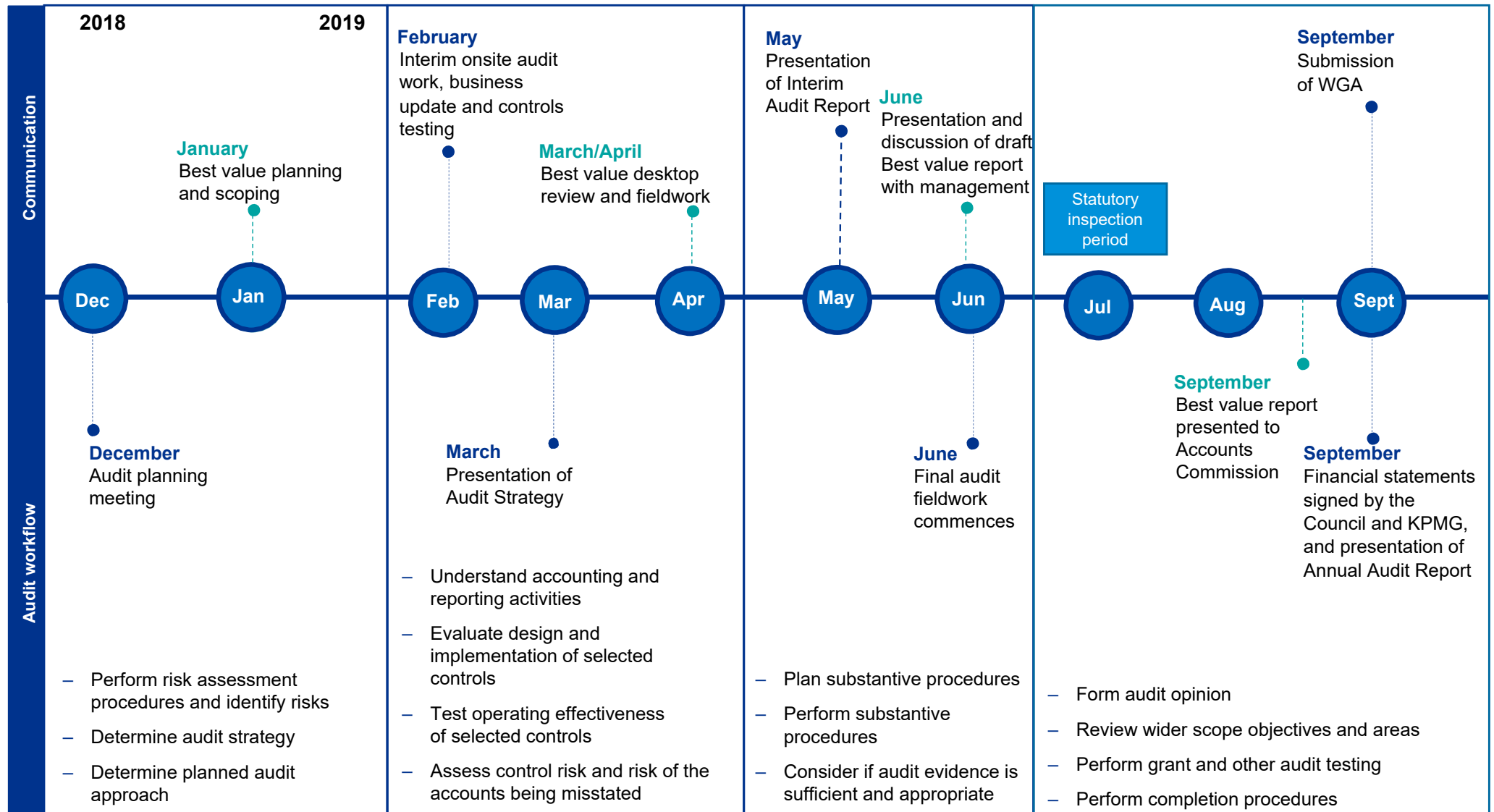
This report is intended solely for the information of the Audit Committee and should not be used for any other purposes.

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

# Timeline





## Appendix four

# Audit outputs

| Output                                | Description                                                                                                                                                                  | Report date                                                                            |
|---------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------|
| <b>Audit strategy</b>                 | Our strategy for the external audit of the Council and its group, including significant risk and audit focus areas.                                                          | By 29 March 2019                                                                       |
| <b>Interim audit report</b>           | We summarise our findings from our interim audit work.                                                                                                                       | By 31 May 2019                                                                         |
| <b>Independent auditor's report</b>   | Our opinion on the Council's financial statements.                                                                                                                           | By 30 September 2019                                                                   |
| <b>Annual audit report</b>            | We summarise our findings from our work during the year.                                                                                                                     | By 1 October 2019                                                                      |
| <b>NFI report</b>                     | We report on the Council's actions to investigate and follow-up NFI matches.                                                                                                 | By 28 June 2019                                                                        |
| <b>Whole of Government Accounts</b>   | We report on the pack prepared for consolidation and preparation of the Whole of Government Accounts.                                                                        | By 30 September 2019                                                                   |
| <b>Audit reports on other returns</b> | We will report on the following returns: <ul style="list-style-type: none"> <li>– Current issues return.</li> <li>– Technical database.</li> <li>– Fraud returns.</li> </ul> | January, March, July and October 2019<br>5 July 2019<br>February, May, and August 2019 |
| <b>Grant claim audits</b>             | We provide an opinion on: <ul style="list-style-type: none"> <li>– Education maintenance allowance, housing benefit, and non domestic rates</li> </ul>                       | To submit by:<br>July 2019, November 2019 and August 2019                              |

## Appendix five

# Fees

Audit Scotland has completed a review of funding and fee setting arrangements for 2018-19. An expected fee is calculated by Audit Scotland to each entity within its remit. This expected fee is made up of four elements:

- Auditor remuneration
- Pooled costs
- Contribution to Audit Scotland's Performance Audit and Best Value ("PABV") team
- Contribution to Audit Scotland costs

The expected fee for each body assumes that it has sound governance arrangements in place and operating effectively throughout the year, prepares comprehensive and accurate draft accounts and meets the agreed timetable for the audit.

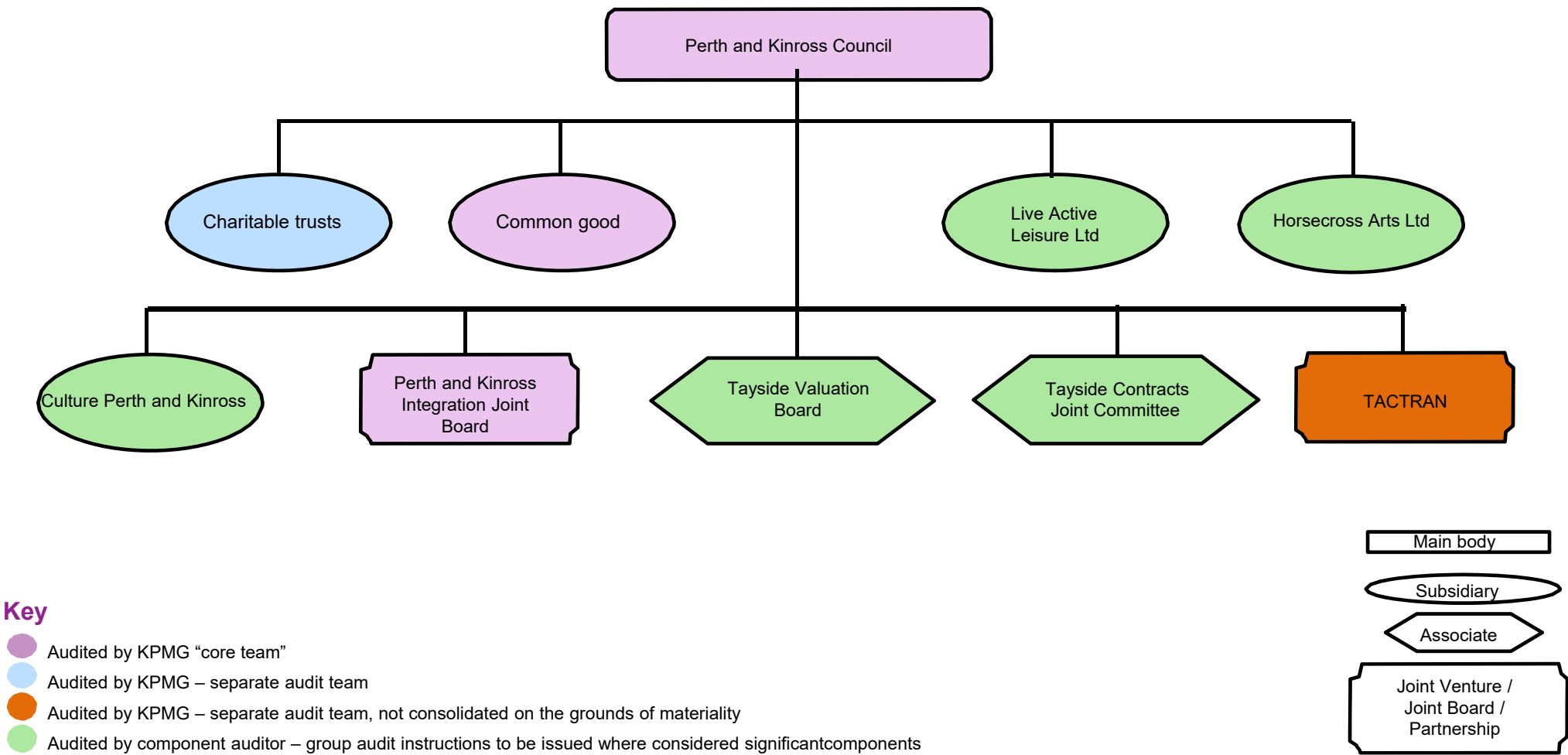
We are in discussions with management regarding the auditor remuneration for 2018-19. Should we be required to undertake significant additional audit work in respect of any of the areas of audit focus or other matters arise, we will discuss with management the impact of this on our proposed fee.

|                                                     | 2018-19 £ (incl VAT) |
|-----------------------------------------------------|----------------------|
| Auditor remuneration                                | 161,830              |
| Pooled costs                                        | 15,700               |
| Contribution to PABV                                | 85,710               |
| Contribution to Audit Scotland costs                | 10,170               |
| <b>Total Council audit fee</b>                      | <b>273,410</b>       |
| Audit of Perth and Kinross Council Charitable Funds | 3,100                |
| <b>Total fee</b>                                    | <b>276,510</b>       |

Appendix six

# Group financial statements

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



## Appendix seven

# Responsibility in relation to fraud

We are required to consider fraud and the impact that this has on our audit approach. We will update our risk assessment throughout the audit process and adapt our approach accordingly.

| Management responsibilities                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | KPMG's identification of fraud risk factors                                                                                                                                                                                                                                                                                                                                                    | KPMG's response to identified fraud risk factors                                                                                                                                                                                                                                                                                                                                 | KPMG's response to identified fraud risk factors                                                                                                                                                                                                                                                                                                                                                                          |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"><li>– Adopt sound accounting policies</li><li>– With oversight from those charged with governance, establish and maintain internal control, including controls to prevent, deter and detect fraud.</li><li>– Establish proper tone, culture and ethics.</li><li>– Require periodic confirmation by employees of their responsibilities.</li><li>– Take appropriate action in response to actual, suspected or alleged fraud.</li><li>– Disclosure to audit committee and auditors:<ul style="list-style-type: none"><li>– Any significant deficiencies in internal control; and</li><li>– Any fraud involving those with a significant role in internal controls.</li></ul></li></ul> | <ul style="list-style-type: none"><li>– Review of accounting policies.</li><li>– Results of analytical procedures.</li><li>– Procedures to identify fraud risk factors.</li><li>– Discussion amongst engagement personnel.</li><li>– Enquiries of management, to audit committee and others.</li><li>– Evaluate broad programmes and controls that prevent, deter, and detect fraud.</li></ul> | <ul style="list-style-type: none"><li>– Accounting policy assessment.</li><li>– Evaluate design of mitigating controls.</li><li>– Test effectiveness of controls</li><li>– Address management override of controls.</li><li>– Perform substantive audit procedures.</li><li>– Evaluate all audit evidence.</li><li>– Communicate to the audit committee and management</li></ul> | <p>Whilst we consider the risk of fraud at the financial statement level to be low for the Council, we will monitor the following areas throughout the year and adapt our audit approach accordingly:</p> <ul style="list-style-type: none"><li>– income recognition;</li><li>– Cash;</li><li>– Procurement;</li><li>– Management control override; and</li><li>– Assessment of the impact of identified fraud.</li></ul> |

## Appendix eight

# Audit Scotland code of audit practice – responsibility of auditors and management

### Responsibilities of management

#### Financial Statements

Audited bodies must prepare an annual report and accounts containing financial statements and other related reports. They have responsibility for:

- preparing financial statements which give a true and fair view of their financial position and their expenditure and income, in accordance with the applicable financial reporting framework and relevant legislation;
- maintaining accounting records and working papers that have been prepared to an acceptable professional standard and that support their financial statements and related reports disclosures;
- ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate Council;
- maintaining proper accounting records; and
- preparing and publishing, along with their financial statements, an annual governance statement, management commentary (or equivalent) and a remuneration report that are consistent with the disclosures made in the financial statements. Management commentary should be fair, balanced and understandable and also clearly address the longer- term financial sustainability of the body.

Further, it is the responsibility of management of an audited body, with the oversight of those charged with governance, to communicate relevant information to users about the entity and its financial performance, including providing adequate disclosures in accordance with the applicable financial reporting framework. The relevant information should be communicated clearly and concisely.

Audited bodies are responsible for developing and implementing effective systems of internal control as well as financial, operational and compliance controls. These systems should support the achievement of their objectives and safeguard and secure value for money from the public funds at their disposal. They are also responsible for establishing effective and appropriate internal audit and risk-management functions.

#### Prevention and detection of fraud and irregularities

Audited bodies are responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption and also to ensure that their affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place.

## Appendix eight

# Audit Scotland code of audit practice – responsibility of auditors and management (continued)

### Responsibilities of management

#### Corporate governance arrangements

Each body, through its chief executive or accountable officer, is responsible for establishing arrangements to ensure the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies should involve those charged with governance (including Audit Committees or equivalent) in monitoring these arrangements.

#### Financial position

Audited bodies are responsible for putting in place proper arrangements to ensure that their financial position is soundly based having regard to:

- such financial monitoring and reporting arrangements as may be specified;
- compliance with any statutory financial requirements and achievement of financial targets;
- balances and reserves, including strategies about levels and their future use;
- how they plan to deal with uncertainty in the medium and longer term; and
- the impact of planned future policies and foreseeable developments on their financial position.

#### Best Value, use of resources and performance

The Scottish Public Finance Manual sets out that accountable officers appointed by the Principal Accountable Officer for the Scottish Administration have a specific responsibility to ensure that arrangements have been made to secure best value.

## Appendix eight

# Audit Scotland code of audit practice – responsibility of auditors and management (continued)

### Responsibilities of auditors

#### Appointed auditor responsibilities

Auditor responsibilities are derived from statute, this Code, ISAs, professional requirements and best practice and cover their responsibilities when auditing financial statements and when discharging their wider scope responsibilities. These are to:

- undertake statutory duties, and comply with professional engagement and ethical standards;
- 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;
- notify the Auditor General when circumstances indicate that a statutory report may be required;
- participate in arrangements to cooperate and coordinate with other scrutiny bodies (local government sector only);
- 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; and
  - financial position and arrangements for securing financial sustainability.

Weaknesses or risks identified by auditors are only those which have come to their attention during their 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.

## Appendix eight

# Audit Scotland code of audit practice – responsibility of auditors and management (continued)

| <b>Responsibilities of auditors</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>General principles</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| This Code is designed such that adherence to it will result in an audit that exhibits these principles.                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| <b>Independent</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| When undertaking audit work all auditors should be, and should be seen to be, independent. This means auditors should be objective, impartial and comply fully with the FRC ethical standards and any relevant professional or statutory guidance. Auditors will report in public and make recommendations on what they find without being influenced by fear or favour.                                                                                                                                                                            |
| <b>Proportionate and risk based</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| Audit work should be proportionate and risk based. Auditors need to exercise professional scepticism and demonstrate that they understand the environment in which public policy and services operate. Work undertaken should be tailored to the circumstances of the audit and the audit risks identified. Audit findings and judgements made must be supported by appropriate levels of evidence and explanations. Auditors will draw on public bodies' self-assessment and self - evaluation evidence when assessing and identifying audit risk. |
| <b>Quality focused</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| Auditors should ensure that audits are conducted in a manner that will demonstrate that the relevant ethical and professional standards are complied with and that there are appropriate quality-control arrangements in place as required by statute and professional standards.                                                                                                                                                                                                                                                                   |



## Appendix eight

# Audit Scotland code of audit practice – responsibility of auditors and management (continued)

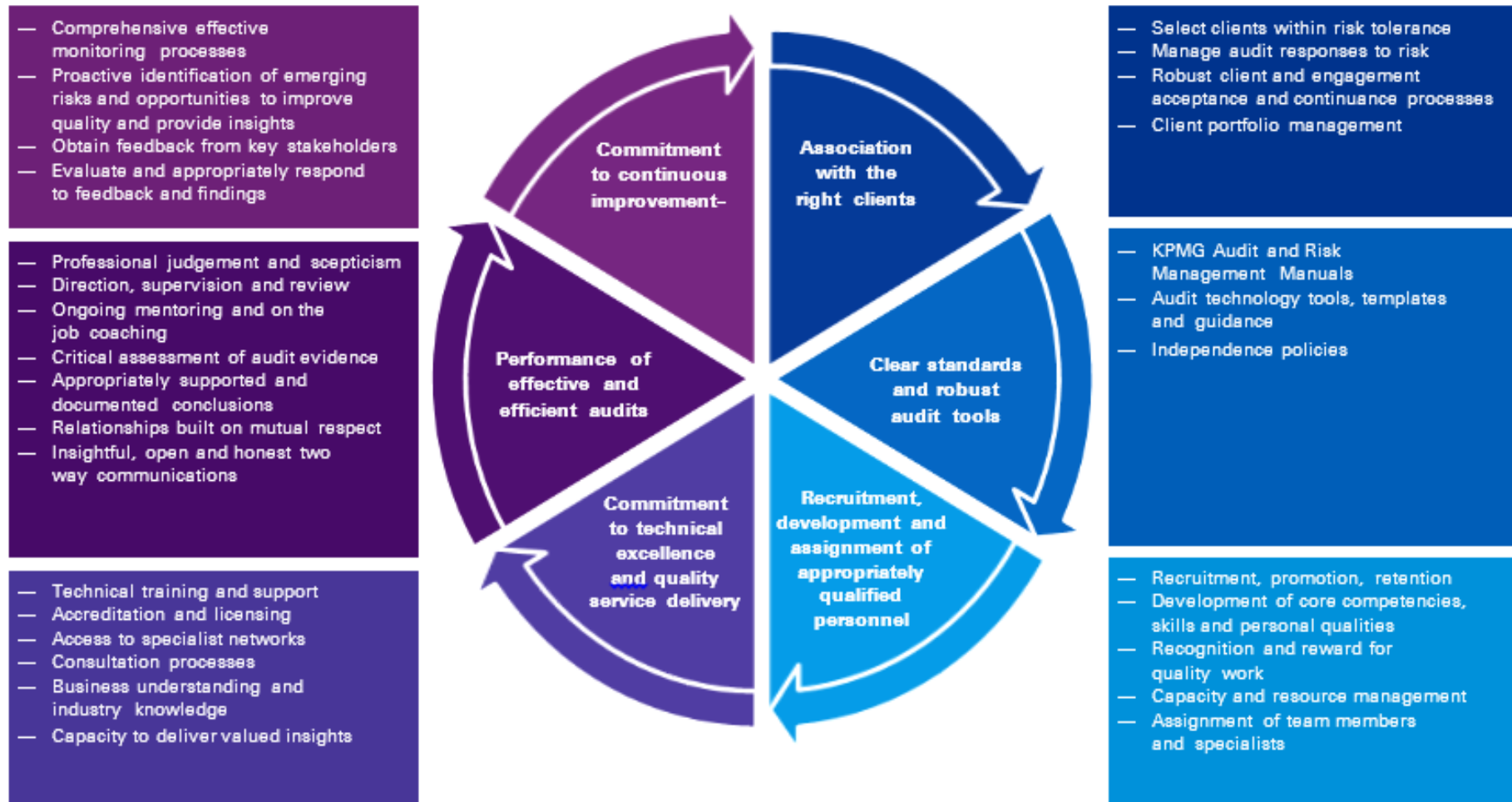
| Responsibilities of auditors                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Coordinated and integrated</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| It is important that auditors coordinate their work with internal audit, Audit Scotland, other external auditors and relevant scrutiny bodies to recognise the increasing integration of service delivery and partnership working within the public sector. This would help secure value for money by removing unnecessary duplication and also provide a clear programme of scrutiny activity for audited bodies.                                                                                                                                                                  |
| <b>Public focussed</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| The work undertaken by external audit is carried out for the public, including their elected representatives, and in its interest. The use of public money means that public audit must be planned and undertaken from a wider perspective than in the private sector and include aspects of public stewardship and best value. It will also recognise that public bodies may operate and deliver services through partnerships, arm's-length external organisations (ALEOs) or other forms of joint working with other public, private or third sector bodies.                     |
| <b>Transparent</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| Auditors, when planning and reporting their work, should be clear about what, why and how they audit. To support transparency the main audit outputs should be of relevance to the public and focus on the significant issues arising from the audit.                                                                                                                                                                                                                                                                                                                               |
| <b>Adds value</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| It is important that auditors recognise the implications of their audit work, including their wider scope responsibilities, and that they clearly demonstrate that they add value or have an impact in the work that they do. This means that public audit should provide clear judgements and conclusions on how well the audited body has discharged its responsibilities and how well they have demonstrated the effectiveness of their arrangements. Auditors should make appropriate and proportionate recommendations for improvement where significant risks are identified. |

## Appendix nine

# 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.





The contacts at KPMG in connection with this report are:

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