

PERTH & KINROSS COUNCIL**16 December 2009****External Audit – Final Report to Members 2008/09****Report by Head of Finance**

ABSTRACT: This report accompanies the External Auditor's Final Report to Members for financial year 2008/09.

1. RECOMMENDATIONS

It is recommended that the Council:

- I. notes the content of this report
- II. submits the External Auditor's Final Report to Members and the Controller of Audit to a future meeting of the Audit Sub-Committee for detailed consideration.

2. INTRODUCTION

The Report to Members and the Controller of Audit for 2008/09 was received from the Council's External Auditors on 4 November 2009.

The report considers a wide range of issues including financial reporting and performance; governance arrangements; performance management within the Council and the Council's progress with the Efficient Government agenda.

3. CONSULTATION

The Chief Executive and all Executive Directors have been consulted in the preparation of this report.

4. COUNCIL CORPORATE PLAN OBJECTIVES 2009-2012

The Council's Corporate Plan 2009-2012 lays out five Objectives which provide clear strategic direction, inform decisions at a corporate and service level and shape resources allocation. They are as follows:-

- (i) A Safe, Secure and Welcoming Environment
- (ii) Healthy, Caring Communities
- (iii) A Prosperous, Sustainable and Inclusive Economy
- (iv) Educated, Responsible and Informed Citizens
- (v) Confident, Active and Inclusive Communities

The Report to Members supports the Council in managing the delivery of all of the corporate plan objectives and is consistent with the Council's principles of accountability and transparency; ensuring that we are accountable and transparent to the community; the Community Planning Partners and the Scottish Government in our decision making, planning and delivery of services.

5. EQUALITIES ASSESSMENT

The Council's Corporate Equalities Assessment Framework requires an assessment of functions, policies, procedures or strategies in relation to race, gender and disability and other relevant equality categories. This supports the Council's legal requirement to comply with the duty to assess and consult on relevant new policies to ensure there is no adverse impact on any community group or employees.

The information presented in this report was considered under the Corporate Equalities Assessment Framework and the determination was made that the items summarised in this report do not require further assessment as they do not have an impact on people's wellbeing.

6. STRATEGIC ENVIRONMENTAL ASSESSMENT

Strategic Environmental Assessment (SEA) is a legal requirement under the Environmental Assessment (Scotland) Act 2005 that applies to all plans, programmes and strategies, including policies (PPS).

The plan, programme or strategy presented in this report was considered under the Environmental Assessment (Scotland) Act 2005 and the determination was made that the items summarised in this report do not require further action as they do not qualify as a plan, programme or strategy as defined by the Act.

7. CONCLUSION

It is recommended that the External Auditor's Final Report to Members be submitted to the next meeting of the Audit Sub-Committee for detailed consideration.

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Head of Finance

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Background Papers: No background papers, as defined by Section 50D of the Local Government (Scotland) Act 1973 (other than any containing confidential or exempt information) were relied on to any material extent in preparing the above report.

If you or someone you know would like a copy of this document in another language or format, (on occasion only, a summary of the document will be provided in translation), this can be arranged by contacting *Alison O'Brien 01738 475516*



Council Text Phone Number 01738 442573



HENDERSON LOGGIE

**Perth & Kinross Council
Report to Members and the
Controller of Audit
2008/2009**

External Audit Report No: 2009/06

Draft Issued: 23 October 2009

Final Issued: 30 October 2009

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2. Introduction	6 - 7	
3. Finance	8 - 18	We take this opportunity to remind you that:
4. Governance	19- 23	<input type="checkbox"/> This report has been prepared for the sole use of Perth & Kinross Council and the Audit Sub-Committee and will be shared with the Accounts Commission and Audit Scotland.
5. Performance	24- 30	<input type="checkbox"/> No responsibility is assumed by us to any other person who may choose to rely on it for his or her own purposes.
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Executive Summary

1.1 Introduction (Section 2, page 6)

1.1.1 We are pleased to submit our annual report for the third year of our five year appointment as external auditors of the Council. The report highlights key issues grouped under three distinct headings of finance, governance and performance.

1.2 Finance (Section 3, page 8)

1.2.1 The Council achieved the statutory deadline for the submission of its accounts for audit. The audit was completed with the issue of an unqualified audit opinion on 24 September 2009.

1.2.2 Our audit report no 2009/05, *Report to those charged with Governance on the Audit of Perth & Kinross Council* was issued to the Head of Finance and the Leader of the Administration, as the Council's representatives of those charged with governance. The report provides audit comment on the key issues and audit opinion arising from the audit of the financial statements and of the financial systems of internal control. It also details the final audit adjustments to the draft accounts.

1.2.3 We were not obliged to make any adverse comment on the Council and its group's Annual Governance Statement. This confirmed that the content of the Statement was not inconsistent with information arising from our audit work.

1.2.4 The financial statements presented for audit had been prepared incorporating the requirements of the 2008 Statement of Recommended Practice (SORP).

1.2.5 There were no material audit adjustments. Five significant and six trivial audit adjustments were identified during the course of our audit. In addition one trivial adjustment was also identified to the Charitable Trusts Statement. All adjustments were discussed and agreed with the Head of Finance and the financial statements amended. Definitions of material, significant and trivial are provided in Appendix II.

1.2.6 The Council's income from government grants and local taxation exceeded its net operating expenditure of £298.597 million resulting in a surplus for the year of £1.650 million on the Income and Expenditure Account (2007/08 – Surplus £10.586 million). After the necessary adjustments to the movement on the General Fund Balance this resulted in decrease of £6.410 million (2007/08 – increase £2.574 million) on the total General Fund (including the HRA).

1.2.7 The balance on the General Fund at 31 March 2009 was £6.410 million less than at 31 March 2008. This is a favourable movement of £4.068 million against budget. The General Fund Revenue Management budget (as amended) assumed a use of resources of £10.478 million, whilst the HRA budget assumed no contribution from balances. Details of significant under-spends are given at Table 1.

1.2.8 The HRA Income and Expenditure Account reported a surplus of £0.852 million (2007/08 – surplus of £6.961 million). The final outturn for 2008/09, after the necessary adjustments to the HRA movements, was an increase of £0.049 million on the HRA balance to £1.030 million at 31 March 2009 (2007/08 - £0.981 million).

Executive Summary

1.2 Finance (Section 3, page 8) (cont'd)

1.2.9 Commitments against the General Fund Balance total £19,930 million leaving an uncommitted balance at 31 March 2009 of £9,049 million. Commitments against the HRA balance to support the delivery of the Housing Investment Plan total £0.231 million leaving an uncommitted balance of £0.799 million. The overall total uncommitted balance is £9,848 million.

1.2.10 The Council's pension liabilities at 31 March 2009, estimated by the Actuary, exceeded its share of pension scheme assets by £108.921 million (2007/08 *restated* - £31.065 million). The adverse movement of £77.856 million is mainly as a result of changes in the financial assumptions underlying the present value of the scheme's liabilities and the discount rates used.

1.2.11 Uncertainties with future Scottish Government Funding were noted as a significant risk to the longer term management of the Council's budget in our *Priorities and Risks Framework Report*, report 2009/02. The Council has sought to mitigate this risk within the resource constraints available.

1.2.12 The Council's exposure to potential claims under Equal Pay legislation in respect of its own employees and its share of the potential liability for Tayside Contracts employees was reported in our *Priorities and Risks Framework Report*. At 31 March 2009 a total of £6.639 million was earmarked within the General Fund Balance: £4.572 million for Single Status and £2.067 million for Equal Pay. Further details are provided in note 37 to the accounts, on page 41 of the financial statements.

1.2.13 The Council has noted that there is a real risk that the potential cost of claims could be in excess of the levels earmarked and that funding strategies require to be developed each year if additional liabilities arise.

1.2.14 Other significant cost pressures included increased costs of residential placements, particularly for younger people with additional support needs and those requiring support to deal with anti-social behaviour. However both Education and Social Work managed to contain these costs within their service budgets reporting overall underspends for the year.

1.2.15 The Council continues to develop strategies to address ongoing financial pressures. Services are asked to contain all new unfunded budget pressures within their existing base budgets, through identifying compensating savings or through the use of budget flexibility to manage resources between financial years under the terms of the Council's approved scheme. The total carried forward under the Budget Flexibility Scheme into 2009/10 was £2.471 million (2008/09 - £2.349 million).

1.2.16 The Council's PPP project; Investment in Learning (ILL), involves the construction of six new community school campuses. On 13 July 2009 Blairgowrie Community Campus, the first of the Council's new community campuses, was completed. This was followed by the completion of two further community campuses in October, Gleneam Community Campus and Loch Leven Community Campus.

1.2 Finance (Section 3, page 8) (cont'd)

1.2.17 The Local Authority (Scotland) Accounts Advisory Committee (LASAAC) guidance recommended that the review of Common Good assets be completed by 31 March 2009. The Council's review is ongoing. The potential liability that may arise if other assets are identified that belong to the Common Good has been disclosed on page 41 in the notes to the accounts.

1.3 Governance (Section 4, page 19)

1.3.1 The Council has reviewed its Strategic Planning and Improvement Framework to ensure the constituent parts reflect the Single Outcome Agreement (SOA) and the overall policy environment. The framework incorporates the Community Planning Partnership's (CPP) updated SOA 2009-11 and the Council's revised Corporate Plan, together with a Corporate Improvement Plan (CIP) which was approved by the Council in May 2009. Each Service Business Management and Improvement Plan (BMIP) has also been aligned to the delivery of the SOA. Team Plans and Individual Work Plans and reviews also feed into and support this framework.

1.3.2 The report on the Audit of Best Value and Community Planning in Perth & Kinross Council was published by the Accounts Commission in August 2008. Following publication of this report an Improvement Plan was agreed by the Council at its meeting on 1 October 2008. One of the agreed actions in the Best Value Improvement Plan was further improvements should be made by *"further developing medium term financial planning linked with asset management plans"* and by *"creating linkages between planning arrangements."*

1.3.3 A further six monthly update to the Council in September 2009 notes continuing progress with this area. This progress includes the approval of an updated medium term financial plan by the Strategic Policy and Resources (SP&R) Committee in June 2009, the development of a Corporate Asset Management Plan and development of linkages between Service BMIPs and other plans, including asset management projects.

1.3.4 A report to the SP&R Committee on 13 October advises of the decision to terminate the current recruitment process for the post of Executive Director of Corporate Services.

1.3.5 It is proposed that a report be brought to the SP&R Committee by the Chief Executive regarding the future management arrangements for the functions within Corporate Services. This is to accommodate the possible deletion of the post of Executive Director of Corporate Services.

1.3.6 The Council has developed a Workforce Management Strategy in response to the foreseeable difficulties arising from more detailed forecasts of the potential funding for the public sector.

1.3.7 Scrutiny Committee development is being progressed through a "Forward Programme for Scrutiny". This includes an improvement plan which covers roles and responsibilities, the development of a scrutiny programme and member development.

1.3.8 Changes to the Council's Scheme of Administration, Standing Orders and Financial Regulations were approved by the Council and found to be complying with best practice.

Executive Summary

1.3 Governance (Section 4, page 19) (cont'd)

- 1.3.9 The Council has an approved Local Code of Corporate Governance which is available from the Council's website www.pkc.gov.uk. A working group is currently reviewing the Local Code.
- 1.3.10 An Annual Governance Statement based on CIPFA/SOLACE guidance was included in the 2008/09 financial statements. This statement concluded that *"the Council has established an acceptable level of internal control, risk management and corporate governance framework on which it will develop and improve"*.
- 1.3.11 To minimise audit duplication we agreed to place reliance on a number of internal audit's reviews. Our review of their reports and working paper files allowed us to place reliance on the work of internal audit, for all those reviewed with the exception of two projects as detailed in our *Financial Statements Audit Plan for 2008/09*.
- 1.3.12 There is a need for significant improvement in the provision of internal audit services at the Council. Working practices are being reviewed and changes have been proposed to internal audit plans to address slippage in the internal audit plans.
- 1.3.13 During 2008/09 we monitored the Council's participation in the 2008/09 National Fraud Initiative (NFI) exercise in Scotland. Reasonable progress has been made so far, but there is still some work outstanding to complete the work on a few data sets. Currently two potential frauds have been identified, with a combined value of over £22,000.

1.4 Performance (Section 5, page 24)

- 1.4.1 The Council has a good performance management framework in place across the Council. Rigorous scrutiny arrangements are in place to monitor performance against both the corporate and service plans.
- 1.4.2 The Council's Annual Performance Report for 2008/09 was submitted to the Council on 24 June 2009. This report gives an overview of how all five Council service areas performed during 2008/09 to deliver the five corporate objectives and provides an update on progress since the Audit of Best Value and Community Planning in 2008.
- 1.4.3 The 2009-2011 draft SOA for Perth & Kinross was approved by the full Council on 18 February 2009 and submitted to the Scottish Government on 27 February 2009. After minor changes to the final draft the SOA was approved by the Council and the CPP in May 2009 and was subsequently signed by the Scottish Government and the CPP on 29 July 2009.
- 1.4.4 Progress has been made in embedding Risk Management across the Council in 2008/09 and a paper detailing the Risk Management Priorities for 2009/10 was reported to the Scrutiny Committee in September 2009.
- 1.4.5 The Council's 2008/09 Efficiency Statement was submitted to COSLA by the 31 July deadline. The Council delivered cashable efficiency savings of £5.688 million in 2008/09, together with time releasing savings of £0.038 million.

Executive Summary

1.4 Performance (Section 5, page 24) (cont'd)

1.4.6 For the three year period 2008-11, the Scottish Government has set a target of 2% per annum efficiency savings across the public sector. Targets have not been set for individual councils.

1.4.7 The 2008/09 return to Audit Scotland for Council SPIs was made by the 31 August 2009 deadline and publication was made by the 30 September deadline. We concluded that the systems in operation for the production and publication of the SPIs were reliable for all of the indicators.

1.4.8 The Accounts Commission's 2008 Direction (dealing with 2009/10) sets out a very different approach to statutory performance information, allowing councils to select the most appropriate indicators to demonstrate Best Value and including fewer mandatory indicators.

1.4.9 It is expected that in 2009/10 local authorities will review the Statutory Performance Indicators as an integral part of the requirement to achieve Best Value. They should also be more closely integrated with councils' Public Performance Reporting.

1.4.10 The Council has commenced this process in 2008/09 by developing its Annual Performance Report to include a wider range of information about the Council's performance. This performance has also been measured by the results of the performance indicators within the SOA, the Corporate Plan and SPIs and qualitative information from the five services.

1.4.11 Audit Scotland published a number of reports on national studies over the past year. A summary of these reports, together with details of the actions the Council has taken to address issues arising at local level, where appropriate is given at Appendix III.

Introduction

2.1 Introduction

2.1.1 We are pleased to submit our third annual report, covering significant matters arising during the course of our audit of Perth & Kinross Council for the year ended 31 March 2009.

2.1.2 The framework under which we operate under appointment by Audit Scotland is as outlined in our report 2009/01 *Risk Assessment, Annual Audit Plan and Fee Proposal for 2008/09*. The respective responsibilities of Council members, officers and the auditors are set out in Appendix I to this report.

2.1.3 Broadly the scope of our audit was to

- provide an opinion on the financial statements in accordance with relevant legal and regulatory requirements and international standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Accounts Commission
- review and report on the Council and its group's corporate governance arrangements in relation to systems of internal control, the prevention and detection of fraud and irregularity, standards of conduct, prevention and detection of corruption, and the Council's financial position
- review and report on the Council's arrangements to manage its performance, as they relate to economy, efficiency and effectiveness in the use of resources and in securing Best Value
- review and report on whether the Council has made adequate arrangements for collecting, recording and publishing prescribed performance information.

2.1.4 Our audit approach focused on the identification of strategic business risks and operational and financial risks impacting on the Council.

2.2 Audit Activity and Reporting

2.2.1 As part of our overall planning approach to the Council's annual audit we carried out a review of the key risks, national and local, facing the Council and reported how we would continue to monitor them during the year through attendance and review of Council and community partnership meetings and minutes and discussions with officers. The main risks were reported in our *Priorities and Risks Framework Report*, report 2009/02 issued on 31 March 2009 and where appropriate we have included an update on these risks in this report. To a certain extent the content of this report comprises general information that has been provided by, or is based on discussions with, management and staff at the Council. Except to the extent necessary for the purposes of the audit, this information has not been independently verified.

2.2.2 In accordance with our *Risk Assessment, Annual Plan and Fee Proposal for 2008/09 for Perth & Kinross Council*, report 2009/01 issued on 2 March 2009 we reviewed the Council's key controls. We have raised a number of issues during the course of the audit including matters highlighted in our *Financial Statements Audit Plan*, report 2009/04, issued on 17 July 2009 and our *Report to those charged with Governance on the audit of Perth & Kinross Council*, report 2009/05, issued on 24 September 2009.

2.2.3 We take this opportunity to remind you that external auditors do not act as a substitute for the Council's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for and used efficiently, economically and effectively.



Introduction

2.3 Best Value

2.3.1 The report on the Audit of Best Value and Community Planning in Perth & Kinross Council was published by the Accounts Commission in August 2008. Following publication of this report an Improvement Plan was agreed by the Council at its meeting on 1 October 2008.

2.3.2 The Council has agreed that the Best Value Improvement Plan (BVIP) would be subject to six monthly progress reports.

2.3.3 Our *Risk Assessment, Annual Audit Plan and Fee Proposal for 2008/09 for Perth & Kinross Council*, reported that we would follow up progress made by the Council with the agreed BVIP.

2.3.4 The Council has now reported two six monthly updates on the BVIP, on 24 June 2009 and on 30 September 2009. Information from the first BVIP update was used to inform our *Priorities and Risks Framework Return*.

2.3.5 The second update reports continuous improvement by addressing the improvements outlined by the Accounts Commission. Details of the progress made by the Council are available from the Council Committee reports which can be accessed from the Council's website www.pkc.gov.uk within the committee papers folder. We have included where appropriate references to improvements made.

2.4 Acknowledgements

2.4.1 Our audit for this year has brought us in contact with a wide range of Council staff and members. We would like to take this opportunity to place on record our appreciation of the co-operation and assistance extended to us by both staff and members in the discharge of our duties.

3.1 Audit Completion

- 3.1.1 The target date for submission of the 2008/09 audited accounts of the Council was 30 September 2009. We are pleased to report that the target date for the audit completion and certification of the annual accounts was met.
- 3.1.2 On 24 September 2009 we issued our ISA 260 report to the Head of Finance and the Leader of the Administration, as the Council's representatives of those charged with governance, to advise them of issues arising from the audit and agree the final audit adjustments to the draft accounts.

3.2 Accounts Certification

- 3.2.1 On 24 September 2009 we issued our audit report expressing an unqualified opinion on the financial statements of the Council and its group for the year ended 31 March 2009. We set out below a summary of the audit certification issues.
- The financial statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the 2008 SORP the financial position at 31 March 2009 and the income and expenditure for the year then ended.
 - The Annual Governance Statement complies with the SORP. We were not required to consider whether the statement covers all risk and controls or form an opinion on the effectiveness of the Council's corporate governance and risk and control procedures.

3.3 Audit Adjustments

- 3.3.1 In accordance with the 2008 SORP the Council made the appropriate entries and disclosures required in the accounts for pension funds and FRS 17 accounting requirements, capital adjustment account, revaluation reserve and financial instruments.
- 3.3.2 There were no material audit adjustments. Five significant and six trivial audit adjustments were identified during the course of our audit. In addition one trivial adjustment was also identified to the Charitable Trusts Statement. The proposed audit adjustments were agreed and the financial statements amended. Full details of all audit adjustments were included in our *Report to those charged with Governance on the Audit of Perth & Kinross Council*. Definitions of material, significant and trivial are provided at Appendix II.
- 3.3.3 The net effect of the agreed adjustments on the Income and Expenditure Account for 2008/09 was £0.060 million, changing the surplus reported in the draft accounts of £1.710 million to a surplus in the final accounts of £1.650 million. As the Income and Expenditure adjustments related to entries which are then cancelled in the movements on the General Fund there was no impact on the total General Fund Balance which remained at £6.410 million decrease for the year.
- 3.3.4 The audit adjustments impacting on the Balance Sheet resulted in a decrease to the Total Net Worth of £0.040 million to £196.722 million at 31 March 2009.
- 3.3.5 A number of presentational changes to the notes to the accounts and the Annual Governance Statement were required to ensure compliance with the SORP.

3.3 Audit Adjustments (cont'd)

- 3.3.6 There was no change to the Charitable Trusts Net Movement in Funds for the year in the Income and Expenditure Account and the Charitable Trusts Balance Sheet as a result of the audit adjustment made.
- 3.3.7 The Council's Group Accounts were adjusted to include the final audited results of the Tayside Police, Tayside Fire and Rescue, Tayside Valuation Joint Boards, Tayside Contracts, Charitable Trusts, Perth & Kinross Leisure Ltd and Horsecross Arts Ltd.
- 3.3.8 The Group Accounts were also adjusted for the agreed changes to the Council's single entity accounts. This resulted in an increase of £0.265 million in the group's deficit for the year and a decrease of £0.069 million in the group's Total Net Worth. Appropriate adjustments were also made to the Notes to the Group Accounts.

3.4 Financial Position

- 3.4.1 The Council's income from government grants and local taxation exceeded its net operating expenditure of £298.597 million resulting in a surplus for the year of £1.650 million on the Income and Expenditure Account (2007/08 – Surplus £10.586 million). After the necessary adjustments to the movement on the General Fund Balance this resulted in decrease of £6.410 million (2007/08 – increase £2.574 million) on the total General Fund (including the HRA).

- 3.4.2 For statutory purposes the Housing Revenue Account (HRA) balance requires to be included as a ring-fenced amount within the General Fund balance albeit that for internal and budget purposes the Council treats HRA and General Fund entirely separately.
- 3.4.3 At 31 March 2009, the total on the General Fund, including the HRA balance of £1.030 million (2007/08 – £0.981 million) was £30.009 million (2007/08 £36.419 million).
- 3.4.4 The HRA Income and Expenditure Account reported a surplus of £0.852 million (2007/08 – surplus of £6.961 million). The final outturn for 2008/09, after the necessary adjustments to the HRA movements, was an increase of £0.049 million, resulting in an increase on the HRA balance to £1.030 million at 31 March 2009 (2007/08 – £0.981 million).

3.5 Financial Performance

- 3.5.1 Financial performance can be measured against the financial budget approved by the Council in February 2008 (and subsequent approved amendments) for 2008/09. For budget monitoring purposes, the HRA balance is accounted for separately and is not included in the General Fund figures.
- General Fund and Housing Revenue Account**
The balance on the General Fund at 31 March 2009 was £6.410 million less than at 31 March 2008. This is a favourable movement of £4.068 million against budget. The General Fund Revenue Management budget (as amended) assumed a use of resources of £10.478 million, whilst the HRA budget assumed no contribution from balances.

3.5 Financial Performance (cont'd)

3.5.3 Significant factors contributing to the variances are shown in Table 1

Table 1 – Financial Performance against 2008/09 Budget

General Fund Balance	£m	£m
Budgeted General Fund movement		(10.478)
Significant factors		
Underspend on Net Cost of Services	3.206	
Under-spend Interest payable and similar charges	0.927	
Additional Surplus Tayside Contracts	0.207	
Reduction Council Tax income	(0.104)	
Under-spend HRA	0.098	
Miscellaneous others	<u>(0.266)</u>	
Overall variance		4.068
Actual decrease in General Fund Balance		(6.410)
		=====

3.5.4 The HRA under-spend above was due to a managed reduction in expenditure on Capital Financed from Current Revenue (CFCR) of £1.130 million. This was used to offset additional expenditure on the Housing Repairs Service. Lower than anticipated Council House sales in 2008/09 led to a £0.395 million increase in rental income against budget, which was also offset by a £1.209 million increase in repairs expenditure as a result of the increased number of properties.

3.6 Pensions

3.6.1 Accounting for the costs of pensions presents a difficult challenge for councils. The amounts involved are large, the timescales long, and the estimation process is complex involving many areas of uncertainty that are subject of assumptions. Financial Reporting Standard 17 (Retirement Benefits) is based on the principle that an organisation should account for retirement benefits at the point at which it commits to paying them, even if the actual payment will be made years into the future.

3.6.2 The Council participates in two pension schemes on behalf of its employees: the Scottish Teachers' Superannuation Scheme (Teachers) administered by the Scottish Government and the Local Government Pension Scheme (LGPS); the Tayside Superannuation Fund administered by Dundee City Council. Both schemes provide members with defined benefits related to pay and service.

3.6.3 The Council disclosed the FRS 17 requirements for the LGPS whereas the Teachers' scheme is an unfunded scheme which is excluded from the accounting requirements of FRS 17 as it is a national scheme that cannot separately identify the pension liabilities of the individual contributing bodies. The exception to this is payments in relation to unfunded pension enhancements for teachers as they are administered by the LGPS and taken into consideration for liabilities under FRS 17. The amounts paid in the year have been disclosed in note 9 to the accounts but the estimated cost of future liabilities was not provided by the actuary and therefore has not been disclosed in the 2008/09 accounts.

3.6 Pensions (cont'd)

3.6.4 The Council's pension liabilities at 31 March 2009, estimated by the Actuary, exceeded its share of pension scheme assets by £108.921 million (2007/08 *restated* - £31.065 million). The adverse movement of £77.856 million is mainly as a result of changes in the financial assumptions made by the Actuary in the Council's report underlying the present value of the scheme's liabilities and the discount rates used.

3.6.5 The Council adopted the amendment to FRS 17 Retirement Benefits, in accordance with the 2008 SORP. This amendment required pension fund assets, in the form of quoted securities, to be valued at bid price rather than mid market value. As a result the value of the Tayside Superannuation Fund assets attributable to the Council at 31 March 2008 was restated from £354.409 million to £350.865 million, a reduction of £3.544 million. This adjustment was considered material and was brought in as a prior period adjustment. This resulted in an increase in the Council's pension deficit at 31 March 2008 from £27.521 million to £31.065 million.

3.6.6 The Tayside Superannuation Fund is subject to a triennial valuation and the last full review was carried out at 31 March 2008. This set the employer contribution rate for the three years 2009/10 to 2011/12 at 18.5% of employees' pensionable pay.

3.7 Financial Instruments

3.7.1 In accordance with the requirements of the 2008 SORP the Council made the appropriate accounting entries and disclosure notes in the accounts relating to financial instruments.

3.7.2 Further details of all the disclosures for financial instruments are included in notes 27 to 31 to the accounts on pages 34 to 39. The fair values of all financial instruments have been disclosed in these notes based on information provided by the Council's professional advisers Sector.

3.7.3 In calculating the fair value of the Public Works Loan Board (PWLB) loans, Sector used the discount rates for new borrowing as per rate sheet number 072/09. The PWLB has also provided figures, calculated by reference to the "premature repayment" set of figures at 31 March 2009. This is significantly different from the Sector figures as follows:

Sector (as disclosed in the accounts)	£138.890 million
PWLB	£145.521 million
Difference	£ 6.631 million

The carrying value of these loans is £84.919 million.

The SORP and statutory guidance do not state which rates are to be used for calculating the fair values of this type of loan, therefore either method is acceptable.

3.8 Financial Pressures

3.8.1 Our *Priorities and Risks Framework Report*, report 2009/02 reported that uncertainties with future Scottish Government funding was a significant risk to the longer term management of the Council's budget. The Council has sought to mitigate this risk within the resource constraints available. (See paragraphs below including 3.8.8 and 3.8.9)

3.8 Financial Pressures (cont'd)

3.8.2 Our *Priorities and Risks Framework Report* also identified known and anticipated financial pressures. These included pressures on the budgets for supporting homeless clients, reductions in new housing completions potentially leading to reduced Council Tax income and income reductions from planning fees, building warrants and capital receipts.

3.8.3 The Council's financial statements as at 31 March 2009 reflect some of these financial pressures as follows:

- Significant fall in the local housing market resulting in £0.585 million lower income from planning fees and building warrants
- On-going efforts to recover £1 million deposit from the administrators to the Icelandic Bank Glitnir
- Slow down in council house sales has led to a higher than anticipated level of housing stock. Although rental income has increased it has also led to increased expenditure on the housing repair service of £1.209 million, in part due to the increased number of properties.

Single Status and Equal Pay

3.8.4 The Council's exposure to potential claims under Equal Pay legislation in respect of its own employees and its share of the potential liability for Tayside Contracts employees was reported in our *Priorities and Risks Framework Report*, report 2009/02. At 31 March 2009 the total earmarked was £6.639 million within the General Fund Balances, £4.572 million for Single Status and £2.067 million for Equal Pay.

3.8.5 The Council approved the earmarked sum of £2.067 million in its General Fund Balances to meet any further liabilities both in relation to its own and its share of Tayside Contracts staff claims. The financial statements to 31 March 2009 also accounted for anticipated costs of £0.590 million in relation to Tayside Contracts and £0.111 million for its own staff. In addition the Council has a contingent liability note in the accounts for equal pay and single status. Details are provided in Note 37 to the Accounts, on page 41 of the financial statements.

3.8.6 Currently the Council has approximately 250 employees pursuing equal pay claims through an Employment Tribunal and there are also appeals against the single status job evaluation. The Council has noted the real risk that the potential cost of claims could be in excess of the levels earmarked and that funding strategies require to be developed each year if additional liabilities arise.

Increased Demand for Residential Placements

3.8.7 In 2008/09 expenditure on residential placements for young people with additional support needs was £0.261 million in excess of the budget within Education. Social Work reported additional expenditure of £0.233 million on placements for younger people requiring support to deal with anti-social behaviour. Both services managed to contain these increasing cost pressures within their budgets reporting overall underspends for the year.

3.8 Financial Pressures (cont'd)

General

3.8.8 The Council continues to develop strategies to address ongoing financial pressures. Services are asked to contain all new unfunded budget pressures within their existing base budgets, through identifying compensating savings or through the use of budget flexibility to manage resources between financial years under the terms of the Council's approved scheme. The total carried forward under the Budget Flexibility Scheme into 2009/10 was £2.471 million (2008/09 - £2.349 million).

3.8.9 Challenging corporate savings targets were reported to the September Strategic Policy & Resources (SP&R) Committee for 2010/11, made up of anticipated potential reductions in funding of £4 million together with shared service / efficiency savings of £2 million.

3.9 Reserves and Balances

3.9.1 All Councils hold reserves which consist of earmarked amounts set aside to support future years' expenditure and contingencies for unexpected events or emergencies. At 31 March 2009 the "cash-backed" fund balances and reserves held by the Council totalled £40,874 million (at 31 March 2008 - £46.251 million). Table 2 details the balances and movements on these reserves. The Capital Adjustment Account, the Financial Instruments Adjustment Account, the Revaluation Reserve and the Pensions Reserves are specific accounting reserves and have been excluded as these are not "cash backed" reserves.

Table 2 – Fund Balances and Reserves

Fund balances and reserves	2009 £m	2008 £m	Movement £m
General Fund	28.979	35.438	(6.459)
Housing Revenue Account	1.030	0.981	0.049
Renewal and Repair Fund	1.196	1.171	0.025
Insurance Fund	1.553	1.863	(0.310)
Capital Fund	5.122	3.636	1.486
Capital Receipts Reserve	<u>2.994</u>	<u>3.162</u>	<u>(0.168)</u>
At 31 March	40.874	46.251	(5.377)

Commitments against the General Fund Balance (excluding HRA) total £19.930 million leaving an uncommitted balance at 31 March 2009 of £9.049 million. Commitments against the HRA balance to support the delivery of the Housing Investment Plan total £0.231 million leaving an uncommitted balance of £0.799 million. The overall total uncommitted balance is £9.848 million.

3.9.3 Three of the main commitments outlined in the Explanatory Foreword by the Head of Finance; Single Status provision of £4.572 million, Equal Pay Strategy of £2.067 million, and Budget Flexibility of £2.371 million, have already been covered in this report at section 3.8. Other significant commitments include Devolved School Management (DSM) £1.268 million, car parking £1.383 million, total developers contributions £1.814 million and council tax income on second homes and long term unoccupied dwellings of £3.367 million.

3.9 Reserves and Balances (cont'd)

3.9.4 The Council's policy on the approved range for uncommitted balances on the General Fund (excluding the HRA balance) is 2% to 4% of the budgeted Net Revenue Expenditure for the year and the balance held on the General Fund at 31 March 2009 is within this range.

3.9.5 The latest Revenue Budget 2009/10 - Monitoring Report No 1 (09/429) revised the General Fund Management Budget to £334.254 million and projected a final outturn of £332.916 million based on the ledger for the three month period to June 2009. If achieved this would result in an under-spend of £1.338 million which would increase the General Fund balance.

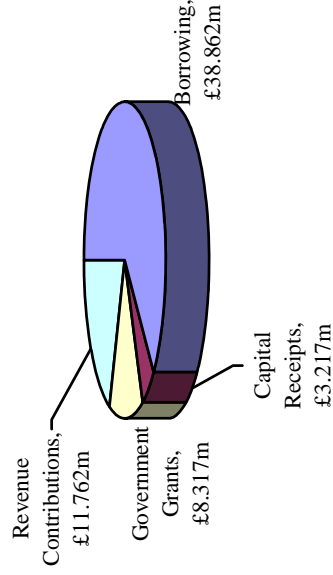
3.9.6 The main reasons for the revised budget are updates to Services revenue budgets of £0.750 million for Investment in Improvement (III) Fund projects and use of £1.268 million (earmarked in 2008/09) of Devolved School Management (DSM) balances from General Fund Balances. The budget has also been adjusted for a redetermination of the Council's Revenue Support Grant of £0.773 million which has allowed increases to the relevant Service budgets.

3.9.7 A breakeven position on the HRA is currently projected in this report. Pressures on the housing repairs budget of £0.395 million are being offset by additional income including projected increases in rental incomes of £0.685 million arising from fewer sales and delays in demolitions. The projected total net under-spend of £0.348 million will allow for an increased contribution of CFCR to the HRA Capital Programme.

3.10 Capital Expenditure

3.10.1 Gross capital expenditure in 2008/09 amounted to £62.158 million of which £19.463 million was spent on the Council's HRA, £42.695 million on the General Fund (Composite) Programme, and £0.057 million on intangible assets. Funding for the capital expenditure was made up as follows:

**Capital Expenditure Funding Sources
2008/09**



3.10 Capital Expenditure (cont'd)

- 3.10.2 The Service areas where the most significant capital expenditure was incurred within the General Fund were Education £19.591 million and Roads and Transport £12.749 million (including road safety measures). Projects in these areas included £7.928 million on modular units as part of the Investment in Learning (IIL) programme; £7.446 million upgrading various primary schools and £9.367million on roads structural maintenance and improvement schemes.
- 3.10.3 The main projects included in the remaining £4.009 million of General Fund capital expenditure were new vehicles £2.490 million and wheeled bins £0.832 million.
- 3.10.4 The main items of capital expenditure within the Housing Programme were kitchen and bathroom replacements and improvements of £18.794 million and £0.669 million on energy efficiency measures, including replacement double glazing as part of the Council's Housing Investment plan set to achieve the Scottish Housing Quality Standard.
- 3.10.5 In 2007/08 the Council adopted for one year only a de-minimis level of £25,000 for capitalisation of property expenditure in order to reduce the workload associated with changes in the SORP's fixed asset accounting requirements. After review the de-minimis level was not continued in 2008/09.

3.11 Capital Accounting

- 3.11.1 Major revaluations in line with the Council's five year rolling programme included libraries, children's homes, residential homes, day care centres, hostels, toilets, town halls, community centres and other miscellaneous operational properties. This resulted in an increased carrying value of these assets of £23.676 million. Further revaluations on industrial units, shops and other non operational properties resulted in a reduction in value of these assets by £1.872 million.
- 3.11.2 The total of these revaluations during the year were credited to the Revaluation Reserve together with a small adjustment made for the difference in depreciation on the new revalued amount and the historical amount of £0.996 million giving a balance on this reserve carried forward at 31 March 2009 of £56.722 million.
- 3.11.3 Our *Report to those charged with Governance on the Audit of Perth & Kinross Council*, reported that Council has not completed their review of Common Good assets by 31 March 2009, as recommended by LASAAC guidance. This review is on-going. The potential liability that may arise if other assets are identified that belong to the Common Good has been disclosed in the notes to the accounts.
- 3.11.4 The Council correctly accounted for impairment charges, only writing off amounts to the Revaluation Reserve where there was a balance on this reserve for the respective asset, otherwise impairments were written off to the Income and Expenditure account, then credited to the General Fund along with depreciation charges and taken to the Capital Adjustment Account. £3.956 million was written off to the Revaluation Reserve for assets previously re-valued and £0.634 million was written off to the Income and Expenditure Account.

3.11 Capital Accounting (cont'd)

3.11.5 The Council also correctly accounted for the difference in the depreciation on the revaluated assets between the amount charged to the Income and Expenditure account and the amount that would have been charged on a historical basis.

3.11.6 The introduction of the Revaluation Reserve and the adoption of component accounting for council dwellings have meant that it is no longer appropriate to write off additions as a downward revaluation. Additions of £19.463 million in 2008/09 have therefore been added to the carrying value of the council dwellings in the Balance Sheet. These additions are deemed to add value and enhance the property and will assist in achieving the Scottish Quality Housing Standard. The next revaluation of the housing stock will take place during 2009/10.

3.11.7 The Council's housing stock is currently re-valued on a discounted cash flow method that assumes the housing stock will remain as social housing with rents continuing below the level for private residential accommodation and takes account of Right to Buy legislation, future maintenance costs and rental voids. In July 2009, LASAAC issued guidance which states that this treatment will not be acceptable under International Financial Reporting Standards (IFRS). Right to Buy is a condition of sale not available for valuation of existing use assets. The Council will review their methodology for valuing and recording council dwellings during 2009/10.

3.11.8 The net book value of the council dwellings at 31 March 2009 was £47.057 million (31 March 2008 - £30.839 million). The Council held 7,485 council dwellings at 31 March 2009 (7,573 at 31 March 2008). The Council disposed of 96 houses (and acquired 8) in 2008/09 giving rise to a gain on disposal of £1.421 million.

3.11.9 An average selling price of £39,617 per house was achieved. This exceeds the average carrying value of £6,287 per dwelling by £33,330.

3.11.10 The basis of valuation includes a provision for future maintenance costs and is not intended to reflect disposal values. While this is an acceptable method of valuation it is not typically adopted by other Scottish councils. In consequence the carrying value of the Council's housing stock is one of the lowest in Scotland.

3.11.11 There is a requirement under LAAP 73 to match government grants and capital contributions with specific fixed assets expenditure or write off the amounts received in the accounts as revenue.

3.11.12 A full review of the Government Grants Deferred (GGD) account was carried out in 2008/09 which resulted in unmatched elements totalling £1.722 million being written back to the Income and Expenditure Account.

3.12 Public Private Partnership (PPP)

- 3.12.1 The Council's PPP project; Investment in Learning (IIL), involves the construction of six new community school campuses in Blairgowrie, Aberfeldy, Kinross, and Crieff and at two sites in Perth.
- 3.12.2 Construction work has started at various new campus sites, aimed at delivering a major improvement in the Council's school's building's estate and on 13 July 2009 Blairgowrie Community Campus, the first of the Council's new community campuses, was completed. This was followed by the completion of two further Community campuses in October; Glenearn Community Campus and Loch Leven Community Campus.

3.13 Group Accounts

- 3.13.1 The SORP requires authorities to prepare a full set of group accounts in addition to their single-entity accounts where they have an interest in other entities (excluding the Pension Fund). The Council has prepared group accounts in accordance with these requirements and the following table details their interest in other entities and the basis of consolidating the results within the Council's group accounts.

Table 3 – Group Entities

Managed Fund	Council Control	
	2008/09	2007/08
Charitable Trusts	100%	100%
Associates		
Tayside Fire and Rescue Board	29.00%	29.00%
Tayside Joint Police Board	30.17%	30.17%
Tayside Valuation Joint Board	38.65%	38.65%
Perth & Kinross Leisure Limited	33.33%	33.33%
Horsecross Arts Limited	27.27%	27.27%
Joint Arrangement		
Tayside Contracts	38.00%	38.00%

- 3.13.2 The Group's net operating expenditure of £309.932 million exceeded the income from government grants and local taxation, resulting in a deficit for the year ending 31 March 2009 of £9.685 million.
- 3.13.3 The Group Balance Sheet shows the Total Assets less Liabilities to be £38.141 million at 31 March 2009 compared with the Council's single entity Balance Sheet total of £196.722 million. This material decrease is mainly due to the Share of the Net Liabilities of Associates including the Council's share of the pension liabilities of the Joint Boards. These have been accounted for under FRS 17 'Retirement Benefits' in accordance with the SORP.
- 3.13.4 All of the associates' accounts have been prepared on a going concern basis and have been audited. The Council's group accounts have also been prepared on a going concern basis.

3.13 Group Accounts (cont'd)

3.13.5 As discussed in the notes to the Group Accounts, Tayside Fire and Rescue Board and Tayside Joint Police Board had qualified audit opinions due to an issue relating to FRS 17 Retirement Benefits. The issue arose due to an omission in legislation to allow FRS 17 based costs for new pension schemes beginning in April 2006 to be removed from a charge to the General Fund and be replaced by the actual costs.

3.13.6 Notwithstanding the omission in legislation to allow this adjustment the Police and Fire accounts have been adjusted to only include actual costs. This is in line with the treatment of other pension schemes and it is intended to correct the omission in legislation to allow the new schemes to be included in the adjustment in future. The amounts removed from the Police and Fire accounts are £1.992m and £0.937m respectively for 2008/09 and £1.219m and £1.215m respectively for prior years.

3.13.7 The Council has consolidated the Police and Fire accounts figures and has not included its share of the potential correcting adjustment to these accounts to comply with statute. On the grounds of materiality this has not given rise to a qualification in the Council's audit opinion.

3.14 International Financial Reporting Standards

3.14.1 International Financial Reporting Standards (IFRS)-based financial instrument standards were adopted in the 2007 SORP. The 2009 SORP adopts the IFRS based approach to accounting for PFI/PPP schemes from 2009/10.

3.14.2 An IFRS-based Code of Practice on Local Authority Accounting is currently being prepared which will replace the SORP from 2010/11, when local authorities are required to fully adopt IFRS.

3.14.3 Authorities will need to restate 2009/10 comparative information onto an IFRS basis, and disclose a restated 1 April 2009 IFRS-based balance sheet. We encourage early completion of the restatement and the review of the accounting treatment of the PFI / PPP schemes. Once this work has been completed, we will review the results and report our findings.

4.1 General Governance / Audit Committee Arrangements

4.1.1 The Best Value report concluded that *“the Council has successfully undertaken significant structural change over the last few years. Political and executive structures clearly align with the delivery of corporate priorities.”*

4.1.2 The Council has reviewed its Strategic Planning and Improvement Framework to ensure the constituent parts reflect the Single Outcome Agreement (SOA) and the overall policy environment. The framework incorporates the Community Planning Partnership’s (CPP) updated SOA 2009-11 and the Council’s revised Corporate Plan, together with a Corporate Improvement Plan (CIP) which was approved by the Council in May 2009. Each Service BMIP has also been aligned to the delivery of the SOA. Team Plans and Individual Work Plans and reviews also feed into and support this framework.

4.1.3 The new approach to strategic planning and improvement is part of the Council’s continuous improvement process, informed by ongoing self evaluation using the toolkit *How Good Is Our Council*. The CIP provides the corporate element, a document for internal use aimed at building corporate capacity to provide services that will deliver better outcomes for people and communities.

4.1.4 The Best Value report found financial management at the Council to be very strong, noting a comprehensive reserves policy which is regularly updated as part of the budget process and the development of medium term planning to better align budgets and corporate objectives.

4.1.5 One of the agreed actions in the BVIP was that improvements should be made by *“further developing medium term financial planning linked with asset management plans”* and by *“creating linkages between planning arrangements.”* This is also identified as an action in the CIP.

4.1.6 We reviewed the Council’s progress over the first six months in our *Priorities and Risks Framework Report*. A further six monthly update to the Council in September 2009 notes continuing progress with this area. This progress includes the approval of an updated medium term financial plan by the SP&R Committee in June 2009, the development of a Corporate Asset Management Plan and development of linkages between Service BMIPs and other plans, including asset management projects.

4.1.7 A report to the SP&R Committee on 13 October advises of the decision to terminate the current recruitment process for the post of Executive Director of Corporate Services. It is proposed that a report be brought to the SP&R Committee by the Chief Executive regarding the future management arrangements for the functions within Corporate Services. This is to accommodate the possible deletion of the post of Executive Director of Corporate Services.

4.1.8 The Council has developed a Workforce Management Strategy in response to the foreseeable difficulties arising from more detailed forecasts of the potential funding for the public sector.

4.1 General Governance / Audit Committee Arrangements (cont'd)

4.1.9 The Audit Sub-Committee of the Scrutiny Committee generally meets five times each year. The Sub-Committee approves the audit plans annually and considers reports, including follow-up reports, of both internal and external audit. Progress with each plan is also considered at these meetings.

4.1.10 Members of the Audit Sub-Committee hold officers to account regarding issues raised by audit and subsequent actions taken to address areas for improvement. Our attendance notes that there is a good level of debate at meetings.

4.1.11 The Council also has a separate Scrutiny Committee that reviews and monitors the Council's corporate and service performance. Scrutiny Committee development is being progressed through a "Forward Programme for Scrutiny". This includes identified areas that the Committee will review, development of a Scrutiny Handbook, which includes information on the purpose, roles, responsibilities, and remit of the Committee, the development of a scrutiny programme and member development. To date one service area review has been completed.

4.1.12 Changes to the Council's Scheme of Administration (SofA), Standing Orders and the Financial Regulations (FRs) were approved by the Council and SP&R Committee in March and December 2007 and December 2008 respectively. Our **Financial Statements Audit Plan for 2008/09**, reported that the SofA and Standing Orders and also the FRs are fit for purpose and comply with best practice.

4.2 Annual Governance Statement

4.2.1 The Council has an approved Local Code of Corporate Governance which is available from the Council's website www.pkc.gov.uk. The Council reviews the effectiveness of its governance framework on an annual basis. A working group is currently reviewing the Local Code.

4.2.2 In June 2007 CIPFA, in association with SOLACE, published a revised framework - **Delivering Good Governance in Local Government**. This framework represents a change in the available good practice and recommended that the annual review of internal controls should be reported in an Annual Governance Statement (AGS). Although an annual review was not required by legislation authorities were encouraged to do so voluntarily.

4.2.3 The Council set up a working group with the aim of producing an Annual Governance Statement in the 2008/09 accounts. An Annual Governance Statement based on CIPFA/SOLACE guidance was included in the 2008/09 financial statements. This statement concluded that "*the Council has established an acceptable level of internal control, risk management and corporate governance framework on which it will develop and improve*".

4.2.4 Although we are not required to audit compliance with the Council's Code we review this statement and the Council's processes to inform our view of the governance arrangements in place. We are satisfied with the Council's processes and that it has identified the key areas where work is still required to ensure full compliance with the Code.

4.2 Annual Governance Statement (cont'd)

4.2.5 The Chief Internal Auditor is required to prepare an annual year-end report and provide an audit opinion on the adequacy and effectiveness of the Council's system of internal control. The Acting Chief Internal Auditor's report to the Audit Sub-Committee in August 2009 concluded that "...reasonable reliance can be placed on the Council's systems of internal control for 2008/09, subject to Internal Audit's previously reported findings related to the 'areas for significant improvement' noted in section 4."

4.2.6 There were six areas noted for improvement where controls were noted as 'moderately weak' or 'weak' in Internal Audit reports. These included the following:

- controls relating to effective management of money laundering risks
- controls relating to statutory requirements in respect of performance monitoring
- controls relating to delivery of Service Recognition Awards to recipients who are unable to attend the ceremony
- controls relating to the collection of income within The Environment Service (Planning)
- the general ledger coding structure
- the lack of independent reconciliation of the Housing Stock Register.

4.2.7 In our *Financial Statements Audit Plan 2008/09* we concluded that for the main financial systems reviewed, the expected key controls appear to be in place and no material weaknesses were identified that would impact significantly on our year-end audit testing.

4.2.8 The one exception was the Housing Rents system, where we planned to carry out detailed testing at the year-end covering the reconciliation of movements in dwellings between i-world and estates information and the reconciliation between the rent system and the main financial ledger.

4.2.9 The key controls for fixed assets and capital accounting are mainly covered by year-end processes and our detailed testing of these areas during our audit of the accounts did not reveal any material errors or control weaknesses.

4.3 Members

Role and Development of Elected Members

4.3.1 In October 2008 the Council adopted the role profiles and descriptions recommended from Scottish Local Authorities Remuneration Committee (SLARC) and competency framework. Personal development plans (PDPs) have been completed for every elected member. It is the responsibility of each elected member to record development they undertake. Progress of PDPs will be reviewed in December 2009.

Support for Elected Members

4.3.2 A comprehensive Elected Member Development Programme is available to support the personal development of elected members. This includes weekly sessions provided by services and external bodies targeted to increase knowledge and skills.

4.4 Reliance on Internal Audit

4.4.1 At the start of our appointment we reviewed the Council's Internal Audit provision and determined that we could rely on their work. We reported our findings in our *Financial Statements Audit Plan for 2006/07*, report 2007/03 issued on 25 July 2007. Our *Financial Statements Audit Plan for 2008/09* concluded that there is a need for significant improvement in the provision of internal audit services at the Council. This need for improvement was reported in the Council's Annual Governance Statement.

4.4.2 To minimise audit duplication we liaise with internal audit during our planning to identify areas of their work that we can place reliance on. For 2008/09 we agreed to place reliance on work covering a number of areas, as detailed in paragraph 3.3.2 of our *Risk Assessment, Annual Audit Plan and Fee Proposal for 2008/09*.

4.4.3 Our review of internal audit reports and working papers has determined that we are able to place reliance on the work of internal audit with the exception of the two projects detailed in our *Financial Statements Audit Plan for 2008/09* in paragraph 4.3.4. We reviewed the weaknesses identified by internal audit and concluded that these were unlikely to have a material effect on the financial statements.

4.4.4 Due to the limited coverage of key financial controls and the slippage in internal audit work we were not able to reduce the level of detailed testing during the year-end audit. Internal audit did however complete the majority of the financial projects from their 2008/09 plan prior to our year-end audit, with one report Capital Budget Monitoring issued in draft form in July to inform our year-end work.

4.4.5 Internal audit is currently reviewing working practices to address a number of issues including those arising from our file reviews. We have also agreed to meet and attend a team meeting to progress improvements. At the Audit Sub-Committee in August 2009 it was noted that issues with slippage of internal audit work remain. This together with a change to the 2009/10 internal audit plan to include a project on the new Integrated Human Resources and Payroll System has led to three 2008/09 audits being cancelled and one postponed and 10 audits from the 2009/10 plan being un-resourced.

4.5 National Fraud Initiative

4.5.1 During 2008/09 the latest National Fraud Initiative (NFI) in Scotland began and we monitored the Council's participation in it. The exercise is undertaken as part of the audits of the participating bodies. NFI brings together data from Councils, Police and Fire and Rescue Boards, Health Bodies and other agencies, to help identify and prevent a wide range of frauds against the public sector. These include housing benefit fraud, occupational pension fraud and payroll fraud. The NFI has generated significant savings for Scottish public bodies (£13.8 million from the 2006/07 exercise as at 30 June 2009 and cumulative outcomes of £41 million when previous exercises are included). Where fraud or overpayments are not identified by a body, assurances may be taken about internal arrangements for preventing and detecting fraud.

4.5 National Fraud Initiative (cont'd)

4.5.2 Arrangements for the exercise were begun in good time. New procedures were put in place for giving data subjects notice of the possibility of their data being matched. This is a 'layered' approach, whereby documents such as benefit application forms have a brief note, but refer to more detailed information on the Council's website, which refers on to further detail provided by Audit Scotland. Data was uploaded to the Audit Commission's secure web application according to the deadlines given.

4.5.3 The Council has made reasonable progress with its work on the matches, the first of which were available on 11 February. There has been some impact on the speed of processing due to staff sickness, and the implementation of the new payroll system, which has been a priority for payroll staff. A risk-based approach has been taken by individual services investigating the matches. Internal audit have held meetings with all departmental contacts to provide challenge and support where necessary.

4.5.4 Currently two potential frauds have been identified, with a combined value of over £22,000. The largest of these potential frauds, totalling £20,032, is now being investigated by DWP and immigration.

4.5.5 The Council did not take part in the council tax match to the electoral register in 2007/08 because of concerns around the legality of supplying the electoral roll. The position has not changed, but as part of the current exercise the Council are required to submit council tax data which will provide matches around discounts other than the single person discount.

4.5.6 Continuing its practice in relation to previous exercises, the Council is demonstrating considerable commitment to the 2008/09 exercise. Where it has not taken a risk-based dataset this is on the basis of previous experience and an assessment of the low level of risk involved.

4.5.7 Work to investigate Companies House matches is still ongoing, with Internal Audit taking the lead. Progress has been slower than anticipated but initial work, to reduce the original list of matches down to a manageable number, has been finalised.

Performance

5.1 Performance Management and Reporting

5.1.1 The Council's performance management framework was described in the Best Value report as "robust". The BVP update to the Council Committee has reported good progress with the following two performance management and improvement actions, with achievement of some of the targets met and good progress with others.

- Enhance performance management processes by being more systematic in the use of customer satisfaction information, clearer articulation of milestones and outcomes and benchmarking comparators
- With strategic partners, further develop performance management arrangements across CPP to support the delivery of the Single Outcome Agreement.

5.1.2 Progress made to date on the two actions by the Council include:

- Service performance calendars are being reviewed to take account of customer feedback
- Annual Performance Report continues to include trend information to allow benchmarking with previous years
- Bench marking information now included in monthly performance reports
- 2009/10 BMIP guidance was revised to require services to capture trend information within the action and improvement plans of their BMIPs
- Best Value review guidance has been reviewed and actions with Corporate Improvement Plan aim to promote a culture of continuous improvement using benchmarking and robust option appraisal

- First interim performance report on the SOA was submitted to CPP December 2008 and the annual performance report on the SOA was approved by the Council in June 2009 and the CPP in August 2009
- The second SOA approved in May 2009 also included trend information on performance
- A CPP Performance Management Group has been formed including performance management leads from key public sector partners
- Ongoing work will continue to develop the performance reporting framework of the SOA

5.1.3 The Council's Annual Performance Report for 2008/09 was submitted to the Council on 24 June 2009. The report gives an overview of how the Council performed during 2008/09 across all five service areas and provides an update on progress since the Audit of Best Value and Community Planning in 2008.

5.1.4 The Annual Performance Report also links to the Council's newly developed evidence portals, Perth & Kinross Council Performs and Perth and Kinross Performs. These portals provide online performance scorecards which provide more detailed information in all areas of the Corporate Plan and SOA. This is designed for members of the public, elected members, officers of the CPP organisations and all scrutiny and professional bodies interested in learning more about how the Council is performing.

5.2 Single Outcome Agreement

5.2.1 In 2007 national and local government leaders signed a concordat which required each local authority to produce a Single Outcome Agreement (SOA) detailing how it would contribute to national outcomes through meeting its own local priorities. In return the Scottish Government pledged to allow councils greater freedom, for example, by removing ring-fencing of funds.

5.2.2 The first SOA for 2008/09 was revised this year to take account of changes in the external environment. The 2009-2011 SOA for Perth & Kinross was approved by the full Council on 18 February 2009 and submitted to the Scottish Government on 27 February 2009. After minor changes to the final draft the SOA was signed by the Scottish Government and representatives from the Community Planning Partnership on 29 July 2009.

5.2.3 The Council reported progress on the SOA 2008-09 to the Council committee on 24 June 2009 within their Annual Performance Report 2008/09. This report was updated and submitted to the Scottish Government by the deadline of 30 September 2009. The Chief Executive reported that progress was improving or steady with 14 of the 15 local outcome areas that relate to the Scottish Government's national outcomes.

5.2.4 Over the past year a joint monitoring and reporting framework has been developed for the SOA and there has been a joint performance and planning group established that includes key partners.

5.3 Risk Management

5.3.1 The Council's Best Value Report found that the Council understood risk management and contingency planning principles. A corporate risk strategy has been in place for some time and there are established processes for producing risk profiles at corporate and service level. Our *Priorities and Risks Framework Return* reported revisions to the Risk Management Strategy and revisions to the set of corporate risks.

5.3.2 Progress has been made in further embedding Risk Management across the Council in 2008/09 and Risk Management Priorities for 2009/10 were reported to the Scrutiny Committee in September 2009.

5.3.3 During 2008/09, the Corporate Risk Management team organised and facilitated a series of structured risk management workshops for each Service. In addition the team carried out regular monthly monitoring of risk actions for each Service ensuring that all risk action plans were constantly reviewed. The Corporate Risk Management team also developed a Risk Management Survey to ascertain how well risk management has been embedded across the Council. Feedback from the survey shows an increase in those who felt risk management was embedded in the Council, 63% in 2008/09 compared to 41% in 2005/06.

5.4 Efficient Government

Background

5.4.1 The Scottish Government issued a paper on Efficient Government Reporting “*Framework for Local Authorities in Scotland*” in 2007 which introduced arrangements for reporting on efficiency savings. Efficiency Statements are compulsory from 2007/08.

5.4.2 For the three year period 2008-11, the Scottish Government has set a target of 2% per annum efficiency savings across the public sector. Targets have not been set for individual councils. As detailed at paragraphs 3.8.8 (Finance) and 4.1.6 (Governance) the Council is aware of the issues and is developing strategies to address these.

Efficiency Statement

5.4.3 The Council’s 2008/09 Efficiency Statement was submitted to COSLA by the 31 July deadline, to enable COSLA to prepare a statement on behalf of all councils for submission to the Scottish Government. The statement was subsequently reported to the SP&R committee on 16 September 2009. The 2008/09 statement is based on revised guidance issued by COSLA in June 2009.

5.4.4 The Council delivered cashable efficiency savings of £5.688 million in 2008/09, together with time releasing savings of £0.038 million. It is noted that the cashable efficiency savings represent approximately 1.8% of the Council’s Net Revenue Budget as approved in February 2008 and comprise savings to Service Revenue budgets of £4.264 million and the use of £1.424 million of capital receipts from disposal of Council assets.

Table 4 – Cashable Efficiency Savings 2008/09

Theme	Cash Releasing £m	Time Releasing £m	Recurring £m
Procurement	0.869	-	0.869
Workforce Planning	0.622	-	0.368
Asset Management	2.362	-	0.938
Shared Services	0.154	-	0.154
Streamlining Bureaucracy	1.681	0.038	0.038
Other			1.488
Total	5.688	0.038	3.855

5.4.5

Key areas for 2009/10 include improving and streamlining Procurement practices and Workforce Planning and Asset Management Planning. Efficiency gains of approximately £0.350 million are anticipated from the expansion of electronic procurement using standard volume contracts. In addition targeted efficiencies through management restructuring and business re-design to manage turnover within Services and improved utilisation of the Council’s property infrastructure as detailed within the Corporate Property Asset Plan are noted.

5.4.6

The Council is also aiming to develop shared support services within the Council and part of this includes the on-going implementation of the new Integrated Human Resource and Payroll System and the Strategic Review of the Human Resource function.

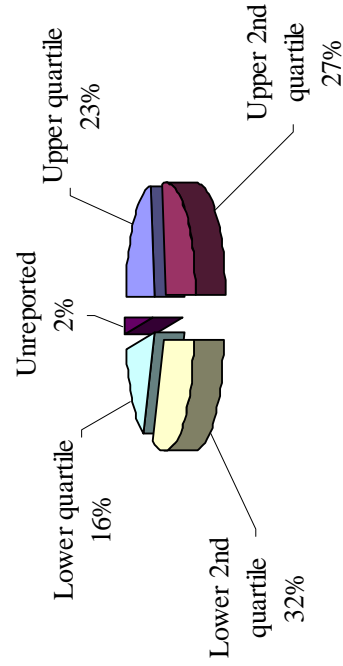
Performance

5.5 Statutory Performance Indicators (SPIs)

5.5.1 The 2008/09 SPIs were published before the 30 September deadline. We concluded that the systems in operation for the production and publication of the SPIs were reliable for all of the indicators.

5.5.2 The SPIs cover a wide variety of council functions and it can be difficult to make comparisons between councils and between the same council across years. Nevertheless, there are some comments which can be made based on the Council's results for 2008/09 and latest available published cross-council figures for 2007/08. In paragraphs 5.5.7 to 5.5.10 below we have concentrated on the areas of worst and best performance, but to set them in context, in 2007/08 performance in relation to other councils was as follows:

SPI Rankings 2007/08



5.5.3 There are 32 councils, so if a ranking is within the range 1 to 8, the Council is in the upper quartile, and so on. Rankings are available for 82 measures, and the chart shows that Perth & Kinross Council was in the two upper quartiles for 41 of these, with 2 measures having no service, leaving 39 within the lower two quartiles. This is exactly the same as in the previous year, but slightly worse than in 2005/06.

5.5.4 In 2007/08, (the latest available published information) as compared with the Council's performance in 2006/07, there were 26 indicators which improved by more than 5% and 19 which deteriorated by more than 5%. Although more indicators improved than declined, only 4 other Scottish councils had a poorer ratio of improvement to decline; the ratio of improvement to decline was 1.37, as opposed to a national ratio of 1.7.

5.5.5 This is in contrast to the findings of Audit Scotland in 'the Audit of Best Value and Community Planning' which looked at a similar comparison between 2006/07 and 2004/05, where the Council's ratio was 1.8, as opposed to the national ratio of 1.4. Whilst the Council's performance continues to improve, other councils' rate of improvement has increased still further.

5.5.6 Looking at the same set of indicators for 2008/09, six are not to be reported, are not comparable this year or there is no service, leaving 76 in total. Comparing these with the Council's performance in 2007/08, 13 show no or a very small change, while 31 have improved and 30 have deteriorated.



5.5 Statutory Performance Indicators (SPIs) (cont'd)

5.5.7 Education and Children's Services 8: Respite Care

In 2007/08 the Council was 30th for respite nights per thousand population, and 19th for respite days. However, it was the top performer for percentage of daytime respite not in a day centre. In 2008/09 both daytime and night respite fell by around 10%, as costs rose but the budget remained static. Short break carers also became nationally more difficult to recruit. The Council is now investing in a new facility and taking other steps to remedy this situation.

5.5.8 Cultural and Community Services 2: Indoor Leisure Attendance

This indicator covers all indoor leisure facilities apart from swimming pools. In 2007/08 the Council was ranked 27th out of 32. In 2008/09 attendances per thousand population increased by over 13%. This has been attributed to increased investment in the facilities and also more organised activities and may be complemented by a national upwards trend as the recession leads people to take holidays at home.

5.5.9 Protective Services 1: Food Hygiene Inspection

Councils are responsible for inspecting premises according to a national priority system, so that particular categories need inspecting at set intervals. The Council was the top performer in 2007/08 in relation to premises needing inspection every 12 months or less, visiting 100% on time, and this performance was maintained in 2008/09. The number of inspections carried out on time where premises need less frequent inspection also increased by over 80%.

5.5.10 Waste Management 4: Street Cleanliness

This indicator is derived via a national scheme run by Keep Scotland Beautiful; councils are given a mark out of 100 based on a number of surveys of a sample of streets. The Council was the top performer in 2007/08 and the score has improved slightly in 2008/09.

5.5.11

We noted in the 2007/08 Report to Members that "PKC Performs" on the Council's website is now an important component of its public performance reporting. There is a section within "PKC Performs" on the Statutory Performance Indicators, which currently includes the SPIs that were retained in the 2008 Direction and the Council is undertaking a review of what indicators it will publish next year to supplement these. A full list of the SPI results for 2008/09 was published on the website at the end of September 2009.

5.5.12

The Accounts Commission's 2008 Direction (dealing with 2009/10) sets out a very different approach to statutory performance information. It specifies firstly a range of broad headings, such as sustainable development of the education of children, against which councils must demonstrate that they are achieving Best Value. Secondly, it retains a small number of specified indicators. This represents a move towards allowing councils to determine what performance information they publish, whilst recognising that public performance reporting is not yet fully developed within councils.

5.5.13

It is expected that in 2009/10 local authorities will review the Statutory Performance Indicators as an integral part of the requirement to achieve Best Value. They should also be more closely integrated with council's Public Performance Reporting.

5.5 Statutory Performance Indicators (SPIs) (cont'd)

5.5.14 The Council has commenced this process in 2008/09 by producing an Annual Performance Report which includes information about how the Council is performing against outcomes and objectives contained both in the SOA and the Corporate Plan. It also gives an overview of all five Council services and of management arrangements and internal processes. In addition the report reflects findings of external scrutiny. Performance has also been measured by the results of the performance indicators within the SOA, the Corporate Plan and SPIs.

- Considerable culture change in thinking and culture of individual employees, management and elected members and the organisation in general

5.7 Procurement

5.7.1 The national report *Improving Public Sector Purchasing* was published in July 2009. It provides a position statement on the progress and impact of the Public Procurement Reform Programme (the Programme), which aimed at improving purchasing practice and making savings of about three per cent a year.

5.6 Asset Management

5.6.1 Our *Priorities and Risks Framework Return* reported that the Council still had to complete one of the key Improvement Action listed in the Organisational Change and Improvement Plan (OCIP), the introduction of an overarching Corporate Asset Management (CAM) Plan. A CAM Plan is also a target outcome for one of the BVIP actions.

5.7.2

The report finds that the public sector in Scotland is improving its purchasing and estimates it has saved a total of £327 million in the first two years of the Programme, which has cost £61 million so far to implement.

5.7.3

The current economic climate means that more than ever, the public sector needs to find cash savings without cutting services or quality. With the public sector's size and combined purchasing power, there is still potential for it to buy goods and services more efficiently and deliver more significant savings through increased collaboration and better management. There has been progress in recent years but it has varied across the country and been slower than planned.

5.6.2 The Corporate Asset Management Plan was approved by the June 2009 SP&R Committee. In addition it is noted that the Committee has also approved the establishment of an Asset Management member Officer Group to champion adoption of asset management practices across all Council services.

5.6.3 It is noted that further work remains and this includes;

- More detailed work required at Service level to deliver the full benefits of asset management
- 5.7.4 The report recommends that the public sector should increase the use of collaborative contracts. These are a key feature of the Programme, but are being developed more slowly than expected.

5.7 Procurement (cont'd)

- 5.7.5 Other high level recommendations were made which highlight the good purchasing practice that public bodies should adopt to demonstrate Best Value.
- 5.7.6 The Council has embarked upon a procurement reform programme. Resulting from this is the Tayside Procurement Consortium (TPC), a collaborative procurement initiative together with Dundee City and Angus Councils. The Council has appointed a Head of Procurement and created a corporate procurement team. In April 2008 the Council also approved membership of Scotland Excel for three years from 1 May 2008.
- 5.7.7 The Council has introduced 24 improved collaborative contracts in 2008/09. In addition the Council's procurement efficiency target for 2008/09 was £0.205 million; the Council reported a procurement efficiency of £0.869 million. Progress with the e-procurement system PECOS continues with implementation across all Council Services. Achievement of efficiency gains will be assisted through the roll out and use of PECOS. (Refer to paragraph 5.4.4 above)

5.8 National Studies

- 5.8.1 A summary of National Studies issued by Audit Scotland together with the Council's action to date is included at Appendix III.

Appendix I - Respective Responsibilities

Respective Responsibilities of Members, Officers and Auditors

Each public sector body is accountable for the way in which it has discharged its stewardship of public funds. Stewardship is a function of both executive and non-executive management and, therefore, responsibility for effective stewardship rests upon both members and officers of a public sector body.

That responsibility is discharged primarily by the establishment of sound arrangements and systems for the planning, appraisal, authorisation and control over the use of resources and by the preparation, maintenance and reporting of accurate and informative accounts.

It is our responsibility to undertake an independent appraisal of the discharge by management of its stewardship responsibilities, to enable us to give an assurance that those responsibilities have been reasonably discharged.

The Council and the Head of Finance's responsibilities for the Financial Statements are set out on page 9 of the Financial Statements. Our responsibility is to form an independent opinion, based on our audit, on the abstract of accounts and report that opinion to you.

We are required to review whether the Council's Annual Governance Statement reflects the Council's and the group's compliance with the SORP, and we report if, in our opinion, it does not. We are not required to consider whether the statement covers all risk and controls, or form an opinion on the effectiveness of the Council's and group's corporate governance procedures or its risk and control procedures.



Appendix II – Definitions of Material, Significant and Trivial

We are required to express an opinion on whether the accounts give a true and fair view of the financial position of the Council. In arriving at that opinion we need to assess any weaknesses, misstatements and errors discovered during our audit testing. Additional information or events in the period between the balance sheet date and the date we sign our audit report must also be considered.

In order to help us to assess the impact of errors we classify them as material, significant or trivial.

Materiality is set at the start of the audit using statistical formula and following consideration of risk. The value for significant and trivial are set in relation to the materiality figure.

Material misstatement and adjustments

Material misstatements are misstatements that, in our opinion, mean that the accounts do not give a true and fair view. Material misstatements discovered during our audit are discussed with management and agreement reached over the required revision for the final audited accounts. Where no agreement is reached to make a material adjustment we would need to consider qualifying our audit opinion.

Significant misstatements and adjustments

Significant items are lower in value than material items, but still of a size that might give rise to the financial statements not giving a true and fair view, particularly if there are several of them, which in total would become material. The Council has the option of adjusting for significant misstatements or not. The impact of any significant misstatements not adjusted for in the final audited accounts would need to be considered and where the combined impact of non-adjusted items was material, this could lead to a qualified opinion. Reasons for non-adjustment of significant misstatements are required to be reported to the members.

Trivial errors and adjustments

Trivial errors are those with a fairly low value, and which do not affect the true and fair view of the financial statements. These are recorded and summarised during the audit and the overall total net impact is considered. Individual trivial errors would not require adjustment. If the net total of trivial errors becomes significant or material then there will be an issue to be considered for our report unless the Council agrees to adjust the errors.



Appendix III – Audit Scotland National Studies

Report	Publication Date	Summary of Findings	Perth & Kinross Council Action
<p>Impact of the Race Equality Duty on Council Services</p>	<p>November 2008</p>	<p>All councils have now developed policies on race equality but many Councils are unable to show how race equality is systematically and routinely built into the design and delivery of services. The report highlights the need to ensure that race equality is incorporated into existing improvement programmes and the need for improved identification and sharing of good practice.</p>	<p>The Council's Equalities Strategic Group (chaired by the Chief executive with senior manager representatives from each of the services) considered the report at a meeting on 8 December 2008, noted the findings and distributed to all Services to develop their own equalities plan. It was also referred onto the Equalities and Diversity member/officer working group meeting on 11 December.</p> <p>Implementing the service Equality Action Plan is an improvement action in each service's BMIP.</p> <p>The Corporate Equalities Action Plan was updated to include relevant recommendations.</p>
<p>Improving Energy Efficiency</p>	<p>December 2008</p>	<p>The report highlights a need for stronger leadership on energy efficiency, from both the Scottish Government and within public bodies themselves, to ensure that they develop and implement good quality energy strategies and make the necessary changes to culture and behaviour.</p>	<p>The Council has formally approved an Energy Management and Conservation Policy, aligned to the report's recommendations.</p> <p>Through a designated Energy Management Team the Council has secured the coveted Energy Efficiency Accreditation Award for its achievements and it has also achieved the new Carbon Trust Carbon Standard for monitoring and controlling carbon emissions.</p> <p>A continuing staff awareness campaign, in conjunction with e-learning facilities and workshops, is linked to other initiatives including the ongoing development of eco schools and the trial and development of renewable energy initiatives such as biomass fuels and solar energy.</p>

Appendix III – Audit Scotland National Studies

Report	Publication Date	Summary of Findings	Perth & Kinross Council Action
<p>Drug and Alcohol Services in Scotland</p>	<p>March 2009</p>	<p>The findings highlight the need for a coordinated effort to ensure that services meet local needs and are delivered to consistent standards across Scotland. The report contains a self-assessment checklist, aimed at helping local partners improve the delivery and impact of drug and alcohol services through a joined-up, consistent approach.</p>	<p>The delivery of front-line Drug and Alcohol Services in the Council has been informed by an Integrated Substance Misuse Strategy. This Strategy was developed by staff from Health, Social Work Drug and Alcohol team, Housing, Children's Services and the Voluntary Sector and is now driven by an Interagency Implementation Group with a membership drawn from the above agencies and from Service Users and Carers.</p> <p>This strategy will shortly be submitted to Housing and Health Committee and the Community Health Partnership. A presentation on the Work of the Perth and Kinross Drug and Alcohol Team was given to Housing and Health Committee on 19th August 2009.</p>
<p>Overview of Mental Health Services</p>	<p>May 2009</p>	<p>This report provides an overview of mental health services across Scotland. It highlights significant changes in mental health care in the past decade, with more people receiving treatment in the community and a greater focus on helping people to recover from mental health problems.</p>	<p>The Council has been working with NHS Tayside to modernise services for Mental Health and have completed a joint strategy with Health on Mental Health.</p> <p>The joint strategy takes account of the national study and will shortly be submitted to Housing and Health Committee and the Community Health Partnership.</p>



Appendix III – Audit Scotland National Studies

Report	Publication Date	Summary of Findings	Perth & Kinross Council Action
Asset Management in Local Government	May 2009	The study evaluated the extent to which councils manage their assets to ensure effective service provision and achieve value for money. It found that many council buildings are in poor condition and others are unsuitable for the services being delivered from them. In order to address these issues Councils need better strategies and systems for managing their assets.	See comments on Asset Management in section 5.6 of this report.
Improving Public Sector Purchasing	July 2009	The report provides a position statement on the progress made in taking forward the Public Procurement Reform Programme, designed to reform public procurement and deliver savings of about three per cent a year. The study found that although progress has been made this varies across Scotland and has been slower than planned.	See comments on Procurement in section 5.7 of this report.
Improving Civil Contingencies Planning	August 2009	The study looked at the progress made since the Civil Contingencies Act 2004 was passed, assessing the pace of change and identifying ways in which improvements can be made. The report made 16 detailed recommendations where further improvements can be made.	We will review the Council's progress in addressing the issues raised in the national report as part of our 2009/10 audit.



