

Perth & Kinross Council

Report to those charged with governance on the 2012/13 audit



Prepared for Perth and Kinross Council Audit Committee and the Head of Finance
25 September 2013

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Introduction

1. International Standard on Auditing (UK and Ireland) 260 (ISA 260) requires auditors to report specific matters arising from the audit of the financial statements to those charged with governance of a body in sufficient time to enable appropriate action.
2. This report sets out for the Audit Committee's consideration the matters arising from the audit of the financial statements for 2012/13 that require to be reported under ISA 260. We are drawing to your attention those matters we think are worthy of note, so that you can consider them before the financial statements are approved and certified. An audit of the financial statements is not designed to identify all matters that may be relevant to those charged with governance. It is the auditor's responsibility to form and express an opinion on the financial statements prepared by management, however this does not relieve management of their responsibilities in this respect. This report has been prepared for the use of Perth & Kinross Council and no responsibility to any third party is accepted.

Status of the Audit

3. Our work on the financial statements is now substantially complete. The issues arising from the audit were included in a matters arising schedule issued and discussed with the Chief Accountant on 17 September 2013.
4. We received the unaudited financial statements on 28 June 2013, in accordance with the agreed timetable. The working papers were of a high standard and the staff provided good support to the audit team and we completed our on-site fieldwork on 19 September 2013.

Matters to be reported to those charged with governance

Conduct and scope of the audit

5. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined in the Annual Audit Plan presented to the Audit Committee on 27 March 2013, and follow the requirements of the Code of Audit Practice prepared by Audit Scotland in May 2011.
6. As part of the requirement to provide full and fair disclosure of matters relating to our independence we can confirm that we have not undertaken non-audit related services. The 2012/13 agreed fee for the audit was disclosed in the Annual Audit Plan and as we did not require to carry out any additional work outwith our planned audit activity this fee remains unchanged.

Fraud

7. In our Annual Audit Plan we highlighted the responsibility audited bodies have for establishing arrangements to prevent and detect fraud and other irregularities. In presenting this report to the Audit Committee we seek confirmation from those charged with governance of any

instances thereof that have arisen that should be brought to our attention. A specific confirmation from management in relation to fraud has been included in the draft letter of representation.

Audit opinion & representations

8. Subject to the satisfactory conclusion of any outstanding matters and receipt of a revised set of financial statements for final review, we anticipate being able to issue an unqualified auditor's report on 25 September 2013 (the proposed report is attached at [Appendix A](#)). There are no anticipated modifications to the audit report.
9. We are required to report to those charged with governance all unadjusted misstatements which we have identified during the course of our audit, other than those of a trivial nature which we regard as errors less than £1,000.
10. A number of presentational and monetary adjustments were identified within the financial statements during the course of our audit. These were discussed with officers who agreed to amend the unaudited financial statements. The effect of these adjustments is to increase the surplus on provision of services for the year shown in the Comprehensive Income and Expenditure Account by £0.803 million with no impact on the general fund balance. Net assets recorded in the balance sheet have also increased by this amount.
11. A few monetary errors were identified which were not processed through the financial statements by management. If adjusted these would have a net effect of increasing by £0.045 million the surplus on provision of services for the year shown in the Comprehensive Income and Expenditure account. The net impact on the balance sheet would be that net assets would increase by £0.005 million. It is our responsibility to request that all errors be corrected although the final decision on this matter rests with those charged with governance taking into account advice from officers and materiality. Management explained that these adjustments were not material to the financial statements.
12. As part of the completion of our audit we seek written assurances from the Head of Finance on aspects of the financial statements and judgements and estimates made. A draft letter of representation under ISA580 is attached at [Appendix B](#). This should be signed and returned by the Head of Finance together with the signed financial statements prior to the independent auditor's opinion being certified.

Accounting and internal control systems

13. No material weaknesses in the accounting and internal control systems were identified during the audit which could adversely affect the ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.

Significant findings from the audit

14. In our view, the following issues require to be brought to your attention regarding the appropriateness of accounting policies or accounting estimates and judgements, the timing of transactions, the existence of material unusual transactions or the potential effect on the financial statements of any uncertainties.
15. **Common Good Borrowing:** The Kinross Common Good has been in debt to the Council over several years and as at 31 March 2013 the outstanding balance is £0.017 million. Common Good funds do not have powers to borrow and this is therefore technically a breach of statute. Officers have advised auditors that the outstanding balance will be repaid from the sale of Kinross Town Hall which is expected to conclude during 2013/14. As the balance is trivial, and the amount immaterial to the accounts as a whole we have not drawn attention to this in our proposed auditor's report.

Resolution: Officers will continue to assess the position during the year with a view to resolving the technical breach in advance of the 2013/14 financial statements preparation.
16. **Going Concern:** The Group balance sheet as at 31 March 2013 discloses an excess of liabilities over assets of £97.3 million. This is mainly due to the incorporation of the net liabilities of Tayside Fire & Rescue Board and Tayside Joint Police Board as associates. The boards' liabilities are due to the accrual of pension liabilities in accordance with International Accounting Standard 19 (Employee Benefits). The Police and Fire Reform (Scotland) Act 2012 wound up both Tayside Joint Police Board and Tayside Fire and Rescue Board on 31 March 2013 and transferred the functions to the new Police Scotland and Scottish Fire and Rescue Service bodies. The Scottish Government, under the Police and Fire Reform (Scotland) Act 2012 has a legal obligation to provide the new services with the funding needed in the future to meet all pension liabilities as and when they fall due. The Council and its group have therefore adopted a 'going concern' basis for the preparation of the financial statements
17. The Head of Finance will provide formal assurance, in the letter of representation, as to the group's ability to continue as a going concern. We are satisfied that the process which the Council has undertaken to consider the group's ability to continue as a going concern is reasonable.
18. **Group Accounts- Subsidiary:** The Council's group accounts highlight that all subsidiary and associate accounts have been prepared on a 'going concern' basis. However, Horsecross Arts Ltd, one of the Council's subsidiary companies, are in discussions with their auditors to confirm whether this is appropriate. As a result audited accounts for Horsecross Arts Ltd are not expected to be available prior to completion of the 2012/13 audit of the Council's accounts. The figures in the group accounts have therefore been based on unaudited figures. The unaudited accounts figures presently included for this subsidiary are net expenditure in the Group Comprehensive Income & Expenditure Statement of £0.082 million and net assets on the Group Balance Sheet of £0.041 million. Management's view is that there is unlikely to be

a material impact on the group accounts arising from any adjustments to the unaudited position and we concur with this view.

Resolution: A disclosure has been made in the audited accounts that unaudited figures have been used for this subsidiary. Council officers are working with Horsecross Arts Ltd to identify the most appropriate means of resolving the uncertainty around its financial position.

19. **Accounting arrangements for Tayside Contracts** - Services provided by Tayside Contracts are jointly administered and controlled by Perth & Kinross Council, Dundee City Council and Angus Council. We raised concerns in last year's audit about the appropriateness of the accounting treatment for Perth & Kinross Council's share in the group accounts when the arrangements set out in the Minute of Agreement were significantly different from Tayside Contract's working practices. Legal representatives from the 3 councils have subsequently met and are close to concluding a revised legal agreement which will reflect operating practice. In addition, a review of the accounting arrangements was undertaken by finance officers from the 3 councils' and a consistent approach was adopted within the three sets of 2012/13 accounts submitted for consideration to the respective external auditors. Having considered the financial accounting requirements, there is sufficient flexibility within the Code of Practice on Local Authority Accounting to permit bodies which may not be entities in a legal sense to be regarded as separate bodies for accounting purposes. The impact of this was to reflect gross income (£16.6 million) and gross expenditure (£16.3 million) on the face of the Group Comprehensive Income & Expenditure Statement. There was no change required to the Group Balance Sheet which includes gross assets of £9.4 million and gross liabilities of £20.3 million. We also note that proposed changes to the Code which, will be effective from 2014/15, place more emphasis on jointly controlled arrangements rather than entities. We are satisfied with the approach adopted and concur that Tayside Contracts should be accounted for as a jointly controlled entity.

20. **Remuneration Report - Termination packages:** The Code requires termination packages included in the Remuneration Report to be accounted for on an IAS19 basis. The unaudited accounts included these payments on a funded basis.

Resolution: The actuary has now provided the required figures for inclusion in the audited statements.

21. **Internal Recharges:** There are various transactions within and between services which result in a cost to one service and income to another. However, these transactions are internal to the Council and require to be eliminated from the final accounts. We found that the Comprehensive Income & Expenditure Statement in the unaudited accounts had not been adjusted to remove these internal recharges. Both gross income and gross expenditure were therefore overstated by £31 million, although this had no impact on the net position.

Resolution: Gross income and gross expenditure in the audited accounts were both reduced by £31 million.

22. **Equal Pay:** Within the financial statements the Council has identified a contingent liability for claims under the Equal Pay Act 1970 which may be lodged against the Council at a future

date by current and former employees. Equal pay claims relate to cases being pursued through the Employment Tribunal process and the risk of potential new claims in the future. By implementing a local Single Status Agreement from 1 August 2007 the Council has sought to address issues of pay equality. The Council has provided £0.763 million for equal pay claims in the 2012/13 financial statements where it is likely that payment will be made. In addition the Council has earmarked £1 million for settling potential equal pay liabilities as at 31 March 2013. The Council's reserves strategy draws attention to the fact that there is considerable degree of uncertainty in estimating the cost of any successful equal pay claims. We are satisfied as to the approach adopted by the Council and the disclosures included in the financial statements.

Outstanding matters

- 23. Tayside Contracts - Minute of Agreement:** In 2011/12 it was agreed that the Minute of Agreement would be reviewed during 2012/13 to ensure it reflected the actual operation and governance of Tayside Contracts. This was not resolved during the year although it is now expected that a revised Minute of Agreement will be in place before the end of this calendar year.

Acknowledgements

- 24.** We would like to express our thanks to the staff of Perth & Kinross Council for their help and assistance during the audit of this year's financial statements which has enabled us to provide an audit report within the agreed timetable.

Appendix A: Proposed Independent Auditor's Report

Independent auditor's report to the members of Perth & Kinross Council and the Accounts Commission for Scotland

I certify that I have audited the financial statements of Perth & Kinross Council and its group for the year ended 31 March 2013 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the group and authority-only Movement in Reserves Statements, Comprehensive Income and Expenditure Statements, Balance Sheets, and Cash Flow Statements, the authority-only Housing Revenue Account, the Statement of Movement on the Housing Revenue Account Balance, the Council Tax Income Account, the Non Domestic Rate Account, the Loans Fund, Charitable Trusts, Common Good and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 (the 2012/13 Code).

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 125 of the Code of Audit Practice approved by the Accounts Commission for Scotland, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Respective responsibilities of the Head of Finance and auditor

As explained more fully in the Statement of Responsibilities, the Head of Finance is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Accounts Commission for Scotland. Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the Perth & Kinross Council's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Head of Finance; and the

overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the statement of accounts to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view in accordance with applicable law and the 2012/13 Code of the state of the affairs of the group and of Perth & Kinross Council as at 31 March 2013 and of the income and expenditure of the group and the Council for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2012/13 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973 and the Local Government in Scotland Act 2003.

Opinion on other prescribed matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 1985; and
- the information given in the Explanatory Foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I am required to report by exception

I am required to report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit; or
- the Annual Governance Statement does not comply with Delivering Good Governance in Local Government; or
- there has been a failure to achieve a prescribed financial objective.

I have nothing to report in respect of these matters.

Stephen Boyle CPFA
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27 September 2013

Dear Mr Boyle

Perth & Kinross Council

Annual Accounts 2012/13

1. This representation letter is provided in connection with your audit of the financial statements of Perth & Kinross Council for the year ended 31 March 2013 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view of the financial position of Perth & Kinross Council and its group, as at 31 March 2013 and its comprehensive income & expenditure for the year then ended.
2. I confirm to the best of my knowledge and belief, and having made appropriate enquiries of the Chief Executive and Executive Officer Team, the following representations given to you in connection with your audit of Perth & Kinross Council for the year ended 31 March 2013.

General

3. I acknowledge my responsibility and that of Perth & Kinross Council for the financial statements. All the accounting records requested have been made available to you for the purposes of your audit. All material agreements and transactions undertaken by Perth & Kinross Council have been properly reflected in the financial statements. All other records and information have been made available to you, including minutes of all management and other meetings.
4. The information given in the Statement of Accounts, including the Explanatory Foreword by the Head of Finance and Remuneration Report, presents a balanced picture of Perth & Kinross Council and is consistent with the financial statements.
5. I confirm that the effects of uncorrected misstatements are immaterial, individually and in aggregate, to the financial statements as a whole. I am not aware of any uncorrected misstatements other than those identified in the auditor's report to those charged with governance (ISA260).

Financial Reporting Framework

6. The financial statements have been prepared in accordance with Code of Practice on Local Authority Accounting in the United Kingdom 2012/13, and in accordance with the requirements of

Local Government (Scotland) Act 1973, the Local Government in Scotland Act 2003 and the Local Authority Accounts (Scotland) Regulations 1985 including all relevant presentation and disclosure requirements.

7. Disclosure has been made in the financial statements of all matters necessary for them to show a true and fair view of the transactions and state of affairs of Perth & Kinross Council and its group for the year ended 31 March 2013.

Accounting Policies & Estimates

8. All material accounting policies adopted are as shown in the Statement of Accounting Policies included in the financial statements. The continuing appropriateness of these policies has been reviewed since the introduction of IAS 8 and on a regular basis thereafter, and takes account of the requirements set out in the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.
9. The significant assumptions used in making accounting estimates are reasonable and properly reflected in the financial statements. There are no changes in estimation techniques which should be disclosed due to their having a material impact on the accounting disclosures.

Going Concern

10. I have assessed the Council and its group's ability to carry on as a going concern, as identified in the Statement of Accounting Policies, and have disclosed, in the financial statements, any material uncertainties that have arisen as a result. At this time I await further information in relation to the status of Horsecross Arts Ltd.

Related Party Transactions

11. All transactions with related parties have been disclosed in the financial statements. I have made available to you all the relevant information concerning such transactions, and I am not aware of any other matters that require disclosure in order to comply with the requirements of IAS24, as interpreted by Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

Events Subsequent to the Balance Sheet Date

12. There have been no material events since the date of Balance Sheet which necessitate revision of the figures in the financial statements or notes thereto including contingent assets and liabilities.
13. Since the date of the Balance Sheet no events or transactions have occurred which, though properly excluded from the financial statements, are of such importance that they should be brought to your notice.

Corporate Governance

14. I acknowledge as Section 95 Officer my responsibility for corporate governance arrangements. I confirm that I have disclosed to the auditor all deficiencies in internal control of which I am aware.
15. Corporate governance arrangements have been reviewed and the disclosures I have made are in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13. There have been no changes in the corporate governance arrangements or issues identified, since the 31 March 2013, which require disclosure.

Fraud

16. I have considered the risk that the financial statements may be materially misstated as a result of fraud. I have disclosed to the auditor any allegations of fraud or suspected fraud affecting the financial statements. There have been no irregularities involving management or employees who have a significant role in internal control or that could have a material effect on the financial statements.

Assets

17. The assets shown in the Balance Sheet at 31 March 2013 were owned by Perth & Kinross Council, other than assets which have been purchased under operating leases. Assets are free from any lien, encumbrance or charge except as disclosed in the financial statements.

Liabilities

18. All liabilities have been provided for in the books of account, including the liabilities for all purchases to which title has passed prior to 31 March 2013.

Carrying Value of Assets and Liabilities

19. The assets and liabilities have been recognised, measured, presented and disclosed in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13. There are no plans or intentions that are likely to affect the carrying value of classification of the assets and liabilities within the financial statements.

Provisions

20. Provisions have been made in the financial statements for all material liabilities which have resulted or may be expected to result, by legal action or otherwise, from events which had occurred by 31 March 2013 and of which the Council could reasonably be expected to be aware. The amount recognised as a provision is the best estimate of the expenditure likely to be required to settle the present obligation at 31 March 2013.

Commitments

21. All commitments under capital contracts have been disclosed in Note 22 to the Accounts. Any other significant commitments or obligations which might adversely affect the Council have been disclosed.

Leases

22. All leasing arrangements have been reviewed and correctly classified as operating or finance within the financial statements. Lease arrangements granted by the Council have been classified and disclosed within the financial statements.

Loans Fund

23. All borrowings have been confirmed as being compliant with the provisions of the Local Government (Scotland) Act 1975.

Local Government in Scotland Act 2003

24. Following the introduction of the statutory duty to demonstrate Best Value under the Local Government Scotland Act 2003, trading service accounts should be prepared for all significant trading operations in accordance with guidance issued by CIPFA/LASAAC. Following a review the Council have identified that there are no significant trading operations

Other Matters

25. Except as disclosed in the financial statements, the results for the period were not materially affected by:
- transactions of a sort not usually undertaken by Perth & Kinross Council;
 - circumstances of an exceptional or non-recurrent nature;
 - charges or credits relating to prior periods;
 - any change in the basis of accounting.

Yours sincerely

John Symon ACA

Head of Finance