Appendix C

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 2019

18 September 2019

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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 Fiona Kordiak, Audit Scotland, 4th Floor, 102 West Port, Edinburgh, EH3 9DN.

Executive summary

Significant risks

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

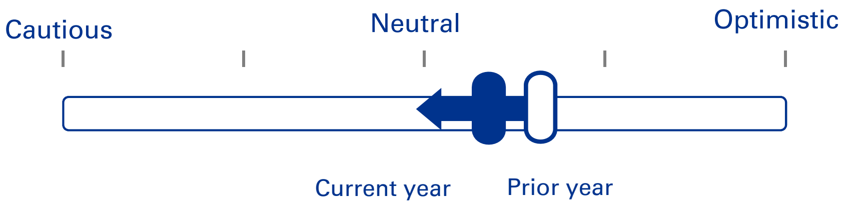
Open recommendations

Appendix four

	Number
Significant recommendations	0
Other recommendations)	0
Minor recommendations	2

Accounting judgements related to estimates

Page 13



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

Corrected audit misstatements

Appendix three

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Understatement/(overstatement)	£m	%
Short term creditors	(0.3)	(0.1)
Net cost of services	(0.3)	(0.1)
Usable reserves	0.0	0.0
Unusable reserves	0.3	0.1

Uncorrected audit misstatements - none

Additional adjustments

In addition, there was an adjustment made to the accounts as a result of updated estimates and information made available during the course of the audit. The adjustment was not viewed as a misstatement or error (see page 12).

Understatement/(overstatement)	£m	%
Net cost of services	5.3	0.6
Long term liabilities	5.3	0.6
Unusable reserves	5.3	0.6
Usable reserves	0.0	0.0

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 annual audit report is designed to summarise our opinions and conclusions on significant issues arising from our audit. It is addressed to both those charged with governance at the Council and the Controller of Audit. The scope and nature of our audit are set out in our audit strategy document which was presented to the audit committee on 27 March 2019.

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

Accountable officer responsibilities

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

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

Auditor responsibilities

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

Scope

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

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

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

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

Limitations on work performed

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

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

Audit conclusions

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Audit opinion
Following approval of the annual accounts by the audit committee we expect to issue an unqualified opinion on the truth and fairness of the state of the Council's affairs as at 31 March 2019, and of the deficit for the year then ended. We also expect to issue unqualified opinions on the truth and fairness of the state of the Perth and Kinross Council Charitable Trusts' affairs as at 31 March 2019. There are no matters identified on which we are required to report by exception.
Financial reporting framework, legislation and other reporting requirements
The Council is required to prepare its annual accounts in accordance with International Financial Reporting Standards ("IFRS"), as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2018-19 ("the CIPFA Code"), and in accordance with the Local Authority Accounts (Scotland) Regulations 2014. Our audit confirmed that the annual accounts have been prepared in accordance with the CIPFA Code and relevant legislation. The Perth and Kinross Council Charitable Trust's financial statements are prepared in accordance with the Charities SORP (FRS 102), the Charities and Trustee Investment (Scotland) Act 2005 and regulation 8 of the Charities Accounts (Scotland) Regulations 2006 (as amended). Our audits confirmed that the annual accounts have been prepared in accordance with the relevant charity accounting legislation.
Annual accounts preparation and audit readiness
The accounts were made available to us on 26 June 2019, having been approved by the Audit Committee in full compliance with legislation. The Council's finance team continued to perform well in its delivery of high quality annual accounts and in its readiness for audit, effectively responding to our queries during the audit. In order to support the Council in increasing the efficiency of its accounts preparation timetable, we have made one recommendation in Appendix four.
Statutory reports
We have not identified any circumstances to notify the Controller of Audit that indicate a statutory report may be required.
Other communications
We did not encounter any significant difficulties during the audit. There were no other significant matters arising from the audit that were discussed, or subject to correspondence with management that have not been included within this report. There are no other matters arising from the audit, that, in our professional judgement, are significant to the oversight of the financial reporting process.
Audit misstatements
One audit misstatement was identified during the audit in relation to employee compensation absences accrual which was adjusted. This has not impacted on the general fund reserve balance.
Written representations
Our representation letter does not include any additional representations to those that are standard as required for our audit.

Materiality and summary of risk areas

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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 £9.3 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 £6.75 million, and for the Group accounts it was £7.0 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 head of internal audit 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, 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 an audit focus area in respect of Capital Expenditure.

As described in more detail on page 11, 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 seven though 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

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

Significant risks (continued)

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SIGNIFICANT RISK	OUR RESPONSE	AUDIT CONCLUSION
Fraud risk from income recognition and expenditure Under ISA 240 there is a presumed risk that income may be misstated due to improper recognition of income. This requirement is modified by Practice Note 10, issued by the FRC, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. We consider that the Council's significant income streams, which include taxation and non-specific grant income are free of management judgement or estimation. We do not consider recognition of remaining income to represent a significant risk for the Council as there are limited incentives or opportunities to manipulate income recognition, and these are not likely to be materially inappropriate. We rebut this risk and did not incorporate specific work in this area beyond our standard fraud procedures. We consider that there is not a risk of improper recognition of expenditure in respect of payroll costs, financing and investment expenditure, or depreciation. These costs are routine in nature and not at risk of manipulation. We rebutted the risk of fraud over other operating expenditure on the basis of materiality. We did not rebut the assumed risk in respect of the remaining expenditure.	In respect of material income: – non-ringfenced government grants are agreed in advance of the year, with any changes requiring government approval. There is no estimation or judgement in recognising this stream of income and we do not regard the risk of fraud to be significant. We agreed significant grants to supporting documentation. – the other major sources of income are from annual local taxes and rental income (council tax, non-domestic rates and housing incomes). These incomes are prescribed by law and other specific regulations, which prescribe the period in which annual local taxes and rental income is recognised as income. We performed tests of detail and substantive analytical procedures in our audit of these sources of income. We performed procedures in respect of expenditure to: – compare the outturn with the in year budget monitoring, considering variances; – test controls specific to confirm correct capital vs revenue allocation; – test expenditure cut-off including a search for unrecorded liabilities and journals posted towards the year end; – test transactions focusing on the areas of greatest risk, including debtors, creditors, accruals, prepayments and provisions to challenge completeness and existence of these balances; and – review and challenge of management in respect of estimates for evidence of bias.	*We have concluded that that income and expenditure are appropriately recognised.* Our review of variances of actual performance against budget did not highlight any errors. We undertook a detailed search for unrecorded liabilities, as well as testing estimates over accruals which did not identify any errors in expenditure cut off. We tested the employee compensated absences accrual, and identified one minor error of £262,000, which management adjusted (see page 34 for further details) No exceptions were identified in respect of the specific controls testing, and expenditure testing covering purchase ledger, and journals. No indications of management bias were identified.

Significant risks (continued)

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SIGNIFICANT RISK	OUR RESPONSE	AUDIT CONCLUSION
Revaluation of property, plant and equipment and investment property The CIPFA Code requires that where assets are subject to revaluation, their year-end carrying value should reflect the appropriate fair value at that date. In common with other councils, the Council has adopted a rolling revaluation model which sees all land and buildings revalued over a five year cycle. In 2018-19 community centres, day care centres, halls and town halls, hostels, libraries, public toilets, residential homes, miscellaneous operational properties, investment properties, and shops 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. The Council uses a valuation date of the 1 April 2018 for the 31 March 2019 year end in respective of all properties except those classed as investment properties which have a valuation date of 1 August 2018. Therefore we consider there to be a risk of a material movement in valuation between these dates. 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.	Our procedures included: **Control design:** We tested a control ensuring sufficient segregation of duties and authorisation of valuations before being submitted to Corporate Accounting. 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. We also assessed the risk of the valuation changing materially during the year, or between the date of valuation and the year end. **Assessing valuer's credentials:** 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. **Assessing methodology choice and benchmarking assumptions:** We reviewed management's assessment of impairment indicators and assess for completeness. We utilised our internal specialist to assess the methodology used including testing the underlying data inputs and assessing the assumptions used in comparison to available market information. We selected a representative sample of 16 assets to agree calculation inputs to supporting evidence, consider in detail the revaluation calculations and challenge the underlying assumptions. These assets covered each of the asset categories, and assets subject to significant judgement, or valuation methodology. We considered whether there are any indicators for impairment across the region that would suggest an impairment review is required. **Other land and buildings** A number of the Council's assets are revalued on an annual basis, including investment properties and assets held for sale. We tested the accounting treatment for assets revalued to challenge whether the accounting treatment is appropriate and consider valuation inputs and assumptions using the approach above.	*We found the resulting valuation of council dwellings, other land and buildings, surplus assets and investment properties to be acceptable on an appropriate basis, which resulted in a net increase in the assets revalued.* We tested a sample of 25 revaluations to confirm that the that a senior colleague had reviewed revaluations, and that those senior colleagues responsible for review and valuation were appropriately qualified. We reviewed and concluded satisfactorily upon the Council's review for indicators of impairment, and confirmed those assets not subject to valuation were not materially misstated. We inspected management's roll forward of valuations from the date of valuation to the year end date and confirmed it was completed. Our internal valuation specialist, in conjunction with the audit team, challenged the Council's valuer in terms of assumptions including BCIS rates and estimated useful lives, and comparable evidence as set out opposite. Support for the assumptions used was provided for each of the assets selected for testing. We concluded the available evidence was sufficient. The ready availability of support represents an improvement on last year's audit. We did not identify any indicators for impairment that required further review.

Significant risks (continued)

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SIGNIFICANT RISK	OUR RESPONSE	AUDIT CONCLUSION
Revaluation of property, plant and equipment and investment property (continued)	continued	We made a recommendation in 2017-18 relating to valuation documentation (see page 37). There was an improvement in the availability of supporting documentation within the overall valuation file. We would continue to support best practice by ensuring judgements are clearly set out within the file as required by the RICS Red Book, which requires that sufficient evidence must be assembled to ensure the valuation is properly supported. In response to our recommendation in the prior year, the Council obtained valuations by external valuation firms. The Council noted that these valuations performed were consistent with their valuations and only differed as a result of local knowledge. We were content with those explanations provided, however, we will recommend the use of formal documentation to confirm management have appropriately considered the differences between the external and internal approach. This should include where different rates or methodologies have been used. ***Recommendation two*** The Council documented the basis for its assertion that the land and buildings not revalued in 2019 are not materially misstated, we concur with the conclusion.

Significant risks (continued)

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SIGNIFICANT RISK	OUR RESPONSE	AUDIT CONCLUSION
Retirement benefits The net pension liability (£118.5 million as at 31 March 2019, including assets of £787.0 million) represents a material element of the Council's Balance Sheet. The Council is an admitted body of Tayside Pension Fund, which had its last triennial valuation completed as at 31 March 2017. The valuation of the Local Government Pension Scheme relies on a number of assumptions, most notably around the actuarial assumptions, and actuarial methodology which results in the Council's overall valuation. There are financial assumptions and demographic assumptions used in the calculation of the pension liability estimate, such as the discount rate, inflation rates, mortality rates etc. The assumptions should also reflect the profile of the Council's employees, and should be based on appropriate data. The basis of the assumptions should be derived on a consistent basis year to year, or updated to reflect any changes. There is a risk that the assumptions and methodology used in the valuation of the Council's pension obligation are not balanced. This could have a material impact to net pension liability accounted for in the financial statements.	Our audit approach included: **Control design:** — Testing the design and operating effectiveness of controls over the provision of membership information to the actuary to calculate the pension obligation. **Benchmarking assumptions:** — Challenging, with the support of our own actuarial specialists, the key assumptions used by the actuary (the discount rate, inflation rate and mortality/life expectancy) against externally derived data. — Challenging the rate of increase in pensionable salaries assumption, by comparing it to other evidence such as business and transformation plans and our understanding of Government and staff expectations. **Assessing transparency:** — Considering the adequacy of the disclosures in respect of the sensitivity of the deficit to the assumptions used by the actuary. — Assessing if the disclosures within the financial statements are in accordance with the CIPFA Code's requirements.	*We are satisfied that the retirement benefit obligation:* — *is correctly recognised on the balance sheet as at 31 March 2019;* — *has been accounted for and disclosed correctly in line with International Accounting Standard ("IAS") 19 Retirement benefits; and* — *assumptions used in calculating this estimate and management's judgements are appropriate and within a range which we consider to be acceptable.* Results of testing of controls in respect of provision of information to the actuary were satisfactory. The disclosures in the annual accounts are in line with the CIPFA Code's requirements, including relevant sensitivity analysis. Guaranteed minimum pensions ('GMP') equalisation Following a UK High Court judgement on 26 October 2018, the Government published the outcome to its Indexation and equalisation of GMP in public service pension schemes consultation, concluding that the requirement for public service pension schemes to fully price protect the GMP element of individuals' public service pension would be extended to those individuals reaching State Pension Age ("SPA") before 6 April 2021. The Council, informed by its actuary concluded no adjustments are required in respect of the value placed on the liabilities in respect of the interim solution to 2021, and permanent solution thereafter. This was based on the assumption that the Fund will pay limited increases for members that have reached SPA by 6 April 2016, with the Government providing

Significant risks (continued)

SIGNIFICANT RISK	OUR RESPONSE	AUDIT CONCLUSION
Retirement benefits (continued) Risks identified during the year Two significant court cases were concluded upon during our audit, relating to Gross Minimum pensions equalisation, and the McCloud case. Both judgements are considered by KPMG to have an impact on the pension liability due to the level of estimation and assumptions used by management and the actuary. We therefore included these areas within our significant risk.	We first understood client proposals and raised with management who engaged their actuary to provide updated assessment. We used our actuarial specialist to review the revised report in respect of the McCloud estimate.	Continued… the remainder of the inflationary increase. We considered KPMG central estimates, and concluded GMP would not be material. McCloud judgement On 20 December 2018 the Court of Appeal ruled that transitional arrangements offered to some public sector pension scheme members amounted to unlawful discrimination. This related to new schemes set up in 2015 which typically meant older workers could stay in the existing, more generous schemes, while younger workers had to transfer to the new schemes. In June 2019, the Supreme Court upheld the ruling, resulting in a post balance sheet event. We requested that the actuary undertakes an impact assessment in respect of the McCloud judgement, as this was not initially provided to management. Given the timing of the court judgement, we did not consider this a misstatement of the draft annual accounts. As a result, the actuary increased the liability by £5.3 million, which was based on the actuary assessing that pre-2012 active members would be impacted only. We assessed the accounting treatment of the adjustment on the comprehensive income and expenditure statement and were satisfied with the adjustment. We challenged management on the assumptions used and whether the pension liability should be adjusted further for all active members. Based on that and information available at the time of writing this report we are satisfied that the current treatment is within a range of estimates and does not require an adjustment. .

Other areas of audit focus

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Other area of audit focus	OUR RESPONSE	AUDIT CONCLUSION
Capital expenditure The Council has a ten year £576 million capital plan, which includes the Cross Tay Link Road, A9/A85 road junction improvement project and Perth City Hall upgrade. The initial budget in 2018-19 was £70.8 million. Due to the significance of this capital investment programme and complexity of some of the projects, we consider there to be a risk of misstatement. This is in respect of ensuring that the classification of costs between operating and capital expenditure is appropriate and in respect of capturing all relevant costs and contributions. We also consider that any large capital project inherently brings a fraud risk to an entity, which we consider appropriate for the Council. We note that this was is not a fraud risk relating to the financial statements.	Our audit approach includes: **Control design:** – Testing the design and operating effectiveness of controls in respect of the review of costs allocated to capital and income projects. **Control re-performance:** – Comparing the total capital expenditure reported in the financial statements with that reported in reports to those charged with governance. **Tests of detail:** – Use of substantive sampling methods to evaluate the appropriateness of capital or income accounting classification by reference to supporting documentation. – Assessing a sample of items allocated to revenue expenditure to determine whether they are correctly classified. – Review and corroboration of manual journals.	The controls tested were found to be effective. No exceptions were identified in the tests of detail, with supporting documentation available for each item sampled. *We have concluded that the treatment of capital expenditure is satisfactory.*

Going concern

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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 £544.8 million (2017-18 £558.2 million) as at the balance sheet date. Net assets decreased on 2017-18 by £13.4 million, reflecting the total comprehensive expenditure for the year and accounting adjustments required by the CIPFA Code (see page 19 for further detail)

Management considers it appropriate to continue to adopt the going concern assumption for the preparation of the annual accounts. The Council is in a net asset position, and it considers that the confirmed Scottish Government funding (which includes non-domestic rates income) of £254.9 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 £47.8 million as at 31 March 2019.

Over the past few years there has been managed reduction in the overall cost base and further efficiency savings are incorporated into budgets. The Council approved savings for 2018-19 of £17.4 million, across a wide range of the activities of the Council, in order to achieve a balanced budget. Delivery against the savings is being monitored on a regular basis and the Council has demonstrated the ability to deliver on savings targets in prior years. A number of significant savings projects, such as a review on procurement, facilities management review, and corporate property management review have been delayed to 2019-20.

As part of our assessment of going concern, we considered the findings from the Best Value Assurance Report (discussed in more detail on page 29). These stated that on an annual basis, the council develops and approves a five-year medium term financial plan (MTFP). The budget-setting process starts by updating the MTFP. In June 2018, a ten-year provisional composite capital budget was approved which takes a longer-term view in respect of financial planning. This demonstrates strong financial oversight, and planning of future pressures. This supports our assessment that the forecasting undertaken by management, and the comprehension of key financial pressures will mean management can take action to mitigate or resolve in future years.

Conclusion

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

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

Management reporting in financial statements

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REPORT	SUMMARY OBSERVATIONS	AUDIT CONCLUSION
Management commentary	The Local Authority Accounts (Scotland) Regulations 2014 require the inclusion of a management commentary within the annual accounts, similar to the Companies Act requirements for listed entity financial statements. The requirements are outlined in the Local Government finance circular 5/2015. We are required to read the management commentary and express an opinion as to whether it is consistent with the information provided in the annual accounts. We also review the contents of the management commentary against the guidance contained in the local government finance circular 5/2015.	We are satisfied that the information contained within the management commentary is consistent with the annual accounts. We reviewed the contents of the management commentary against the guidance contained in the local government finance circular 5/2015 and, following some suggested enhancements are content with the proposed report.
Remuneration report	The remuneration report was included within the unaudited annual accounts and supporting reports and working papers were provided.	We are satisfied that the information contained within the remuneration report is consistent with the underlying records and the annual accounts and all required disclosures have been made. Our independent auditor's report confirms that the part of the remuneration report subject to audit has been properly prepared. In accordance with the relevant regulations.
Annual governance statement	The statement for 2018-19 outlines the corporate governance and risk management arrangements in operation in the financial year. It provides detail on the Council's governance framework, review of effectiveness, continuous improvement agenda and group entities and analyses the efficiency and effectiveness of these elements of the framework.	We consider the governance framework and annual governance statement to be appropriate for the Council and that it is in accordance with guidance and reflects our understanding of the Council.

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 six sets out the group structure. The table below sets out the key audit findings from these entities and also significant matters discussed with the component auditor. There are no findings to report in relation to other group entities.

ENTITY	WORK PERFORMED	AUDIT CONCLUSION
Charitable Trusts	We assessed materiality based on our knowledge and understanding of the charities' risk profile and annual accounts balances. Materiality was determined at 10% of net assets. We considered and confirm our independence as auditor and our quality procedures, together with the objectivity of the audit director and audit staff. The engagement lead in 2018-19 remained Andy Shaw. We highlight that the Council has made good progress in reducing the number of charitable entities, whilst maintaining appropriate management and structure over the trusts.	We expect to issue an unqualified audit opinion on the charitable trusts.
Common Good	Perth and Kinross Council Common Good does not prepare separate financial statements, and is incorporated as disclosure notes within the Council's financial statements. Common Good holds investment properties as well as other assets.	The Common Good amounts are included within the Group financial statements, for which we expect to issue an unqualified opinion.
Integration Joint Board ('IJB')	A separate annual audit report is expected to be presented to the Audit and Performance Committee of the Perth and Kinross Integration Joint Board on 16 September 2019. No significant exceptions were identified during the audit.	We expect to issue an unqualified audit opinion for the IJB on 16 September 2019.

New accounting standards

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New accounting standards for 2018-19

The CIPFA Code was revised for 2018-19 to take into account IFRS 15 *Revenue from Contracts with Customers* and IFRS 9.

IFRS 15 introduces a five-step process for recognising revenue based on the transfer of control rather than the previous transfer of risk and reward. Given the nature of the Council's income, which is typically a fee in exchange for a service and/or related only to the Council's financial year, there is no material impact on the Council's accounting for income.

IFRS 9 includes a single classification approach for financial assets which is driven by cash flow characteristics and how an instrument is managed, and a forward looking "expected loss" model for impairment. The implementation of this standard does not have a material impact on the annual accounts.

IFRS 9 does, however, change several aspects of accounting for financial instruments and debtor provisioning. The most notable change being the removal of the Available For Sale Financial Instruments Reserve and reclassification of certain of the Council's equity investments from "amortised cost" to "fair value through profit and loss".

We challenged the Council's preparation on the transition to IFRS 9. Our initial discussion indicated that Council did not assess the impact as material. We sought adequate documentation and consideration over the assessment and reviewed as part of our year end procedures. We requested management make a presentational change in line with the CIPFA Code. We consider that the Council's disclosures for the transition to IFRS 9 to be appropriate.

Future accounting and audit developments

It is anticipated that a future version of the CIPFA Code will adopt IFRS 16 *Leases.* This standard will bring a significant number of operating leases onto the balance sheet unless they are low value or have less than a year to run. CIPFA/LASAAC will revisit accounting for PFI liabilities which are currently under finance lease accounting rules of IAS 17 *Leases*, which is being replaced by the new standard. It is expected that this standard will be incorporated in to the 2020-21 CIPFA Code.

Wider scope introduction

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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 order to avoid replication of work carried out in respect of the BVAR which was supported by KPMG, we will summarise key findings in line with the four audit dimensions sections of this report drawing on our experience and understanding of the Council obtained through the BVAR process and that report.

We performed a range of procedures to inform our areas of focus work:

- review of the BVAR
- interviews with senior officers, including the Chief Executive;
- discussions with officers throughout the Council;
- review of various committee papers and reports;
- attending committee meetings; and
- consideration of Audit Scotland guidance to draw conclusions on good practice.

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.

2018-19 financial performance

The Comprehensive Income and Expenditure Statement shows a deficit on the provision of services of £22.3 million for the year to 31 March 2019, of which £17.3 million relates to the General Fund. The Council set a net revenue expenditure budget of £329.5 million on the general fund and £28.5 million on the HRA for 2018-19. The core outturn is a surplus of £8.2 million being on the General Fund and HRA in respect of the net cost of services. After minor variances relating to income and finance and investment income and expenditure, the total variance against budget was £10.0 million underspend, which resulted in £3.7 million reserves being utilised in year.

General Fund

A balanced budget was approved in February 2018. The £3.0 million General Fund surplus represents 1.0 % of the net services expenditure, as a net result of over and underspends and re-profiling of Loans Fund charges. The largest underspends were:

- Education and Children's services (£4.4 million), reflecting underspend on teachers and support staff costs, and supplies and services.
- Housing and Environment (£4.0 million), reflecting deferred expenditure relating to projects covering flood management, winter maintenance and staff costs.
- The largest element of savings is in relation to the Council's review of Loans Fund charges as permitted by the Local Authority (Capital Financing and Accounting) (Scotland) Regulations 2016. The Council changed the profiling of Loans Fund charges, which gave rise to a £4.7 million reduced expenditure in 2018-19. The anticipated saving in 2019-20 is £5.5 million

The BVAR highlighted the good practice of budget flexibility, which encourages Council services to plan longer term, in which an estimated £3.6 million was carried forward as part of the 2019-20 budget.

Financial headlines

Deficit on provision of services **£22.3 million** *2017-18: £26.4 million*	**Surplus on general fund** **£3.0 million** *2017-18: £1.5 million surplus*
Total reserves **£544.8 million** *2017-18: 558.2 million*	**General fund reserve** **£47.4 million** *2017-18: £51.1 million*
Pension liability ***£118.6 million*** *2017-18: £98.4 million*	**Capital financing requirement** **£540.3 million** *2017-18 £513.0 million*

(Source: audited annual accounts)

Financial management (continued)

DRAFT

2018-19 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 HRA broke even against budget, with accounting adjustments and transfers from the General Fund Reserve resulting in a maintained £1.0 million balance for use in future years.

Financial reporting

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

The forecast out outturn for the 2018-19 £336.2 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)	Jun 18	Aug 18	Nov 18	Jan 19	Mar 19
Budgeted use of reserves	13,002	12,983	13,328	13,644	13,644
Variance of financed from/(returned to) reserves against budget	508	929	(3,813)	(3,455)	(9,986)

Whilst we note an underspend of £10 million against budget, there has been a planned overall reduction in reserves.

The SP&R were advised of a £3.5 million variance across the Council in April 2019 based on financial data at 31 January 2019. This was made up of projected underspend in Education & Children’s Services (£1.4 million), Housing & Environment (£1.9 million), Corporate & Democratic Services (£0.4 million) and other corporate budgets (£0.6 million). This was partially offset by a projected over spend on Health & Social Care (£0.8 million).

The final under spend for the Council was £10 million – a movement of £6.5 million on the position reported to SP&R in April. The main reasons for this additional under spend were a movement on earmarked Reserves (£5 million) which included the Devolved School Management Scheme, Revenue Grants and other earmarked Reserves. There were further additional Service under spends (£1.5 million), primarily in Property, that contributed to the final position.

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 June 2018 for the period 2018-19 set net expenditure of £70.8 million, against a final net budget of £50.9 million reported at year end.

Significant expenditure was undertaken in respect of the school modernisation programme of £7.3 million, roads structural maintenance of £10.7 million, and the A9/A85 road junction improvements programme of £11.3 million.

The final outturn of budget against actual was net expenditure of £49.2 million, and underspend of £1.7 million on budget.

The net budget reduced during the year owing to additional Scottish Government grant income of £4.8 million in respect of Early Learning & Childcare and completion of the Almondbank Flood Prevention Scheme.

Financial management (continued)

DRAFT

In respect of the HRA, the budget report was approved in January 18 by the housing and Communities Committee, and set a net budget of £12.4 million, with a revised budget finalised in April 2019, totalling £17.6 million. The increase in budget was as a result of higher than forecast Council Buy-Backs, and investment brought forward from future years.

The final outturn was £17.5 million, resulting in a £0.1 million underspend against budget.

A new Strategic Investment and Improvement Board is being created to merge the Strategic Investment Group, Corporate Resource Group and Transformation Group which currently have some overlapping responsibility.

Accounts and audit process

Draft annual accounts were authorised for issue by the audit committee on 26 June 2019, and the audit commenced on 1 July 2019 with a statutory sign off required before 30 September 2019. We received a copy of the draft annual accounts on 26 June 2019.

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 a low number of audit misstatements were identified. In the prior year there was a misstatement relating to the property revaluations and the audit of the revaluations was challenging. The supporting documentation for revaluations showed significant improvement in 2018-19, with more evidence being available to support the judgements made by the valuations team. Some judgement was not readily available, and our valuation specialist did communicate with the internal valuer on a number of occasions.

The pension scheme actuaries prepared disclosures based on estimated assumptions for the unaudited annual accounts. These assumptions were updated during the audit to reflect subsequent evidence, and changes were made to the annual accounts. The changes were as a result of the McCloud judgement, which increased the pension liability in the accounts by £5.3 million. As noted on page twelve, we concluded that this estimate was materially correct, and was not available to management when the draft annual accounts were being prepared. We therefore did not consider it a misstatement.

One key area of improvement was identified during the course of our audit. The accounts production process is considered robust, with minimal audit adjustments required as a result of accounting errors. As noted in the BVAR, “The process has a higher number of traditional, manual components than other local authorities and is reliant on key individuals”. Management has expanded the number of individuals supporting the annual financial statements process which reduces the reliance on key individuals although some risk remains. While the existing processes are robust, we recommend the Council continues to work with external audit to identify and agree any opportunities for further efficiency.

Recommendation one

Financial management (continued)

DRAFT

Internal control

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

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

In our interim report, we highlighted two annual controls were as yet untested owing to the timing of our interim work. We confirmed these controls operated satisfactorily after the year end.

We noted in the prior year audit that although the Council demonstrates a good level of control through general IT controls, we were unable to place reliance on these controls in the audit. The primary reason for this was a lack of system logging and monitoring in place for IT privileged users. We did not plan to rely on these controls for the 2018-19 audit, and provided an update in our interim report presented in May 2019.

In 2017-18 we made a total of six recommendations and a summary of their status is presented opposite. The action plan detail is shown on page 36 onwards. We report that all 6 recommendations have been resolved at year end.

Status	Grade one	Grade two	Grade three
Implemented	-	3	3

Our view – financial management

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

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

Financial sustainability

DRAFT

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

As discussed in more detail on page 29, the Council's medium and long term financial planning, and its transformation programmes were considered as part of the BVAR report. The report considered that the Council has robust financial planning and management arrangements, including effective monitoring and reporting and medium-term financial planning. The financial outlook is challenging, but the council is well placed to address projected funding gaps through its transformation programme and savings identified as part of the medium-term financial plan.

Annual budget presentation

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

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

Audit Scotland area of focus - Changing public landscape for financial management

Scottish public finances are fundamentally changing, with significant tax-raising powers, new powers over borrowing and reserves, and responsibility for 11 social security benefits. Scottish Government published an initial five year Medium term Financial Strategy in May 2018, which was refreshed in May 2019.

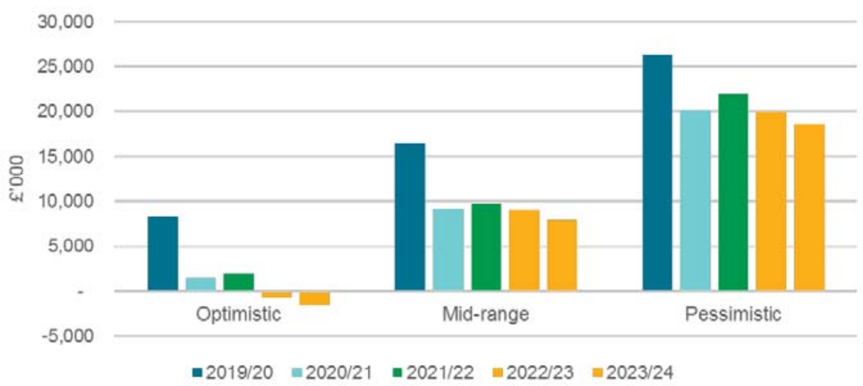
The Council does not obtain new financial powers directly as a result but may be impacted indirectly by subsequent delegated powers or changes in the external economic environment. The Local Government Finance (Scotland) Settlement 2018-19 includes the continued flexibility to increase Council Tax, with a cap of 4.79% for 2019-20. The Council confirmed in its budget in February 2019 that an increase of 4% would be applied.

Other tax raising powers outlined in January 2019, (including tourist visitor levy, parking levy and non-domestic rates empty property relief) have not been reflected in the projected income in the 2019-20, provisional 2020-21, or provisional 2021-22 revenue budget, nor the medium-term financial plan.

Medium-term financial plan

The medium-term financial plan is prepared on an annual basis by the Council for make planning assumptions on future finances, covering the following five years. When preparing the October 2018 medium-term financial plan, the Council considered assumptions over increasing service demands, pay settlements and uncertainty in respect of Local Government grant settlements. The medium term financial highlighted that a significant level of recurring savings will continue to be needed. The total mid-range value required to 2023-24 is forecast as £52.3 million, and the pessimistic outlook is £106.8 million.

Estimated levels of savings are forecast for each of the next five years as presented in the most recent medium-term financial plan:



Source: Perth and Kinross Council MTFP 2019/20 to 2023/24

Financial sustainability (continued)

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Use of reserves

The Council continued to invest its reserves in the future of the organisation during 2018-19, including £1.9 million in respect of the earmarked Transformation Programme. The Council utilised a total of £3.7 million from the General Fund reserve in delivering the 2018-19 financial outturn.

As at 31 March 2019, the Council had uncommitted general fund reserves of £12.7 million which equates to 3.6% of Net Cost of Services of £351 million (3.5% as at 31 March 2018). These reserves are to support the delivery of services in the case of unexpected issues, and a reserves strategy is in place.

We consider that this level of reserves is reasonable for a Council of the size of Perth and Kinross Council. The total held is in line with the Reserves Strategy approved in February 2019, 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 2018 £000	Increase /(utilisation) £000	31 March 2019 £000
Transformation Programme	10,971	(1,865)	9,106
Other Earmarked Reserves	28,020	(2,359)	25,661
Uncommitted General Fund Reserve	12,108	566	12,674
Total General Fund Reserves	**51,099**	**(3,658)**	**47,441**

Borrowing

Total borrowing as at 31 March 2019 was £29.7 million greater than as at 31 March 2018, with overall borrowing being £390.8 million. The increase in borrowing is primarily funding investment in capital.

Cash and Short Term Investments

Liquidity	31 March 2018 £000	31 March 2019 £000	Movement £000
Cash and cash equivalents	15,736	22,503	6,767
Short term investments	20,537	25,317	4,780
Short term borrowing	(16,176)	(18,187)	(2,011)
Current liquidity	**20,097**	**29,633**	**9,536**

As at 31 March 2019 cash and short term investments increased by £11.5 million as a result of the underspend against budget highlighted on page 19.

Audit Scotland focus area: Key supplier dependency

All bodies are potentially exposed to the failure of a key supplier, in an operational and infrastructure context.

The Council provided us with a list of the top ten suppliers by value in 2018-19, three of which were identified as group components with no going concern issues.

The Council has a procurement strategy in place, and we considered the 2019-20 strategy as part of this report. Each contract awarded in excess of £50,000 requires a contract strategy, which considers risk, sustainability and an exit strategy. Each directorate is responsible for reviewing contractual arrangements as part of their own performance monitoring.

In addition, Internal Audit carried out an assessment of contract management in August 2018, and the procurement service reported that the recommendations made have been implemented. This will be followed up by Internal Audit in 2019-20 as part of their regular follow up of audit reports.

Financial sustainability (continued)

DRAFT

The Council also receive three annual reports including the procurement annual report which reviews the Council's overall supply chain in an appropriate manner.

The Council do not consider the financial sustainability of suppliers on a regular basis after contracts are awarded which raises a risk that suppliers may not be able to continue providing services. Outwith the contract strategy, we were unable to determine whether a contingency plan existed for these key suppliers (this is pending confirmation from procurement)

Audit Scotland area of focus: EU withdrawal

As part of our responsibilities, we considered the readiness of the Council for an original 29 March 2019 departure date.

The Council maintains a detailed and robust risk register at a corporate and service level, which details those risks that it considers could impact service deliver.

This corporate risk register contains three key risks relating to EU withdrawal, covering the workforce, funding and the wider council area. All three risks are the responsibility of the Chief Operating Officer, which gives sufficient prominence and importance of these risks.

The Council completed a self-assessment based on Audit Scotland's guidance to report its readiness for EU departure, and determined that:

- In respect of the workforce, those non-UK EU national staff were identified, and has commenced processes to support these employees, including setting up an intranet page for reference and details. In addition, the Corporate Workforce Plan identifies hard to fill roles, that may become more challenging to fill as a result of Brexit.
- The Westminster Government and Scottish Government announced a guarantee that UK projects that are approved before the UK officially leaves the EU will receive the funding to which they were awarded. In assessing further financial impact of EU withdrawal, the Council identified £8.4 million in funding to be received between 2013-2020 which is not viewed as significant. Additional future funding, such as the Tay Cities Deal and UK Shared Prosperity Fund are expected to be available in the short-term.
- The implications relating to rules and regulations would have an impact on service delivery. The current regulatory framework will be transcribed into UK law, and therefore considered the risk to be minimal. Some regulatory changes have been considered in respect of data processing, and exports which may be challenging to the wider region.

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

Our view – financial sustainability

The Council will continue to utilise reserves associated with the transformation programme which is designed to realise benefits and savings required over the period.

The actual use of reserves in 2018-19, coupled with the planned budget utilisation of £6.1 million in 2019-20 means that the general fund reserve may continue to diminish. The Council will need to continue to identify and explore options to relieve expenditure pressures faced.

Governance and transparency

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

Governance

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

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

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

Although the existing committee and management structure are aimed at streamlining the council's activities, both officers and members agree that the number of reports and current governance arrangements make decision-making lengthy and there is further scope for improvement. The Council is currently reviewing the committee structure, the quality of report writing for outcome agreements and business cases and ensuring scrutiny and audit functions are more robust.

The council is proactive about improving its governance. The ongoing review should consider simplifying the council's governance arrangements to improve decision-making.

Audit Scotland area of focus - Care income, financial assessments and financial guardianship

The experience of a number of local government audits indicates there may be issues with the systems and processes for collecting care income, undertaking financial assessments on individuals receiving care and financial guardianship. In some cases where the responsibilities for financial assessments on those receiving care has transferred from social care to finance has revealed issues with backlogs of financial assessments and under-recovery of care charges over many years.

The Council is responsible for collection of care income and processing financial assessments. In June 2019, the Corporate and Democratic Service transferred the responsibility of charging for care income to the Health and Social Care service. The final Charging Board meeting of June 2019 reported that there were 1,325 financial assessment cases outstanding, a rise from the previous month at 1,177 items. However, it was reported in both meetings that approximately 90% of these related to 2019-20. During 2018-19, we determined that the Charging Board oversaw the monitoring of the backlog, and performance of the service to ensure this risk was managed.

No officers of the Council act as financial guardianships for individuals with a lack of capacity to act in their own interests.

Governance and transparency (continued)

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Scrutiny and Following the Public Pound

There is a high degree of scrutiny and challenge exercised by officers and members. This scrutiny is facilitated through the Scrutiny Committee which has responsibility covering adequacy of arrangements and procedures, policies and practices in operation with respect of corporate governance and review of the adequacy of arrangements with regards to Council assessment and management of risk.

The Council's monitoring and challenge of Arm's Length External Organisations ("ALEOs") continues to be reported as part of an annual process reporting to SP&R. We have previously considered management's processes to comply with the Following the Public Pound Code ("the FtPP Code"). Its local code of practice applies the FtPP Code in the local context of the Council's interactions with its ALEOs, and this year we confirmed that a public report was available for consideration.

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.* 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.

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.

The Council submitted received matches for investigation during January 2019, to identify potential frauds or errors, with a deadline of 30 September 2019.

We completed a questionnaire considering the Council's participation in NFI for submission by 30 June 2019, with a generally positive conclusion.

Standards of conduct for prevention and detection of fraud and error

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

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

Risk management

The Council's risk management processes have undergone a significant redesign over the last three years, as noted in our previous two annual audit reports.

The continued changes through 2018-19, and the transfer of risk management to Legal and Governance has focussed the Council's management of risk to issues that could impact on operational delivery of services. This continues to improve the ability of the Council to identify and respond to significant risks.

The most recent corporate risk register identifies a number of strategic risks. This highlights to members those risks, controls, and residual risk that the Council is exposed to. Management summarises the future actions being undertaken, and this is considered an appropriate process for risk management.

Governance and transparency (continued)

DRAFT

Local Area Network ("LAN")

The 2018-19 Local Scrutiny Plan ("LSP") prepared by the LAN of scrutiny partners for the Council was issued to Perth and Kinross Council in April 2018, and considered by the full Council following engagement with management. The LSP is based on a shared risk assessment undertaken by the LAN, comprising representatives from scrutiny bodies which engage with the Council.

The Accounts Commission, supported by Audit Scotland, chairs the Strategic Scrutiny Group ('SSG'). During 2018, the SSG reviewed the effectiveness of national scrutiny coordination and the Shared Risk Assessment process. As a result, a number of changes were made, the most notable being no requirement for LANs to produce LSPs. The new approach looks to embed a discussion about risks and responses between scrutiny bodies across the year, rather than a specific one-off approach.

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.

Every local authority internal audit function must be externally assessed against the PSIAS once every five years. In 2018 we reviewed the internal audit function covering the PSIAS requirements. We identified no significant issues in terms of its compliance with the PSIAS requirements.

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

Internal audit completed all 26 planned audits per the 2018-19 Internal Audit Plan, and where Council projects extend into 2019-20, these have been carried forward. One unplanned audit was also delivered in relation to cash office controls.

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 2018-19, 55 actions were identified as a result of the work undertaken, with 32 due for completion within the financial year. Of these, 28 were reviewed by Internal Audit and concluded as being completed, which represents a satisfactory completion rate of 86%. Those incomplete actions are carried forward into 2019-20.

Audit Scotland focus area: openness and transparency

There is an increasing focus on how public money is used and what is achieved. In that regard, openness and transparency supports understanding and scrutiny.

The BVAR considered the openness and transparency of the Council in its report, and concluded that the "Council operates in a transparent manner".

During the course of our audit, we did not identify any issues relating to openness or transparency that require any additional mention.

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.

Best Value and Value for Money

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Best value is assessed over the five-year audit appointment, as part of the annual audit work. In addition, a Best Value Assurance Report ("BVAR") for each council will be considered by the Accounts Commission at least once in this five-year period. The BVAR for Perth and Kinross was published on 8 August 2019, with the Commission's findings on 22 August 2019.

The key messages from the BVAR are:

- The council has clear strategic objectives that have remained stable over a period of time. There is strong member and officer leadership together with appropriate levels of challenge and scrutiny. The council is currently reviewing its governance arrangements with the aim of streamlining and further improving decision-making.
- Since the 2008 Best Value report, the council has improved at a steady pace. Overall, outcomes for the community are improving. Officers and members are positive about the Perth and Kinross Offer, that is a proposed approach to service design and development co-designed with citizens and communities. It is still at an early stage, but has potential to provide a step-change in the levels of community engagement and the pace of improvement.
- 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 savings from its transformation programme and medium-term financial plan. The council approves a three-year revenue budget and budget flexibility scheme which encourages longer-term planning. It should consider building on this by developing a longer-term financial plan covering five to ten years.
- The council has made good progress in providing online access to services. The council is in the process of reassessing its use of information and technology. Following completion of its digital maturity assessment, it intends to update its digital strategy. This should reflect its ambition of becoming the most digitally innovative council in Scotland.
- The council undertakes self-evaluation and is receptive to third-party evaluation and inspection. Its self-evaluation could be more explicit about improvement plans. The council uses performance management information and reporting to drive continuous improvement at service level, but annual public performance reporting should be more balanced. More could be done to consistently demonstrate that performance management drives change and improvement.
- Residents in Perth and Kinross are more satisfied with their council's services than the Scottish average and the council has received positive inspection reports in recent years. There are examples of the council delivering services in innovative ways, making savings and improving outcomes for vulnerable service users.
- Perth and Kinross Council works well with partners, in particular with regional partners across Tayside and the effectiveness of working arrangements with the integrated joint board has improved over the last 12 months. The community planning partnership needs to take a more active role in leading partnership working and strategic change.
- There are good examples of community engagement at service level, but the council could do more to involve communities earlier in strategic planning discussions and demonstrate the outcome of engagement. The council is aware that it needs to do more to embed community empowerment in the way the council and its communities work together.

Our view – Best Value and Value for Money

The BVAR summarised the Council is performing well, and that there are a number of recommendations made going forward.

We will follow up on these recommendations as part of our subsequent annual audit procedures as appropriate.

Appendices

Required communications with the Audit Committee

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Type		Response
Our draft management representation letter	OK	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 2019.
Adjusted audit differences	OK	There was one adjusted audit differences with no deficit reduction impact. See appendix three.
Unadjusted audit differences	OK	There was no unadjusted audit differences identified.
Related parties	OK	There were no significant matters that arose during the audit in connection with the entity's related parties.
Other matters warranting attention by the Audit, Risk and Scrutiny Committee	OK	There were no matters to report arising from the audit that, in our professional judgment, are significant to the oversight of the financial reporting process.
Control deficiencies	OK	We communicated to management in writing all deficiencies in internal control over financial reporting of a lesser magnitude than significant deficiencies identified during the audit that had not previously been communicated in writing.
Actual or suspected fraud, noncompliance with laws or regulations or illegal acts	OK	No actual or suspected fraud involving Group or Component management, employees with significant roles in Group-wide internal control, or where fraud results in a material misstatement in the financial statements were identified during the audit.

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

Auditor independence

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Assessment of our objectivity and independence as auditor of Perth and Kinross Council ("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 2019 can be analysed as follows:

	Current Year £000 (inc VAT)	Prior Year £000s (inc VAT)
Audit of Council	162	158
Audit of Charitable Trusts	3	3
Total Audit	165	161
Tax Advisory services	1	0
Services relating to Taxation	1	0
Total non-audit services	1	0
Total Fees	166	161

Auditor independence (continued)

DRAFT

The ratio of non-audit fees to audit fees for the year was 0.01: 1. We do not consider that the total non-audit fees create a self-interest threat since the absolute level of fees is not significant to our firm as a whole.

Subsidiaries

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

Independence and objectivity considerations relating to other matters

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

Confirmation of audit independence

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

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

We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

Yours faithfully

KPMG LLP

Audit differences - adjusted

The table below lists the adjusted audit differences identified during the course of our 2018-19 audit procedures.

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Nature of adjustment	Balance sheet £’000 DR	Balance sheet £’000 CR	Income and expenditure account £’000 DR	Income and expenditure account £’000 CR
1. Employee compensation absences accrual (see page eight)				
Dr Creditors	262			
Cr Net Cost of Services				262
Dr General fund (adjustments between accounting and funding basis under regulations)			262	
Cr Employee Statutory Adjustment Account		262		
Being an adjustment recognising an error in the calculation of the absences accrual. This error did not impact on future reserves available to the Council.				

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	Grade two	Grade three
Grade one (significant) observations are those relating to business issues, high level or other important internal controls. These are significant matters relating to factors critical to the success of the Council or systems under consideration. The weaknesses may therefore give rise to loss or error.	Grade two (material) observations are those on less important control systems, one-off items subsequently corrected, improvements to the efficiency and effectiveness of controls and items which may be significant in the future. The weakness is not necessarily great, but the risk of error would be significantly reduced if it were rectified.	Grade three (minor) observations are those recommendations to improve the efficiency and effectiveness of controls and recommendations which would assist us as auditors. The weakness does not appear to affect the availability of the control to meet their objectives in any significant way. These are less significant observations than grades one or two, but we still consider they merit attention.

Finding and risk	Recommendation	Management proposed actions
1. Financial statements preparation (Grade three)		
While the Council has a robust process, as highlighted in the BVAR, it 'has has a higher number of traditional, manual components than other local authorities'. The Council has expended the number of individuals involved in the financial statement production process to reduce reliance on key individuals.	It is recommended that management continue to work with external audit to consider whether there are opportunities for efficiency.	The Council will build on the existing work with KPMG to identify areas to streamline the preparation of the financial statements. Responsible Officer: Chief Accountant When: 31 March 2020
2. Valuation of property, plant and equipment (Grade three)		
We made a recommendation in 2017-18 relating to the use of external valuation firms to support to the ongoing valuation cycle of the Council's property assets. The Council has improved, and engaged two firms to deliver these external valuations.	Building on good practice in 2018-19, management should consider annually and agree with external audit any unusual valuations which may benefit from additional ext. valuation. Where such valuations are obtained and differ significantly from internal valuer's opinion, the explanation for the differences should be documented to support reasonableness of the internal valuations.	The Council's Estates Team will build on the provision of narrative to support how internal valuations are reached. Responsible Officer: Senior Estates Surveyor When: 30 June 2020

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 2017-18 audit, and highlights our final conclusion on those recommendations not yet due when we reported in May 2019.

Original finding and risk	Recommendation	Original actions	Status
1. (Grade two) Valuation of property, plant and equipment - *Audit dimension: financial management*			
We could not identify a control over the revaluation process for property plant and equipment. This gives rise to a risk that the valuations are misstated. One misstatement was identified in the valuations tested as at 31 March 2018. In addition, there is a risk of loss of expertise and continuity in the team due to the retiral of the Senior Estates Surveyor.	We recommend that management engages an external valuation provider to reperform a sample of high risk valuations, or to review and challenge the valuations.	**Management response:** The Council will engage an external valuation provider to re-perform a sample of high risk valuations. **Implementation date**: 30 May 2019 **Responsible officer**: Investment Manager	**Implemented** The estates team have identified a number of high-risk assets, and indicated that an external valuation would be completed in parallel with an internal valuation. These valuations were internally reported and considered in February 2019. Our testing over the differences between the internal and external valuations were satisfactory. However, we did not find any documented evidence of an assessment of the Council's valuations. We therefore recommend a written assessment of the key differences between the two valuations where they are required in future years (see Appendix four).

Prior Year Recommendations (continued)

DRAFT

Original finding and risk	Recommendation	Original actions	Status
2. (Grade two) Valuation documentation and compliance - *Audit dimension: financial management*			
During the course of our audit, we tested a sample of revaluations undertaken by the internal valuation team. Our internal valuation specialist expected the valuation file to contain back-up for any assumptions, however documentation was not robust and several clarifications were sought on the inputs to the valuations. Our internal valuation specialist highlighted the RICS requirements to measure any land or building asset prior to revaluation if there has been a material change to the asset. Whilst we understand many Council assets have not undergone a material change, we could not obtain the level of documentation expected for asset measurements.	We recommend that management ensures valuations are carried out in compliance with all appropriate RICS standards, including documentation, judgements and measurements.	**Management response:** The Council will ensure that valuations are carried out in compliance with all appropriate RICS standards. Documentation and measurements will be stored on the new Corporate Property system (Concerto). **Implementation date:** 31 March 2019 **Responsible officer:** Investment Manager	**Implemented** In December 2018, the Estates team communicated the intention to introduce a control over the valuation process. This took the form of a review of the valuation by a more senior officer, which ensures sufficient documentation and challenge surrounding the valuation evidence which was audited by KPMG. No errors were identified during the course of our controls testing, and we placed full reliance on the valuation review. Our substantive testing over a sample of 16 valuations identified the level of documentation improved. Our valuation specialist required clarification on some points, over judgements, however, the response was more detailed than in the prior year. We continue to highlight that these key judgements are clearly included within the valuation report.

Prior Year Recommendations (continued)

DRAFT

Original finding and risk	Recommendation	Original actions	Status
3. (Grade three) Revenue and capital monitoring - *Audit dimension: financial management*			
During our review of the revenue and capital monitoring reports, we were unable to identify a defined 'level of precision'. This level of precision acts as a cut-off for those reading the report, and sets a variance that for all differences in excess, management explain the reasons. In this way, where there is no explicit commentary, members can assume there is no variance above the defined precision. We recognise that management's monitoring reports are detailed and that variances are discussed. Setting a level of precision strengthens this control which is operating effectively. There is a risk that variances may not be given sufficient prominence, or that variances are not reported.	We recommend that management introduces a set threshold for which any variances against budget in excess are reported.	**Management response:** The Council will update the financial regulations to explicitly set out a level of precision of £50,000, whereby all variances (Revenue & Capital) in excess of this will be reported to the SP&R Committee. However there will be many instances whereby the Committee reports will discuss variances that are less than this amount in order to recognise the importance of elected member scrutiny of Council finances. **Implementation date**: 31 December 2018 **Responsible officer**: Chief Accountant	**Implemented** Financial Regulations were amended to indicate that all variances exceeding £50,000 will be reported to the SP&R Committee. As discussed on page nine, we tested both the revenue and capital monitoring reports as part of our audit work in February 2019. The report reviewed as part of our controls work was for November 2018 and was therefore before the implementation of the £50,000 threshold. No issues were noted as a result of our interim testing however we will follow up on this control recommendation again during the year end audit to test whether the threshold has been implemented.

Prior Year Recommendations (continued)

DRAFT

<table>
<tr><th>Original finding and risk</th><th>Recommendation</th><th>Original actions</th><th>Status</th></tr>
<tr><td colspan="4">4. (Grade two) General IT controls - Audit dimension: financial management</td></tr>
<tr><td>Certain IT and business staff are assigned highly privileged access to the Council’s IT systems (Integra, ResourceLink and Northgate), and are required to perform user administration, system development and configuration, and to ensure ongoing support and maintenance activities.

We note that the Council does not monitor the activities performed by these accounts; security and event log auditing is either not enabled or not reviewed. For the purpose of relying on system generated reports for the external audit, we could not establish if the activities performed by these users were appropriate during the year. The weaknesses in the access assigned includes, but is not limited to:
– the privileged access assigned allows users within the business to perform activities that should be segregated and/or pro-actively logged and reviewed to ensure appropriate; and
– review of privileged users is not undertaken or documented in a robust manner.

Where privileged access is not robustly controlled, the risk is increased that:
– unauthorised access is gained to process erroneous or fraudulent transactions,
– unauthorised changes are made to data, and system settings;
– unauthorised changes are not detected and appropriate action taken;
– IT / operational system downtime is experienced; and
– the system does not function as intended by management.

During testing over key systems, we did not identify any specific issues or errors.</td><td>Management should ensure that:
– a formal, documented and agreed policy is established that guides the Council’s management of highly privileged access;
– user accounts are only used by the approved and appropriate persons;
– each time the highly privileged accounts are used there should be a requirement that a supporting and approved incident ticket or change request is logged and retained;
– the feasibility of implementing system audit logging for these highly privileged accounts is assessed, and if this is possible, a periodic review is performed over a sample of higher risk activity to ensure this was authorised and appropriate; and
– the logs are secured and retained in a segregated area that cannot be accessed by the users of the IT systems.</td><td>Management response: The current policy will be developed to increase the level of monitoring and governance associated with highly privileged access. IT will investigate the feasibility of audit logging for highly privileged accounts and where feasible, a secure segregated storage area will be identified and a sample review of higher risk activity will be implemented.

Implementation date: 30 June 2019

Responsible officer: Information Security Manager</td><td>Implemented

Our planned audit approach was designed on the basis that we would not rely on these IT controls. They were not tested in 2018-19.

Management have indicated that:
– the Council’s security policy has been reviewed and approved, along with the information security management system (ISMS) standards to confirm that management are satisfied with that a formal policy adequately covers highly privileged access;
– highly privileged accounts are issued on a need-to-have basis, and the responsibility for these accounts is held with the information asset manager;
– although IT staff are required to log actions in detail whenever administrative tasks are carried out, there is no policy or control that logs all privileged user action within each system; and
– although logs are kept securely segregated from systems managers and users, they are accessible to privileged IT users. These logs did not cover all key financial systems.</td></tr>
</table>

Prior Year Recommendations (continued)

DRAFT

Original finding and risk	Recommendation	Original actions	Status
5. (Grade three) Internal policy updates - *Audit dimension: financial management*			
Policies and procedures are held on the Council's intranet which is available to all staff. From a review of key policies we identified that a number have not been updated on a timely basis. Two versions of the communications security policy were found. The most up to date version of this policy was dated 2010, however it is required to be reviewed every three years. The most recent whistleblowing policy does not contain all information outlined in Protect's whistleblowing code of practice. There is a risk employees access policies and procedures which are not relevant to the current risk environment or contain out of date information therefore causing error or breach of laws and regulations.	It is recommended that: – a review is carried out of existing polices on the intranet and any old or superseded policies are removed; – the whistleblowing policy is updated to contain all items required by the whistleblowing code of practice; and – a checklist should be kept of the key polices and when these were last updated, with evidence of review within the required timescale.	**Management response:** Noted. The Council is satisfied that all key policies and procedures in respect of financial and workforce management, regulatory controls and compliance and general governance are fit for purpose and reviewed appropriately. The Council does not have the resources to undertake a comprehensive review of all existing policies however any changes in legislation, national policy or where applicable industry best practice is reflected as a matter of course. The existing Whistleblowing policy will be refreshed to incorporate the Protect Code of Practice (formally Public Concern at Work). **Implementation date**: ongoing, with whistleblowing updated for 31 March 2019 **Responsible officer**: Information Compliance Manager, with whistleblowing the Chief Internal Auditor.	**Implemented** Management agreed to update the whistleblowing policy to reflect the Protect Code of Practice. We confirmed that this update has been completed.

Prior Year Recommendations (continued)

DRAFT

Original finding and risk	Recommendation	Original actions	Status
6. (Grade two) Following the public pound - *Audit dimension: value for money*			
We discussed with management the approach undertaken for ensuring Council's compliance with its Following the Public Pound code ("FtPP"). In prior years, the Council presented annually to the SP&R Committee to ensure value for money and best practice arrangements are in place in relation to the Council's use of companies, trusts and other arm's length bodies. We were unable to verify that such an exercise had been undertaken during 2017-18. There is a risk that the Council may not be complying with the FtPP Code, and may not be demonstrating its value for money in the use in other external parties.	We recommend that management reverts to the FtPP reporting undertaken in prior years, whereby the results are communicated to the relevant committee of the Council, or consider an alternative in order to provide assurance over use of public funds.	**Management response:** For 2017/18, detailed information in respect of FtPP activities was available on the Elected Members internal intraweb site. This will now be made publicly available. For 2018/19, the Council will revert to providing a comprehensive update to the SP&R Committee on the Council's FtPP code. **Implementation date:** 30 June 2019 **Responsible officer:** Corporate Procurement Manager	**Implemented** Through discussion with management, and as per management's response for 2017-18, the Council will revert to providing a comprehensive update to the SP&R Committee before 30 June 2019. As a result of this finding, the Council retrospectively published the report as an addendum to the Strategic Policy and Resources Committee meeting of 13 June 2018. The 2018-19 FtPP reporting was included as part of the procurement update at 12 June 2019 meeting of the SP&R.

Perth and Kinross Council group structure

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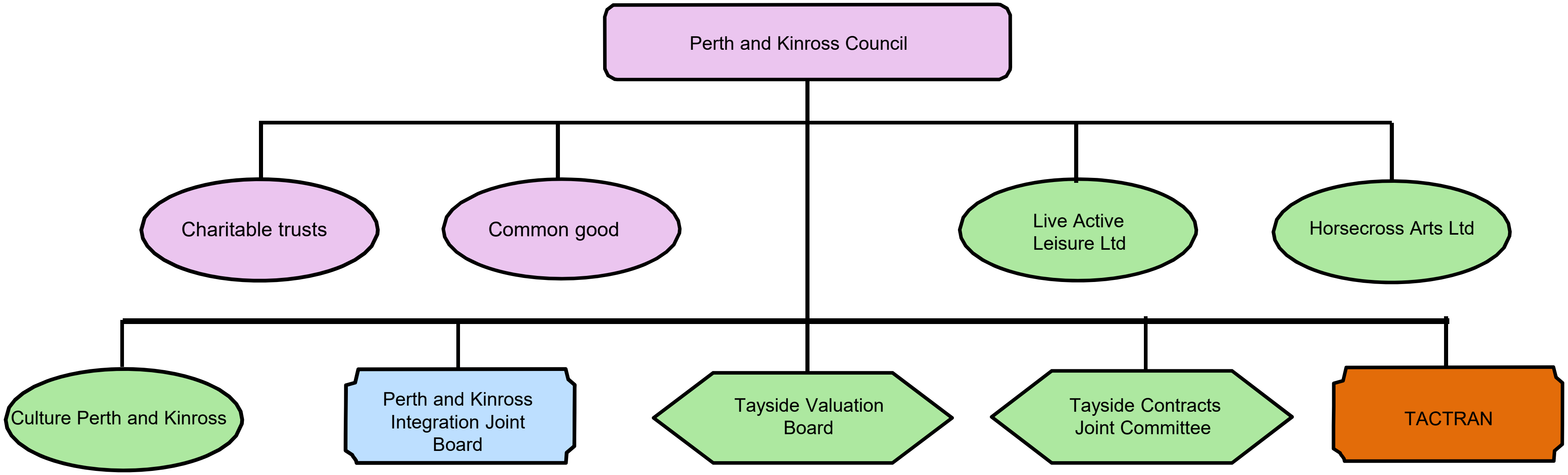
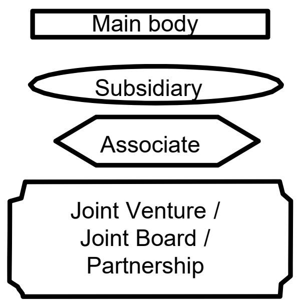
The below diagram sets out our scoping of group entities in relation to the group financial statements, and related group audit instructions.





Key

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

Appendix seven

Grant claims and WGA return

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

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RETURN	DESCRIPTION	STATUS
Whole Government Accounts ("WGA")	WGA is the consolidated financial statements for all components of government in the UK. Most public bodies are required to provide information for the preparation of WGA. External auditors are required to review and provide assurance on WGA returns over a prescribed threshold.	We did not identify any exceptions in our testing and expect to issue an unqualified opinion on the WGA in advance of the 30 September deadline.
Non Domestic Rates ("NDR")	NDR in Scotland is collected by local authorities on an agency basis and notionally placed in a national 'pool', which is then redistributed among authorities based on each authority's estimated collection levels. In April each year, authorities submit an estimate of their expected NDR following the year end, authorities are required to submit their actual NDR yield, known as 'the notified amount' in a final return to the Scottish Government.	We did not identify any exceptions in our testing and issued an unqualified opinion on the NDR return.
Housing Benefits ("HB")	The HB subsidy scheme is the means by which local authorities claim subsidy from the Department for Work and Pensions ("DWP") towards the cost of paying HB in their local areas. Claimants benefits either by direct application to the authority or by applying simultaneously for income support/jobseekers allowance and HB to the DWP. Eligibility for, and the amount of, HB is determined in all cases solely by the local authority. Monthly instalments of subsidy are made by the DWP on the basis of authorities' estimates in March and August. Final subsidy claims are made on claim form MPF720B which requires to be certified by the external auditor.	Our testing is ongoing and we expect to issue an opinion on the HB return in advance of the 30 November deadline.
Education Maintenance Allowance ("EMA")	EMA is a means tested weekly allowance payable to young people from low income families to encourage them to remain in education beyond the compulsory school leaving age. Local authorities manage the delivery of the EMA programme in respect of schools, home education, and all other learning other than college provision. EMA payments comprise a weekly allowance of £30 and are made by local authorities to eligible young people. The Scottish Government reimburses the costs incurred by authorities through monthly payments of grant. An allowance for the costs of administering the programme is also paid by the Scottish Government.	We did not identify any exceptions in our testing and issued an unqualified opinion on the EMA return.

Appointed auditor's responsibilities

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AREA	APPOINTED AUDITOR'S RESPONSIBILTIES	HOW WE HAVE MET OUR RESPONSIBILITIES
Statutory duties	Undertake statutory duties, and comply with professional engagement and ethical standards.	Appendix two outlines our approach to independence.
Financial statements and related reports	Provide an opinion on audited bodies' financial statements and, where appropriate, the regularity of transactions. Review and report on, as appropriate, other information such as annual governance statements, management commentaries, remuneration reports, grant claims and whole of government returns.	Page eight summarises the opinions we have provided. Pages 15 reports on the other information contained in the financial statements, covering the annual governance statement, management commentary and remuneration report. Page 16 reports that we have not yet issued opinions in respect of all grant claims and whole of government accounts.
Financial statements and related reports	Notify the Auditor General or Controller of Audit when circumstances indicate that a statutory report may be required.	On page 22, we concluded on the effectiveness and appropriateness of arrangements and systems of internal control, including risk management, internal audit, financial, operational and compliance controls.
Corporate governance	Participate in arrangements to cooperate and coordinate with other scrutiny bodies.	Page 28 includes arrangements to cooperate and coordinate with other scrutiny bodies.
Wider audit dimensions	Demonstrate compliance with the wider public audit scope by reviewing and providing judgements and conclusions on the audited bodies': - Effectiveness of performance management arrangements in driving economy, efficiency and effectiveness in the use of public money and assets; - Suitability and effectiveness of corporate governance arrangements; - Financial position and arrangements for securing financial sustainability; - Effectiveness of arrangements to achieve best value; and - Suitability of arrangements for preparing and publishing statutory performance information	We set out our conclusions on wider scope and best value in from page 18 onwards.

KPMG's Audit quality framework

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

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

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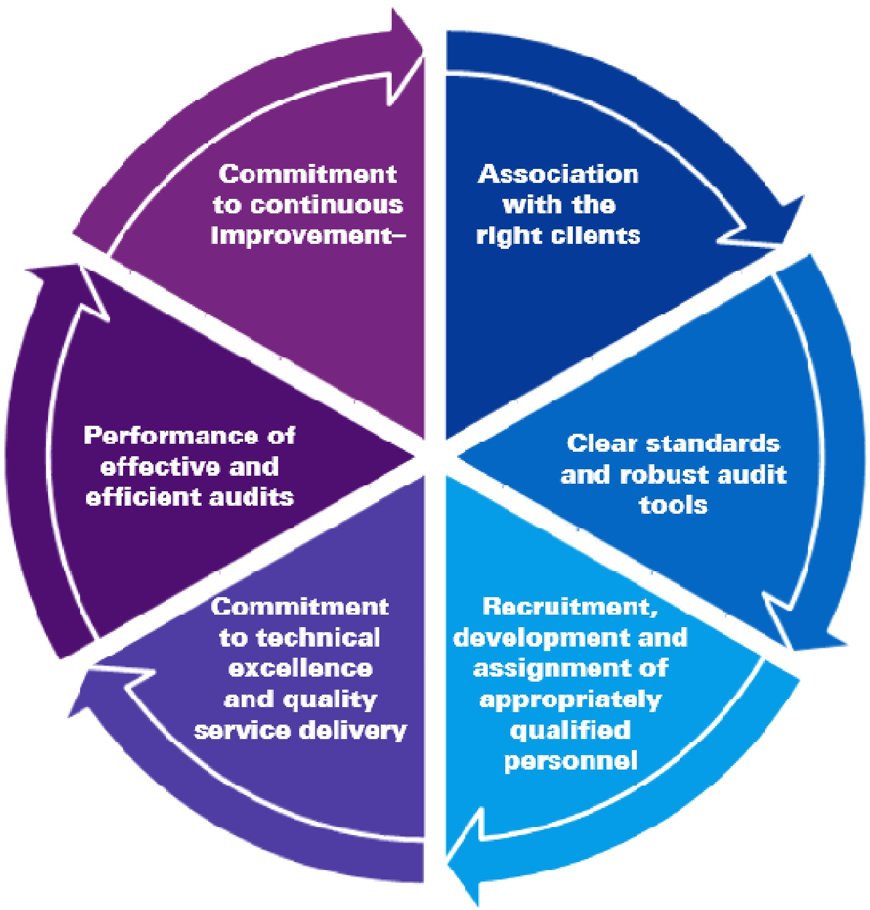
- Comprehensive effective monitoring processes
- Proactive identification of emerging risks and opportunities to improve quality and provide insights
- Obtain feedback from key stakeholders
- Evaluate and appropriately respond to feedback and findings

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

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



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

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

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

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