KPMG

Perth & Kinross Council

Annual audit report to the Members of Perth & Kinross Council and the Controller of Audit for the year ended 31 March 2022

28 October 2022

Contents

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 & 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 & 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 Vicki Bibby, Audit Scotland, 4th Floor, 102 West Port, Edinburgh, EH3 9DN.

Executive summary

Significant risks

Pages 7-12

- Management override of controls fraud risk — Page 7
- 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 19

Open recommendations

Appendix four and five

	Number
Significant recommendations	1
Other recommendations	3
Minor recommendations	5

Accounting judgements related to estimates

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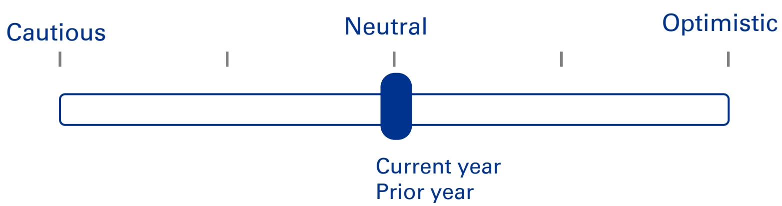

Overall we are satisfied with the key accounting judgments taken and that discussion of these matters in the section of the accounting policies appropriately addresses the matters we have communicated to you.

Going concern

Page 14

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

Misstatements

Appendix three

We reported one misstatement relating to a disclosure note which was corrected.

There was one judgemental uncorrected misstatement related to valuation of property.

Scope and responsibilities

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.

Our annual audit report is designed to summarise our opinions and conclusions on significant issues arising from our audit. It is addressed to both those charged with governance at the Council and the Controller of Audit. The scope and nature of our audit are set out in our audit strategy document which was presented to the Perth and Kinross Council on 28 March 2022.

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 the audit and risk committee, together with previous reports to the audit and risk 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

Audit opinion
Following approval of the annual accounts by the audit and risk committee, we have issued an unqualified opinion on the truth and fairness of the state of the Council's affairs as at 31 March 2022, and of the deficit on the provision of services for the year then ended. We have also issued an unqualified opinion on the truth and fairness of the state of the Perth and Kinross Council Charitable Trusts' affairs as at 31 March 2022. 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 2021-22 ("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
After being considered by the audit and risk committee, the signed draft accounts were made available to us on 28 June 2022. The Council's finance team continued to perform well in its delivery of high quality annual accounts, particularly considering the continuing operational impact of Covid-19. We appreciate that management effectively prioritised preparation of the financial statements and worked with KPMG to ensure continued responsiveness to audit. We consider that Council officers are particularly diligent in preparation of the annual accounts and provision of supporting documentation with a clear focus on accuracy of attention to detail which is commendable.
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
There was one misstatement (disclosure related) identified throughout the audit which was corrected by management. There was one uncorrected misstatement (judgemental) which related to valuation of property. Further details are included on page 39.
Written representations
Our representation letter will be amended to include additional representations on the treatment of Heritage Assets. There were no further additional representations to those that are standard as required for our audit.

Materiality and summary of risk areas

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 £10.0 million for the Council's standalone financial statements, and £10.2 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 £7.5 million, and for the Group accounts it was £7.7 million. We report all identified misstatements greater than £250,000.

Forming our opinions and conclusions

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

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

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

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

Significant risks:

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

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

No changes to significant risks or other matters were identified during the course of our audit.

Most significant assessed risks of material misstatement

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

Significant risks

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

Financial statements and accounting

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 pages 23- 26.* Our testing of journal entries was satisfactory and we have obtained sufficient audit evidence as a result of our planned procedures. No issues were identified. We did not identify any significant transactions that are outside the Council's normal course of business, or are otherwise unusual.

Significant risks (continued)

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 expenditure specifically 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 income and expenditure are appropriately recognised.* Our review of variances of actual performance against budget did not highlight any errors. Testing of the operating effectiveness of controls over the procurement process and material invoice approval were performed. Substantive testing was performed in place of the planned control testing over capital vs revenue allocation with no issues noted. We performed testing of expenditure cut-off in the periods immediately preceding and subsequent to the annual accounts year end date. This involved testing transactions and journals either side of the cut-off date to ensure expenditure has been allocated to the appropriate period. We also undertook a detailed search for unrecorded liabilities, as well as testing estimates over accruals. We did not identify any errors in expenditure cut-off as a result of this testing. No exceptions were identified in respect of the specific debtors, creditors, accruals, prepayments, or provisions testing performed. No indications of management bias were identified.

Significant risks (continued)

SIGNIFICANT RISK	OUR RESPONSE	AUDIT CONCLUSION
Financial statements and accounting **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 2021-22, nursery, primary and secondary schools, bus stations, Pullar House car park, industrial and business investment properties, shops, Breadalbane reading rooms and library, other miscellaneous non–operational properties, and assets transferred between balance sheet categories 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 1 April 2021 for valuation of property for the 31 March 2022 year end, and 1 August 2021 for all investment properties. We consider there to be a risk of material movement between these dates.	Our procedures included: **Assets revalued in the year:** A number of the Council's assets are revalued on an annual basis, including investment properties and assets held for sale. In relation to those assets which have been revalued during the year, we assessed the valuer's qualifications, objectivity and independence to carry out such valuations. We tested the accounting treatment for assets revalued to challenge whether the accounting treatment is appropriate and considered valuation inputs and assumptions used in the approach above. We also assessed the risk of the valuation changing materially during the year, or between the date of valuation and the year end, including sufficient scrutiny to address the impact that Covid-19 has had on the economic and market conditions over that period. **Assessing methodology choice and benchmarking assumptions:** We reviewed management's assessment of impairment indicators and assessed 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 sample of seven assets to agree calculation inputs to supporting evidence, considered in detail the revaluation calculations, and challenged the underlying assumptions. These assets were considered representative of the asset categories subject to revaluation in the year.	We found the resulting valuation of primary and secondary schools, Pullar House car park, other miscellaneous non–operational properties and investment properties to be acceptable and valued on an appropriate basis, which resulted in a net decrease in the assets revalued. We assessed the design and implementation of a control ensuring sufficient segregation of duties and authorisation of valuations. We concluded that the control was sufficiently designed and implemented such that senior colleagues responsible for review and valuation were appropriately qualified. We inspected management's roll forward of valuations from the date of valuation to the year end date and confirmed it was completed appropriately and in compliance with the principles of the CIPFA Code. Our internal valuation specialist, in conjunction with the audit team, concluded that the valuation methodology used by the Council's valuer was appropriate and consistent with the requirements of the CIPFA Code. We challenged the assumptions used in calculating the valuations including Building Cost Information Service ("BCIS") rates, estimated useful lives, and comparable data. The supporting documentation provided for the assumptions was readily available and of sufficient quality. We challenged management in respect of the tendency for school external works valuations having no obsolescence/depreciation applied. As a result, a further analysis of external works and possible deprecation thereon was performed by management, with oversight by the Council's internal valuer. The estimated impact was an additional obsolescence/depreciation charge of £6.8 million. Refer to page 39 for further details.

Significant risks (continued)

SIGNIFICANT RISK	OUR RESPONSE	AUDIT CONCLUSION
Revaluation of property, plant and equipment and investment property (continued) 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. The 2021-22 Code also requires consideration that the carrying amount of assets do not differ materially from the current value at the end of the reporting period. Therefore, we consider there to be a risk in relation to the assets not revalued in the year, as their current value at year end may be materially different.	Continued... **Assets not revalued in the year:** 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 considered and challenged the assumptions and judgements made by the Council in respect of their assessment of property valuations since 1 April 2016. We reviewed and tested the calculations and input data used by the Council to inform them of any indicators of impairment, or conversely property value increases that could represent a material misstatement.	Continued... We assessed the design and implementation of the year end review of non-revalued assets. In addition, this review was substantively tested by way of reperforming the review to ensure it was mathematically accurate and agreed to third party evidence where external rates were used. No issues were noted with this testing and we consider the valuation of assets not revalued in the year remains appropriate. Management and the Council's valuer have performed an impairment review which considers the potential impact on all significant categories of assets. We reviewed this assessment and undertook our own independent analysis to determine whether the non-revalued assets valuation was in compliance with the 2021-22 Code. We did not identify any non-compliance, or indicators of impairment for assets not revalued in the year.

Significant risks (continued)

SIGNIFICANT RISK	OUR RESPONSE	AUDIT CONCLUSION
Retirement benefit obligation The net pension liability (£56.0 million as at 31 March 2022, including assets of £1,084 million) represents a material element of the Council's Balance Sheet. The Council is an admitted body of Tayside Pension Fund, which had its last triennial valuation completed as at 31 March 2020. The valuation of the Local Government Pension Scheme relies on a number of assumptions, most notably around the actuarial assumptions, and actuarial methodology which results in the Council's overall valuation. 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 who uses it, together with management's review of assumptions, 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. — Considering the consistency of methodology **Assessing transparency:** — Considering the adequacy of the disclosures in respect of the sensitivity of the deficit to these assumptions — Assessing if the disclosures within the financial statements are in accordance with the 2021-22 CIPFA Code's requirements.	*We are satisfied that the retirement benefit obligation:* — *is correctly recognised on the balance sheet as at 31 March 2022;* — *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 (see Appendix eight)* 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.

Significant risks (continued)

SIGNIFICANT RISK	OUR RESPONSE	AUDIT CONCLUSION
Retirement benefits (continued) **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. **McCloud and Goodwin judgements** During 2019-20, two significant judgements impacting local government pension scheme reported were concluded upon. 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. In addition, CIPFA issued guidance in prior year relating to the Goodwin case, which relates to a male survivor of a female scheme member and is alleging direct sexual orientation discrimination.	Continued... **GMP:** We discussed with management any updates regarding this matter, and how these impacted the audit. On 20 November 2020, the High Court handed down a further judgment on the Guaranteed Minimum Pension (GMP) equalisation case in relation to the Lloyds banking group pension schemes. This follows from the original judgment in October 2018 which confirmed that schemes need to equalise pensions for the effect of unequal GMPs between males and females. This latest judgment confirms that Defined Benefit (DB) schemes which provide GMPs need to revisit and where necessary top-up historical Cash Equivalent Transfer Values that were calculated based on unequalised benefits. **McCloud:** CIPFA issued a supplement to CIPFA Bulletin 5 to provide an update on the McCloud and Goodwin cases in respect of pension liabilities. It confirmed that the Scottish Government consultation on proposals to provide a remedy to the McCloud and Sargeant cases as an adjusting event. As noted in our previous year's annual audit report, no further changes were made to the calculation of the pension liability, however, we continue to monitor the Scottish Government's consultation to determine whether further changes are required. **Goodwin, Brewster and Langford:** For the Goodwin case, although proposals have not yet been published, a statement from the Treasury confirmed that changes will be required that will increase pension liabilities. A contingent liability was disclosed in the 2019-20 annual accounts in respect of the Goodwin case, and we agreed that no disclosure was required in respect of the 2021-22 annual accounts due to the materiality of the impact, but we will continue to consider any guidance or statements from government which may quantify a change in liability. The other two cases apply to a small proportion of member's benefits payable in certain circumstances.	Continued... **Guaranteed minimum pensions ('GMP') equalisation** Full allowance for the 2018 GMP equalisation ruling was taken into account by the Council during 2019-20, and we are satisfied no further consideration is required. **McCloud consultation** The Employer recognised an additional liability of 0.6% of the DBO for McCloud in 2019, which we assessed for year-end 2019. This adjustment has been carried forward to 31 March 2022. There has been no significant changes to key assumptions, and in our view the Employer's allowance in the DB obligation is appropriate. **Goodwin, Brewster and Langford cases** We have discussed such rulings with each of the actuarial firms (including management's actuary), who communicated that they have made no allowance for them on the grounds of materiality. An estimate may be required in future once more is known but we agree with a nil allowance at this time given the difficulty in obtaining appropriate data to produce a credible estimate, and the likelihood that the impact would be immaterial in all but very exceptional circumstances.

Other areas of audit focus

Other area of audit focus	OUR RESPONSE	AUDIT CONCLUSION
Capital expenditure The Council has a six year £723 million capital plan, which includes the Cross Tay Link Road, Perth High School, and Perth City Hall upgrade projects. 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 not a fraud risk relating to the financial statements.	Our audit approach included: **Control design:** – Tested the design and implementation of the control ensuring all movements of £50k or above between actual spend and budgeted spend are appropriately explained and reported. **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. – Assessed a sample of items allocated to revenue expenditure to determine whether they are correctly classified. – Reviewed and corroborated manual journals to vouch expenditure is correctly allocated.	*We have concluded that the treatment of capital expenditure is satisfactory*. No exceptions were identified in the tests of detail, with supporting documentation available for each item sampled. We tested capital commitments as disclosed in the accounts and identified one project amounting to £24.9 million which had no contractual or legal commitment as at year end due to delays in commencing the project. This project was removed from the capital commitment note and the note was corrected in the accounts. Refer appendix three and action plan four.

Going concern

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 £741.8 million (2020-21 £651.1 million) as at the balance sheet date. Net assets increased in 2021-22 by £90.7 million, reflecting the total comprehensive income for the year and accounting adjustments required by the CIPFA Code (see page 20 for further detail).

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

The Council is in a net asset position, and it considers that the confirmed Scottish Government funding (which includes non-domestic rates income) of £308.3 million is sufficient to meet debts as they fall due. The Council also has reasonable certainty over income sources, such as Council Tax income. Financial assets comprising short term investments, and cash and cash equivalents were £247.7 million (2020-21: £188.8 million) as at 31 March 2022. This is offset by an increase of £82.0 million in long-term borrowings.

The Council has produced and approved its six year medium term financial plan (MTFP) for 2022 – 2028 in November 2021 which supports the ability of the Council to continue as a going concern. The MTFP is expected to be revised at the Council meeting in September 2022.

In recent financial years, there has been a managed reduction in the overall cost base and further efficiency savings are incorporated into budgets. The Council has considered savings proposals of £5.825 million relating to 2021/22 of which £3.891 million were accepted.

A financial strategy was presented to elected members in June 2022 which provided high level commentary on the scale of the financial challenge facing the Council over the short to medium term. The measures set out within the financial strategy seek to balance the level of income and reserves which the Council has available and to avoid having to make anticipated level of expenditure cuts in one year.

Conclusion

The Council has a strong net assets position supported by £16.6 million uncommitted reserves as at 31 March 2022.

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

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

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

Going concern (continued)

Response to Covid-19

The financial implications of the Covid-19 pandemic continued to be a recurring issue throughout the year resulting in the creation of the COVID-19 earmarked reserve following approval from the Council in January 2021. The current uncommitted balance of the Covid reserve is £6.73 million as at end of August 2022. This reserve is earmarked to mitigate the future financial impact of Covid-19. Officers continued to provide further updates on Covid-19 pressures throughout the year.

An area of complexity included the accounting for the numerous Covid-19 related grants funded by the Scottish Government through an agency arrangement. During the 31 March 2022 reporting period, the Council has passed on £29.9 million in Covid-related grants, with the most material being £18.7 million in Strategic Framework Business Support Fund. In addition, the Scottish Government have supplied the Council with £13.124 million for non-recurring Covid funding in 2021-22. We have tested the allocations of material grants and are satisfied that these are appropriately disclosed per LASAAC's Guidance on Accounting for Coronavirus Grants.

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

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

Financial statements and accounting

Conclusion

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

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

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

Management reporting in financial statements

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 minor 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 2021-22 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. The arrangements and disclosures surrounding Covid-19 were sufficient. We are content that the annual governance statement complies with guidance and reflects our understanding of the Council.

Group financial statements

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 3% of total assets. We planned our materiality for the charitable trusts based on the estimated 2021-22 net asset closing balance resulting in a materiality of £70,700 and a reporting threshold of £3,500. As required by audit standards, we considered our independence as part of our Council engagement, and confirm our independence of the Charitable Trusts for the year ended 31 March 2022. Our independence confirmation at appendix two applies to the Charitable Funds in addition to the Council. The engagement lead in 2021-22 continued to be Michael Wilkie.	We have issued 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 issued an unqualified opinion.
Integration Joint Board ('IJB')	A separate annual audit report is planned to be presented to the Audit and Performance Committee of the Perth and Kinross Integration Joint Board on 26 September 2022. No significant exceptions were identified during the audit.	We have issued an unqualified audit opinion for the IJB.

New accounting standards

Future accounting and audit developments

IFRS 16

In April 2022, CIPFA/LASAAC agreed to delay the implementation of IFRS 16 *Leases* until the 2024-25 financial year as a result of delays in the publication of audited local authority statement in England. The standard removes the previous classifications of operating and finance leases for lessees (with exemptions for short-term and low value leases) and requires a right-of-use asset to be recognised, with a corresponding lease liability.

The Council is currently assessing the impact of the new standard and plans to adopt the standard for the 2024-25 financial year.

Infrastructure Assets

Infrastructure assets are one of the few categories of property, plant and equipment assets measured at historical cost rather than at an asset measurement described as 'current value' by the CIPFA/LASAAC Code of Practice for Local Authority Accounting (the Code). On the move to capital accounting in 1994 it was decided that there was limited use for measuring the 'worth' of infrastructure assets in the same way as other assets in the balance sheet. At that time, infrastructure assets were brought on to the balance sheet at undischarged capital amounts (this was net of revenue contributions and capital receipts applied and grants and contributions received before 1 April 1994/1996), and this was described as (depreciated) historical cost.

During August 2022, concerns were raised by local government auditors in England that some authorities are not applying component accounting requirements appropriately when there is replacement expenditure. The issue raised by auditors relates to subsequent expenditure on infrastructure assets and specifically on whether local authorities should be assessing if there is any undepreciated cost remaining in the balance sheet for the replaced components that needs to be derecognised when the subsequent expenditure is incurred. This has led to issues relating to the reporting of gross historical cost and accumulated depreciation as elements of depreciated historical cost.

Due to the restricted timeline, an approach to deal with this issue could not be agreed and the Scottish Government agreed to provide a temporary statutory override to the Code in order to address these issues.

A local authority may choose to only apply one of the two statutory overrides or to apply both statutory overrides.

Infrastructure Assets (continued)

Statutory Override 1: This statutory override permits that, for accounting periods commencing from 1 April 2021 until 31 March 2024, a local authority is not required to report the gross cost and accumulated depreciation for infrastructure assets.

Statutory Override 2: This statutory override requires that, for the periods from 1 April 2010 to 31 March 2024, the carrying amount to be derecognised in respect of a replaced part of an infrastructure asset is a nil amount, and no subsequent adjustment shall be made to the carrying amount of the asset with respect to that part. This is required on the basis that parts of infrastructure assets are rarely replaced before the part has been fully consumed and should therefore, in most cases, be fully depreciated at the date of replacement.

The statutory overrides permitted within this guidance are time limited for the periods from 1 April 2010 to 31 March 2024.

The Council has elected to utilise both overrides. The Council, like others, needs to consider the approach to future recording and componentisation of Infrastructure assets in order to comply with the underlying requirements of the Code.

Recommendation two

Qualitative aspects

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

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

Significant accounting estimates relate to the present value of defined benefit obligations and valuation of non-current assets. For defined benefit obligations, the estimate is calculated under IAS 19 (as calculated by the Council's actuary, Barnett Waddingham using agreed financial assumptions). With the assistance of our internal actuarial specialists we found the assumptions and accounting for pensions to be appropriate (page 51). Non-current asset impairment is considered by the Council's valuation team and a 5-year rolling programme of revaluations is in place. We used our internal valuation specialists to assess the assumptions used in these revaluations. We did not identify indications of management bias.

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

Wider scope introduction

Audit dimensions introduction

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

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

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

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

Best Value

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

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

Strategic Audit Priorities

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

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

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

Our approach

In our sixth year of audit work, we have provided updates to the following areas which were covered in the 2020-21 report:

- Transformation programme (page 28);
- Medium and long term planning (page 27);
- EU withdrawal (page 29); and
- Equalities (page 31)

Conclusion

Revisions to the constitution of the Council following local government elections will impact upon the overall approach. We concluded that the Council has reasonable procedures and practices in place to support a positive conclusion. We consider that overall, the Council is working towards achieving areas of best value where they are recognised, and there is a positive attitude towards maintaining this pace.

Financial management

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

2021-22 financial performance

The Comprehensive Income and Expenditure Statement shows a deficit on the provision of services of £16.6 million for the year to 31 March 2022, of which £5.1 million deficit relates to the Housing Revenue Account and £11.5 million deficit on the General Fund. The Council set a net revenue expenditure budget of £389.7 million on the general fund and a gross revenue budget of £30.9 million on the HRA for 2021-22. In 2021/22 the Council incurred actual net expenditure on Services of £418.532 million. In comparison to the updated budget, the net under spend/additional income was £20.4 million for the 2021/22 year.

General Fund

A balanced budget was approved in March 2021. The £20.4 million General Fund variance to budget represents a net result of over and underspends and additional income. The largest underspends and elements of additional income were:

- Education and Children's Services (£9.9 million), reflecting additional funding of £3.5 million for education recovery. Included in this outturn is a total of £3.1 million staff costs underspends due to ongoing recruitment challenges and the fact that the 2021-22 pay award was less than the budgeted amount.
- Communities Services contributed additional income of £5.7 million over budget, comprising £2.1 million underspend within planning and development, and underspends for roads and housing attributable to staff slippage and additional income.

We continue to highlight the good practice of budget flexibility, which encourages the Council to plan longer term.

Financial headlines

Deficit on provision of services

£16.6 million

2020-21: £4.8 million surplus

Deficit on general fund

£11.5 million

2020-21: £22.0 million surplus

Total reserves

£741.8 million

2020-21: £651.1 million

General fund reserve

£85.9 million

2020-21: £72.5 million

Net pension liability

£56.0 million

2020-21 £105.3 million

Capital financing requirement

£618.4 million

2020-21 £596.9 million

(Source: Audited annual accounts)

Financial management (continued)

2021-22 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 capital budget was approved in February 2021 by the Housing & Social Wellbeing Committee, and set a budget of £9.9 million. The final outturn was £15.4 million.

Financial reporting and budgetary control

Regular financial reporting was provided to the Strategic Policy and Resources Committee ("SP&R") up until May 2022 when the reporting was switched to the Finance and Resources Committee following changes to the Council's committee structure. The reporting comprises 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. The General Fund reserve allows the Council to smooth out financial pressures over a number of years.

The forecast outturn for the 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-21	Sep-21	Nov-21	Feb-22	Final
Budgeted use of reserves	8,815	17,224	17,302	12,829	6,749
Variance of financed from/ (returned to) reserves against budget	N/A	(981)	(1,899)	(5,127)	(20,442)

The main reasons for the underspend were:

- £9.9 million underspend on Education & Children's Services including £1 million ring-fenced funding for Pupil Equity Funding and £3.5 million Covid-19 grant funding.
- £5.7 million underspend on Communities including additional income of £1.1 million and grant funding of £2.3 million.
- £3 million underspend in Corporate and Democratic Services including grant funding of £2 million and £0.8 million additional income generated.

Wider scope and Best Value

The SP&R were advised of a £5.3 million variance (underspend) across the Council in April 2022 based on financial data at 31 January 2022. This was made up of projected underspend in Education & Children's Services (£1.6 million), Communities (£2.3 million), Corporate & Democratic Services (£1.1million) and other corporate budgets (£0.3 million).

The final under spend for the Council was £20.4 million – a movement of £15.1 million on the position reported to SP&R in April. The main reasons for this additional under spend were:

- £9.9 million underspend and additional income/funding on Education & Children's services
- £5.7 million underspend and additional income/funding on Communities
- £3 million underspend and additional income/funding on Corporate & Democratic services
- £1.8 million from additional grants and contributions from other reserves

Underspends across various services were due to underspend on staff, rephasing of expenditure and additional income.

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 March 2021 for the period 2021-22 set net expenditure of £101.7 million, against a final net actual spend of £56.9 million reported at year end. The significant slippage is primarily due to the deferment of projects to future years.

Significant expenditure was undertaken in respect of the School Modernisation programme of £13.7 million, Roads and Transport projects of £29.8 million including Perth Transport Futures programme, as well as investments of £10.5 million on cultural attractions and community projects within the Perth and Kinross Region.

Financial management (continued)

Accounts and audit process

Draft annual accounts were authorised for issue on 28 June 2022 through consideration by the audit and risk committee in line with legislation. We received a copy of the signed draft annual accounts on 28 June 2022. We note the return to audit and risk committee consideration prior to our receipt of the draft annual accounts after discussion with elected members.

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

High quality working papers were provided at the start of the audit fieldwork and management responded effectively to our queries. Also, the financial statements were well prepared and had minimal comments. No significant issues arose during the audit and only one audit disclosure misstatement was identified which has been corrected.

We commend the level of diligence with which officers prepare the annual accounts and associated supporting documentation. The level of attention to detail is particularly high and supports an effective audit process.

Internal audit review of controls

As part of its annual plan and reporting, internal audit made 11 control objective recommendations, up from 9 in 2020-21. Of these recommendations, 10 were rated as medium. As noted on page 32, this is despite more focused work by the internal audit function and demonstrates the role that internal audit play in supporting service improvement.

Internal control

We consider that the Council has a robust control environment. We tested the operating effective controls within certain financial processes, where reliance upon them enabled an efficient testing approach. Two exceptions were noted with respect to the bank reconciliations control and management review of actuarial assumptions. Further details are documented in page 40. The controls tested were:

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

Our testing and findings over controls operating after our interim fieldwork are summarised on the next page. We have made four new recommendations in the current year, with six recurring from the prior year. Our action plan detail is shown on page 40 onwards.

In 2020-21 we made a total of seven recommendations and a summary of their status is presented below. We report that one recommendation has been appropriately and satisfactorily addressed by officers while the others were yet to be appropriately addressed as at year end or the implementation thereof was not considered feasible, considering the risk and other mitigating controls in place. Further details can be found in pages 43-45.

2021-22 recommendations	Grade one	Grade two	Grade three
Reported	1	3	5

Status of 2020-21 recommendations	Grade one	Grade two	Grade three
Implemented			1
Not Implemented		**2**	**4**

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

Financial management (continued)

System Controls

In accordance with ISA 330 *The auditor's response to assessed risks*, we designed and performed tests of controls to obtain sufficient appropriate audit evidence as to the operating effectiveness of relevant controls over the main financial systems. Overall, we concluded that the control environment is effective.

Test	Description	Results
Bank reconciliations (response to fraud risk)	Bank reconciliations are prepared monthly by a member of the income team and reviewed by a more senior officer. We tested a sample of three months for each of the eight bank accounts to verify they had been completed and reviewed on a timely basis.	We noted instances where a few bank reconciliations were completed within a month but not reviewed within a month. For example, the April 2021 bank reconciliation for the Social Work Pensions bank account was not reviewed until 16 September 2021. Bank reconciliations are a key anti-fraud control and should be fully reconciled and reviewed on a regular basis. Therefore, it is recommended that management ensures the timely reconciliation and review of all bank accounts. ***Refer action plan four***
Authorisation over procurement contracts	The Council has defined processes for the awarding of contracts, with written procedures to be followed for each contract type and value. Testing of a sample of 9 contracts awarded in the year, split between those which required completion of a quotation and those which required to be tendered was undertaken. Our approach was designed to test whether correct procurement route had been followed based on value and reviewed the evidence of the tender evaluation process.	Our testing concluded that arrangements over the procurement and tendering process are designed and implemented effectively. ***Satisfactory***
Revenue budget monitoring (response to fraud risk)	The Council has a robust revenue budget setting process, with involvement of key members of staff across the Council. Performance against revenue budget is monitored on a regular basis and formally reported to Council via budget monitoring reports in September, November, January and April.	Our testing concluded that budget monitoring arrangements over the revenue budget are designed and implemented effectively. ***Satisfactory***
Council Tax and Non-Domestic Rates	For Non-Domestic Rates reliefs and exemptions, we selected 25 applications from account holders to test whether applications had been reviewed by an appropriate officer within the Local Taxes team and appropriate evidence of entitlement obtained. For each of Non-Domestic Rates and Council Tax, we tested a sample of five reconciliations of the Council's valuation roll against the valuation roll provided by the Tayside Valuation Joint Board and other valuation lists respectively.	Our testing concluded that the Non-Domestic Rates reliefs and exemptions, and Council Tax and Non-Domestic Rates reconciliations are designed and implemented effectively. ***Satisfactory***

Financial management (continued)

System Controls (continued)

Test	Description	Results
Review of valuations (response to significant risk)	We will review management's assessment of impairment indicators and assess for completeness. We walked through with the valuations team to consider whether the review process was robust.	For the review of valuations, we are satisfied with the design and implementation of the control in place. ***Satisfactory***
Capital budget monitoring	Management and elected members monitor capital expenditure on all projects throughout the year. Performance of all large projects and any smaller projects nearing their approved spend will be considered by the Strategic Investments Board (''SIB'') and then by the Finance and Resources committee (''SP&R'') via the budget monitoring reports in September, November, January and April. Approval is required for any overspends or adjustments against original budgets. We considered the January 2022 report to conclude whether a sufficient level of detail was presented to and considered by the committees and that a level of precision is used to determine which variances require further analysis and discussion.	Our testing concluded that budget monitoring arrangements over capital expenditure are designed and implemented effectively. ***Satisfactory***
Review of cost of services expenditure	The Council has a well-defined process covering the payment of services provided. We considered and tested management's review and authorisation of payments to an individual supplier that exceed £75,000 as required by Council policy. A sample of 40 payments were tested.	Our testing of the 40 payments indicated that there is adequate segregation of duties between those entering data, and those authorising the payment. ***Satisfactory***
Housing rents system	We tested a sample of two months' reconciliations between the housing rents system (Northgate) and the general ledger (Integra) to determine whether officers completed this reconciliation on a timely basis and any reconciling items were followed up and investigated.	Both reconciliations have been performed on a timely basis and any reconciling items were followed up and investigated. ***Satisfactory***

Financial management (continued)

System Controls (continued)

Test	Description	Results
Transfer of pensionable data, and management review of assumptions (response to significant risk)	We furthered our understanding of the process management undertake to transfer data to Tayside Pension Fund ("the fund"), and its assessment of the actuarial assumptions. We tested the annual management review of pension assumptions. These controls were tested in response to the significant risk over retirement benefit obligations.	We discussed and walked through the process undertaken by Management during the January 2022 payroll and pension processes. We were satisfied that the following controls are designed and implemented appropriately: – transfer of new starts, leavers, and other changes to employee data to the fund; and – authorisation of the payment of pension contributions to the fund. ***Satisfactory*** Following our recommendation in the 2019-20 audit in respect of assumption review, management introduced a high level review of the assumptions recommended by the fund's actuary, and adopted in respect of the Council's participation in the fund. This review is intended to identify any significant differences between the assumptions adopted which are specific to the Council against the publicly available market data, in order to allow appropriate challenge by management should the need arise. In order to gain expert advice management engage an actuary through the pension fund to provide these assumptions which management may or may not chose to adopt. While the control environment has been strengthened as a result of the introduction of this control, we consider that in order for us to rely on it, it would need to be informed by an additional independent experienced actuary. ***Refer action plan five*** Our planned approach is unchanged in respect of the above.

Financial management (continued)

System Controls (continued)

Test	Description	Results
BACS authorisation	BACS payment runs must be approved by an authorised member of the finance team. We tested a sample of 25 BACS payments to verify they had been authorised. Management enhanced controls in 2019-20 in respect of BACS payments following fraud identified at another local authority. Any amendments to the BACS payment file automatically generate an email to a number of senior members of Finance to allow for scrutiny and challenge. A central record is kept of any changes, and finance officers do not consider that this control can be reasonably strengthened any further. While the control environment has been strengthened, we consider that a weakness remains in respect of the ability of a small number of senior staff to modify the BACS payment file and override the detection control which has been implemented.	All sample items were correctly signed and authorised by the appropriate officer. ***Satisfactory*** In our previous audit, we made a recommendation over this control, and management indicated that there was acceptance over any residual risk as a very small number of individuals could override the controls in place. We continue to recommend that the detective control is redesigned to mitigate the risk that it is subject to management override by the privileged system users it is designed to monitor. ***Refer prior year recommendation five.***
Authorisation of payroll, and service establishment approval	A sample of two months control sheets were tested, which record that the stages of the payroll process have been completed, before authorising the payroll and completing the BACS runs. This includes a key control over any exceptions or variances in net pay. A sample of two months' BACS runs were reviewed to test the payment schedule reconciled to appropriate reports and appropriately authorised. The annual service establishment report was reviewed to determine whether it had been reviewed by each service to confirm all employees are still actively employed by the Council.	Those controls sheets tested recorded key stages of the pay run and had been marked as completed, with the pay run being marked as ready for processing. The sample of exception reports tested were marked as reviewed and investigated. Both BACS runs subject to testing had been reconciled and authorised by an authorised signatory in advance of the pay run. Our testing indicated that all four services had completed and signed the service establishment report. However, there were instances of delays in the completion of the process. For example Education and Children's Services reconciliation covering the period to 31 October 2021 was signed as completed in March 2022. However, since no issues were identified from the reconciliation and there are other mitigating controls in place, we are satisfied with the control objectives. ***Satisfactory***

Financial sustainability

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

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

Annual budget presentation

The annual budget for 2021-22 was approved by Council on 10 March 2021. The budget report set out the general fund revenue budget for 2021-22 but no provisional budget was set for 2022-23 and 2023-24 as the Council elected to divert its resources towards maintaining essential services and responding to COVID-19. The capital budget was set for the period 2021-22 to 2028-29.

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

During the year, the Council returned to its pre-pandemic level of reporting and all committees were active during the period.

The Council is required to set a balanced budget in each financial year, and in 2021-22 proposed budget flexibility of £0.1 million, and utilisation of reserves (COVID-19 earmarked reserve) totalling £9.6 million.

We consider the development of a six year plan to be an appropriate response to longer term financial planning. However, in light of the recent global pandemic as well as wider economic uncertainty, the need to develop further long-term financial planning beyond six years is further highlighted.

Other focus area: Long-term financial plan

In November 2021, the Council considered a revised six-year plan for 2022-2028. The Council have built on existing strong financial management, and have developed financial models to demonstrate long term planning. (updated medium term financial

The key long-term financial assumptions included consideration of pay increases of 3% reflecting the provisional revenue budget, superannuation contribution increases between 0% and 2% over the next three years, a reflection of the unknown ongoing financial support from government in respect of Covid-19, and Council Tax Charge increases.

Inherent with every forecast is a range of outcomes, which for the Council are an optimistic £8.8 million surplus for the following six years from 2022-23, to a pessimistic £140.5 million pressures. The Council, through its 2022/23 budget are continuing to consider actions and savings to meet this difference. The net savings proposals for 2022-23 were £6.459 million of which £2.267 million were rejected alongside expenditure pressures of £11.079 million.

In addition to revenue long-term forecasting, the Council developed a thirty-year capital Investment Blueprint for the Future ("the Blueprint") plan which was presented on 6 October 2021. As part of the key developments and controls within the Blueprint, the Council adopted a gateway review approach to the development and delivery of capital investment. This will allow the opportunity for Council officers to periodically assess the project's ongoing financial health and progress, as well as allowing electing members to scrutinise capital programme progress.

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

Financial sustainability (continued)

Other focus area: Transformation programme

The Council has a five year Transformation & Change strategy document which sits within the Council's wider strategic framework. The revised Corporate Plan 2022/23 – 2027/28 sets out the vision and corporate objectives of the Council, aligned with its values. The Financial strategy details the challenges faced by the Council and the various actions to be taken for the financial sustainability of the Council.

The purpose of the financial strategy is to build financial resilience and ensure the Council has affordable and sustainable medium term financial plans and revenue budgets so that resources are appropriately directed and utilised aligned with the Council's strategic objectives.

Meaningful engagement and communication will be key to the successful implementation of the strategy. Engagement with the local community has been identified as a key focus to address service delivery and meet the needs of the local community.

Communication and effective dialogue with staff, communities, public, private and sector partners has been identified as key to help strengthen the Council's understanding of delivery needs and how to be allocate resources.

Use of reserves

The Council continued to invest its reserves in the future of the organisation during 2021-22, including £18.3 million held for supporting recovery from the pandemic. The Council increased the total of the General Fund reserve by £13.4 million in delivering the 2021-22 financial outturn, a position largely supported by the additional Covid-19 funding.

As at 31 March 2022, the Council had uncommitted general fund reserves of £16.6 million which equates to 4.0% of actual Net Cost of Services (2% as at 31 March 2021). This increase was planned and approved by the Council as part of finance updates to the Council. These reserves are to support the delivery of services in the case of unexpected issues, and a reserves strategy is in place which targets a minimum uncommitted general fund reserve of at least 2% which continues to be maintained.

We consider that this level of reserves is reasonable for a Council of the size of Perth and Kinross Council. The total held is in line with the Reserves Strategy approved in February 2022, 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 21 £000	Increase /(utilisation) £000	31 March 22 £000
Workforce Management (inc transformation programme)	4,275	(161)	4,114
Covid-19 Reserve	25,727	(7,384)	18,343
Other Earmarked Reserves	34,281	12,584	46,865
Uncommitted General Fund Reserve	8,200	8,378	16,578
Total General Fund Reserves	72,483	13,417	85,900

Financial sustainability (continued)

Cash and Short Term Investments

Liquidity	31 March 2021 £000	31 March 2022 £000	Movement £000
Cash and cash equivalents	27,221	38,437	11,216
Short term investments	161,577	209,301	47,724
Short term borrowing	-67,746	-14,754	52,992
Current liquidity	**121,052**	**232,984**	**111,932**

As at 31 March 2022, cash and short term investments increased by £58.9 million as a result of significant increases in borrowing that were unutilised at 31 March 2022. The rate of return from these investments is more favourable than the rate of return from the Council's banking facilities.

Many of these investments are held with financial institutions across the UK and world-wide, and the Council has assessed the credit risk associated with these entities as low.

Borrowing

Total borrowing as at 31 March 2022 was £29.0 million greater than as at 31 March 2021, with overall borrowing being £619.3 million. The increase in borrowing is primarily funding investment in capital. The Council continued to take advantage of exceptional low rates to secure funding for the Capital Plan.

Governance and transparency

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.

In May 2022, the Council changed the names of seven committees such as: Housing and Communities Committee was changed to Housing and Social Wellbeing Committee while Strategic Policy and Resources Committee was changed to Finance and Resources Committee. The change was to ensure that the committee names were aligned with the functions they performed. A new committee, Climate Change and Sustainability Committee was also created. Following these changes, the Council currently operates with a total of 22 sub-committees, ten of which administer common good funds. In addition to the scrutiny and performance committee, the key committees include the learning and families committee, the environment, infrastructure and economic development committee, the housing and social wellbeing committee and the audit and risk committee.

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

Governance arrangements during Covid-19

In order to maintain an element of status quo, weekly sounding boards were introduced in prior years at a wide variety of levels across the Council which allowed member input into decisions. These sounding boards included finance updates in order to maintain sufficient financial governance by the members. We consider this level of reporting and engagement with elected members to be sufficient and appropriate.

Also, a hybrid meeting structure was adopted by the Council following the lifting of Covid-19 restrictions.

2022 elections

Scottish Local Government elections were held in May 2022 which led to the return of 40 councillors to represent the 12 multi-member wards within the Council. The notification of members elected as councillors was presented to the Council by the returning officer during the May 2022 council meeting.

At the meeting, the Council also approved the continued use of the existing political decision-making arrangement subject to certain changes to the names of certain committees and the number of committee members admissible.

Prudential Code

The key objectives of the Prudential Code are to ensure that the Council's capital programme is affordable, prudent and sustainable, and that treasury management decisions are taken in line with good professional practice. The Council has to set its prudential indicators on an annual basis to provide a framework that its capital programme must operate within. At 31 March 2022, the Council reported it remained compliant with its prudential indicators.

Governance and transparency (continued)

Annual Governance Statement

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

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

Risk management

In line with the revised Risk Management Strategy, a draft Strategic Risk Register was presented to the audit and risk committee on 28 June 2022.

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

The current key strategic risks are reported as:

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

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

National Fraud Initiative ("NFI")

The NFI in Scotland brings together data from local government, health boards and other public sector bodies. Matching data obtained from the systems of participating bodies allows the identification of potentially fraudulent claims on the public purse including housing benefit fraud, occupational pension fraud and payroll fraud.

A total of 85 reports containing 12,471 matches were received by the Council for the 2020/2021 exercise. Using a risk based approach, 70% of the matches were investigated and the outcome revealed a £25k overpayments with £24k relating to COVID-19 business grant. The Council is currently taking action to ensure that the funds are recovered.

Details of this outcome was presented to the audit and risk committee in March 2022.

Standards of conduct for prevention and detection of fraud and error

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

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

Governance and transparency (continued)

Internal audit

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

We reviewed internal audit reports and conclusions, and consider that they do not indicate additional risks and there was no impact on our audit approach. Internal audit's annual report confirmed, "In the Chief Internal Auditor's opinion, reasonable reliance can be placed on the Council's risk management and governance arrangements, and systems of internal control for 2021/22, subject to management implementation of the agreed actions detailed in Internal Audit reports."

Internal audit completed or substantially completed 8 of the 10 planned audits per the 2021-22 Internal Audit Plan, and those that remain ongoing are extended into the 2022-23 Internal Audit Plan. In addition, Internal Audit continued to provide advice, support and assurance over the implementation of revised arrangements in connection with the new ways of working implemented as a result of the COVID-19 pandemic. This represents the drive to use internal audit to improve and support service delivery.

Internal audit recommendations are considered by officers in each service and the actions reviewed by Internal Audit prior to closure. As detailed in the Internal Audit Report 2021-22, 24 actions were identified as a result of the work undertaken. The Chief Internal Auditor highlighted that there were 3 high risk actions to implement, compared to 7 in 2019-20. This is partially reflective of the redeployment of Internal Audit officers to focus on critical services.

Our view – governance and transparency

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

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

Value for money

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

Financial impact, and value for money assessment

The Perth & Kinross Offer (“the Offer”) aims to change how services are designed and delivered, and aims to further improve in respect of areas such as equality, economy and environment. The offer is built on four pillars: building the offer (the why), building the culture (the how), the offer workstreams (the what) and the contribution of people and groups (the who). Since our previous report on the Offer, progress has continued despite the ongoing pressures and challenges of increasing inflation, the cost of living crisis and wider economic uncertainty. Following the change in Council leadership and elected members, the Offer will require continued focus and consideration in order to be successful.

Capital projects

The Council has significant capital expenditure underpinned by the Investment Blueprint for the Future and Composite Capital Budget. The capital budget approved in February 2022 introduced new projects including significant expenditure on PH20, a proposed major new leisure centre in Perth city centre. It is a shared vision between Perth & Kinross Council (PKC) and Live Active Leisure (LAL) that has been researched and considered since 2017. Analysis, feasibility studies and research has been performed iteratively since inception in 2017. Eight various options were considered from “do nothing” to “a new build on a new site”. The options also included the refurbishment of existing facilities but this was not considered economically viable due to the limited lifespan of the refurbishment and the ageing, costly building.

Since inception, rising construction costs and the Councils decision to adopt the Passivhaus building standard (for all projects) in order to align with its climate targets have contributed to an increased estimated project cost approved in the plan of £90 million.

While numerous elected member briefings have occurred, there was limited evidence of public scrutiny or challenge in respect of the project (or scaled down option) when presented to Council for approval as part of the Capital Budget.

Alongside this new project, existing projects such as the Cross Tay Link Road, and others in the Capital Budget are increasing in cost as a result of the current economic environment.

The Council is currently under continuous pressure to increase service delivery, manage costs, including capital expenditure, and exercise good corporate governance. In light of increasing inflation, the cost of living crisis and wider economic uncertainty, capital project approval and monitoring in general will require ongoing review and scrutiny. This is particularly important in order to ensure that the Council demonstrates Best Value.

Recommendation one

Wider scope and Best Value

Financial impact, and value for money assessment

During the year, a member challenged whether it is within an ALEO’s power to make certain decisions (regarding sports facilities) or whether they require to be referred to Council. This is largely based on interpretation of the Service Level Agreement (SLA). Council officers confirmed their view that the ALEO was acting within its powers. At a meeting of Council on 9 March, a motion regarding reminding the ALEO of its responsibilities was tabled which was followed by a lengthy discussion.

We inspected addendums to some SLAs which were effectively extended (during the Covid period) where they would have otherwise expired.

We consider that a review of all SLA’s between ALEOs and the Council should be performed to ensure clarity of responsibilities and authorities and that these be updated as appropriate and evidenced as accepted by all parties.

Value for money (continued)

Performance Reporting

The Council produces an annual performance report ("APR") which summarises its own key performance indicators. This is submitted to the Council, and is also available through the 'PK Performs' dashboard within the Council's website. As in the prior year, the Council recognised that some indicators would not compare on a fair basis against prior year figures due to the inherent impact of the pandemic on a wide range of Council activities. As a result of this recognition, the Council opted to remove the trend analysis which indicates a deterioration, or improvement of indicators. In our view, considering the continued impact of COVID-19 during the 2022 financial year, the decision to remove the trend analysis continues to be appropriate for this year, and reflects the Council's transparency on performance.

The APR does include comparators where it is fair to do so. Overall, the Council report performance on key performance indicators is favourable against similarly sized councils. Key highlights from the performance report include places being provided for nearly 3,000 eligible children across 51 Early Learning Centres, co-ordinating and supporting the response to child poverty, addressing issues such as income maximisation and food insecurity, positive increase in school leavers moving onto positive destinations, the development of an on-line adult learning hub, achieving UNESCO City of Craft and Folk Art Status as well as many more.

The APR will be considered by the Scrutiny and Performance Committee in September 2022, before being presented to the Council in September 2022 to allow for appropriate challenge and scrutiny by those charged with governance.

Wider scope and Best Value

Our view – value for money

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

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

The Council has a significant Capital Plan which will continue to be under pressure in light of inflation and increasing construction costs. The Council should ensure continued scrutiny and review of plans as they progress, against original objectives and alternatives in order to ensure Best Value.

Appendices

Appendix one

Required communications with the Audit Committee

Type	Response
Our management representation letter	We have requested specific representations in relation to heritage assets valuation, in addition to those areas normally covered by our standard representation letter for the year ended 31 March 2022.
Adjusted audit differences	There was one adjusted audit difference relating to a disclosure note.
Unadjusted audit differences	There was one unadjusted audit differenced relating valuation of property, specifically obsolescence on external works areas.
Related parties	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 Performance Committees	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	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	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	No significant difficulties were encountered during the audit.
Modifications to auditor's report	None.
Disagreements with management or scope limitations	The engagement team had no disagreements with management and no scope limitations were imposed by management during the audit.
Other information	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	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	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 correspondence with management	The key audit matters (summarised on pages 7 to 12) arising from the audit were discussed, or subject to correspondence, with management.

Auditor independence

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

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

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

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

General procedures to safeguard independence and objectivity

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

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

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

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

Summary of fees

We have considered the fees charged we to the Council and its affiliates for professional services provided during the reporting period. We have detailed the fees charged by us to the Council and its related entities for significant professional services provided during the reporting period below. Total fees charged by us for the period ended 31 March 2022 can be analysed as follows:

	Current Year £000 (inc VAT)	Prior Year £000s (inc VAT)
Audit of Council	178	175
Audit of Charitable Trusts	8	8
Audit related Assurance Services	8	8
Total Fees *	194	191

* Audit fees per the above table exclude the fee allocation to Audit Scotland borne by the Council.

Auditor independence (continued)

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

Subsidiaries

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

Independence and objectivity considerations relating to other matters

There are no other matters that, in our professional judgment, bear on our independence which need to be disclosed to the audit and risk 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 and risk 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

Appendix three

Audit differences

Unadjusted audit difference

The table below lists the unadjusted audit difference identified during the course of our 2021-22 audit procedures.

	Balance sheet		Income and expenditure account	
Nature of adjustment	£'000 DR	£'000 CR	£'000 DR	£'000 CR
1. **Judgemental unadjusted audit difference for additional obsolescence for external works areas** Debit reserves and credit Property, plant and equipment. (The specific split of the debit side of the entry between income and expenditure or various reserves is not known)	6,839	(6,839)	-	-

Adjusted audit difference

Misstatement in capital commitment disclosure note amounting to £24.9 million relates to Blairgowrie Recreational Centre project which had no contractual or legal commitment as at year end due to delays in commencing the project. The capital commitments note was updated to remove this project.

Appendix four

Action Plan

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

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

Finding and risk	Recommendation	Management proposed actions
1. Significant capital projects (Grade two)		
The Council continues to have significant capital projects in progress with Cross Tay Link Road (CTLR) being the largest civil engineering works ever undertaken by the Council. The estimated costs for this project have been revised upwards by £32.5 million due to increased construction inflation, supply chain difficulties and the increase in global energy prices. As noted on page 33, approval of PH2O, a major new leisure centre in Perth city centre, also has a significant budget and requires careful management and governance focus as it progresses to ensure management of financial, legal and operational risks.	It is recommended that there is continued review and scrutiny of planned capital projects in general. This should include consideration against corporate asset strategies, strategic priorities and include public consultation and identification or risks. This is particularly important during the current economic climate, increased construction inflation and wider economic uncertainty.	Response: Project governance arrangements are in place for significant capital projects, including CTLR. The Finance & Resources Committee has approved quarterly update reports on significant capital projects. A new Strategic Corporate Asset Board is being established which will ensure implementation of the Investment Blueprint. Responsible Officer: Executive Director - Communities When: by December 2022
2. Componentisation of infrastructure assets (Grade one)		
Concerns were raised by local government auditors that some authorities are not applying component accounting requirements appropriately when there is replacement expenditure. Due to inadequacy of historical financial and asset records a statutory override was extended by the Scottish Government to avoid wide ranging qualified audit opinions in this regard.	The Council needs to revise its processes for the recording and componentisation of Infrastructure assets before March 2024 in order to comply with the requirements of the Code in advance of expiry of the statutory override. It is likely that this issue will be considered by the sector as a whole.	Response: Agreed Responsible Officer: Chief Accountant When: 31 March 2024

Appendix four

Action Plan

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

Finding and risk	Recommendation	Management proposed actions
3. Timing of bank reconciliations (Grade three)		
Based on our review of the bank reconciliation process, we noted instances where the bank reconciliation was completed but not reviewed on a timeous basis. For example, the April 2021 bank reconciliation for the Social Work Pensions bank account was completely timeously but only reviewed on 16 September 2021. No items were identified that impacted on the results of the reconciliation.	It is a key anti-fraud control for bank balances to be fully reconciled and reviewed on a regular basis. It is recommended that management ensures the timely review of all bank account reconciliations.	Response: Whilst one bank account reconciliation, it had not been reviewed (officers carry out and review approximately 110 bank account reconciliations each year). Management recognises the importance of ensuring reconciliations are completed and reviewed timeously, but not to the detriment of ensuring that important financial support payments are prioritised. Officers will be reminded of timely review of bank reconciliations. Responsible Officer: Chief Accountant When: 30 September 2022
4. Capital commitment disclosure (Grade three)		
During our work on capital commitments, we noted that management disclosed an amount of £24.9 million in relation to the replacement of Blairgowrie Recreation Centre. However, as at year end, no contractual or legal commitment existed to support the disclosure as the project was yet to be awarded to a contractor due to delays. Misstatement has been corrected in the accounts by management.	We recommend that management should enhance the assessment of capital commitments recorded in the accounts to include checks on whether a legal/contractual commitment existed as at the end of the year.	Response: Agreed Responsible Officer: Chief Accountant When: 31 March 2023

Appendix five

Prior Year Recommendations

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 2020-21 audit.

Original finding and risk	Recommendation	Original actions	Status
1. Valuation of heritage assets (Grade three)			
The accounting framework prescribes requirements in respect of the valuation and recognition of heritage assets. Whilst we ultimately agreed with management's assessment over heritage assets, there is room for improvement in the process of considering the value, frequency and recognition of potential assets.	We recommend that the Council ensures that recognition and valuation of heritage assets is set out in a clear and concise manner, explaining the key decisions and judgements made in forming a conclusion.	Response: Agreed - the Council will liaise with CPK curators and prepare a document which summarises the process including new and relevant information obtained during 2021/22 and our conclusions. Responsible Officer: Chief Accountant When: 30 June 2022	**Not implemented** The timeline for the implementation of the recommendation is 30 June 2022 (post year-end), hence recommendation is not due for implementation. Implementation of the recommendation by management will be assessed during the 2022-23 audit.
2. Oversight, governance and collaboration on the Perth & Kinross Offer (Grade three)			
While officers have continued to progress the offer, including working with members and third parties, there has been no formal committee or publicly accessible reporting since October 2020. This reduces the ability of stakeholders to understand and support development of the Offer, as noted in specific feedback obtained from resident representatives. We consider that the Offer is intended to move towards co-design of service delivery with a broad range of stakeholders and that there is scope for greater involvement of those stakeholders in the ongoing design of the Offer and its implementation. Through discussion with management, we were unable to obtain sufficient evidence of co-design	We recommend that Officers agree with elected members an appropriate and agreed timetable for transparent scrutiny of progress on the Offer. We recommend that stakeholder involvement should be planned, considered and reported to those charged with governance.	Response:. Agreed, it is anticipated that the Offer Framework will be considered by Council on 15 November 2021 and the Offer Communications & Engagement Plan will be considered by Council in December 2021. Going forward, it is anticipated that progress reports will be considered by Council bi-annually Responsible Officer: Head of Innovation When: ongoing	**Implemented** Offer framework was presented to the Council and received approval on 15 December 2021.

Appendix five

Prior Year Recommendations (Continued)

Original finding and risk	Recommendation	Original actions	Status
3. Bank Reconciliations (Grade three)			
The November reconciliation for the Revenue Account was not completed within a month of the period end, being completed in January. No items were identified that impacted on the results of the reconciliation.	It is a key anti-fraud control for bank balances to be fully reconciled on a regular basis. It is recommended that management ensures the timely reconciliation of all bank accounts.	Response: Agreed - one reconciliation was not complete within one month of the period end, due to significant workloads. The Team involved in completing the reconciliations were also responsible for processing thousands of additional payments to businesses, individuals and families during 2020/21. Management recognise the importance of ensuring reconciliations are completed timeously, but not to the detriment of ensuring that financial support payments required in 2021/22 are prioritised, and will remind key colleagues of this. Responsible Officer: Chief Accountant When: 31 August 2021	**Not implemented** Based on our review of the bank reconciliation process in current year, we noted instances where the bank reconciliation was noted completed within a month. For example, the April 2021 bank reconciliation for the Social Work Pensions bank account was not completed and reviewed until 16 September 2021.
4. Management review of pension assumptions (Grade three)			
Testing of the management review of pension assumptions identified that the officer carrying out the review did not have the necessary specific expertise to fully review and challenge the assumptions and estimates that the Actuary suggested for the Defined Benefit Obligations. Auditing standards require auditors to identify a management control where these is a significant risk. In the case of the defined benefit pension liability significant risk, we have not been able to identify a management control which is carried out to an acceptable level of expertise as required by the auditing standards. Due to the specialist nature of pension assumptions, we consider that the officer carrying out the review does not have the necessary specific expertise to fully review and challenge the assumptions and estimates that the Actuary suggested for the Defined Benefit Obligations.	We continue to recommend that should management wish to meet this requirement, that they will need to carry out a predictive review of the methodology and assumptions that are being proposed to calculate the net liability of the defined benefit pension scheme held by the Council. This would require the services of an additional independent actuary. This control point does not impact upon our planned audit approach and is a common audit finding across our portfolio	Response:. Tayside Pension Fund engages independent actuaries to undertake an annual review of the Fund. The Council places reliance on the professional, independent judgement of the actuaries to ensure that the assumptions remain reasonable. The Council will not be incurring additional cost to review the work of the independent actuary. The Council will, however, continue to undertake an inhouse review of the pension assumptions to ensure that they are reasonable. Responsible Officer: n/a When: n/a	**Not Implemented**

Prior Year Recommendations (Continued)

Original finding and risk	Recommendation	Original actions	Status
5. BACS payment process (Grade two)			
As part of our audit, we remain alert to the susceptibility of fraud within the audit entity, using our existing knowledge from other entities and sectors. Management enhanced controls in respect of BACS payments following fraud identified at another local authority. While the control environment has been strengthened, we consider that a weakness remains in respect of the ability of a small number of senior staff to modify the BACS payment file and override the detection control which has been implemented. We note that our sample testing on page 26 in respect of BACS payment authorisation process did not identify any errors, and management have not identified any errors in relation to this weakness.	It is recommended that the detective control is redesigned to mitigate the risk that it is subject to management override by the privileged system users it is designed to monitor.	Response: The Council has implemented a number of controls in this area. Any amendments to the BACS payment file automatically generate an email to a number of senior members of Finance to allow for scrutiny and challenge. A central record is kept of any changes. Finance officers do not consider that this control can be reasonably strengthened any further. Responsible Officer: n/a When: n/a	**Not implemented** We will continue to plan and undertake our audit approach factoring in management's assessment.
6. Council Tax and Non-Domestic Rates (Grade two)			
In respect of both Non-Domestic Rates and Council Tax, we were unable to verify a formal approach in respect of how the Council considered reliefs spanning multiple years.	For best practice, it is recommended that the Council undertakes its formal process to consider these reliefs and discounts that span multiple years	Response: The Council recognises the need to regularly review discounts and exemptions awards that cross multiple financial years. To do this, each year a review timetable is created detailing the awards that we intend to review in the coming year. For Financial Year 2019/20, although such a timetable was created the reviews were not carried out as originally scheduled due to other work priorities. It is anticipated that a full review programme will be carried out during Financial Year 2020/21, although this may be impacted by Covid-19. The Local Taxes management team are content with this situation and will, as far as possible manage the risks of any delay in carrying out reviews. Responsible Officer: n/a When: n/a	**Not Implemented** We understand that due to the specific and understandable pressures affecting 2021-22, this has not been able to be progressed.

Appendix five

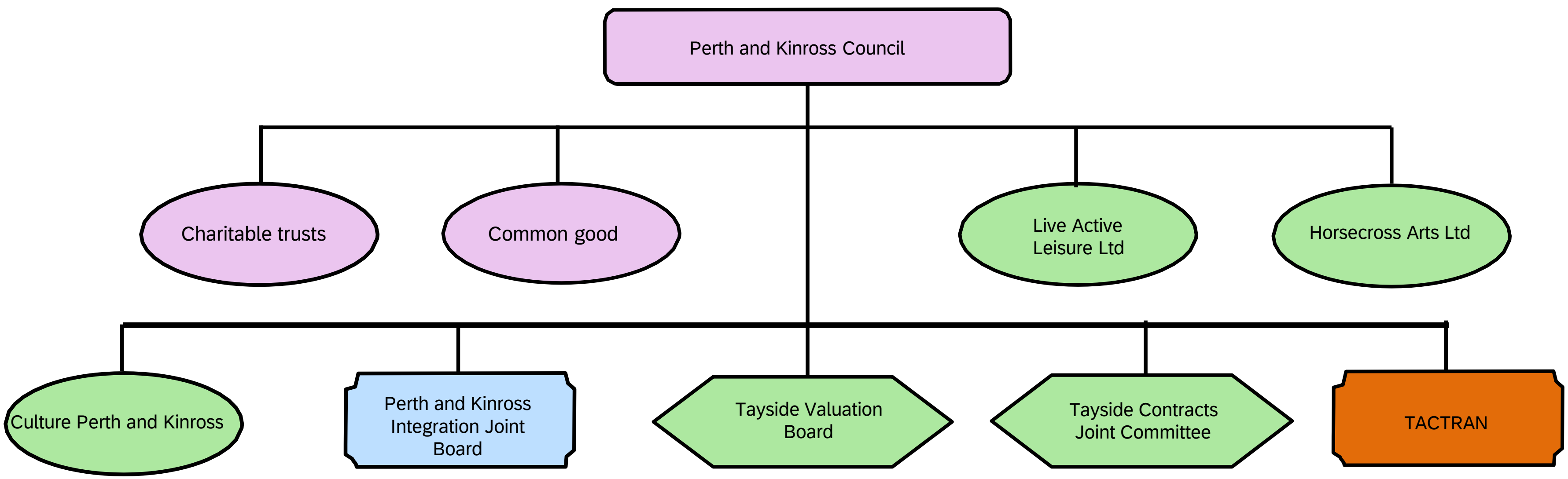
Prior Year Recommendations (Continued)

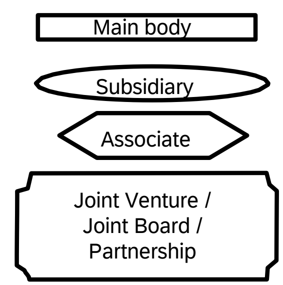
Original finding and risk	Recommendation	Original actions	Status
7. Non-Domestic Rates (Grade three)			
We have tested the design and implementation of the controls around Non-Domestic Rates. In two cases there was no clear segregation of duties in terms of staff recording and authorising Non-Domestic Rates relief applications.	We recommend that management implements a process to ensure segregation of duties when completing and authorizing Non-Domestic Rates relief applications. In respect of management's response, we understand that detective controls are in place, we will consider their design and implementation as part of our year-end audit and will report on our findings in our Annual Audit Report. We do not plan to test the operating effectiveness to the extent we are not relying on IT based system controls.	Response: The Local Taxes Management Team does not consider that there is a need for a clear segregation between accepting and processing information as it views this as one single customer interaction. They view the ability to make amendments, including those made at the point of contact, by an experienced member of staff to be beneficial in terms of customer service, and in achieving Best Value through effective use of staff resources rather than the recommended two-tiered approach. There is a very minor risk that staff could enter invalid information into the system, but this applies whether there is the existence of an application form or not. Furthermore, they strongly consider that satisfactory arrangements are in place through login control, system permissions, audit trails, accuracy checking and review processes to identify and mitigate any potential such actions occurring. Therefore, the Local Taxes Management Team are comfortable with existing processes and are accepting of any minor risks that current arrangements may bring. Responsible Officer: n/a When: n/a	**Not Implemented** We will continue to plan and undertake our audit approach factoring in management's assessment and are aware that there is continued shift towards online processing by individuals without staff intervention.

Appendix six

Perth and Kinross Council group structure

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 audit team
- 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 and risk committee at the September meeting should there be any exceptions arising from the testing.

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.	The WGA return for the 2021 financial year was submitted by the Council by end of July. The Threshold for auditing the 2021 WGA return was increased and thus this was not audited. Guidance for the 2022 WGA return is still pending.
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.	At the time of drafting this report, the NDR audit was still to be completed.
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 January 2023 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.	The EMA return did not require an audit for the 2022 financial year as per latest guidance issued by Audit Scotland.

Appendix eight

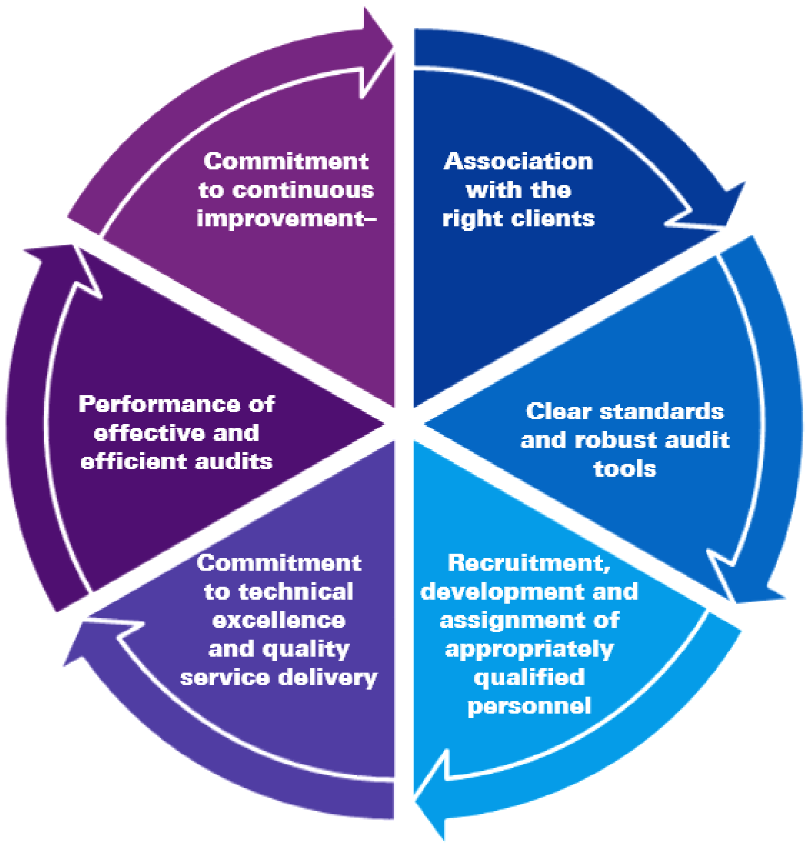
Appointed auditor's responsibilities

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 5 summarises the opinions we have provided. Pages 16 reports on the other information contained in the financial statements, covering the annual governance statement, management commentary and remuneration report. Appendix seven 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 30 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 19 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



- 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

Appendix eight

Pensions assumptions

Level of prudence compared to KPMG central assumptions

Outside normally acceptable range | *Cautious* *Balanced* *Optimistic* | *Outside normally acceptable range*

Acceptable range

Overall assessment of assumptions for IAS 19 for audit consideration	
The overall assumptions adopted by the Employer are considered to be balanced relative to our central rates and within our normally acceptable range overall.	*Balanced*

Underlying review of individual assumptions		Methodology	Consistent methodology to prior year?	Compliant methodology with IAS 19?	Employer	KPMG central	Assessment vs KPMG central	Significant assumptions
Discount rate		AA yield curve	✓	✓	2.60%	2.64%		✓
CPI inflation		Deduction to inflation curve	✓	✓	3.20%	3.22%		✓
Salary increases		Employer best estimate	✓	✓	CPI plus 1.0%	In line with long-term remuneration policy		✓
Pension increases		In line with CPI	✓	✓	3.20%	3.20%		
Mortality	Base tables	In line with most recent Fund valuation	✓	✓	110% of the SAPS Series 3 Heavy tables	In line with best-estimate Fund experience		✓
	Future improvements	Latest available CMI model	✓	✓	CMI 2020 projections model, 1.25% long-term trend rate, a default initial addition parameter, a smoothing parameter of 7.5 and a 2020 weight parameter of 25%	CMI 2021 projections model, 1.25% long-term trend rate and default parameters		✓
Other demographics		In line with most recent Fund valuation	✓	✓	Members assumed to exchange half of their commutable pension for cash at retirement	In line with Fund experience		

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

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

KPMG

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