



# Perth and Kinross Council

Annual audit report to the Members of Perth and Kinross Council and the Controller of Audit for the year ended 31 March 2021

20 September 2021

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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, who will try to resolve your complaint. If your problem is not resolved, you should contact Hugh Harvie, our Head of Audit in Scotland, either by writing to him at Saltire Court, 20 Castle Terrace, Edinburgh, EH1 2EG or by telephoning 0131 527 6682 or by emailing hugh.harvie@kpmg.co.uk. We will investigate any complaint promptly and do what we can to resolve the difficulties. After this, if you are still dissatisfied with how your complaint has been handled you can refer the matter to Diane McGiffen, Audit Scotland, 4th Floor, 102 West Port, Edinburgh, EH3 9DN.

# Executive summary

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## Significant risks

- Management override of controls fraud risk
- Fraud risk from income recognition and expenditure
- Revaluation of property, plant and equipment, and investment property
- Retirement benefits

Wider scope areas (*no significant risks identified*)

## Going concern

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

Appendix three

## Misstatements

We reported three misstatements, two corrected, and one uncorrected.

Appendix three and four

## Open recommendations

- Significant recommendations
- Other recommendations
- Minor recommendations

Appendix three  
Number

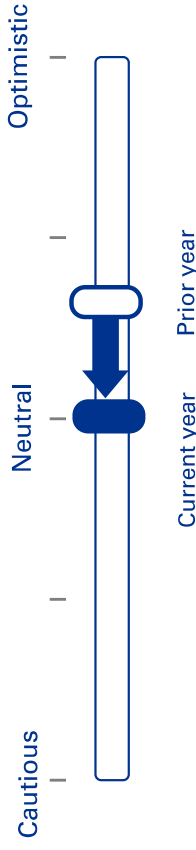
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## Accounting judgements related to estimates

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

# Introduction

## Scope and responsibilities

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### Purpose of this report

The Accounts Commission has appointed KPMG LLP as auditor of Perth and Kinross Council (the Council) under part VII of the Local Government (Scotland) Act 1973 (“the Act”). The period of appointment is 2016-17 to 2021-22, inclusive. Our engagement has been extended by Audit Scotland to 2021-22 in order to mitigate any potential impact of Covid-19 on the process for the next period of appointment.

Our annual audit report is designed to summarise our opinions and conclusions on significant issues arising from our audit. It is addressed to both those charged with governance at the Council and the Controller of Audit. The scope and nature of our audit are set out in our audit strategy document which was presented to the Perth and Kinross Council on 31 March 2021.

Audit Scotland’s Code of Audit Practice (“the Code”) sets out the wider dimensions of public sector audit which involves not only the audit of the financial statements but also consideration of wider scope areas. The reports incorporate both aspects of the Code.

### Accountable officer responsibilities

The Code sets out the Council’s responsibilities in respect of:

- corporate governance;
- financial statements and related reports;
- standards of conduct for prevention and detection of fraud and error
- financial position; and
- Best Value.

### Auditor responsibilities

This report reflects our overall responsibility to carry out an audit in accordance with our statutory responsibilities under the Act and in accordance with International Standards on Auditing (UK) (“ISA”) issued by the Financial Reporting Council (“FRC”) and the Code. Appendix seven sets out how we have met each of the responsibilities set out in the Code.

### Scope

An audit of the financial statements is not designed to identify all matters that may be relevant to those charged with governance. Weaknesses or risks identified are only those which have come to our attention during our normal audit work in accordance with the Code, and may not be all that exist.

Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

Under the requirements of ISA 260 *Communication with those charged with governance*, we are required to communicate audit matters arising from the audit of financial statements to those charged with governance of an entity.

This report to those charged with governance and our presentation to audit committee, together with previous reports to the audit committee throughout the year, discharges the requirements of ISA 260.

### Limitations on work performed

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

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



|                                                                                    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
|------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Audit opinion</b>                                                               | Following approval of the annual accounts by the audit committee, we expect to issue an unqualified opinion on the truth and fairness of the state of the Council's affairs as at 31 March 2021, and of the surplus on the provision of services for the year then ended. We also issued unqualified opinions on the truth and fairness of the state of the Perth and Kinross Council Charitable Trusts' affairs as at 31 March 2021. There are no matters identified on which we are required to report by exception.                                                                                                                                                                                                                                                                                                                                                                                           |
| <b>Financial reporting framework, legislation and other reporting requirements</b> | <p>The Council is required to prepare its annual accounts in accordance with International Financial Reporting Standards ("IFRS"), as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2020-21 ("the CIPFA Code"), and in accordance with the Local Authority Accounts (Scotland) Regulations 2014. Our audit confirmed that the annual accounts have been prepared in accordance with the CIPFA Code and relevant legislation.</p> <p>The Perth and Kinross Council Charitable Trust's financial statements are prepared in accordance with the Charities SORP (FRS 102), the Charities and Trustee Investment (Scotland) Act 2005 and regulation 8 of the Charities Accounts (Scotland) Regulations 2006 (as amended). Our audits confirmed that the annual accounts have been prepared in accordance with the relevant charity accounting legislation.</p> |
| <b>Annual accounts preparation and audit readiness</b>                             | After being considered by the Audit committee, the signed draft accounts were made available to us on 30 June 2021. The Council's finance team continued to perform well in its delivery of high quality annual accounts, particularly considering the operational impact of Covid-19. We appreciate that management effectively prioritised preparation of the financial statements and worked with KPMG to ensure continued responsiveness to audit.                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| <b>Statutory reports</b>                                                           | We have not identified any circumstances to notify the Controller of Audit that indicate a statutory report may be required.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| <b>Other communications</b>                                                        | We did not encounter any significant difficulties during the audit. There were no other significant matters arising from the audit that were discussed, or subject to correspondence with management that have not been included within this report. There are no other matters arising from the audit, that, in our professional judgement, are significant to the oversight of the financial reporting process.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| <b>Audit misstatements</b>                                                         | There were three misstatements identified throughout the audit. Two were corrected, and one was uncorrected. Further details are included on pages 38 and 39.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| <b>Written representations</b>                                                     | Our representation letter will be amended to include additional representations on the treatment of Heritage Assets, . There were no further additional representations to those that are standard as required for our audit.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |

# Materiality and summary of risk areas

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## Materiality

We summarised our approach to materiality in our audit strategy document. On receipt of the financial statements and following completion of audit testing we reviewed our materiality levels and concluded that the level of materiality set at planning was still relevant.

We used a materiality of £9.0 million for the Council's standalone financial statements, and £10.0 million for the Group financial statements. The Council's materiality equates to 1.7% of Council gross expenditure on the provision of services, adjusted for revaluation charges recognised in the year, and funding provided to the Perth and Kinross Integration Joint Board ("the IJB"). We designed our procedures to detect errors in specific accounts at a lower level of precision than our materiality. For the standalone accounts our performance materiality was £6.7 million, and for the Group accounts it was £7.5 million. We report all identified misstatements greater than £250,000.

## Forming our opinions and conclusions

In gathering the evidence for the above opinions and conclusions we:

- performed controls testing and substantive procedures to ensure that key risks to the annual accounts have been covered;
- communicated with the Chief Internal Auditor and reviewed internal audit reports as issued to audit committee to ensure all key risk areas which may be viewed to have an impact on the annual accounts had been considered;
- reviewed estimates and accounting judgements made by management and considered these for appropriateness;
- considered the potential effect of fraud on the annual accounts through discussions with senior management and internal audit to gain a better understanding of the work performed in relation to the prevention and detection of fraud; and

- attended audit committee meetings to communicate our findings to those charged with governance, including private sessions with members, and to update our understanding of the key governance processes.

## Significant risks and other focus areas in relation to the audit of the financial statements

We summarise below the risks of material misstatement as reported within the audit strategy document.

Significant risks:

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

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

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

## Most significant assessed risks of material misstatement

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

# Significant risks

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

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| SIGNIFICANT RISK                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | OUR RESPONSE                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | AUDIT CONCLUSION                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
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| <p><b>Management override of controls fraud risk</b></p> <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 an assumed risk per ISA 240 <i>The Auditor's responsibilities related to fraud in the audit of financial statements</i>.</p> | <p>Our audit methodology incorporates the risk of management override as a default significant risk. We did not identify any specific additional risks of management override relating to the audit of the Council.</p> <p>Strong oversight of finances by management provides additional review of potential material errors caused by management override of controls.</p> <p>Our audit procedures included:</p> <ul style="list-style-type: none"><li>— controls testing and substantive procedures, including over journal entries and accounting estimates (such as over property revaluations and pensions); and</li><li>— review of significant transactions that are outside the Council's normal course of business, or are otherwise unusual.</li></ul> | <p><i>We did not identify any indicators of management bias or management fraud during the audit or as a result of our controls testing as presented on pages 23 and 24.</i></p> <p>Our testing of journal entries was satisfactory and we have obtained sufficient audit evidence as a result of our planned procedures. No issues were identified.</p> <p>We did not identify any significant transactions that are outside the Council's normal course of business, or are otherwise unusual.</p> |

# Financial statements and accounting

## Significant risks (continued)

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| SIGNIFICANT RISK                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | OUR RESPONSE                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | AUDIT CONCLUSION                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
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| <p><b>Fraud risk from income recognition and expenditure</b></p> <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 Practice Note 10, issued by the FRC, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.</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 remaining income to represent a significant risk for the Council as there are limited incentives or opportunities to manipulate income recognition, and these are not likely to be materially inappropriate. We rebut this risk and did not incorporate specific work in this area beyond our standard fraud procedures.</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. We rebutted the risk of fraud over other operating expenditure on the basis of materiality.</p> <p>We did not rebut the assumed risk in respect of the remaining expenditure.</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 agreed 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 performed tests of detail and substantive analytical procedures in our audit of these sources of income.</li> </ul> <p>We performed procedures in respect of expenditure to:</p> <ul style="list-style-type: none"> <li>compare the outturn with the in year budget monitoring, considering variances;</li> <li>test expenditure specifically to confirm correct capital vs revenue allocation;</li> <li>test expenditure cut-off including a search for unrecorded liabilities and journals posted towards the year end;</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; and</li> <li>review and challenge of management in respect of estimates for evidence of bias.</li> </ul> | <p>We have concluded that income and expenditure are appropriately recognised.</p> <p>Our review of variances of actual performance against budget did not highlight any errors.</p> <p>Testing of the operating effectiveness of controls over the procurement process and material invoice approval were performed.</p> <p>Substantive testing was performed in place of the planned control testing over capital vs revenue allocation with no issues noted.</p> <p>We performed testing of expenditure cut-off in the periods immediately preceding and subsequent to the annual accounts year end date. This involved testing transactions and journals either side of the cut-off date to ensure expenditure has been allocated to the appropriate period. We also undertook a detailed search for unrecorded liabilities, as well as testing estimates over accruals. We did not identify any errors in expenditure cut-off as a result of this testing.</p> <p>No exceptions were identified in respect of the specific debtors, creditors, accruals, prepayments, or provisions testing performed.</p> <p>No indications of management bias were identified.</p> |



# Financial statements and accounting

## Significant risks (continued)

Our work over the significant risk below is substantially complete, and remains subject to final review. The wording in italics below reflects the provisional position, and a final conclusion will be reported on 20 September 2021.

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| SIGNIFICANT RISK                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | OUR RESPONSE                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | AUDIT CONCLUSION                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
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| <p><b>Revaluation of property, plant and equipment and investment property</b></p> <p>The CIPFA Code requires that where assets are subject to revaluation, their year-end carrying value should reflect the appropriate fair value at that date. In common with other councils, the Council has adopted a rolling revaluation model which sees all land and buildings revalued over a five year cycle. In 2020-21 Council offices, publicly financed initiative carparks and campuses, industrial and business investment properties, shops, common good properties, other miscellaneous non-operational properties, and assets with significant capital investment were subject to revaluation. The revaluation model also includes revaluation of assets with significant capital investment, and consideration of impairment indicators for all Council assets.</p> <p>The Council uses a valuation date of the 1 April 2020 for the 31 March 2021 year end, and 1 August 2020 for all investment properties. We consider there to be a risk of material movement between these dates.</p> | <p>Our procedures included:</p> <p><b>Assets revalued in the year:</b></p> <p>A number of the Council's assets are revalued on an annual basis, including investment properties and assets held for sale. In relation to those assets which have been revalued during the year we assessed the valuer's qualifications, objectivity and independence to carry out such valuations. We tested the accounting treatment for assets revalued to challenge whether the accounting treatment is appropriate and considered valuation inputs and assumptions used in the approach above.</p> <p>We also assessed the risk of the valuation changing materially during the year, or between the date of valuation and the year end, including sufficient scrutiny to address the impact that Covid-19 has had on the economic and market conditions over that period.</p> <p><b>Assessing methodology choice and benchmarking assumptions:</b></p> <p>We reviewed management's assessment of impairment indicators and assessed for completeness.</p> <p>We utilised our internal specialist to assess the methodology used including testing the underlying data inputs and assessing the assumptions used in comparison to available market information.</p> <p>We selected a sample of six assets to agree calculation inputs to supporting evidence, considered in detail the revaluation calculations, and challenged the underlying assumptions. These assets were considered representative of the asset categories subject to revaluation in the year.</p> | <p>We found the resulting valuation of council offices, publicly financed initiative campuses, industrial and business investment properties, and assets with significant capital investment to be acceptable and valued on an appropriate basis, which resulted in a net increase in the assets revalued.</p> <p>Pullar House Car Park was not revalued in the year due to limited operational information during the Covid-19 pandemic. This valuation was rescheduled for the 2021-22 valuation cycle pending sufficient information being available. The net book value is £782k and we do not consider there to be a risk of material misstatement.</p> <p>We assessed the design and implementation of a control ensuring sufficient segregation of duties and authorisation of valuations. We concluded that the control was sufficiently designed and implemented such that senior colleagues responsible for review and valuation were appropriately qualified.</p> <p>We inspected management's roll forward of valuations from the date of valuation to the year end date and confirmed it was completed appropriately and in compliance with the principles of the CIPFA Code.</p> <p>Our internal valuation specialist, in conjunction with the audit team, concluded that the valuation methodology used by the Council's valuer was appropriate and consistent with the requirements of the CIPFA Code.</p> <p>We challenged the assumptions used in calculating the valuations including Building Cost Information Service ("BCIS") rates, estimated useful lives, and comparable data. The supporting documentation provided for the assumptions was readily available and of sufficient quality.</p> |

# Financial statements and accounting

## Significant risks (continued)

Our work over the significant risk below is substantially complete, and remains subject to final review. The wording in italics below reflects the provisional position, and a final conclusion will be reported on 20 September 2021.

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| SIGNIFICANT RISK                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | OUR RESPONSE                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | AUDIT CONCLUSION                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
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| <p><b>Revaluation of property, plant and equipment and investment property (continued)</b></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>The 2020-21 Code also requires consideration that the carrying amount of assets do not differ materially from the current value at the end of the reporting period. Therefore, we consider there to be a risk in relation to the assets not revalued in the year, as their current value at year end may be materially different.</p> | <p>Continued...</p> <p><b>Assets not revalued in the year:</b></p> <p>We reviewed the approach that the Council has adopted to assess the risk that assets not subject to valuation are materially misstated and consider the robustness of that approach, including any indicators of impairment.</p> <p>We considered and challenged the assumptions and judgements made by the Council in respect of their assessment of property valuations since 1 April 2016.</p> <p>We reviewed and tested the calculations and input data used by the Council to inform them of any indicators of impairment, or conversely property value increases that could represent a material misstatement.</p> | <p>Continued...</p> <p>We assessed the design and implementation of the year end review of non-revalued assets. In addition, this review was substantively tested by way of reperforming the review to ensure it was mathematically accurate and agreed to third party evidence where external rates were used. No issues were noted with this testing and we consider the valuation of assets not revalued in the year remains appropriate.</p> <p>Management and the Council's valuer have performed an impairment review which considers the potential impact on all significant categories of assets. We reviewed this assessment and undertook our own independent analysis to determine whether the non-revalued assets valuation was in compliance with the 2020-21 Code. We did not identify any misstatements non-compliance, or indicators of impairment.</p> |

# Financial statements and accounting

## Significant risks (continued)

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| SIGNIFICANT RISK                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | OUR RESPONSE                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | AUDIT CONCLUSION                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
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| <p><b>Retirement benefits</b></p> <p>The net pension liability (£105.3 million as at 31 March 2021, including assets of £1.028 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 2020. 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 pension liability estimate, such as the discount rate, inflation rates, mortality rates etc. The assumptions should also reflect the profile of the Council's employees, and should be based on appropriate data. The basis of the assumptions should be derived on a consistent basis year to year, or updated to reflect any changes.</p> <p>There is a risk that the assumptions and methodology used in the valuation of the Council's pension obligation are not balanced. This could have a material impact to net pension liability accounted for in the financial statements.</p> | <p>Our audit approach included:</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 used by the actuary (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> <li>Considering the consistency of methodology</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 2020-21 CIPFA Code's requirements.</li> </ul> | <p>We are satisfied that the retirement benefit obligation:</p> <ul style="list-style-type: none"> <li>is correctly recognised on the balance sheet as at 31 March 2021;</li> <li>has been accounted for and disclosed correctly in line with International Accounting Standard ("IAS") 19 Retirement benefits; and</li> <li>assumptions used in calculating this estimate and management's judgements are appropriate and within a range which we consider to be acceptable (see Appendix nine)</li> </ul> <p>Results of testing of controls in respect of provision of information to the actuary were satisfactory.</p> <p>The disclosures in the annual accounts are in line with the CIPFA Code's requirements, including relevant sensitivity analysis.</p> <p><b>Assumption Change</b></p> <p>Our actuarial specialists identified a change in the methodology of calculating CPI. This change was identified as a result of the UK Chancellor and UK Statistics Authority jointly publishing a change in the calculation of RPI which is linked to CPI. This change in methodology has been observed on a significant number of pension funds in the UK, and our actuarial specialist concluded the change was reasonable, and the CPI assumption remains within our normally acceptable range.</p> |



# Financial statements and accounting

## Significant risks (continued)

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| SIGNIFICANT RISK                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | OUR RESPONSE                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | AUDIT CONCLUSION                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
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| <p><b>Retirement benefits (continued)</b></p> <p><b>Guaranteed minimum pensions ("GMP") equalisation</b></p> <p>Following a UK High Court judgement on 26 October 2018, the Government published the outcome to its indexation and equalisation of GMP in public service pension schemes consultation, concluding that the requirement for public service pension schemes to fully price protect the GMP element of individuals' public service pension would be extended to those individuals reaching State Pension Age ("SPA") before 6 April 2021.</p> <p><b>McCloud and Goodwin judgements</b></p> <p>During 2019-20, two significant judgements impacting local government pension scheme reported upon. Significant court cases were concluded upon.</p> <p>Both judgements are considered by KPMG to have an impact on the pension liability due to the level of estimation and assumptions used by management and the actuary. We therefore included these areas within our significant risk.</p> <p>In addition, CIPFA issued guidance during the year relating to the Goodwin case, which relates to a male survivor of a female scheme member and is alleging direct sexual orientation discrimination.</p> | <p>Continued...</p> <p><b>GMP:</b></p> <p>We discussed with management any updates regarding this matter, and how these impacted the audit.</p> <p>On 20 November 2020, the High Court handed down a further judgment on the Guaranteed Minimum Pension (GMP) equalisation case in relation to the Lloyds banking group pension schemes. This follows from the original judgment in October 2018 which confirmed that schemes need to equalise pensions for the effect of unequal GMPs between males and females. This latest judgment confirms that Defined Benefit (DB) schemes which provide GMPs need to revisit and where necessary top-up historical Cash Equivalent Transfer Values that were calculated based on unequalised benefits.</p> <p><b>McCloud:</b></p> <p>CIPFA issued a supplement to CIPFA Bulletin 5 to provide an update on the McCloud and Goodwin cases in respect of pension liabilities. It confirmed that the Scottish Government consultation on proposals to provide a remedy to the McCloud and Sargeant cases as an adjusting event.</p> <p>As noted in our previous year's annual audit report, no further changes were made to the calculation of the pension liability, however, we continue to monitor the Scottish Government's consultation to determine whether further changes are required.</p> <p><b>Goodwin, Brewster and Langford:</b></p> <p>For the Goodwin case, although proposals have not yet been published, a statement from the Treasury confirmed that changes will be required that will increase pension liabilities. A contingent liability was disclosed in the 2019-20 annual accounts in respect of the Goodwin case, and we agreed that no disclosure was required in respect of the 2020-21 annual accounts due to the materiality of the impact, but we will continue to consider any guidance or statements from government which may quantify a change in liability.</p> <p>The other two cases apply to a small proportion of member's benefits payable in certain circumstances.</p> | <p>Continued...</p> <p><b>Guaranteed minimum pensions ("GMP") equalisation</b></p> <p>Full allowance for the 2018 GMP equalisation ruling was taken into account by the Council during 2019-20, and we are satisfied no further consideration is required.</p> <p><b>McCloud consultation</b></p> <p>The Employer recognised an additional liability of 0.6% of the DBO for McCloud in 2019, which we assessed for year-end 2019. This adjustment has been carried forward to 31 March 2021. There has been no significant changes to key assumptions, and in our view the Employer's allowance in the DB obligation is appropriate.</p> <p><b>Goodwin, Brewster and Langford cases</b></p> <p>We have discussed such rulings with each of the actuarial firms (including management's actuary), who communicated that they have made no allowance for them on the grounds of materiality.</p> <p>An estimate may be required in future once more is known but we agree with a nil allowance at this time given the difficulty in obtaining appropriate data to produce a credible estimate, and the likelihood that the impact would be immaterial in all but very exceptional circumstances.</p> |

# Financial statements and accounting

## Other areas of audit focus

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| Other area of audit focus                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |  | OUR RESPONSE                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | AUDIT CONCLUSION                                                                                                                                                                                                |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><b>Capital expenditure</b></p> <p>The Council has a nine year £597 million capital plan, which includes the Cross Tay Link Road, Perth High School, and Perth City Hall upgrade projects. The expected spend in 2020-21 was £43.8 million, down from a budgeted spend of £98.3 million. This reduction is largely as a result of social restrictions which impeded on construction and renovation activities.</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. We note that this was not a fraud risk relating to the financial statements.</p> |  | <p>Our audit approach included:</p> <p><b>Control design:</b></p> <ul style="list-style-type: none"> <li>Tested the design and implementation of the control ensuring all movements of £50k or above between actual spend and budgeted spend are appropriately explained and reported.</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>Assessed a sample of items allocated to revenue expenditure to determine whether they are correctly classified.</li> <li>Reviewed and corroborated manual journals to vouch expenditure is correctly allocated.</li> </ul> | <p>We have concluded that the treatment of capital expenditure is satisfactory.</p> <p>No exceptions were identified in the tests of detail, with supporting documentation available for each item sampled.</p> |

# Going concern

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### Going concern

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

The Council had net assets of £651.1 million (2019-20 £557.7 million) as at the balance sheet date. Net assets increased on 2020-21 by £93.4 million, reflecting the total comprehensive expenditure for the year and accounting adjustments required by the CIPFA Code (see page 20 for further detail).

Management considers it appropriate to continue to adopt the going concern assumption for the preparation of the annual accounts. The applicable accounting framework as prescribed by law is the Code of Practice on Local Authority Accounting in the United Kingdom. This framework mandates the preparation of the annual accounts on a going concern basis.

The Council is in a net asset position, and it considers that the confirmed Scottish Government funding (which includes non-domestic rates income) of £281.3 million is sufficient to meet debts as they fall due. The council also has reasonable certainty over income sources, such as Council Tax income. Financial assets comprising short term investments, and cash and cash equivalents were £188.8 million (2019-20: £207.0 million) as at 31 March 2021. This is offset by an decrease of £12.5 million in long-term borrowings.

The council has produced and approved its six year medium term financial plan (MTFP) for 2021 – 2027 in September 2020 which supports the ability of the Council to continue as a going concern. The MTFP is expected to be revised at the Council meeting in October 2021.

In recent financial years, there has been managed reduction in the overall cost base and further efficiency savings are incorporated into budgets. The Council endorsed a 2020-21 savings requirement of £4.5 million in the 2020-21 budget. The Council approved a corporate savings target of £3.3 million for 2021-22 in order to achieve a balanced budget.

### Conclusion

The Council has a strong net assets position supported by £8.2 million uncommitted reserves as at 31 March 2021.

The Council has prepared short, medium, and long term financial forecasts which are inherently dependant on a number of assumptions outwith the Council's control. We note that management has identified potential savings and has demonstrated strong leadership in taking action on overspends to ensure tight budgetary control.

Income streams are reasonably certain, with additional funding from the Scottish Government where necessary (see considerations specific to Covid-19 on next page).

We are content that the going concern assumption is appropriate for the Council in light of the above points.

# Financial statements and accounting

## Going concern (continued)

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### Response to Covid-19

The financial implications of the Covid-19 pandemic were assessed by the Council and submitted to the Convention of Scottish Local Authorities (COSLA) as part of a national data collection exercise in June 2020. The findings were also submitted by the Head of Finance in a report at the 24 June 2020 Council meeting. The report provided an update on the financial position of the council, highlighting the additional expenditure pressures and expected reduction in income. It also provided information on the additional funding made available to support the Council in its response. The potential gross financial impact to the Council was estimated to be between £22.4 million and £26.8 million as reported to members on 30 September 2020. Officers continued to provide further updates on Covid-19 pressures throughout the year.

An area of complexity included the accounting for the numerous Covid-19 related grants funded by the Scottish Government through an agency arrangement. To date, the Council has passed on £60.7 million in Covid-related grants, with the most material being £37.0 million in Coronavirus Business Support Grants, and a combined £21.3 million in Strategic Framework Business Fund ('SFBF') Grants and SFBF Top up Grants. In addition, the Scottish Government have supplied the Council with £30.0 million for non-recurring Covid funding in 2020-21, and announced a further £7.2 million of funding for 2021-22 which is treated as principal where the Council is acting on its own behalf, and recognised through the comprehensive income and expenditure statement. We have tested the allocations of material grants and are satisfied that these are appropriately disclosed per LASAAC's Guidance on Accounting for Coronavirus Grants.

Due to the continuing level of uncertainty, the financial impact of the pandemic will continue to require strong financial management in the coming months. Officers continue to report key assumptions and events that may impact Council operations and finances to elected members. This is in addition to the Council's medium term financial plan and budget which continue to factor in Covid-19 related decisions.

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

### Conclusion

The Council has built Covid-19 into the budgeting process, ensuring future costs and other impacts relating to the pandemic are considered.

Due to the level of uncertainty and lack of control of assumptions made, budgets are subject to change and the Council has shown flexibility in their approach,

The Scottish Government has shown and continues to show commitment to assisting local authorities, businesses, and individuals and this, coupled with the budgeting mentioned above with other reasonably certain income streams, provides us with sufficient comfort that Covid-19 does not alter our conclusion that the Going Concern assumption remains appropriate.

# Management reporting in financial statements

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| REPORT                      | SUMMARY OBSERVATIONS                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | AUDIT CONCLUSION                                                                                                                                                                                                                                                                                                                                                                        |
|-----------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Management commentary       | <p>The Local Authority Accounts (Scotland) Regulations 2014 require the inclusion of a management commentary within the annual accounts, similar to the Companies Act requirements for listed entity financial statements. The requirements are outlined in the Local Government finance circular 5/2015.</p> <p>We are required to read the management commentary and express an opinion as to whether it is consistent with the information provided in the annual accounts. We also review the contents of the management commentary against the guidance contained in the local government finance circular 5/2015.</p> | <p>We are satisfied that the information contained within the management commentary is consistent with the annual accounts.</p> <p>We reviewed the contents of the management commentary against the guidance contained in the local government finance circular 5/2015 and, following some suggested enhancements are content with the proposed report.</p>                            |
| Remuneration report         | <p>The remuneration report was included within the unaudited annual accounts and supporting reports and working papers were provided.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | <p>We are satisfied that the information contained within the remuneration report is consistent with the underlying records and the annual accounts and all required disclosures have been made.</p> <p>Our independent auditor's report confirms that the part of the remuneration report subject to audit has been properly prepared in accordance with the relevant regulations.</p> |
| Annual governance statement | <p>The statement for 2020-21 outlines the corporate governance and risk management arrangements in operation in the financial year. It provides detail on the Council's governance framework, review of effectiveness, continuous improvement agenda and group entities and analyses the efficiency and effectiveness of these elements of the framework.</p>                                                                                                                                                                                                                                                               | <p>We consider the governance framework and annual governance statement to be appropriate for the Council.</p> <p>The arrangements and disclosures surrounding Covid-19 were sufficient and, following some suggested enhancements, we are content that the annual governance statement complies with guidance and reflects our understanding of the Council.</p>                       |



# Financial statements and accounting

## Group financial statements

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

| ENTITY                                 | WORK PERFORMED                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | AUDIT CONCLUSION                                                                                                        |
|----------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------|
| <b>Charitable Trusts</b>               | <p>We assessed materiality based on our knowledge and understanding of the charities' risk profile and annual accounts balances. Materiality was determined at 3% of total assets.</p> <p>We planned our materiality for the charitable trusts based on the closing 2019-20 total asset position which had fallen to £1.46 million due to Covid-19, resulting in a materiality of £44,000 and a reporting threshold of £2,300. The total assets of the charitable trusts has increased in 2020-21 from £1.46 million to £1.73 million.</p> <p>As required by audit standards, we considered our independence as part of our Council engagement, and confirm our independence of the Charitable Trusts for the year ended 31 March 2021. Our independence confirmation at appendix two applies to the Charitable Funds in addition to the Council. The engagement lead in 2020-21 continued to be Michael Wilkie.</p> | We expect to issue an unqualified audit opinion on the charitable trusts on 21 September 2021.                          |
| <b>Common Good</b>                     | Perth and Kinross Council Common Good does not prepare separate financial statements, and is incorporated as disclosure notes within the Council's financial statements. Common Good holds investment properties as well as other assets.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | The Common Good amounts are included within the Group financial statements, for which we issued an unqualified opinion. |
| <b>Integration Joint Board ('IJB')</b> | A separate annual audit report is planned to be presented to the Audit and Performance Committee of the Perth and Kinross Integration Joint Board on 13 September 2021. No significant exceptions were identified during the audit.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | We expect to issue an unqualified audit opinion for the IJB on 16 September 2021.                                       |

# Financial statements and accounting

## New accounting standards

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### Future accounting and audit developments

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

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

### Qualitative aspects

ISA 260 requires us to report to those charged with governance our views about significant qualitative aspects of the Council's accounting practices, including accounting policies, accounting estimates and financial statement disclosures.

We consider the accounting policies adopted by the Council to be appropriate. There are no significant accounting practices which depart from what is acceptable under IFRS or the CIPFA Code.

Significant accounting estimates relate to the present value of defined benefit obligations and valuation of non-current assets. For defined benefit obligations, the estimate is calculated under IAS 19 (as calculated by the Council's actuary, Barnett Waddingham using agreed financial assumptions). With the assistance of our internal actuarial specialists we found the assumptions and accounting for pensions to be appropriate (page 45). Non-current asset impairment is considered by the Council's valuation team and a 5-year rolling programme of revaluations is in place. We used our internal valuation specialists to assess the assumptions used in these revaluations. We did not identify indications of management bias.

Financial statement disclosures were considered against requirements of the CIPFA Code, relevant legislation and IFRS. No departures from these requirements were identified.

### Audit dimensions introduction

The Code sets out four audit dimensions which, alongside Best Value, set a common framework for all the audit work conducted for the Controller of Audit and for the Accounts Commission. The dimensions are: financial management; financial sustainability; governance and transparency; and value for money.

It remains the responsibility of the audited body to ensure that it makes proper arrangements across each of these audit dimensions. These arrangements should be appropriate to the nature of the audited body and the services and functions that it has been created to deliver. We review and come to a conclusion on these arrangements.

During our work on the audit dimensions we considered work carried out by internal audit and other scrutiny bodies to ensure our work meets the proportionate and integrated principles contained within the Code.

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

### Best Value

The Accounts Commission agreed the overall framework for a new approach to auditing best value in June 2016. Best Value is assessed over the five year audit appointment, as part of the annual audit work. There are seven areas considered over the five years. In addition a best value assurance report ("BVAR") for each council will be considered by the Accounts Commission at least once in the five year period.

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

### Strategic Audit Priorities

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

- the clarity of Council priorities and quality of long-term planning to achieve these;
- how effectively councils are evaluating and implementing options for significant changes in delivering services;
- how effectively councils are ensuring that members and officers have the right knowledge, skills and time to lead and manage delivery of council priorities;
- how effectively councils are involving citizens in decisions about services; and
- the quality of council public performance reporting to help citizens gauge improvements.

We consider the strategic audit priorities when performing the wider scope work over the five year appointment.

### Our approach

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

- Transformation programme (page 24);
- Medium and long term planning (page 23);
- EU withdrawal (page 25); and
- Equalities (page ##)

### Conclusion

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

# Wider scope and Best Value Financial management

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

## 2020-21 financial performance

The Comprehensive Income and Expenditure Statement shows a surplus on the provision of services of £4.8 million for the year to 31 March 2021, of which £1.8 million deficit relates to the Housing Revenue Account and £6.6 million surplus on the General Fund. The Council set a net revenue expenditure budget of £375.2 million on the general fund and a gross revenue budget of £31.1 million on the HRA for 2020-21. The core outturn is a surplus of £22.0 million being on the General Fund and HRA in respect of the net cost of services. After minor variances relating to income and finance and investment income and expenditure, the total variance against budget was a £21.3 million underspend, which increased reserves by £25.2 million.

## General Fund

A balanced budget was approved in March 2020 before the Covid-19 pandemic was declared. The £21.3 million General Fund surplus represents a net result of over and underspends and re-profiling of Loans Fund charges. The largest underspends and elements of additional income were:

- Education and Children's services (£9.1 million), reflecting additional funding of £6.4 million for early years and education recovery. Included in this outturn is a total of £2.6 million staff costs underspends due to ongoing recruitment challenges.
- Corporate and Democratic Services contributed additional income of £11.4 million over budget split into £7.0 million from the Scottish Government for the Council's Covid-19 response, and an additional £4.0 million relating to the services general activities.

We continue to highlight the good practice of budget flexibility, which encourages Council services to plan longer term, in which an estimated £0.1 million was carried forward as part of the 2021-22 budget.

## Financial headlines

Surplus on provision of services  
£4.8 million  
2019-20: £3.2 million deficit

Surplus on general fund  
£22.0 million  
2019-20: £3.0 million surplus

Total reserves  
£651.1 million  
2019-20: £557.7 million

General fund reserve  
£72.5 million  
2019-20: £49.3 million

Net pension liability  
£105.3 million  
2019-20 £121.4 million

Capital financing requirement  
£596.9 million  
2019-20 £583.7 million

(Source: unaudited annual accounts)

# Financial management (continued)

## 2020-21 financial performance (continued) Housing Revenue Account ("HRA")

The Council is required by legislation to maintain a separate HRA and to ensure that rents are set to cover the costs of its social housing provision. Rent levels are set in order to achieve a breakeven position based on forecast expenditure. The capital HRA budget was approved in January 2020 by the Housing & Communities Committee, and set a budget of £16.5 million revised to £15.3 million. The decrease in budget was as a result of higher than forecast Council Buy-Backs and an increased investment in Central Heating and Rewiring works. The final outturn was £19.9 million.

### Financial reporting and budgetary control

Regular financial reporting is provided to the Strategic Policy and Resources Committee ("SP&R"), comprising details of budget, a revised budget, and detailed explanations of movements against budget. As a result of Covid-19, and as reported in the 2019-20 annual audit report, the internal reporting mechanism changed resulting in elected members not receiving information via committee for a period of time. This is detailed further on page 28.

A final outturn is included as part of the Management Commentary in the audited annual accounts. We have focused upon utilisation of reserves, as this is the key driver for performance against budget. The General Fund reserve allows the Council to smooth out financial pressures over a number of years.

The forecast outturn for the 2020-21 £337.1 million general fund budget as reported quarterly is presented below, with the full year forecast as reported at each quarter presented to show the changes in expectations over the year.

| Forecast outturn (£000)                                          | Sep-20 | Nov-20 | Jan-21 | Mar-21  | Final    |
|------------------------------------------------------------------|--------|--------|--------|---------|----------|
| Budgeted use of reserves                                         | N/A    | 6,881  | 5,663  | (3,857) | (3,857)  |
| Variance of financed from/ (returned to) reserves against budget | N/A    | N/A    | N/A    | (393)   | (21,336) |

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In order to balance the resource pressures on the Council, a decision was made to temporarily adjust the reporting to members, which continued to focus on providing information at a sufficient level for oversight and challenge. The detailed information to populate budget use of reserves table to the bottom left was not available, though management reported the an estimated overspend of £1.7 million to £6.1 million in September 2020, an estimated overspend of £0.3 million to £4.7 million in November 2020, and in January 2021, a projected range of £1.6 million underspend to £0.6 million overspend.

The section 95 officer authorised the changes to budget under the council's emergency powers, which were subsequently considered by council as required. The final outturn was included as part of the financial statements review in June 2021 to the audit committee, and we understand the audited financial statements will be considered by the audit committee in September 2021. Whilst we note an underspend of £22.0 million against budget, there has been an overall increase in usable reserves of £25.2 million.

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

### Capital budget

The Composite Capital Budget approved in January 2020 for the period 2020-21 set net expenditure of £81.0 million, against a final net budget of £33.0 million reported at year end. The significant slippage is primarily due to restrictions arising as a result of Covid-19, and projects have been deferred to future years.

Significant expenditure was undertaken in respect of the School Modernisation programme of £10.8 million, Roads and Transport projects of £11.9 million including Perth Transport Futures programme, as well as investments of £1.8 million on cultural attractions within the Perth and Kinross Region.

The final outturn of budget against actual was net expenditure of £26.5 million which reflects a late change of social distancing regulations that permitted additional work to be carried out in March.



# Financial management (continued)

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## Accounts and audit process

Draft annual accounts were authorised for issue on 30 June 2021 through consideration by the audit committee in line with legislation. We received a copy of the signed draft annual accounts on 30 June 2021. We note the return to audit committee consideration prior to our receipt of the draft annual accounts after discussion with elected members.

Owing to Covid-19, the way that Council has operated since 23 March 2020 has changed significantly. We recognise the challenges of producing a complete set of financial statements remotely, and its associated audit. We continue to highlight the achievement of the finance team to complete the audit in line with a regular reporting timetable.

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

## Internal audit review of controls

As part of its annual plan and reporting, internal audit made 9 control objective recommendations, down from 18 in 2019-20. Of these recommendations, 7 were rated as strong, one as moderately strong, and 1 as weak. As noted on page 29, this is despite more focused work by the internal audit function and demonstrates the role that internal audit play in supporting service improvement.

## Internal control

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

- Review of valuations (relates to a significant risk).
- Review of non-revalued properties (relates to a significant risk)
- Transfer of pensionable data and management review of assumptions and assets (relates to a significant risk).

- Capital and revenue budget monitoring (relates to a significant risk)
- Bank reconciliations.
- Procurement: contract awards.
- BACS authorisations.
- HRA income reconciliation.
- Council tax and non-domestic rates assessor report reconciliation, and council tax and non-domestic rates reliefs.

Our testing and findings over controls operating after our interim fieldwork are summarised on the next page.

In 2019-20 we made a total of four recommendations and a summary of their status is presented below. Our action plan detail is shown on page 37 onwards. We report that one recommendation has been carried forward to 2021-22 subject to further consideration by Officers

| Status of 2019-20 recommendations |  | Grade one | Grade two | Grade three |
|-----------------------------------|--|-----------|-----------|-------------|
| Implemented                       |  |           |           | 3           |
| Ongoing                           |  |           |           | 1           |

## Our view – financial management

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

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

# Financial management (continued)

## System Controls

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In accordance with ISA 330 *The auditor's response to assessed risks*, we designed and performed tests of controls to obtain sufficient appropriate audit evidence as to the operating effectiveness of relevant controls over the main financial systems. Interim audit testing took place during February 2020 and our findings were reported in March 2021. The below reporting summarises our testing since 31 March. Overall we concluded that the control environment is effective.

| Test                                                         | Description                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | Results                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
|--------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Authorisation over procurement contracts</b>              | <p>The Council has defined processes for the awarding of contracts, with written procedures to be followed for each contract type and value.</p> <p>Testing of a sample of 15 contracts awarded in the year, split between those which required completion of a quotation and those which required to be tendered was undertaken. Our approach was designed to test whether correct procurement route had been followed based on value and reviewed the evidence of the tender evaluation process.</p>                                                                                                            | <p>Our testing concluded that arrangements over the procurement and tendering process are designed and implemented effectively.</p> <p><b>Satisfactory</b></p>                                                                                                                                                                                                                                                                                                                       |
| <b>Revenue budget monitoring</b><br>(response to fraud risk) | <p>The Council has a robust revenue budget setting process, with involvement of key members of staff across the Council. Performance against revenue budget is monitored on a regular basis and formally reported to Council via budget monitoring reports in September, November, January and April.</p> <p>The format of these reports has changed during 2020-21 while the Council responds to the Covid-19 pandemic. Reporting has focused on the impact of Covid-19 on the Council's five strategic objectives. We considered whether reporting included the sufficient level of precision and analysis.</p> | <p>Our testing concluded that budget monitoring arrangements over the revenue budget are designed and implemented effectively.</p> <p><b>Satisfactory</b></p>                                                                                                                                                                                                                                                                                                                        |
| <b>Council Tax and Non-Domestic Rates</b>                    | <p>For Non-Domestic Rates reliefs and exemptions, we selected 25 applications from account holders to test whether applications had been reviewed by an appropriate officer within the Local Taxes team and appropriate evidence of entitlement obtained.</p> <p>For each of Non-Domestic Rates and Council Tax, we tested a sample of five reconciliations of the Council's valuation roll against the valuation roll provided by the Tayside Valuation Joint Board and other valuation lists respectively.</p>                                                                                                  | <p>In respect of our sample of 25 relating to non-domestic rates reliefs we are awaiting supporting documentation for some of the items selected for testing earlier in the year. We will provide an update in our annual audit report in September 2021, including any changes in approach that may be required.</p> <p>Our testing concluded that Council Tax and Non-Domestic Rates reconciliations over are designed and implemented effectively.</p> <p><b>Satisfactory</b></p> |

# Financial management (continued)

## System Controls (continued)

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| Test                                                | Description                                                                                   | Results                                                                                                                                                                                                                                                                                                                                                                                                                     |
|-----------------------------------------------------|-----------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Review of valuations (response to significant risk) | We will review management's assessment of impairment indicators and assess for completeness.  | We will report our findings over the operating effectiveness of this control in our annual audit report once management completes its annual review of both movements in valuations from 1 April 20 to 31 March 21, and the review of assets not revalued in year in line with the year end timetable.<br><br>For in year property valuations, we are satisfied with the design and implementation of the control in place. |
|                                                     | We walked through with the valuations team to consider whether the review process was robust. |                                                                                                                                                                                                                                                                                                                                                                                                                             |

# Wider scope and Best Value

## Financial sustainability

DRAFT

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

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

### Annual budget presentation

The annual budget for 2020-21 was approved by Council on 6 March 2020 prior to the global Covid-19 pandemic being declared. The budget report set out the general fund revenue budget for 2020-21, together with the provisional general fund revenue budgets for 2021-22 and 2022-23. The capital budget was set for the period 2020-21 to 2029-30.

Management have continued to consider the impact of the pandemic on their financial forecasting, and made several changes in order to meet resourcing needs whilst maintaining financial control of council activities.

Members were provided with sounding board sessions after the suspension of committees in order to discuss decisions made by senior council officers as approved under the decision making arrangements as a result of the pandemic. This allowed management to focus on the immediate activities of the council in order to prioritise service delivery, meaning that there was a reduced level of public transparency over council expenditure. In our opinion however, the change was proportionate to the events and pressures facing the council, and sufficient detail remained public and timely to members to suitably inform stakeholders. We noted that the Council returned to its pre-pandemic level of reporting by March 2021.

The Council is required to set a balanced budget in each financial year, and in 2020-21 proposed budget flexibility of £2.3 million (underspends from the prior year), and utilisation of reserves totalling £5.9 million.

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

### Other focus area: Long-term financial plan

As a result of the Best Value Assurance Report recommendation, the full council considered a revised six-year plan for 2021-2027 in September 2020. The council have built on existing strong financial management, and have developed financial models to demonstrate long term planning.

The key long-term financial assumptions included consideration of pay increases of 3% reflecting the provisional revenue budget, superannuation contribution increases between 0% and 2% over the next five years, a reflection of the unknown ongoing financial support from government in respect of Covid-19, and Council Tax Charge increases between 3% and 4.7%. Over the shorter term the Council have estimated a reduced level of funding through the General Revenue Grant from the Scottish Government.

Inherent with every forecast is a range of outcomes, which for the Council are an optimistic £4.4 million deficit for the following six years from 2021-22, to a pessimistic £136.2 million deficit. The Council, through its 2021/22 budget are continuing to consider actions and savings to meet this difference. The net savings proposals for 2021-22 are £677,000, alongside expenditure pressures of £1.4 million.

In addition to revenue long-term forecasting, the council is developing a thirty-year capital Investment Blueprint for the Future ("the Blueprint") plan which is expected to be presented in October 2021. As part of the key developments and controls within the Blueprint, the Council will adopt a gateway review approach to the development and delivery of capital investment. This will allow the opportunity for council officers to periodically assess the project's ongoing financial health and progress, as well as allowing electing members to scrutinise capital programme progress.

The Blueprint also responds to the recommendations of the Infrastructure Commission's Key Findings report of January 2020.

## Other focus area: Transformation programme

One of the key areas of focus for the Council is the development and implementation of its Corporate Workforce Plan, presented to the Strategic Policy and Resources Committee in June 2021.

The plan sets out the workforce objectives of the Council until 2023, and builds upon the Building Ambition (2018-21) plan, and adjusts the Council approach in its own response to the way that Covid-19 has impacted the way the Council works towards delivery of services.

The workforce plan holds three guiding themes, Building in Agility, Evolving Our Talent, and Refreshing Our Employment Offer.

Building in Agility sets out to how the Council best manages its resources to areas with the greatest need when required, which includes ongoing flexibility to work from home if possible, and considering the positive mental wellbeing impacts that officers are reporting. Key priorities include digital skill development, reduced reliance on temporary contracts and development of a Remote Working Framework which will support Scotland's Net Zero ambitions.

Evolving Our Talent continues to focus on the training and developing of skills, values, experience and aspirations of the Council's workforce. The Council's key priorities are to develop a pipeline of future talent, and create clear career paths for ongoing development and progression. In conjunction with the Council's drive for equalities, there is a focus on increasing the number of employees aged 16-24 to plan for a future workforce and enable longer term succession planning.

Finally, Refreshing Our Employment Offer seeks to promote the Council as an employer of choice, which aims to encourage a strong candidate pool that will allow managers to hire skilled and values-aligned officers.

The Council has responded quickly to the changing employment market, and its strategy gives a clear set of objectives and measures for success. Progress will be reported to committee over the following two years.

## Use of reserves

The Council continued to invest its reserves in the future of the organisation during 2020-21, including £4.3 million in respect of the earmarked Workforce Management (including transformation programme) and £25.8 million held for supporting recovery from the pandemic. The Council increased the total of the General Fund reserve by £23.2 million in delivering the 2020-21 financial outturn, a position largely supported by the additional Covid-19 funding.

As at 31 March 2021, the Council had uncommitted general fund reserves of £8.2 million which equates to 2.2% of actual Net Cost of Services (3.6% as at 31 March 2020). This reduction was planned and approved by the Council as part of finance updates to the Council. These reserves are to support the delivery of services in the case of unexpected issues, and a reserves strategy is in place which targets a minimum uncommitted general fund reserve of at least 2% which continues to be maintained.

We consider that this level of reserves is reasonable for a Council of the size of Perth and Kinross Council. The total held is in line with the Reserves Strategy approved in March 2021, which targets an uncommitted reserves balance between 2% and 4%. However the risk for the Council is the non-delivery of savings which would impact on these reserves.

| General Fund Reserves                               | 31 March 20<br>£000 | Increase<br>/(utilisation)<br>£000 | 31 March 21<br>£000 |
|-----------------------------------------------------|---------------------|------------------------------------|---------------------|
| Workforce Management (inc transformation programme) | 5,322               | (1,047)                            | 4,275               |
| Covid-19 Reserve                                    | 0                   | 25,727                             | 25,727              |
| Other Earmarked Reserves                            | 31,053              | 3,228                              | 34,281              |
| Uncommitted General Fund Reserve                    | 12,921              | (4,721)                            | 8,200               |
| <b>Total General Fund Reserves</b>                  | <b>49,296</b>       | <b>23,187</b>                      | <b>72,483</b>       |



# Financial sustainability (continued)

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## Cash and Short Term Investments

| Liquidity                 | 31 March 2020<br>£000 | 31 March 2021<br>£000 | Movement<br>£000 |
|---------------------------|-----------------------|-----------------------|------------------|
| Cash and cash equivalents | 67,611                | 27,221                | -40,390          |
| Short term investments    | 139,395               | 161,577               | 22,182           |
| Short term borrowing      | -28,786               | -67,746               | -38,960          |
| <b>Current liquidity</b>  | <b>178,220</b>        | <b>121,052</b>        | <b>-57,168</b>   |

As at 31 March 2021 cash and short term investments increased by £22.2 million as a result of significant increases in borrowing that were unutilised at 31 March 2021. The rate of return from these investments is more favourable than the rate of return from the Council's banking facilities.

Many of these investments are held with local authorities across the UK, and the Council has assessed the credit risk associated with these entities as low.

## Borrowing

Total borrowing as at 31 March 2021 was £26.4 million greater than as at 31 March 2020, with overall borrowing being £590.3 million. The increase in borrowing is primarily funding investment in capital. The Council continued to take advantage of exceptional low rates to secure funding for the Capital Plan.

## Other focus area: EU withdrawal

As part of the 2018-19 audit, Audit Scotland mandated the consideration of EU withdrawal on the operations of the audited entity. We continued to consider this issue as part of our 2020-21 audit work.

The Council continues to manage ongoing risks in respect of EU withdrawal as any temporary agreements between the UK Government and the EU develop or expire. In order to assess ongoing progress, Internal Audit carried out a review in order to update its previous report in January 2020.

Internal Audit reported that the Council had strong controls in respect of managing recruitment risks, mitigating financial pressures such as withdrawal of EU grants, and a continued strong process for identifying new and emerging risks through the EU Exit Group which is able to co-ordinate and work with partners to continuously assess risk to the Council.

We consider that Council controls remain strong in its ongoing assessment of EU withdrawal impact on services, financial resilience and its workforce.

# Wider scope and Best Value Governance and transparency

DRAFT

**Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision-making, and transparent reporting of financial performance.**

## Governance

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

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

The Scheme of Administration and Standing Orders were both updated during 2021 to reflect the modern ways of working in line with the Council's ongoing review of governance arrangements.

## Governance arrangements during Covid-19

As a result of the Covid-19 pandemic, the council adopted a command structure that would support rapid decision making where scenarios and demands were changing regularly. The council approved the use of Emergency Powers on 20 May 2020.

Decisions made by the Chief Executive, Depute Chief Executive or any Executive Director that would normally require approval would be reported to Council or relevant committee as soon as possible for subsequent ratification and challenge. These emergency powers were given an initial expiry date of 30 September 2020, and management reported to us that the emergency powers expired on 16 August 2020, and the Council returned to normal democratic operating processes.

In order to maintain an element of status quo, weekly sounding boards were introduced at a wide variety of levels across the council which allowed member input into decisions. These sounding boards included finance updates in order to maintain sufficient financial governance by the members. Management provided two Covid-19 financial implications reports to members in June 2020 (on the 1<sup>st</sup> and on the 24<sup>th</sup>),

discussing key topics such as income at risk, and partnership working. We consider this level of reporting and engagement with elected members to be sufficient and appropriate.

In January and March 2021, management proposed temporary changes to the governance arrangements to deal with social restrictions, and ensure that officer resource was being effectively utilised. This changed the committee timetable and again suspended committee meetings except those quasi-judicial committees. In order to maintain elected member governance, an Urgent Business Committee was introduced comprising 13 members from across the political spectrum.

At the March 2021 council meeting, it was agreed that these arrangements would cease, and the previously agreed timetables would resume from 19 April, and the Urgent Business Committee was no longer required. There was also an agreement for the re-introduction of Member Officer Working Groups. These are used to engage elected members in shaping strategies, policies and governance arrangements ahead of finalising reports for consideration by the relevant committee or sub-committee.

In addition, it was agreed that virtual meetings would continue. This is due to ongoing storm damage repairs at the Council offices in Perth which were originally expected to be finalised by June 2021. We understand that work remains ongoing, and that a return for members in-person meetings would be discussed on an ongoing basis through the Member Officer Working Groups.

## Prudential Code

The key objectives of the Prudential Code are to ensure that the Council's capital programme is affordable, prudent and sustainable, and that treasury management decisions are taken in line with good professional practice. The Council has to set its prudential indicators on an annual basis to provide a framework that its capital programme must operate within. At 31 March 2021, the Council reported it remained compliant with its prudential indicators.

# Governance and transparency (continued)

## Best Value focus area: Equalities

As part of our appointment, we carry out best value audit work over key areas that are considered areas of focus by the Accounts Commission. In year five, we planned to and have carried out an assessment of the Council's approach and understanding of inequalities. Each local authority faces its own unique circumstances in respect of inequalities, but also those challenges that are faced consistently across Scotland.

### Equal pay

An ongoing national issue relating to inequalities involves historical equal pay. The Council have to date had a relatively low level of grievance raised against them compared with other local authorities and grievances have typically been investigated and settled quickly. At the time of this report there were no ongoing cases of equal pay action against the council. In order to mitigate future instances the council undertakes an annual equal pay internal audit which shows for 2019–20 there continued to be an effective environment of controls mitigating the risk of inequality between staff pay.

This audit found that the Gender Pay Gap was in favour of females by 0.7% across all staff, though when restricted to single status employees (those not teachers, craft workers or chief officers) reduced from 12.1% in 2018-19, to 11.3% in favour of males in 2019-20. Comparing the 2019 overall performance across Scotland indicates that the Council are performing well.

The Council also has an Equal Pay Policy statement, updated in January 2021 which considers potential impact on its wide workforce, and how it manages the equal pay risk. This includes an 'Equality and Fairness Impact Assessment', which is completed for each and every paper appearing in front of the council or one of its standing committees. Furthermore, the Council appointed the Corporate HR Manager to be the responsible officer for equality in employment which reflects the Council's approach to demonstrate its commitment to, and implementation of fairness between staff.

### Stakeholder inequalities

The Council is not only responsible for reducing inequalities in its own workforce, but also that of its service users, residents and other stakeholders.

The Perth & Kinross Offer is being developed to enable all those within the region to input and work with the Council to deliver services and support the economy. The Offer includes the five E's which were identified to bring the offer to life and

specifically includes equalities. Council listened to stakeholder feedback and recognise equalities as an area of focus, whether that be ethnicity, disability or gender.

As part of the councils response to equality it continues to have conversations with local communities which as at April 2021 include some key community driven actions. In addition the council is required to produce its local outcomes improvement plan and this uses local challenges and intelligence to identify key inequalities. These are predominantly identified as poverty, mental and physical well-being, skills, learning and development, employment and digital participation.

There is also an equality strategic forum which allows for budget consideration. Equality learning is also required for all new staff which sets the tone for employee behaviour. Staff are also required to refresh their knowledge on a regular basis. Council officers have access to equalities learning material and external guests are occasionally invited to present and discuss equality topics directly to council staff to ensure a wide range of topics and views are given.

### Rurality

As part of the regional Community Plan, developed in 2017 by the Perth and Kinross Community Planning Partnership, the "uncovering" of rural poverty, and social isolation resulted in this key inequality being an area of focus. The Plan highlights many areas where rurality could result in an inequality arising, whether that be access to services, education, digital connectivity and social activities.

The Community Plan sets out milestones for the region, to be delivered by key partners by 2027/28. Whilst the challenges of Covid-19 have reduced the pace at which progress has been made, there remains an ongoing focus to achieve these targets.

The 2019-20 Equalities Performance Report highlighted one of the equalities outcomes, which is to ensure that *the Council will ensure its services are accessible to all individuals and community groups*. Progress includes greater transparency of committee meetings (recordings now available online), continued use of the Pupil Equity Fund (£1.7 million) and development of a Child Poverty Action Plan.

We consider that the Council's approach to tackling inequalities is robust, and continues to reduce the inequalities across the region.

# Governance and transparency (continued)

DRAFT

## Annual Governance Statement

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

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

## Risk management

In line with the revised Risk Management Strategy, a draft Strategic Risk Register was presented to the Audit committee on 30 June 2021.

The risk register summarises at a higher level than in previous iterations, presenting the overarching risks faced by the Council as a whole, and management's assessment of the likelihood and potential impact should the risk materialise.

The current key strategic risks are reported as:

- Protection of Vulnerable Children & Adults
- Climate Change
- Economic Wellbeing
- Poverty & Equalities
- Public Service Design & Delivery
- Information Security
- Security & Emergency Planning/Civil Contingencies
- Financial Resilience
- Workforce
- Asset Management
- Health & Safety

The risk register then clearly assigns all risks a priority rating from one through five, and summarises impact, key controls and key management actions. In our view, this allows those charged with governance a concise overview of risks and mitigations and allows for greater challenge.

## National Fraud Initiative ("NFI")

The NFI in Scotland brings together data from local government, health boards and other public sector bodies. Matching data obtained from the systems of participating bodies allows the identification of potentially fraudulent claims on the public purse including housing benefit fraud, occupational pension fraud and payroll fraud. Audit Scotland have provided instructions to councils to commence work for the 2020-21 financial year.

The Council continue to work through matches, and except for Covid-19 related grants, an internal deadline has been set to ensure matches are investigated on a timely basis. Work on Covid-19 related grants remains ongoing and is also expected to be substantially complete before the end of the year.

## Standards of conduct for prevention and detection of fraud and error

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

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



# Governance and transparency (continued)

DRAFT

## Internal audit

We considered the activities of internal audit against the requirements of Public Sector Internal Audit Standards (“PSIAS”), focusing our review on the public sector requirements of the attribute and performance standards contained within PSIAS.

We reviewed internal audit reports and conclusions, and consider that they do not indicate additional risks and there was no impact on our audit approach. Internal audit’s annual report confirmed, “In the Chief Internal Auditor’s opinion, reasonable reliance can be placed on the Council’s risk management and governance arrangements, and systems of internal control for 2020/21, subject to management implementation of the agreed actions detailed in Internal Audit reports.”

Internal audit completed or substantially completed nine of the 13 planned audits per the 2020-21 Internal Audit Plan, and those that remain ongoing are extended into the 2021-22 Internal Audit Plan. In addition, Internal Audit continued to provide advice, support and assurance over the implementation of revised arrangements in connection with the new ways of working implemented as a result of the COVID-19 pandemic. This represents the drive to use internal audit to improve and support service delivery.

Internal audit recommendations are considered by officers in each service and the actions reviewed by Internal Audit prior to closure. As detailed in the Internal Audit Report 2020-21, 20 actions were identified as a result of the work undertaken. The Chief Internal Auditor highlighted that there were seven high risk actions to implement, compared to 22 in 2019-20. This is partially reflective of the redeployment of Internal Audit officers to focus on critical services.

### ***Our view – governance and transparency***

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

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



# Wider scope and Best Value

## Value for money

DRAFT

### Value for money (“VfM”) is concerned with using resources effectively and continually improving services.

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

Since our previous report on the Offer, progress has continued despite the ongoing pressures and challenges of the pandemic. In October 2020, the Council received a full update from officers, which linked with the Renewal and Recovery strategy. The update summarised progress on the first phase, which focused on discovering the impact of the pandemic through impact assessments, service recovery and a number of stakeholder engagement activities. While officers have continued to progress the Offer, including working with members and third parties, there has been no formal committee or publicly accessible reporting since October 2020.

### Recommendation two

The second phase is developing the vision of the Offer, through workshops, events and innovation opportunities for staff, elected members and stakeholders. The output of this phase intends to agree a set of key assumptions for the Offer, and inform an overall delivery plan. The third phase will be delivery of the offer, ensuring elected member involvement to scrutinise, challenging and support delivery in the longer term.

As part of the ongoing development, 13 ward meetings were held across the Perth and Kinross region with community representatives and elected members with the intention of facilitating open conversation. The council received generally positive feedback through these engagements, including support for the concept of the Offer, and a willingness for participants to be directly involved. One key concern raised through these meetings was the limited awareness of the Offer, and concern amongst representatives about the capacity of the Council to implement in the community. In response, the Council is undertaking a “You said, We did/Are doing” document for each ward meeting which will allow representatives involved to hold the Council to account.

Throughout the summer of 2021, the Officers presented draft versions of the Offer Blueprint to the Executive Officer Team of the Council, comprising senior officers within the Council, and sought progress on implementing and resourcing distinct projects related to the offer.

One of the key objectives at the commencement of the Offer was to work in partnership with other entities within the region, and in order to demonstrate its commitment to this principal, the Council are holding a series of updates and workshops with key partners and groups. Two meetings have been held thus far, involving the Community Planning Partnership, with internally focused meetings following throughout September 2021. We consider that the Offer is intended to move towards co-design of service delivery with a broad range of stakeholders and that there is scope for greater involvement of those stakeholders in the ongoing design of the Offer and its implementation. Such involvement should be planned, considered and reported to those charged with governance.

### Recommendation two

Updates continue to be provided to Member Officer Working Groups, most recently in August 2021.

### Financial impact, and value for money assessment

As part of each report being presented to council or sub-committees the Equality and Fairness Impact Assessment also makes a clear and transparent financial impact, which allows for more informed decision making from elected members.

### Performance Reporting

The Council produces an annual performance report (“APR”) which summarises its own key performance indicators. This is submitted to the full council, and is also available through the ‘PK Performs’ dashboard within the council’s website. In 2020-21, the Council recognised that some indicators would not compare on a fair basis against prior year figures due to the inherent impact of the pandemic on a wide range of council activities. As a result of this recognition, the Council opted to remove the trend analysis which indicates a deterioration, or improvement of indicators. Examples of skewed comparators include Council use of energy which reduced significantly because Council offices closed for periods of time during the pandemic, and not from any specific Council action. In our view, the decision to remove the trend analysis is appropriate for this year, and reflects the Council’s transparency on performance.

The APR does include comparators where it is fair to do so. Overall, the Council report performance on key performance indicators is favourable against similarly sized councils. Key highlights from the performance report include maintained face to face contact with vulnerable stakeholders throughout the pandemic, achievement of 100% accessibility of eligible children to the full childcare allowances, significant shifting to digital learning approaches to support ongoing educational development, the redeployment of council officers to support Scottish Government grants to eligible businesses, supporting and facilitating 1000 resident volunteers to support vulnerable residents, and responding to tourism pressures during periods where travel outside the region was restricted through the Rural Tourism Infrastructure Fund.

The APR will be considered by the Scrutiny Committee in September 2021, before being presented to the full Council in October 2021 to allow for appropriate challenge and scrutiny by those charged with governance.

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### *Our view – value for money*

We consider that the Council has processes to consider performance, and assess the financial impact of decisions made.

The Offer continues to progress positively, though as suggested in the Council’s most recent Best Value Assurance Report, will need to keep up with the pace expected of a project of this importance and size.



# Appendices

## Appendix one

# Required communications with the Audit Committee

| Type                                                                                     | Response                                                                                                                                                                                                                                                                                                                                            |
|------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Our draft management representation letter</b>                                        |  <p>We have not requested any specific representations in addition to those areas normally covered by our standard representation letter for the year ended 31 March 2021.</p>                                                                                   |
| <b>Adjusted audit differences</b>                                                        |  <p>There were two adjusted audit differences identified.</p>                                                                                                                                                                                                    |
| <b>Unadjusted audit differences</b>                                                      |  <p>There was one unadjusted audit difference identified.</p>                                                                                                                                                                                                    |
| <b>Related parties</b>                                                                   |  <p>There were no significant matters that arose during the audit in connection with the entity's related parties.</p>                                                                                                                                           |
| <b>Other matters warranting attention by the Audit, Risk and Scrutiny Committee</b>      |  <p>There were no matters to report arising from the audit that, in our professional judgment, are significant to the oversight of the financial reporting process.</p>                                                                                          |
| <b>Control deficiencies</b>                                                              |  <p>We communicated to management in writing all deficiencies in internal control over financial reporting of a lesser magnitude than significant deficiencies identified during the audit that had not previously been communicated in writing.</p>             |
| <b>Actual or suspected fraud, noncompliance with laws or regulations or illegal acts</b> |  <p>No actual or suspected fraud involving Group or Component management, employees with significant roles in Group-wide internal control, or where fraud results in a material misstatement in the financial statements were identified during the audit.</p> |

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

# Appendix two

## Auditor independence

DRAFT

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

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

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

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

#### General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP partners and staff annually confirm their compliance with our ethics and independence policies and procedures including in particular that they have no prohibited shareholdings. Our ethics and independence policies and procedures are fully consistent with the requirements of the FRC Ethical Standard. As a result we have underlying safeguards in place to maintain independence through:

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

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

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

#### Summary of fees

We have considered the fees charged by us to the Council and its affiliates for professional services provided by us during the reporting period. We have detailed the fees charged by us to the Council and its related entities for significant professional services provided by us during the reporting period below. Total fees charged by us for the period ended 31 March 2021 can be analysed as follows:

|                                         | Current Year<br>£000 (inc VAT) | Prior Year<br>£000s (inc VAT) |
|-----------------------------------------|--------------------------------|-------------------------------|
| <b>Audit of Council</b>                 | 175                            | 163                           |
| <b>Audit of Charitable Trusts</b>       | 8                              | 4                             |
| <b>Total Audit</b>                      | 183                            | 167                           |
| <b>Audit related Assurance Services</b> | 8                              | -                             |
| <b>Total Fees</b>                       | 191                            | 167                           |



## Appendix two

# Auditor independence (continued)

DRAFT

The ratio of non-audit fees to audit fees for the year was 0:1. We do not consider that the total non-audit fees create a self-interest threat since the absolute level of fees is not significant to our firm as a whole.

### *Subsidiaries*

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

### **Independence and objectivity considerations relating to other matters**

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

### **Confirmation of audit independence**

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

This report is intended solely for the information of the Audit 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**

# Audit differences - adjusted

The table below lists the adjusted audit differences identified during the course of our 2020-21 audit procedures.

DRAFT

| Nature of adjustment                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | Balance sheet |          | Income and expenditure account |          |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------|----------|--------------------------------|----------|
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | £'000 DR      | £'000 CR | £'000 DR                       | £'000 CR |
| <b>1. Omission of income and expenditure</b><br>Dr Net Cost of Services<br>Cr Net Cost of Services<br>Being an adjustment to include expenditure and income on the transfer of services from Communities to Corporate and Democratic Services. This has no impact on the overall net cost of services or the Council's general fund.                                                                                                                                                               |               |          | 286                            | 286      |
| <b>2. Change in LASAAC guidance after preparation of draft annual accounts</b><br>Dr Net Cost of Services<br>Cr Taxation and Non-Specific Grant Income<br>Being an adjustment to reflect changes to LASAAC guidance in respect of Covid-19 related grants which was issued after the commencement of the audit. KPMG do not view this as an error by management, and is a presentational misstatement only. This has no impact on the overall provision of services or the Council's general fund. |               |          | 448                            | 448      |

## Appendix four

# Audit differences - unadjusted

The table below lists the unadjusted audit differences identified during the course of our 2020-21 audit procedures.

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| Nature of adjustment                                                                                                                                                                                                                                                             | Balance sheet |          | Income and expenditure account |          |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------|----------|--------------------------------|----------|
|                                                                                                                                                                                                                                                                                  | £'000 DR      | £'000 CR | £'000 DR                       | £'000 CR |
| <b>1. Error in valuation certificate</b><br>Dr Property, plant and equipment<br>Cr Revaluation reserve                                                                                                                                                                           | 378           | 378      |                                |          |
| One error was identified in our testing of inputs into the valuation reports. This effectively omitted a zero from the external works valuation figure, resulting in an understatement in valuation. This adjustment would not impact on the resources available to the Council. |               |          |                                |          |

# Appendix five Action Plan

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

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| Priority rating for recommendations                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |                                                                                                                                                                                                                                                                                                                                                       |                                                                                                                                                                                                                                                                                                                                                                                                               |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Grade one (significant) observations are those relating to business issues, high level or other important internal controls. These are significant matters relating to factors critical to the success of the Council or systems under consideration. The weaknesses may therefore give rise to loss or error.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | Grade two (material) observations are those on less important control systems, one-off items subsequently corrected, improvements to the efficiency and effectiveness of controls and items which may be significant in the future. The weakness is not necessarily great, but the risk of error would be significantly reduced if it were rectified. | Grade three (minor) observations are those recommendations to improve the efficiency and effectiveness of controls and recommendations which would assist us as auditors. The weakness does not appear to affect the availability of the control to meet their objectives in any significant way. These are less significant observations than grades one or two, but we still consider they merit attention. |
| Finding and risk                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | Recommendation                                                                                                                                                                                                                                                                                                                                        | Management proposed actions                                                                                                                                                                                                                                                                                                                                                                                   |
| <b>1. Valuation of heritage assets (Grade three)</b><br><br>The accounting framework prescribes requirements in respect of the valuation and recognition of heritage assets.<br><br>Whilst we ultimately agreed with management's assessment over heritage assets, there is room for improvement in the process of considering the value, frequency and recognition of potential assets.                                                                                                                                                                                                                                                                                                                                                                                                                                                | We recommend that the Council ensures that recognition and valuation of heritage assets is set out in a clear and concise manner, explaining the key decisions and judgements made in forming a conclusion.                                                                                                                                           | Response: Agreed - the Council will liaise with CPK curators and prepare a document which summarises the process including new and relevant information obtained during 2021/22 and our conclusions.<br><br>Responsible Officer: Chief Accountant<br><br>When: 30 June 2022                                                                                                                                   |
| <b>2. Oversight, governance and collaboration on the Perth &amp; Kinross Offer (grade three)</b><br><br>While officers have continued to progress the offer, including working with members and third parties, there has been no formal committee or publicly accessible reporting since October 2020. This reduces the ability of stakeholders to understand and support development of the Offer, as noted in specific feedback obtained from resident representatives.<br><br>We consider that the Offer is intended to move towards co-design of service delivery with a broad range of stakeholders and that there is scope for greater involvement of those stakeholders in the ongoing design of the Offer and its implementation. Through discussion with management, we were unable to obtain sufficient evidence of co-design | We recommend that Officers agree with elected members an appropriate and agreed timetable for transparent scrutiny of progress on the Offer.<br><br>We recommend that stakeholder involvement should be planned, considered and reported to those charged with governance.                                                                            | Response: Agreed, it is anticipated that the Offer Framework will be considered by Full Council on 15 November 2021 and the Offer Communications & Engagement Plan will be considered by Council in December 2021. Going forward, it is anticipated that progress reports will be considered by Council bi-annually<br><br>Responsible Officer: Head of Innovation<br><br>When: ongoing                       |

## Appendix six

# Prior Year Recommendations

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This section provides an update on prior year external audit recommendations, to determine whether they have been addressed. The table below summarises the recommendations made during the 2019-20 audit, and highlights our final conclusion on those recommendations not yet due when we reported in May 2021.

| Original finding and risk                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |  | Recommendation                                                                                                                                                                                |                                                                                                                                                                                                                                                                                    | Original actions | Status |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|--------|
| 1. Review of transformation plan goals (Grade three)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |  |                                                                                                                                                                                               |                                                                                                                                                                                                                                                                                    |                  |        |
| The Council's transformation plan ended during 2020, with as yet no formal review and reporting of the success or development points from the plan.                                                                                                                                                                                                                                                                                                                                                                                                                                |  | We encourage management to consider whether the transformation plan achieved the goals as intended, and whether there are any lessons to be learned from during the next transformation plan. | Response: Internal Audit are finalising a review of the 2015-20 Transformation Programme. This review has highlighted some lessons to be learned for future programmes and will inform any future actions. This report will be considered by the Audit Committee in December 2020. |                  |        |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |  |                                                                                                                                                                                               | Responsible Officer: Head of Innovation<br>When: 31 March 2021                                                                                                                                                                                                                     |                  |        |
| 2. Fraud and corruption in procurement (Grade three)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |  |                                                                                                                                                                                               |                                                                                                                                                                                                                                                                                    |                  |        |
| As part of its planning guidance for 2019-20, Audit Scotland have highlighted the requirement for external audit scrutiny over the processes and procedures in place to prevent and detect fraud and corruption in procurement.<br><br>In the guidance, there is an expectation that entities consider the risk at a corporate level, such that there is sufficient oversight and scrutiny from members and senior management. We could not identify the risk on the risk register, though accepted that the procurement function have reasonable controls and processes in place. |  | Management should consider whether the risk of fraud and corruption in procurement be included on the corporate risk register to allow oversight and scrutiny by members.                     | Response: This will be raised with the Executive Officer Team by the Head of Finance for consideration.<br><br>Responsible Officer: Head of Finance<br>When: 31 December 2020                                                                                                      |                  |        |
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |  |                                                                                                                                                                                               | Ongoing<br>There was no mention of fraud on the Strategic Risk Register as at 24 June 2021.                                                                                                                                                                                        |                  |        |



# Prior Year Recommendations (continued)

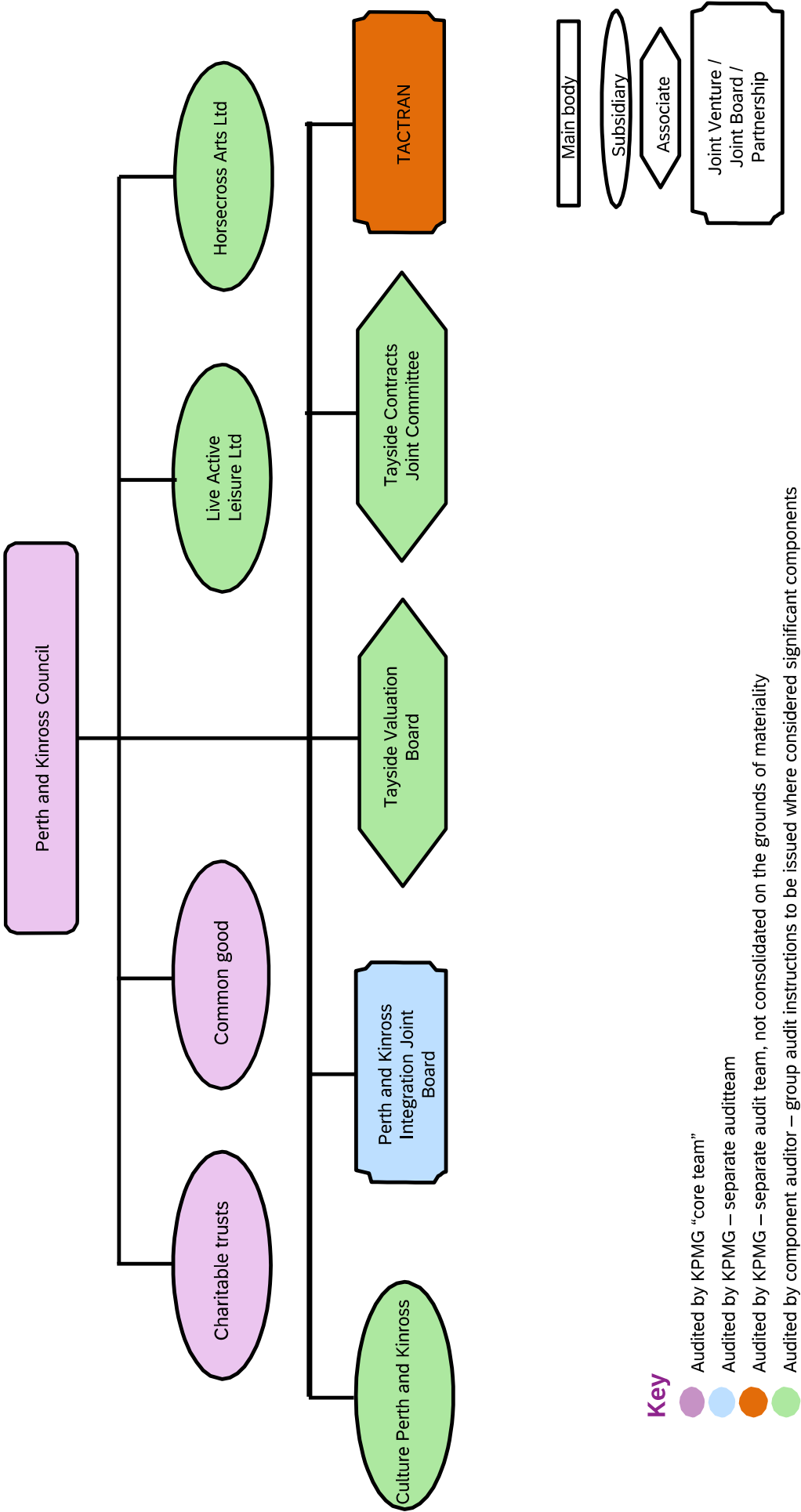
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| Original finding and risk                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | Recommendation                                                                                                                     |                                                                                                                                                                                                                                                                            | Original actions | Status                                                                                                      |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|-------------------------------------------------------------------------------------------------------------|
| 3. Transparency of consultations (Grade three)                                                                                                                                                                                                                                                                                                                                                                                                                                                               |                                                                                                                                    |                                                                                                                                                                                                                                                                            |                  |                                                                                                             |
| <p>We highlighted the positive developments the Council has made in respect of stakeholder and community consultations, and identifying a number of consultations where responses have been considered and reported upon.</p> <p>We identified that significant consultations should have a clear and transparent response to input made by communities and stakeholders. In particular, it was not fully clear how the consultation to the 2020-21 budget influenced the budget approved in March 2020.</p> | Management should articulate explicitly how the consultation has been passed to members as part of their budgetary discussions.    | <p>Response: Agreed</p> <p>Responsible Officer: Chief Accountant</p> <p>When: 31 March 2021</p>                                                                                                                                                                            | Implemented      |                                                                                                             |
| 4. Financial statements preparation (Grade three)                                                                                                                                                                                                                                                                                                                                                                                                                                                            |                                                                                                                                    |                                                                                                                                                                                                                                                                            |                  |                                                                                                             |
| <p>While the Council has a robust process, as highlighted in the BVAR, it “has a higher number of traditional, manual components than other local authorities”. The Council has expanded the number of individuals involved in the financial statement production process to reduce reliance on key individuals.</p>                                                                                                                                                                                         | It is recommended that management continue to work with external audit to consider whether there are opportunities for efficiency. | <p><b>Management response:</b> The Council will build on the existing work with KPMG to identify areas to streamline the preparation of the financial statements.</p> <p><b>Implementation date:</b> 31 March 2020</p> <p><b>Responsible officer:</b> Chief Accountant</p> | Implemented      | <p>As a result of Covid-19, the Council has continued to adapt preparation of the financial statements.</p> |

# Perth and Kinross Council group structure

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



## Appendix six

# Grant claims and WGA return

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

| RETURN                                         | DESCRIPTION                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | STATUS                                                                                                                                                                         |
|------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Whole Government Accounts (“WGA”)</b>       | WGA is the consolidated financial statements for all components of government in the UK. Most public bodies are required to provide information for the preparation of WGA. External auditors are required to review and provide assurance on WGA returns over a prescribed threshold.                                                                                                                                                                                                                                                                                                                                                                                                | There has been a change in process for the WGA for 2020-21, although no finalised guidance is available at this time. We expect to complete our work in line with legislation. |
| <b>Non Domestic Rates (“NDR”)</b>              | NDR in Scotland is collected by local authorities on an agency basis and notionally placed in a national ‘pool’, which is then redistributed among authorities based on each authority’s estimated collection levels.<br><br>In April each year, authorities submit an estimate of their expected NDR following the year end, authorities are required to submit their actual NDR yield, known as ‘the notified amount’ in a final return to the Scottish Government.                                                                                                                                                                                                                 | We did not identify any exceptions in our testing and issued an unqualified opinion on the NDR return.                                                                         |
| <b>Housing Benefits (“HB”)</b>                 | The HB subsidy scheme is the means by which local authorities claim subsidy from the Department for Work and Pensions (“DWP”) towards the cost of paying HB in their local areas.<br><br>Claimants benefits either by direct application to the authority or by applying simultaneously for income support/jobseekers allowance and HB to the DWP. Eligibility for, and the amount of, HB is determined in all cases solely by the local authority.<br><br>Monthly instalments of subsidy are made by the DWP on the basis of authorities’ estimates in March and August. Final subsidy claims are made on claim form MPF720B which requires to be certified by the external auditor. | Our testing is ongoing and we expect to issue an opinion on the HB return in advance of the 30 November deadline.                                                              |
| <b>Education Maintenance Allowance (“EMA”)</b> | EMA is a means tested weekly allowance payable to young people from low income families to encourage them to remain in education beyond the compulsory school leaving age. Local authorities manage the delivery of the EMA programme in respect of schools, home education, and all other learning other than college provision.<br><br>EMA payments comprise a weekly allowance of £30 and are made by local authorities to eligible young people. The Scottish Government reimburses the costs incurred by authorities through monthly payments of grant. An allowance for the costs of administering the programme is also paid by the Scottish Government.                       | We did not identify any exceptions in our testing and issued an unqualified opinion on the EMA return.                                                                         |

## Appendix seven

# Appointed auditor's responsibilities

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| APPOINTED AUDITOR'S RESPONSIBILITIES            |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | HOW WE HAVE MET OUR RESPONSIBILITIES                                                                                                                                                                                                                                                                                                                                    |
|-------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Statutory duties</b>                         | Undertake statutory duties, and comply with professional engagement and ethical standards.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | Appendix two outlines our approach to independence.                                                                                                                                                                                                                                                                                                                     |
| <b>Financial statements and related reports</b> | Provide an opinion on audited bodies' financial statements and, where appropriate, the regularity of transactions.<br><br>Review and report on, as appropriate, other information such as annual governance statements, management commentaries, remuneration reports, grant claims and whole of government returns.                                                                                                                                                                                                                                                                                                                                                                          | Page eight summarises the opinions we have provided.<br><br>Pages 16 reports on the other information contained in the financial statements, covering the annual governance statement, management commentary and remuneration report.<br><br>Appendix six reports that we have not yet issued opinions in respect of all grant claims and whole of government accounts. |
| <b>Financial statements and related reports</b> | Notify the Auditor General or Controller of Audit when circumstances indicate that a statutory report may be required.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | On page 22, we concluded on the effectiveness and appropriateness of arrangements and systems of internal control, including risk management, internal audit, financial, operational and compliance controls.                                                                                                                                                           |
| <b>Corporate governance</b>                     | Participate in arrangements to cooperate and coordinate with other scrutiny bodies.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | Page 28 includes arrangements to cooperate and coordinate with other scrutiny bodies.                                                                                                                                                                                                                                                                                   |
| <b>Wider audit dimensions</b>                   | Demonstrate compliance with the wider public audit scope by reviewing and providing judgements and conclusions on the audited bodies':<br><br><ul style="list-style-type: none"> <li>- Effectiveness of performance management arrangements in driving economy, efficiency and effectiveness in the use of public money and assets;</li> <li>- Suitability and effectiveness of corporate governance arrangements;</li> <li>- Financial position and arrangements for securing financial sustainability;</li> <li>- Effectiveness of arrangements to achieve best value; and</li> <li>- Suitability of arrangements for preparing and publishing statutory performance information</li> </ul> | We set out our conclusions on wider scope and best value in from page 19 onwards.                                                                                                                                                                                                                                                                                       |

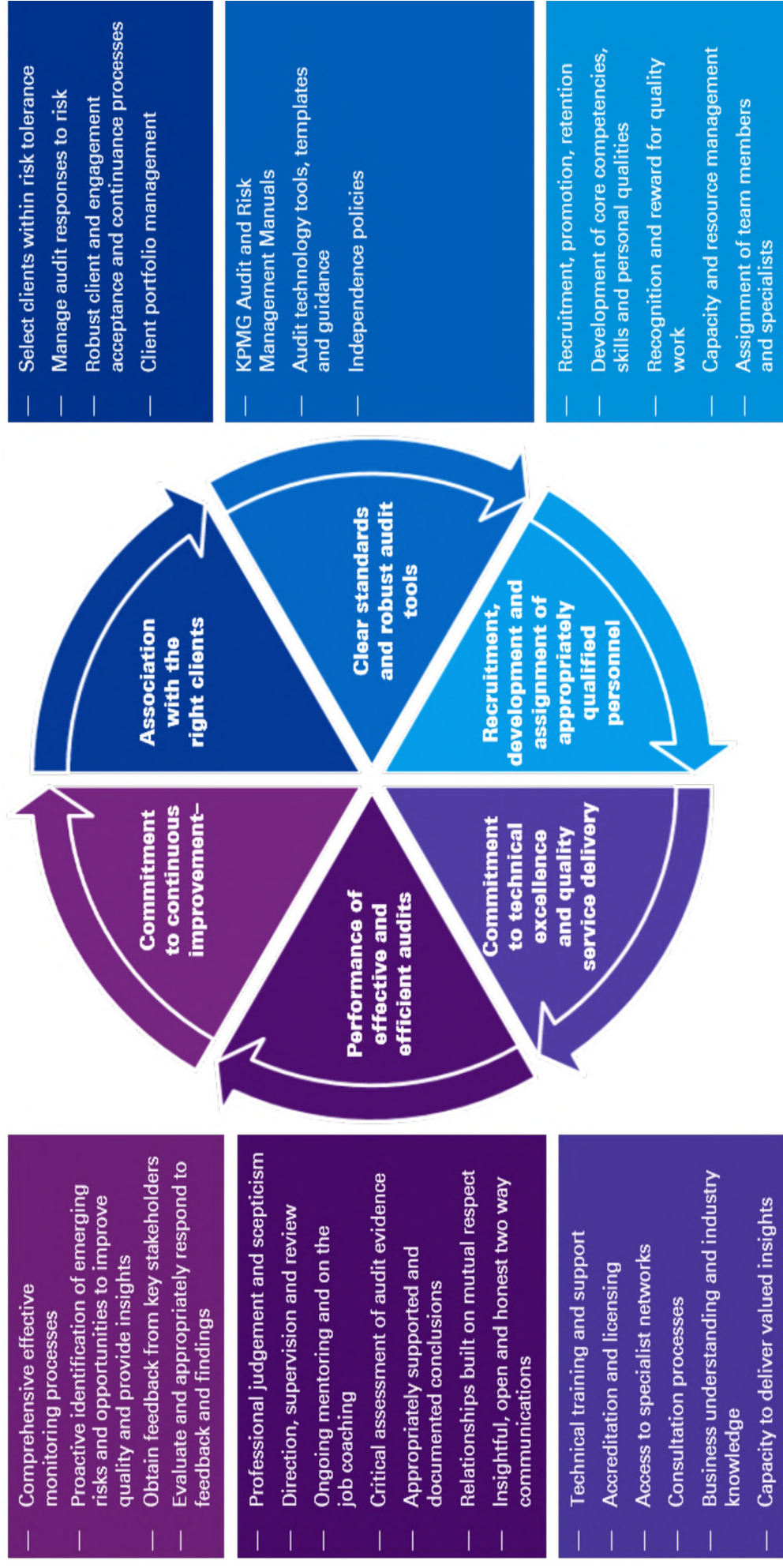


## Appendix eight

# 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





## Appendix nine

# Pensions assumptions



| Overall assessment of assumptions for IAS 19 for audit consideration                                                                                          |                     |                                         |                                       |                                    |                                                                                                                                                               |                                                                                                                                |                            |                         |  |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|-----------------------------------------|---------------------------------------|------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------|----------------------------|-------------------------|--|
| The overall assumptions adopted by the Employer are considered to be balanced relative to our central rates and within our normally acceptable range overall. |                     |                                         |                                       |                                    | <div><div></div></div> <div>Balanced</div>                                                                                                                    |                                                                                                                                |                            |                         |  |
| Underlying review of individual assumptions                                                                                                                   |                     | Methodology                             | Consistent methodology to prior year? | Compliant methodology with IAS 19? | Employer                                                                                                                                                      | KPMG central                                                                                                                   | Assessment vs KPMG central | Significant assumptions |  |
| Discount rate                                                                                                                                                 |                     | AA yield curve                          | ✓                                     | ✓                                  | 2.00%                                                                                                                                                         | 1.99%                                                                                                                          | <div><div></div></div>     | ✓                       |  |
| CPI inflation                                                                                                                                                 |                     | Deduction to inflation curve            | No, see pages 11-12                   | ✓                                  | 2.80%                                                                                                                                                         | 2.82%                                                                                                                          | <div><div></div></div>     | ✓                       |  |
| Salary increases                                                                                                                                              |                     | Employer best estimate                  | ✓                                     | ✓                                  | CPI plus 1.0%                                                                                                                                                 | In line with long-term remuneration policy                                                                                     | <div><div></div></div>     | ✓                       |  |
| Pension increases                                                                                                                                             |                     | In line with CPI                        | ✓                                     | ✓                                  | 2.80%                                                                                                                                                         | Employer's CPI assumption                                                                                                      | <div><div></div></div>     |                         |  |
| Mortality                                                                                                                                                     | Base tables         | In line with most recent Fund valuation | See pages 11-12                       | ✓                                  | 110% of the SAPS Series 3 Heavy tables                                                                                                                        | In line with best-estimate Fund experience                                                                                     | <div><div></div></div>     | ✓                       |  |
|                                                                                                                                                               | Future improvements | Latest available CMI model              | See pages 11-12                       | ✓                                  | CMI 2020 projections model, 1.25% long-term trend rate, a default initial addition parameter, a smoothing parameter of 7.5 and a 2020 weight parameter of 25% | CMI 2020 projections model, 1.25% long-term trend rate and default smoothing and Company-specified initial addition parameters | <div><div></div></div>     | ✓                       |  |
| Other demographics                                                                                                                                            |                     | In line with most recent Fund valuation | ✓                                     | ✓                                  | Members exchange half of their commutable pension for cash at retirement                                                                                      | In line with Fund experience                                                                                                   | <div><div></div></div>     |                         |  |

We also considered the impact of the following special events: McCloud, GMP equalisation/indexation, recent legal rulings, and unreduced early retirements. See pages 11-12 for further details.

From the work performed in respect of the above special events we have not found reason to suspect management bias.



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