



Perth & Kinross Council

Annual Audit Plan
2015/16

Prepared for Members of Perth & Kinross Council

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Key contacts

Stephen Boyle, Assistant Director
sboyle@audit-scotland.gov.uk

Pearl Tate, Senior Audit Manager
ptate@audit-scotland.gov.uk

Neil O'Connor, Senior Auditor
noconnor@audit-scotland.gov.uk

Audit Scotland
4th floor (South Suite)
8 Nelson Mandela Place

Glasgow
G2 1BT

Telephone: 0131 625 1500

Website: www.audit-scotland.gov.uk

The Accounts Commission is a statutory body which appoints external auditors to Scottish local government bodies (www.audit-scotland.gov.uk/about/ac/). Audit Scotland is a statutory body which provides audit services to the Accounts Commission and the Auditor General (www.audit-scotland.gov.uk/about/).

The Accounts Commission has appointed Stephen Boyle as the external auditor of Perth & Kinross Council for the period 2012/13 to 2015/16.

This report has been prepared for the use of Perth & Kinross Council and no responsibility to any member or officer in their individual capacity or any third party is accepted.

The information in this report may be used for the Accounts Commission's annual overview report on local authority audits published on its website and presented to the Local Government and Regeneration Committee of the Scottish Parliament.

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Summary

Introduction

1. Our audit is focused on the identification and assessment of the risks of material misstatement in Perth & Kinross Council's (the council) financial statements.
2. This report summarises the key challenges and risks facing the council and sets out the audit work that we propose to undertake in 2015/16 the final year of our five year appointment. Our plan reflects:
 - the risks and priorities facing the council
 - current national risks that are relevant to local circumstances
 - the impact of international auditing and accounting standards
 - our responsibilities under the Code of Audit Practice as approved by the Auditor General for Scotland and the Accounts Commission
 - issues brought forward from previous audit reports.
3. The Charities Accounts (Scotland) Regulations 2006 specifies the accounting and auditing rules for Scottish registered charities. Irrespective of the size of the charity, as a consequence of the interaction of section 106 of the Local Government (Scotland) Act 1973 with the regulations, a full audit is required of all registered charities where the local authority is the sole trustee. The council has a large number of trusts and funds with charitable status and

uses the connected charities provision which will result in one audit for charities in 2015/16. We will audit the council's charitable trusts in parallel with the audit of the council's financial statements.

Summary of planned audit activity

4. Our planned work in 2015/16 includes:
 - an audit of the financial statements and provision of an opinion on whether:
 - they give a true and fair view of the state of affairs of the council and its group as at 31 March 2016 and its income and expenditure for the year then ended
 - the accounts have been properly prepared in accordance with the Local Government (Scotland) Act 1973 and the 2015/16 Code of Practice on Local Authority Accounting in the United Kingdom (the Code)
 - reporting the findings of the shared risk assessment process in a Local Scrutiny Plan. This will summarise identified scrutiny risks and/or any changes to the Local Area Network's assessment since last year
 - a review and assessment of the council's governance and performance arrangements in a number of key areas including: internal controls and statutory performance indicators
 - an audit of the financial statements and provision of an opinion for the charitable trusts where the local authority is the sole trustee

- provision of an opinion on a number of grant claims and returns, including Whole of Government Accounts
- reporting of National Fraud Initiative arrangements and results
- collection of relevant financial and performance information to inform Audit Scotland's national reports.

Responsibilities

5. The audit of the financial statements does not relieve management or the Audit Committee, as the body charged with governance, of their responsibilities.

Responsibility of the appointed auditor

6. Our responsibilities, as independent auditor, are established by the Local Government (Scotland) Act 1973 and the Code of Audit Practice, and guided by the auditing profession's ethical guidance.
7. Auditors in the public sector give an independent opinion on the financial statements. We also review and report on the arrangements set in place by the audited body to ensure the proper conduct of its financial affairs and to manage its performance and use of resources. In doing this, we aim to support improvement and accountability.

Responsibility of the council and the Head of Finance

8. It is the responsibility of the council to:
- make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has the responsibility for those affairs
 - manage its affairs to secure economic, efficient and effective use of resources and safeguard assets

- ensure the annual accounts are prepared in accordance with legislation and in accordance with proper accounting practices
- approve the annual accounts for signature.

9. It is the responsibility of the Head of Finance as the appointed "proper officer", to prepare the financial statements in accordance with relevant legislation and the Code of Practice on Local Authority Accounting in the United Kingdom (the Code). This means:

- maintaining proper accounting records
- preparing financial statements which give a true and fair view of the state of affairs of the council and its group as at 31 March 2016 and its expenditure and income for the year then ended.

Responsibilities of the charities trustees

10. The trustees are responsible for preparing the Trustees' Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).
11. The law applicable to charities in Scotland requires the trustees to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the charity and of the incoming resources and application of resources of the charity for that period.

12. The trustees are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the charity and enable them to ensure that the financial statements comply with the Charities and Trustee Investment (Scotland) Act 2005, Charities Accounts (Scotland) Regulations 2006 (as amended), Charities Accounts (Scotland) Amendment Regulations 2014 and the provisions of the charity's constitution. They are also responsible for safeguarding the assets of the charity and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Format of the accounts

13. The financial statements should be prepared in accordance with the Code, which constitutes proper accounting practice. The council prepares a Whole of Government Accounts consolidation pack annually for the Scottish Government. To enable summarisation common accounting principles and standard formats should be used.

Audit Approach

Our approach

14. Our audit approach is based on an understanding of the characteristics, responsibilities, principal activities, risks and governance arrangements of the council and its group. We also consider the key audit risks and challenges in the local government sector generally. This approach includes:
 - understanding the business of the council and its group and the risk exposure which could impact on the financial statements
 - assessing the key systems of internal control, and considering how risks in these systems could impact on the financial statements
 - identifying major transaction streams, balances and areas of estimation and understanding how the council will include these in the financial statements
 - assessing and addressing the risk of material misstatement in the financial statements
 - determining the nature, timing and extent of the audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements give a true and fair view.
15. We have also considered and documented the sources of assurance which will make best use of our resources and allow us to focus audit testing on higher risk areas during the audit of the financial statements. The main areas of assurance for the audit come from planned management action and reliance on systems of internal control. Planned management action being relied on for 2015/16 includes:
 - comprehensive closedown procedures for the council and group financial statements accompanied by a timetable issued to all relevant staff
 - clear responsibilities for preparation of financial statements and the provision of supporting working papers
 - delivery of unaudited financial statements to agreed timescales with a comprehensive working papers package
 - completion of the internal audit programme for 2015/16.
16. Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to rely on the work of internal audit wherever possible and as part of our planning process we carry out an early assessment of the internal audit function.
17. Overall, we concluded that the internal audit service generally operates in accordance with Public Sector Internal Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place. An external quality assessment is planned for 2016/17. We plan to place formal reliance on aspects of the work of internal audit in payroll, to support our audit opinion on the financial statements:

18. In respect of our wider governance and performance audit work we also plan to review the findings and consider internal audit work in the following areas:
- following the public pound
 - reserves strategy
 - corporate governance
 - corporate risk management
 - IT disaster recovery
 - housing investment programme
 - health & social care integration.

Materiality

19. Materiality can be defined as the maximum amount by which auditors believe the financial statements could be misstated and still not be expected to affect the decisions of users of financial statements. A misstatement or omission, which would not normally be regarded as material by amount, may be important for other reasons (for example, the failure to achieve a statutory requirement or, an item contrary to law). In the event of such an item arising, its materiality has to be viewed in a narrower context; such matters would normally fall to be covered in an explanatory paragraph in the independent auditor's report.

20. We consider materiality and its relationship with audit risk when planning the nature, timing and extent of our audit and conducting our audit programme. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements both individually and collectively.
21. Based on our knowledge and understanding of the council we have set our planning materiality at £4.1 million (1% of gross expenditure). For the audit of the council's charitable trusts materiality has been set at £657 (1% of gross expenditure). Due to the size and nature of the investments held a separate materiality is appropriate for this area and has been set at £20,800 (1% of gross assets).
22. We set a lower level, known as performance materiality, when defining our audit procedures. This is to ensure that uncorrected and undetected audit differences do not exceed our planning materiality. This level depends on professional judgement and is informed by a number of factors including:
- extent of estimation and judgement within the financial statements
 - nature and extent of prior year misstatements
 - extent of audit testing coverage.
23. For 2015/16 performance materiality for the council has been set at £2 million. We will report, to those charged with governance, all misstatements identified which are greater than £0.1 million. For the council's charitable trusts any misstatements identified during the audit will be reported.

Reporting arrangements

24. The Local Authority Accounts (Scotland) Regulations 2014 require that the unaudited annual accounts are submitted to the appointed external auditor no later than 30 June each year. The council (or a committee whose remit includes audit or governance) is required to consider the unaudited annual accounts at a meeting by 31 August.
25. Local authorities must publish the unaudited accounts on their websites and give public notice of the inspection period.
26. The 2014 regulations require the council (or a committee whose remit includes audit or governance) to meet by 30 September to consider whether to approve the audited annual accounts for signature. Immediately after approval, the annual accounts require to be signed and dated by specified members and officers and then provided to the auditor. The Controller of Audit requires audit completion and issue of an independent auditor's report (opinion) by 30 September each year.
27. The authority is required to publish on its website its signed audited annual accounts, and the audit certificate, by 31 October. The council is also required to publish a copy of the accounts of its subsidiaries. Our annual audit report is required to be published on the council's website by 31 December.
28. A proposed timetable for the audit of the 2015/16 financial statements is included at Exhibit 1 below.

Exhibit 1: Financial statements audit timetable

Key stage	Date
Testing and review of internal control systems	Feb/March 2016
Meetings with officers to clarify expectations of working papers and financial system reports	March 2016
Consideration of unaudited financial statements by those charged with governance	29 June 2016
Latest submission date of unaudited council and charitable trust accounts with working papers	30 June 2016
Anticipated latest date for submission of unaudited whole of government accounts to external audit	25 July 2016
Progress meetings with lead officers on emerging issues	As required
Latest date for final clearance meeting with officers	14 Sept 2016
Agreement of audited unsigned financial statements, and issue of Annual Audit Report which includes the ISA 260 report to those charged with governance	21 Sept 2016
Audit Committee approval of annual accounts for signature	28 Sept 2016
Latest date for signing Independent auditor's report	30 Sept 2016
Latest date for signing of WGA return	30 Sept 2016

29. Matters arising from our audit will be reported on a timely basis. Draft management reports will be issued to the responsible head of service and relevant officers to confirm factual accuracy. Responses to draft reports are expected within three weeks of submission. Agreed final reports will be sent to the Chief Executive, Head of Finance, relevant senior manager, internal audit and Audit Scotland's Performance Audit and Best Value Group. Planned outputs for 2015/16 are summarised at [Appendix 1](#).
30. We will provide an independent auditor's report to the council and the Accounts Commission that the audit of the financial statements has been completed in accordance with applicable statutory requirements. The Annual Audit Report will be issued by 30 September.
31. All annual audit reports produced are published on Audit Scotland's website: www.audit-scotland.gov.uk.

Quality control

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

33. The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice issued by Audit Scotland and approved by the Accounts Commission. To ensure that we achieve the required quality standards, Audit Scotland conducts peer reviews and internal quality reviews and has been subject to a programme of external reviews by the Institute of Chartered Accountants of Scotland (ICAS).
34. As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We do, however, welcome feedback at any time and this may be directed to the engagement lead, Stephen Boyle.

Independence and objectivity

35. Auditors appointed by the Accounts Commission must comply with the Code of Audit Practice. When auditing the financial statements, auditors must also comply with professional standards issued by the Auditing Practices Board (APB) and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has in place robust arrangements to ensure compliance with these standards including an annual "fit and proper" declaration for all members of staff. The arrangements are overseen by the Assistant Auditor General, who serves as Audit Scotland's Ethics Partner.

36. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. In significant cases we would change the audit team, however where there are potential issues that are not fundamental to the delivery of the audit, we advise officer of the circumstances and of the steps we have taken to manage this. We have advised the Chief Executive and the Head of Finance of any relationships that may impact on the audit of Perth & Kinross Council.

Audit issues and risks

Audit issues and risks

37. Based on our discussions with staff, attendance at committee meetings and a review of supporting information we have identified the following main risk areas for the council. We have categorised these risks into financial risks and wider dimension risks. The financial statements issues and risks, which require specific audit testing, are summarised below with details contained in [Appendix 2](#).

Financial statement issues and risks

38. **Internal controls:** A robust governance framework is essential in providing an appropriate environment for the officers to operate efficiently and effectively. Internal financial controls forms part of this framework and help reduce the risk of material error in the financial statements.
39. Additionally auditing standards (ISA 240 *The auditor's responsibility to consider fraud in an audit of financial statements*) requires auditors to presume a risk of fraud where income streams are significant. The council receives a significant amount of funding from the Scottish Government, however income is received from other sources, including council tax, housing rents etc.
40. We will test the key financial controls (including significant income streams) to provide assurance that the financial statements are not materially misstated.

41. **Management override of controls:** Auditing standards (ISA 240) also highlights that management has the ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. The ability to override these controls exists in all entities and therefore represents a financial statements risk due to fraud. We will undertake focused audit of these areas within the council including testing of: journal entries; accounting estimates; and significant transactions outside the course of normal business.
42. **Performance and governance disclosures:** The Local Authority Accounts (Scotland) Regulations 2014 require the financial statements to include a *management commentary* and an *annual governance statement*. The financial statements in 2014/15 included a *management commentary* and an *annual governance statement* however the information to support certain aspects of these statements was not fully available until after the council had undertaken its consideration of the unaudited accounts. There is a risk that members' considerations are based on incomplete information. The annual performance report will not be available to inform the unaudited financial statements however officers have advised that performance information from the Business Management & Improvement Plans will be used to inform the management commentary. We will continue to liaise with officers on the timeous availability of its performance information to inform the management commentary and the completion of self assessments used to inform the council's view on its governance arrangements.

Wider dimension issues and risks

43. **Resources** - The council continues to show a good understanding of the financial challenges it faces, and has been proactive in preparing financial plans to manage budget reductions. The reserves strategy and medium term financial plan allow the council to mitigate the risks associated with the current financial climate and service pressures. In previous years the council has consistently delivered an underspend against budget and is currently anticipating a revenue underspend in 2015/16 of almost £8.3 million (2.5% of gross expenditure).
44. The Scottish Government notified councils of the provisional financial settlement for 2016/17 in December 2015 with an update given on the figures in January 2016. The council has now agreed the 2016/17 budget and provisional budgets for the following two years. The settlement represented a significant decrease in the funding expected and the council has agreed savings of approximately £39 million and council tax income assumptions of £6 million over the next three years to support its financial position (£22 million and £1 million respectively in 2016/17).
45. As the council aims to support the local economy and maintain service provision, it continues to face a reduction in resources. In July 2015 the council approved *Building Ambition: The Council's Transformation Strategy 2015-2020*. This identified 39 transformation reviews designed to help address the continuing financial pressures and minimise the impact of these reductions on the performance of services. The first two phases have been approved with several reviews currently being undertaken to contribute to the savings required.
46. We will continue to monitor the council's approach to financial management and efficiencies and ensure the council monitor the potential impact this has on service performance.
47. **Public sector reform:** The Public Sector Reform landscape continues to develop (e.g. Community Empowerment Act; Community Justice Bill; etc.) and the council have to continue to respond to these changes.
48. This reform agenda has a significant impact on the service delivery arrangements including:
- the establishment of Perth & Kinross Integration Joint Board
 - the development of local outcome improvement plans and locality teams
49. The council, through a restructure of its senior management, has recognised the need to build capacity to deliver change. Roles and responsibilities are being realigned over the next two years to reflect changes required as part of the reform agenda. The council also needs to ensure that its decision making arrangements are kept under review to reflect changes required by legislation. A full review of the decision-making structures will be undertaken in preparation for the local government elections in May 2017. This will also consider how to reduce duplication of effort and inefficient use of member and officer time. We will continue to monitor developments in these areas.

50. **Cultural trust:** a model for trust arrangements was agreed in July 2015 with museums and galleries, libraries, archives, arts development and some creative learning to be delivered by a new single culture trust.
51. This new cultural trust is to be established in April 2016. With the shift to strategic commissioning, the total value of services being delivered by arms-length organisations will almost double to approximately £10 million in 2016/17. The council has a statutory requirement to follow the public pound in respect of commissioned services. A robust commissioning and monitoring function within the council will be required to support these new trust arrangements. A review of the establishment of the trust was reported to council in February 2016. We will continue to monitor the council's approach to following the public pound and will consider the specific governance and performance arrangements in place to monitor this new arms length external organisation.
52. **Cyber security** – Scottish public bodies continue to be the target of cyber attacks and related activities. The council has previously experienced degradation in its internet connection as a consequence of a targeted hacking attack and has been subjected to increasingly sophisticated threats. We will review the council's preparedness to deal with cyber attacks.

Local studies

53. Correspondence received in previous years resulted in our *Roads Maintenance Partnership Investigation* report published in August

2015. The Audit Committee's consideration of the report in September 2015 also included an improvement plan submitted by officers. The Audit Committee have requested an update on progress against the improvement plan within six months. We will continue to monitor developments in this area.

National performance audit studies

54. Audit Scotland's Performance Audit and Best Value Group undertake a programme of studies on behalf of the Auditor General and Accounts Commission. In line with Audit Scotland's strategy to support improvement through the audit process, we will carry out work to collect relevant financial and performance information to inform national reports. As part of our 2015/16 audit we will also carry out local follow up work on the *Scotland's Public Sector Workforce* report published by Audit Scotland in November 2013.
55. Audit Scotland has started a programme of work to develop the new approach to auditing Best Value and discussions with the Scottish Government about refreshing the statutory guidance have begun. The Accounts Commission and Audit Scotland will maintain dialogue with stakeholders on the approach and develop the arrangements on an on-going basis. We will continue to consider Best Value audit work as part of the shared risk assessment process. The council will be the subject of a best value review within the next five years the timing of which is still to be determined.

Fees and resources

Audit fee

56. Over the past four years, Audit Scotland has reduced audit fees by 24% in real terms, exceeding our 20% target. Due to further refinement of our audit approach we have been able to maintain audit fees for 2015/16 at the same level as last year.
57. In determining the audit fee we have taken account of the risk exposure of the council, the planned management assurances in place, and the level of reliance we plan to take from the work of internal audit. We have assumed receipt of a complete set of unaudited financial statements and comprehensive working papers package by 30 June 2016.
58. The proposed audit fee for the 2015/16 audit of Perth & Kinross Council is £281,000 (2014/15: £281,000). This includes £1,500 (2014/15: £1,500) in respect of the audit of the charitable trusts. Our fee covers:
 - the costs of planning, delivering and reporting the annual audit including auditor's attendance at committees
 - your organisation's allocation of the cost of national performance studies and statutory reports by the Accounts Commission
 - a contribution towards functions that support the local audit process (e.g. technical support and coordination of the National

Fraud Initiative), support costs and auditors' travel and subsistence expenses.

59. Where our audit cannot proceed as planned through, for example, late receipt of unaudited financial statements or being unable to take planned reliance from the work of internal audit, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises outwith our planned audit activity.

Audit team

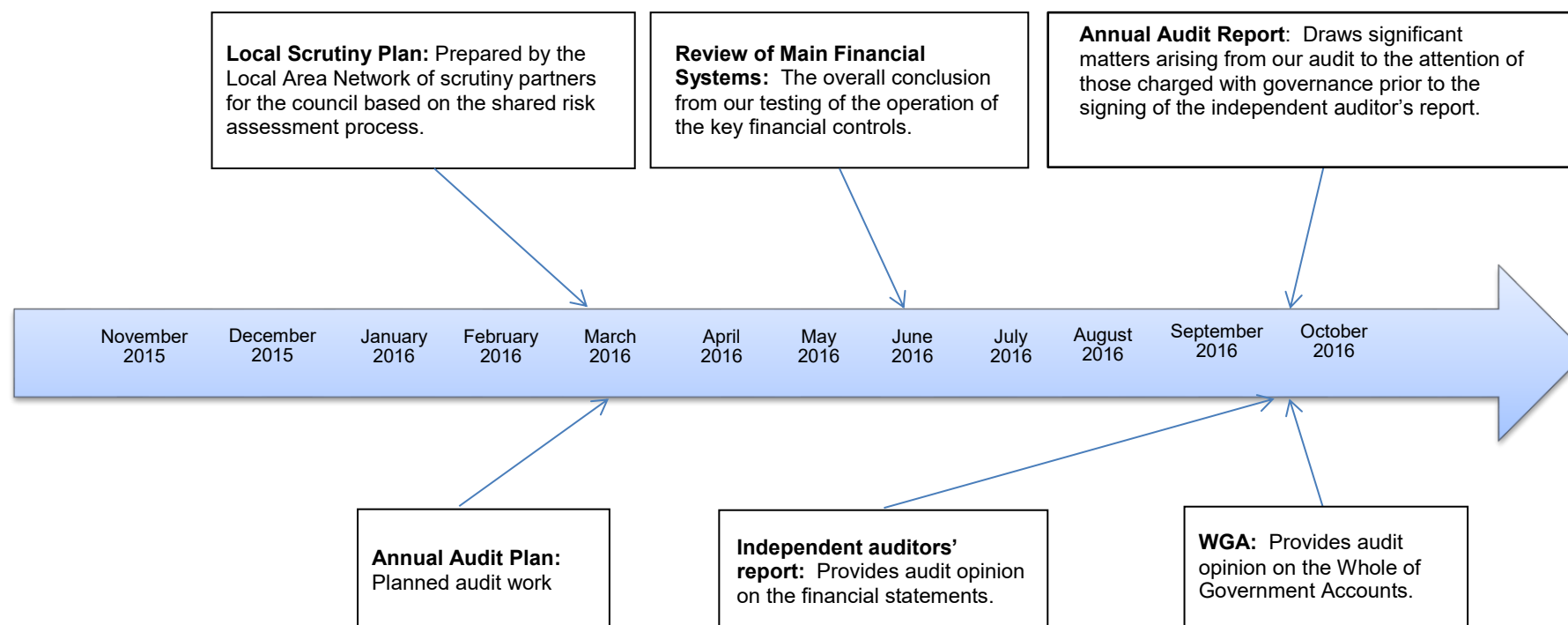
60. Stephen Boyle, Assistant Director, Audit Services is your appointed auditor. The local audit team will be led by Pearl Tate who will be responsible for day to day management of the audit and your primary contact. Details of the experience and skills of our team are provided in Exhibit 2. The core team will call on other specialist and support staff as necessary.

Exhibit 2: Audit team

Name	Experience
Stephen Boyle Assistant Director (and certifying auditor)	Stephen has 19 years experience of public sector finance. He trained as an accountant with a Big 4 firm, before joining Audit Scotland in 2002. He later worked as Head of Finance and Corporate Services for Cube Housing Association, before spending three years with Glasgow Housing Association as Assistant Director of Finance. He re-joined Audit Scotland in June 2013.
Pearl Tate Senior Audit Manager	Pearl began her career as a finance trainee in the health sector and was then an internal auditor in health before joining Audit Scotland in 1996. As an external auditor she has covered a wide and varied portfolio of audits across the whole public sector and currently has a portfolio of local government and health audits.
Neil O'Connor Senior Auditor	Neil took up post as Senior Auditor in April 1997. Neil trained as an auditor with Carters Chartered Accountants. He has 19 years' experience auditing local government and the health sector.
Sean Dalziell Professional Trainee	Sean joined Audit Scotland as an ICAS professional trainee in 2014 having completed an MA (Hons) degree in Business Studies & Accountancy.
Wojciech Kuzma Professional Trainee	Wojciech joined Audit Scotland as an ICAS professional trainee in 2015. Wojciech graduated in 2011 with a MLitt degree in International Business.

Appendix 1: Planned audit outputs

The diagram below shows the key outputs planned for Perth & Kinross Council in 2015/16.



Appendix 2: Significant audit risks

The table below sets out the key audit risks, the related sources of assurance received and the audit work we propose to undertake to address the risks during year.

#	Audit Risk	Source of assurance	Audit assurance procedure
Financial statement issues and risks			
1	<p>Internal financial controls</p> <p>A robust system of internal financial controls is essential to reduce the risk of material error in the financial statements. In times of economic challenge, the council's financial systems may be exposed to increased risk of fraud or manipulation.</p> <p>Auditing standards (ISA 240 <i>The auditor's responsibility to consider fraud in an audit of financial statements</i>) require auditors to presume a risk of fraud where income streams are significant. The council receive a significant amount of income in addition to Scottish Government funding. The extent and complexity of these income streams introduces an increased risk of fraud.</p> <p><i>Risk: The council's financial position is exposed to error. Fraud and manipulation may not be detected.</i></p>	<ul style="list-style-type: none"> • Regular budget monitoring and reporting. • Robust internal controls in financial systems to mitigate risks of error or manipulation. • Internal audit coverage of internal controls. • Participation in the National Fraud Initiative. • Annual Governance Statement included in the annual accounts. 	<ul style="list-style-type: none"> • Testing of key internal financial controls. • Review of internal audits work in specific areas (i.e. payroll). • Targeted testing of risk areas and report to members as appropriate. • Review the council's involvement in the National Fraud Initiative.

#	Audit Risk	Source of assurance	Audit assurance procedure
2	<p>Management override of controls</p> <p>Management has the ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p> <p><i>Risk: The accounts are material misstated.</i></p>	<ul style="list-style-type: none"> Submission of a set of compliant annual accounts. 	<ul style="list-style-type: none"> Detailed testing of journal entries. Review of accounting estimates for bias. Evaluating significant transactions that are outside the normal course of business.
3	<p>Performance and governance disclosures</p> <p>The Local Authority Accounts (Scotland) Regulations 2014 require the financial statements to include:</p> <ul style="list-style-type: none"> a <i>management commentary</i> which includes details of the council's strategic performance during the year an <i>annual governance statement</i> providing assurance that the governance framework is operating effectively <p>In previous years the performance information has not been available to inform the completion of the unaudited accounts. Similarly all self assessments to inform the council's view on its governance arrangements had not been completed prior to consideration of the unaudited accounts.</p> <p><i>Risk: The unaudited accounts available to members and the public do not reflect a complete picture of the council's activities during the year.</i></p>	<ul style="list-style-type: none"> Submission of a set of compliant annual accounts. Performance information available for inclusion in the unaudited accounts. Introduction of a challenge process for annual governance statement prior to its consideration by the Scrutiny Committee. Review of corporate governance and corporate risk management by internal audit. 	<ul style="list-style-type: none"> Review the management commentary and the annual governance statement. Consider the process/evidence supporting these statements. Review of internal audit findings for corporate governance and corporate risk management.

#	Audit Risk	Source of assurance	Audit assurance procedure
4	<p>Charities governance documentation</p> <p>The governance documentation for several trusts could not be located as a consequence of the age of the trusts, in some cases dating back over 100 years. To address this, in previous years, the council has treated all funds as endowments and where there was an absence of governance documentation it relied on custom and practice to inform any decisions by the trustees in respect of the trusts' expenditure and use of assets.</p> <p><i>Risk: The funds are not accounted for accurately or used for the appropriate purpose.</i></p>	<ul style="list-style-type: none"> On-going amalgamation of smaller charities with a view to streamlining the administrative requirements and establishing clearer governance arrangements. 	<ul style="list-style-type: none"> Audit of the charities financial statements to ensure compliance with requirements. On-going monitoring and inclusion in annual audit report as appropriate.

#	Audit Risk	Source of assurance	Audit assurance procedure
Wider dimension issues and risks			
5	<p>Financial position</p> <p>Along with all other public bodies in Scotland, the council is facing the prospect of having to make significant budget savings. At the same time as the council aims to support the local economy and maintain service provision, it is likely to face a reduction in resources.</p> <p><i>Risk: The council is unable to secure the efficiencies required without impacting on services.</i></p>	<ul style="list-style-type: none"> • <i>Building Ambition: The Council's Transformation Strategy 2015-2020</i> approved in July 2015. • Transformation reviews underway, with regular monitoring and reporting of progress. • Medium term financial plan regularly updated and reported to members. • Budget set in February for 2016/17 with provisional figures agreed for the following two years. • Budget monitoring reports presented to members on a regular basis. • Revised senior management structure in place. • Organisational development framework agreed in July 2015. • Annual programme for workforce governance in place. • Securing the Future workforce plan to be reported to the Council in May 2016. • Voluntary severance scheme in place. • Review of the reserves strategy by internal audit. 	<ul style="list-style-type: none"> • On-going monitoring and inclusion in annual audit report as appropriate. • Submit information on the council's workforce management arrangements to inform a national study follow up. • Review of internal audit findings for reserves strategy.

#	Audit Risk	Source of assurance	Audit assurance procedure
6	<p>Capital expenditure</p> <p>In previous years we have reported on significant underspends against the council's capital programme. The outturn for 2014/15 represented progress in delivering the original programme with a 2.4% overspend, although we highlighted that the council was again unable to deliver fully on its housing capital programme.</p> <p>In 2015/16 gross capital expenditure is projected to be underspent against the original budget by £17.1 million (20%). This comprises a general fund capital programme underspend of £17.6 million and a housing investment programme overspend of £0.5 million.</p> <p><i>Risk: The council is unable to deliver efficient and effective services and contribute to a prosperous, sustainable and inclusive economy for its area due to delays in investment or improvements to the asset base.</i></p>	<ul style="list-style-type: none"> • Regular monitoring reports to members. • Strategic Investment Group in place. • Internal audit's review of the housing investment programme. 	<ul style="list-style-type: none"> • On-going monitoring of capital budget, plans and monitoring reports and inclusion in annual audit report as appropriate. • Review of internal audit findings for the housing investment programme.

#	Audit Risk	Source of assurance	Audit assurance procedure
7	<p>Performance management</p> <p>The council's performance indicates a relatively positive picture overall with only a few areas of performance declining. However, effectively managing performance will remain a key challenge as financial pressures increase. The council will need to use its performance information to understand and manage the impact of spending decisions.</p> <p><i>Risk: The council's resources are not directed at priority areas and outcomes are not demonstrated.</i></p>	<ul style="list-style-type: none"> • Robust approach to performance management in place. • Regular monitoring of performance indicators. 	<ul style="list-style-type: none"> • Review of processes to collate statutory performance indicators • On-going monitoring of the performance management framework and inclusion in annual audit report as appropriate.
8	<p>Locality planning</p> <p>The Community Empowerment (Scotland) Act 2015 places a new statutory duty to tackle inequalities and specifically creates a statutory duty on community planning partnerships to develop, publish and implement local outcome improvement plans setting out how partners will tackle stubborn inequalities across the area.</p> <p><i>Risk: The council fail to tackle inequalities within its locality areas.</i></p>	<ul style="list-style-type: none"> • 5 locality areas agreed in December 2015. • The council and Education Scotland jointly led a collaborative piece of work in a specific locality to devise a methodology for evaluation and scrutiny of how community planning is operating at a local level (<i>place based scrutiny</i>) • Scaled back version of the <i>place based scrutiny</i> methodology to be used to inform the council's locality planning. • Development of local outcome improvement plans and locality teams. • Review of senior management structure. 	<ul style="list-style-type: none"> • On-going monitoring and inclusion in annual audit report as appropriate.

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9	<p>Health & social care integration</p> <p>The Public Bodies (Joint Working) (Scotland) Act received royal assent on 1 April 2014. The Act provides the framework for the integration of health and social care services in Scotland.</p> <p>In the council, a Pathfinder Board was set up to lead on and oversee the transition to integrated services. The Board submitted the integration scheme which was passed by the Scottish Parliament on 3 October 2015 at which point the Pathfinder Board became the Perth and Kinross Integration Joint Board for Health and Social Care (IJB) with responsibility for delivering services that meet local and national outcomes.</p> <p><i>Risk: Integration does not deliver the intended outcomes.</i></p>	<ul style="list-style-type: none"> • Chief Officer appointed in September 2015. • Inaugural meeting in November 2015. • Chief Financial Officer appointed in January 2016. • Changes to the council's management structure were agreed in July 2015 • Council's Scheme of Administration will be updated to reflect the governance arrangements covering the IJB. • Due diligence considered in November 2015. • Internal audit's involvement in the review of health and social care integration. • Development session for members February 2016. 	<ul style="list-style-type: none"> • On-going monitoring and inclusion in annual audit report as appropriate.
10	<p>Cultural trust</p> <p>A cultural trust is to be established in April 2016. The total value of services being delivered by arms-length organisations will double to approximately £10 million. The council has a statutory requirement to follow the public pound in respect of commissioned services.</p> <p><i>Risk: Governance and monitoring arrangements are ineffective for the new arms length organisation.</i></p>	<ul style="list-style-type: none"> • Governance and monitoring arrangements for the new trust to be agreed by April 2016. • A report on the establishment of the trust was reported to council in February 2016. • Review on following the public pound by internal audit. 	<ul style="list-style-type: none"> • On-going monitoring and include in report to members as appropriate. • Review of internal audit findings for following the public pound.

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11	<p>Cyber security</p> <p>Scottish public organisations continue to be the target of cyber attacks and related activities. Previously the council experienced degradation in its internet connection as a consequence of a targeted hacking attack and has been subjected to increasingly sophisticated and targeted threats.</p> <p><i>Risk: Cyber attacks result in the loss of personal or sensitive data or systems are unavailable impacting on service delivery.</i></p>	<ul style="list-style-type: none"> • Overview of cyber security considered by council in February 2016 with annual updates to be considered. • State of Security report including cyber security considered by the Executive Officer Team. • Annual information technology health check. • Compliance with Public Service Network (PSN) requirements. • Quarterly network tests to ensure compliance with the payment card industry data security standards. • Information security policy in place. • Users awareness of their roles and responsibility. • Review of IT disaster recovery by internal audit. 	<ul style="list-style-type: none"> • We will review the council's preparedness to deal with cyber attacks. • Review of internal audit findings for IT disaster recovery.

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12	<p>Tayside Contracts</p> <p>The council has an interest in Tayside Contracts Joint Committee (TCJC) and this body is included in the group accounts. In 2012/13 it was noted that the minute of agreement would be revisited to ensure it reflected the actual operation and governance of TCJC. As at January 2016 the minute of agreement has still to be agreed.</p> <p><i>Risk: The minute of agreement does not reflect the actual operation of TCJC.</i></p>	<ul style="list-style-type: none"> Legal representatives from the three councils are close to concluding a revised legal agreement which will reflect operating practice. 	<ul style="list-style-type: none"> On-going monitoring and inclusion in annual audit report as appropriate.