

PERTH AND KINROSS COUNCIL

11 December 2013

AUDIT SCOTLAND – ANNUAL REPORT ON THE 2012/13 AUDIT

Report by Head of Finance

PURPOSE OF REPORT

This report presents the External Auditors' Annual Report on the 2012/13 Audit.

1. BACKGROUND / MAIN ISSUES

- 1.1 The Annual Report on the 2012/13 Audit was received from the Council's External Auditors on 31 October 2013.
- 1.2 The report considers a wide range of issues including the financial statements; the financial position; governance and accountability & Best Value, use of resources and performance. The report identifies a number of action points and incorporates an action plan at Appendix B which includes the planned management action in relation to them.
- 1.3 The Council is asked to note the content of the Report and to refer it to the Audit Committee for further detailed consideration.

2. CONCLUSION AND RECOMMENDATIONS

- 2.1 It is recommended that the Council:
- 1) Notes the content of this report.
 - 2) Submits the External Audit Annual Report on the 2012/13 audit to a future meeting of the Audit Committee for detailed consideration.

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ANNEX

1. IMPLICATIONS, ASSESSMENTS, CONSULTATION AND COMMUNICATION

Strategic Implications	Yes / None
Community Plan / Single Outcome Agreement	None
Corporate Plan	Yes
Resource Implications	
Financial	Yes
Workforce	Yes
Asset Management (land, property, IST)	Yes
Assessments	
Equality Impact Assessment	Yes
Strategic Environmental Assessment	Yes
Sustainability (community, economic, environmental)	Yes
Legal and Governance	None
Risk	None
Consultation	
Internal	Yes
External	None
Communication	
Communications Plan	None

1. Strategic Implications

1.1. Corporate Plan

1.1.1. The Council's Corporate Plan 2013 – 2018 lays out five outcome focussed strategic objectives which provide clear strategic direction, inform decisions at a corporate and service level and shape resources allocation. They are as follows:

- (i) Giving every child the best start in life;
- (ii) Developing educated, responsible and informed citizens;
- (iii) Promoting a prosperous, inclusive and sustainable economy;
- (iv) Supporting people to lead independent, healthy and active lives; and
- (v) Creating a safe and sustainable place for future generations.

1.1.2 This report relates to all of these objectives.

2. Resource Implications

2.1. Financial

2.1.1. There are no direct financial implications arising from this report other than those reported within the body of the main report.

2.2. Workforce

2.2.1. There are no direct workforce implications arising from this report other than those reported within the body of the main report.

2.3. Asset Management (land, property, IT)

2.3.1. There are no direct asset management implications arising from this report other than those reported within the body of the main report.

3. Assessments

3.1. Equality Impact Assessment

3.1.1. Under the Equality Act 2010, the Council is required to eliminate discrimination, advance equality of opportunity, and foster good relations between equality groups. Carrying out Equality Impact Assessments for plans and policies allows the Council to demonstrate that it is meeting these duties.

3.1.2. The information contained within this report has been considered under the Corporate Equalities Impact Assessment process (EqIA) and has been assessed as **not relevant** for the purposes of EqIA.

3.2. Strategic Environmental Assessment

3.2.1. The Environmental Assessment (Scotland) Act 2005 places a duty on the Council to identify and assess the environmental consequences of its proposals.

3.2.2. The information contained within this report has been considered under the Act. However, no action is required as the Act does not apply to the matters presented in this report.

3.3. Sustainability

3.3.1. Under the provisions of the Local Government in Scotland Act 2003 the Council has to discharge its duties in a way which contributes to the achievement of sustainable development. In terms of the Climate Change Act, the Council has a general duty to demonstrate its commitment to sustainability and the community, environmental and economic impacts of its actions.

3.3.2 The information contained within this report has been considered under the Act. However, no action is required as the Act does not apply to the matters presented in this report.

4. Consultation

4.1 Internal

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

2. BACKGROUND PAPERS

2.1 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.

3. APPENDICES

Appendix 1 – Annual Report on the 2012/13 audit

Perth & Kinross Council

Annual report on the 2012/13 audit



Prepared for Members of Perth & Kinross Council and the Controller of Audit
October 2013

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

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Key messages

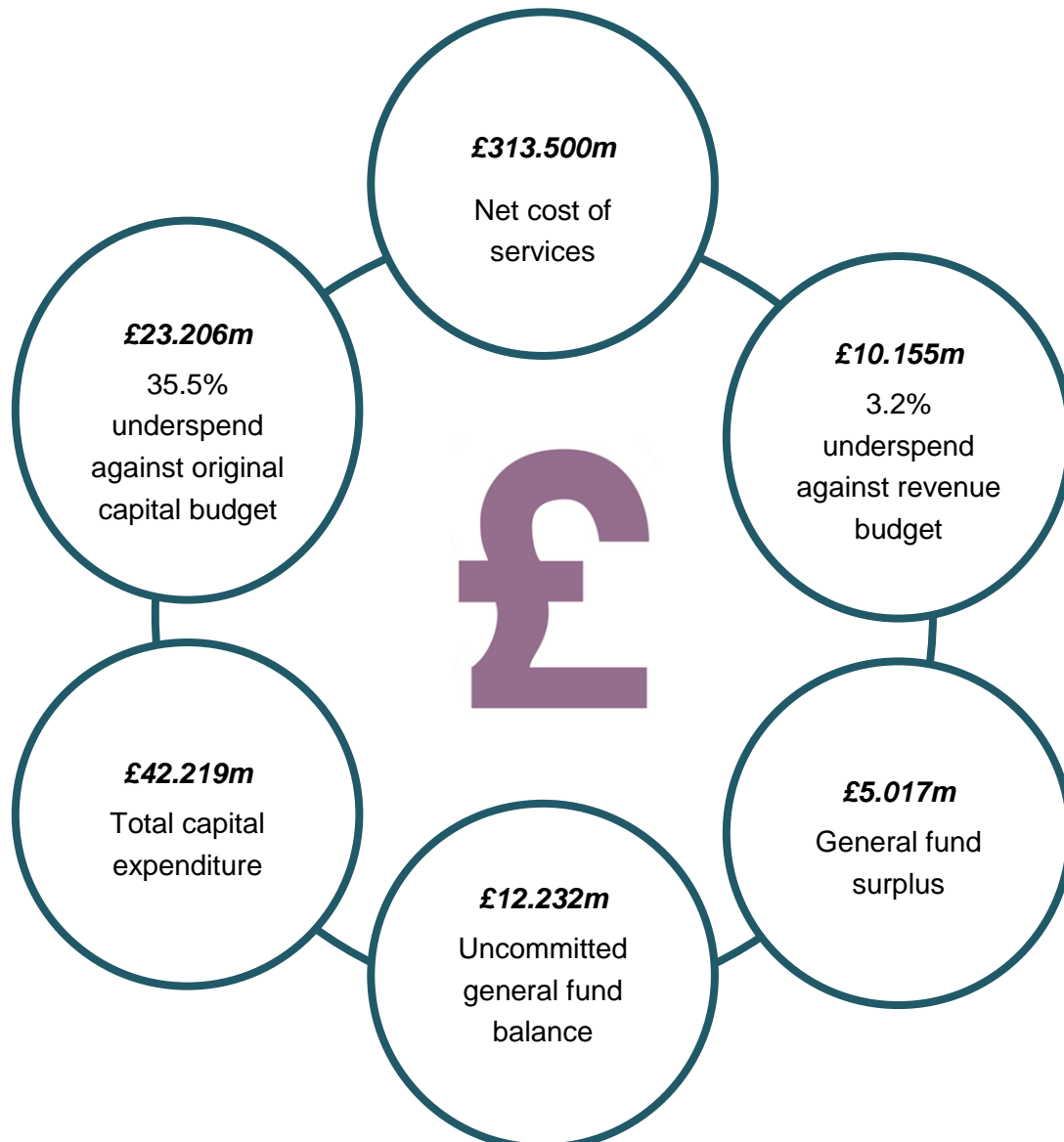
2012/13 Key Facts

This report summarises the findings from our 2012/13 audit of Perth & Kinross Council. As part of the audit we assessed the key financial and strategic risks being faced by the Council. We audited the financial statements and reviewed the Council's financial position and aspects of governance, best value, the use of resources and performance

Financial Statements

We have given an unqualified opinion on the financial statements of the Council and its group for 2012/13. In our opinion they give a true and fair view of the financial transactions for the year to 31 March 2013 and the financial position at that date.

Key facts



Financial position

The key facts above give a snap shot of the financial position of the Council in 2012/13. The £5 million surplus in the general fund contributes to the increase in the Council's total usable reserves to £60.7 million in 2012/13 (£53.4 million 2011/12). This increase in usable reserves is mainly due to the Council's approach to achieving efficiencies in year in excess of those required resulting in service underspends against budget during the year. These savings have increased the deposits (investments) held with the balance fluctuating (depending on treasury management activity) between £35.3 million and £76.8 million during 2012/13. These cash balances are planned to be utilised to enable the Council to reduce its borrowing requirement from 2013/14 onwards.

Capital expenditure in previous years has consistently been below budget. Similarly in 2012/13 the capital budget was underspent by 35.5% as a result of slippage and rephasing of capital projects. Actions are being taken by the Council to improve delivery of the capital programmes against budget.

The Council's transformation programme to redesign services and achieve efficiencies continued at a steady pace during the year. The programme contains a large number of projects across all Council services and is underpinned by a medium term financial plan which is subject to on-going review.

The Council has a strong track record in delivering efficiency savings but has recognised that continuing to deliver efficiencies will be more challenging in future years given the reduction in staff numbers. It is, however, in a relatively strong financial position going forward through the efficiencies achieved to date.

Governance and accountability

Overall the Council had appropriate governance arrangements in place in 2012/13. No material weaknesses in the accounting and internal control systems were identified during the audit although we agreed with management some areas for improvement in our reports issued during the year.

Data management, whether this is general data management, data sharing (e.g. Public Sector Network) or data matching (e.g. National Fraud Initiative) has been a recurring theme in several areas of our reports. Our *Review of Data Management* report issued in August 2013 included actions agreed with officers to strengthen data management. This annual report includes areas where officers are taking action in relation to data sharing and matching.

Performance and best value

The Council has a robust approach to performance management and monitors large numbers of local performance indicators which cover the wider community planning partnership area. These, along with the statutory performance indicators, are reported in the annual performance report. The 2012/13 annual performance results reported positive improvements in eight of the local outcome areas and performance was maintained in the remaining seven.

The new Community Plan/Single Outcome Agreement 2013/23 (CP/SOA) was endorsed by the Council in June 2013 and contains twelve revised local outcomes with associated performance indicators. The Council has considered the next steps in ensuring delivery of the CP/SOA and is currently revising the Community Planning Partnership's governance framework and consolidating/streamlining its performance measurements.

Outlook

Scotland's public bodies will continue to face increasing demand and cost pressures for their services in the foreseeable future. Perth & Kinross Council and other councils will have to keep their priorities under review and make increasingly difficult decisions about services to be provided to ensure the budgets remain balanced in future years. The Council recognises this and has a transformation programme in place to address fundamental issues such as the basis for delivering services (statutory or discretionary), the mode of delivery (provider or enabler) and the resources required.

Acknowledgements

The co-operation and assistance given to us by officers during the audit is gratefully acknowledged.

Introduction

1. This report is the summary of our findings arising from the 2012/13 audit of Perth & Kinross Council. The purpose of the annual audit report is to summarise the auditor's opinions (i.e. on the financial statements) and conclusions, and to report any significant issues arising. The report is divided into sections which reflect the public sector audit model.
2. A number of reports have been issued in the course of the year in which we make recommendations for improvements (Appendix A). We do not repeat all of the findings in this report, but instead we focus on the financial statements and any significant findings from our wider review of the Council.
3. Appendix B is an action plan setting out the high level risks we have identified from the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "planned management action". We do not expect all risks to be eliminated or even minimised. What we expect is that the Council understands its risks and has arrangements in place to manage these risks. Members should ensure that they are satisfied with the proposed management action and have a mechanism in place to assess progress.
4. This report is addressed to members and the Controller of Audit and should form a key part of discussions with the audit committee, either prior to, or as soon as possible after, the formal completion of the audit of the financial statements. Reports should be available to the other stakeholders and the public, where appropriate. Audit is an essential element of accountability and the process of public reporting.
5. This report will be published on our website after consideration by the Council. The information in this report may be used for the Accounts Commission's annual overview report on local authority audits. The overview report is published and presented to the Local Government and Regeneration Committee of the Scottish Parliament.
6. The management of the Council is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems. The auditor is responsible for auditing and expressing an opinion on the financial statements. Weaknesses or risks identified by auditors are only those which have come to their attention during their normal audit work, and may not be all that exist. Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

Financial statements

7. Audited bodies' financial statements are an essential part of accounting for their stewardship of the resources made available to them and their performance in the use of those resources.
8. Auditors are required to audit financial statements in accordance with the timescales set by Audit Scotland, which may be shorter than statutory requirements, and give an opinion on whether the financial statements:
 - give a true and fair view of the financial position of the audited body and its expenditure and income
 - have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements.
9. Auditors review and report on, as appropriate, other information published with the financial statements, including the annual governance statement and the remuneration report. Auditors also review and report on the Whole of Government Accounts return. This section summarises the results of our audit on the financial statements.

Audit opinion

10. We have given an unqualified opinion that the financial statements of Perth & Kinross Council for 2012/13 give a true and fair view of the state of affairs of the Council and its group as at 31 March 2013 and of the income and expenditure for the year then ended.

Legality

11. Through our planned audit work we consider the legality of the Council's financial transactions. In addition the Head of Finance has confirmed that, to the best of his knowledge and belief, and having made appropriate enquiries of the Council's Chief Executive and Executive Officer Team, the financial transactions of the Council were in accordance with relevant legislation and regulations. There are no legality issues arising from our audit which require to be brought to members' attention.

Going concern and group accounts

12. Local authorities are required to prepare group accounts in addition to the Council's single entity accounts where they have a material interest in other organisations. For the purpose of consolidation and incorporation within the group accounts the Council has two subsidiaries (Live Active Leisure Ltd and Horsecross Arts Ltd), three associates (Tayside Joint Police Board, Tayside Fire and Rescue Board and Tayside Valuation Joint Board), a jointly controlled entity (Tayside Contracts Joint Committee), Common Good Funds and Charitable Trust Funds.
13. The effect of consolidation of the Council's group on the group balance sheet is to reduce reserves by £248.6 million. The group balance sheet as at 31 March 2013 discloses net

liabilities of £97.1 million (2011/12 £101.4 million) mainly due to the pension liabilities within the group's associates financial statements. These are pension liabilities accrued in accordance with International Accounting Standards.

14. The Police and Fire services transferred to the Scottish Police Authority and the Scottish Fire and Rescue Service on 1 April 2013. The police and fire functions will therefore no longer be incorporated as associates in the Council's group accounts from 2013/14. The group balance sheet as at 31 March 2013, without the inclusion of Tayside Joint Police and Tayside Fire and Rescue Boards' financial statements, would result in net assets of £164.1 million and going concern would not be an issue for the group.
15. Although the group has reported a net liability position for a number of years, the Council deem it appropriate to prepare the accounts on a going concern basis and we concur with this assessment.
16. The Council's group accounts highlight that all subsidiary and associate accounts have been prepared on a 'going concern' basis. However, Horsecross Arts Ltd, one of the Council's subsidiary companies, is in discussions with their auditors to confirm whether this accounting treatment is appropriate. As a result audited accounts for Horescross Arts Ltd were not available prior to completion of the 2012/13 audit of the Council's accounts. We note that Council officers are working with the subsidiary to identify the most appropriate means of resolving the uncertainty around its financial position with a view to concluding the audit by the end of this calendar year. We have confirmed that this is unlikely to be material therefore it was not referred to in our audit opinion.

Annual Governance Statement

17. As part of our annual audit we review the disclosures made in the Annual Governance Statement (AGS), included in the financial statements, and the process for obtaining sufficient assurances to inform the content of the statement.
18. The AGS refers to the following two specific areas where improvements are being progressed:
 - provision of internal audit services; and
 - development of the information management system.
19. To assist in the assessment of the wider group governance arrangements assurances for Live Active Leisure Ltd and Horsecross Arts Ltd were obtained from the management of the subsidiary organisations. Assurances were also obtained from the financial statements of the other group entities. A separate Annual Governance Statement was detailed in Tayside Joint Police Board, Tayside Valuation Joint Board and Tayside Contracts Joint Committee financial statements and a Statement on the System of Internal Financial Control was included in Tayside Fire & Rescue Board's financial statements.
20. We are satisfied that the disclosures in the AGS are in line with the guidance contained in the CIPFA publication *Delivering Good Governance in Local Government*. We are also satisfied with the adequacy of the process put in place to obtain the necessary assurances for the AGS.

Remuneration report

21. We are satisfied that the remuneration report has been prepared in accordance with the relevant legislation. The disclosures within the 2012/13 financial statements include all eligible remuneration for the relevant officers and elected members under a number of categories including pension benefits.

Accounting issues

22. Local authorities in Scotland are required to follow the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 (the 2012/13 Code). Overall we are satisfied that the Council prepared the 2012/13 financial statements in accordance with the 2012/13 Code.

Accounts submission

23. The Council's unaudited financial statements were submitted to the Controller of Audit by the deadline of 30 June 2013. A comprehensive working papers package was also available. This enabled us to conclude the audit and certify the financial statements prior to the target date of 30 September 2013. The financial statements were considered by members in October 2013 and are now available on the Council website.

Presentational and monetary adjustments to the unaudited accounts

24. A number of presentational and monetary amendments were made at our request. These resulted in an increase in the surplus on provision of services for the year of £0.803 million with no impact on the general fund balance. Net assets recorded in the balance sheet also increased by this amount. The presentational adjustments are aimed at improving disclosures within the financial statements.
25. A number of immaterial unadjusted errors were also identified. As is normal practice these errors were reported to the Head of Finance and included within our *Report to those charged with governance (ISA260)* submitted to the Audit Committee on 25 September 2013.

Pension costs

26. Perth & Kinross Council is a member of the Tayside Superannuation Fund which is a multi employer defined benefit scheme. In accordance with pension accounting standard IAS19 'Retirement Benefits' the Council has recognised its share of the net liabilities for the pension fund in the balance sheet. The valuation as at 31 March 2013 provided by the scheme's actuaries decreased the Council's share of the deficit from £199.722 million last year to £189.092 million this year.
27. The decrease in pension liabilities of £10.6 million as at 31 March 2013 is due to changes in the actuarial assumptions applied, for example the discount rate which is aligned to government bonds, mortality levels and rates of inflation. A small change to the actuarial assumptions applied can have a significant impact on the liability. The scale of the

movements in the Council's pension liability over the last 5 years, arising from the annual valuation, can be seen in exhibit 1 below.

Exhibit 1: Movement in Net Pension Liability 2008/09 - 2012/13

	2008/09 £ million	2009/10 £ million	2010/11 £ million	2011/12 £ million	2012/13 £ million
Assets	274.325	382.137	420.154	418.812	492.457
Liabilities	(383.246)	(616.481)	(550.227)	(618.534)	(681.549)
Net liability	(108.921)	(234.344)	(130.073)	(199.722)	(189.092)

Source: Perth & Kinross Council audited financial statements

28. Whilst assets show a steady increasing performance, pension liabilities fluctuate more year on year. It is important to note however that this liability does not have any immediate impact on the Council's financing requirements. The Council will continue to make annual contributions to the Pension Fund, through employer contributions, in accordance with triennial valuations carried out by the actuaries.

Common Good Fund

29. The Kinross Common Good has been in debt to the Council over several years and as at 31 March 2013 the outstanding balance was £0.017 million. Common Good funds do not have powers to borrow and in our view this is therefore technically a breach of statute. Officers have advised that the outstanding balance will be repaid from the sale of Kinross Town Hall. As the balance is clearly trivial, and the amount is immaterial to the accounts as a whole we did not draw attention to this in our opinion on the financial statements. Officers have also advised that the sale of Town Hall is expected to be concluded this calendar year.

Tayside Contracts

30. Services provided by Tayside Contracts are jointly administered and controlled by Perth & Kinross Council, Dundee City Council and Angus Council. We raised concerns in last year's audit about the appropriateness of the accounting treatment of Tayside Contracts within the group accounts when the arrangements set out in the Minute of Agreement were significantly different from Tayside Contract's working practices. A review of the accounting arrangements was undertaken by finance officers from the three councils' and a consistent approach was adopted within the three sets of 2012/13 accounts submitted for audit. Having considered the financial accounting requirements, we concluded that there was sufficient flexibility within the 2012/13 Code to permit bodies which may not be entities in a legal sense to be regarded as separate bodies for accounting purposes. After agreeing adjustments to the unaudited financial statements to ensure the consolidation was in line with the Code we were satisfied with the approach adopted to account for Tayside Contracts as a jointly controlled entity.

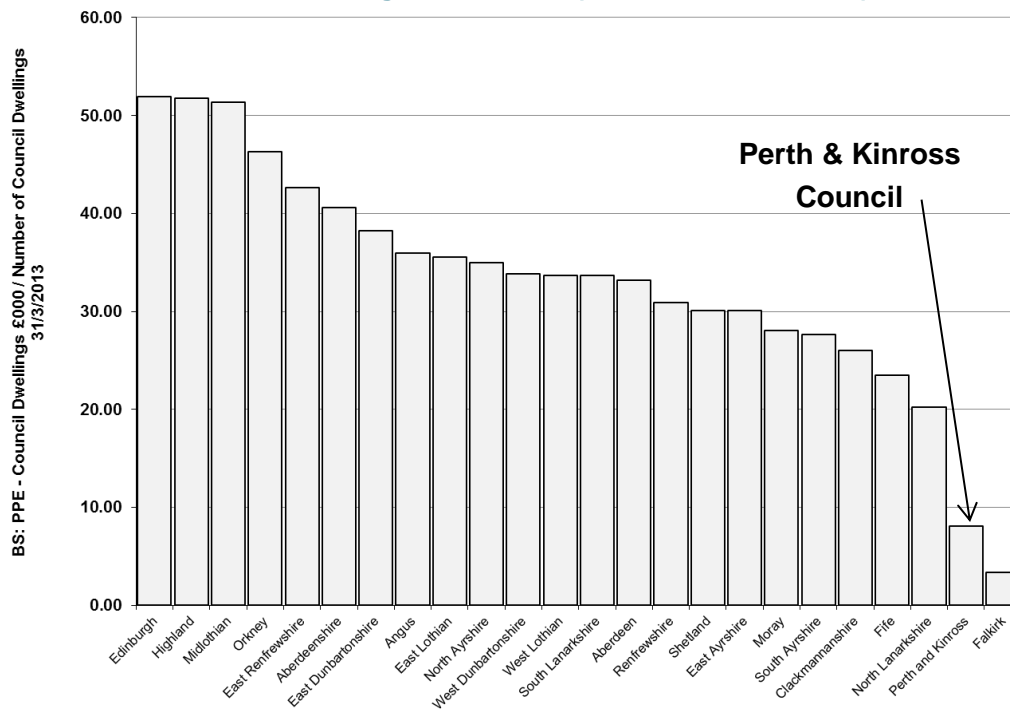
31. In 2011/12 it was agreed that the Minute of Agreement would be reviewed during 2012/13 to ensure it reflected the actual operation and governance of Tayside Contracts. Legal representatives from the three councils have subsequently met and are close to concluding a revised legal agreement which will reflect operating practice. Whilst this was not resolved during the year it is expected that a revised Minute of Agreement will be in place before the end of this calendar year.

Equal pay

32. The Equal Pay Act 1970 makes it unlawful for employers to discriminate between men and women in terms of their pay and conditions where they are doing the same or similar work, work rated as equivalent, or work of equal value. Employees who consider that they have been discriminated against in terms of pay and are dissatisfied with the Council's proposed resolution or compensation can elect to have a case heard before an employment tribunal. Perth & Kinross Council has received a number of claims for compensation and currently has a provision of £0.763 million included in its accounts to cover these costs. In addition the Council has earmarked £1 million for settling potential equal pay liabilities as at 31 March 2013. The Council's reserves strategy draws attention to the fact that there is a considerable degree of uncertainty in estimating the cost of any successful equal pay claims. The ultimate cost to the Council remains uncertain and it is likely that resolution of the issue will take some time. As the tribunal process unfolds the extent of the Council's eventual liability will become clearer.

Council house valuations

33. The Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 (the Code) states that the fair value of council house dwellings shall be measured using the existing use value-social housing (EUV-SH) method of valuation. The Council in line with the Code values its council dwellings using a discounted cash flow approach. However LASAAC guidance, issued in October 2010, specifies that all Scottish authorities should use the Beacon approach (Adjusted Vacant Possession) methodology to value council dwellings in their 2015/16 financial statements at the latest. Officers have confirmed that the Beacon approach method of housing stock valuation will be used in the 2014/15 financial statements. The current methodology results in a significantly lower valuation of housing stock than comparators as can be seen from Exhibit 2 below.

Exhibit 2: Council house average valuations (unaudited accounts)

Source: Audit Scotland

Whole of government accounts

34. The whole of government accounts (WGA) are the consolidated financial statements for all branches of government in the UK. The Council submitted the consolidation pack to support its 2012/13 WGA return to the Scottish Government prior to the revised deadline of 6 September and the audited return was submitted prior to the certification deadline of 26 October 2013.

Outlook**Registered Charities**

35. The Charities Accounts (Scotland) Regulations 2006 as amended (the 2006 Regulations) set out the accounting and auditing rules for Scottish registered charities. These apply to all local authority registered charities and require an audit of a registered charity's financial statements where the local authority is sole trustee and where certain thresholds apply (i.e. income of £500,000 or above or gross assets of £3,260,000). An independent examination is required for the financial statements of charities below these threshold values. The interaction of section 106 of the Local Government (Scotland) Act 1973 with the Charities Regulations results in all registered charities, where the local authority is the sole trustee, requiring to be audited from 2013/14.
36. The Assistant Auditor General (AAG) advised Local Government Directors of Finance by letter in June 2013 of these new arrangements and the Accounts Commission's decision to appoint

the auditor of each council as the auditor of its relevant charities. This is likely to result in an increase in audit costs and will form part of the fee discussions as part of the 2013/14 audit planning process.

37. The AAG has also indicated that councils that have not made any progress in reducing the number of registered charities using the reorganisation provisions of the charities legislation might want to consider doing so in order to reduce the number of separate audits required. Councils may also want to consider whether they can use the connected charities provisions in the regulations to reduce the number of separate reports and accounts required to be submitted to OSCR. Some charities are connected by having common or related purposes, or by having a common controlling body or administration, for instance a group of trustees that meet quarterly to consider a number of trusts at the same time. These charities have the option of preparing a single set of accounts to send to OSCR instead of preparing individual accounts.
38. We have been advised that the Council continues to amalgamate smaller charities with a view to streamlining the administrative requirements. Officers have also advised that the Council are intending to use the connected charities provision which may result in one audit and report for charities in 2013/14.

Annual Accounts Approval

39. The Scottish Government is currently consulting on proposed amendments to the Local Authority Accounts (Scotland) Regulations. It is likely that for 2013/14 local authorities, if they do not already do so, will require an audit committee or similar to approve the accounts by 30 September 2013. We will monitor the results of the consultation and engage with the Council, as appropriate, to ensure we meet any revision to the timetable in 2013/14 that may apply.

Financial position

40. Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based.
41. Auditors consider whether audited bodies have established adequate arrangements and examine:
 - financial performance in the period under audit
 - compliance with any statutory financial requirements and financial targets
 - the ability to meet known or contingent, statutory and other financial obligations
 - responses to developments which may have an impact on the financial position
 - financial plans for future periods.
42. These are key areas in the current economic circumstances. This section summarises the financial position and outlook for the organisation.

Financial results

43. In 2012/13 as recorded in the comprehensive income and expenditure statements, the Council spent £415.6 million on the provision of public services (net service expenditure £313.5 million) and had an accounting surplus of £27.5 million. However, this includes certain elements of income and expenditure that are accounted for to comply with the Code of Practice on Local Authority Accounting, these elements are adjusted to arrive at the statutory council reserves. Following these adjustments the general fund balance increased by £5 million.

Budgetary control

44. The explanatory foreword to the annual accounts reported a general fund surplus of £5 million in the year against a budgeted deficit of £5 million. This equates to an underspend of £10 million in the year, of which £6.3 million is service related. The main reasons for the service underspends are as follows:
 - Education Services: underspends on teaching and support staff and the devolved school management budget combined with additional income from secondments, school activities and school lets contributed to a net underspend of £4.2 million (2.9%) against budget.
 - Social Work Services: an underspend of £1.3 million (1.7%) was delivered largely as a result of the service achieving planned budget savings earlier than anticipated.
 - The Environment Service (Environmental, Roads & Transport and Planning & Development): underspends of £2.3 million on staffing and additional income from bereavement services, grants, sales and fees were partially offset by overspends of £1.4 million largely due to the prolonged winter conditions in 2012/13 and a reduction in

Financial position

income of £0.5 million for planning and building warrant fees. This resulted in a net underspend of £0.4 million (0.7%) against budget.

45. In addition to the service underspends, due to the move to a single Fire and single Police service, £2 million was returned to the Council although £1.1 million of this is earmarked in reserves as this is held on behalf of the Scottish Government.
46. All general fund services delivered an underspend against budget this year which reflects a strong corporate push to continue to make savings ahead of plan wherever possible. This is part of the Council's strategy to increase its reserves in order to cope with the on-going financial constraints on public sector resources.

Financial position

47. The general fund reported a net surplus for 2012/13 of £5.017 million, increasing the general fund balance to £42.519 million as at 31 March 2013. This balance is made up of earmarked commitments of £30.287 million leaving an unallocated general fund balance of £12.232 million. This equates to approximately 3.6% of the original approved net expenditure budget of £338.5 million, which is in line with the Council's stated reserves strategy to retain uncommitted reserves of 2 to 5% of net expenditure. The earmarked commitments represent 71% of the general fund balance as at 31 March 2013.
48. Exhibit 3, shows the balances in the Council's total useable reserves at 31 March 2013 compared to the previous year. The Council's funds at 31 March 2013 totalled £60.652 million, an increase of £7.258 million on the previous year.

Exhibit 3: Usable reserves

Description	31 March 2012	31 March 2013
	£ million	£ million
General Fund	37.502	42.519
Capital Fund	10.372	12.799
Capital Grants Unapplied	1.015	0.685
Capital Receipts Reserve	2.905	2.132
Repairs & Renewal Fund	0.517	0.483
Insurance Fund	1.083	2.034
Total Usable Reserves	53.394	60.652

Source: Perth & Kinross Council 2012/13 financial statements

49. The Council's usable reserves have increased by 13.6% on the previous year. This upward movement indicates a stable financial position going forward into 2013/14. The balances held

52. The Prudential Code is a professional code of practice designed to support local authorities in taking capital investment decisions. The Code's objectives aim to ensure that, within a clear framework, the capital investment plans of local authorities are prudent and sustainable. The Head of Finance reviews the capital financing requirement on an annual basis and reports to the Council on a series of prudential indicators as recommended by the Prudential Code. Performance against these indicators is reported to Council and to the public via the financial statements. This helps the Council to plan its capital investment prudently and to demonstrate to the public that it is doing so.
53. The financial statements detail capital expenditure of £42.2 million split between the housing investments programme of £11.4 million and the general services composite capital (general fund services) programme of £30.8 million. Exhibit 5 shows the sources of finance for capital expenditure in 2012/13 of £38.1 million. This resulted in an increase of £4.1 million in the Council's Capital Financing Requirement, a measure of the capital expenditure incurred historically by the Council that has yet to be financed.

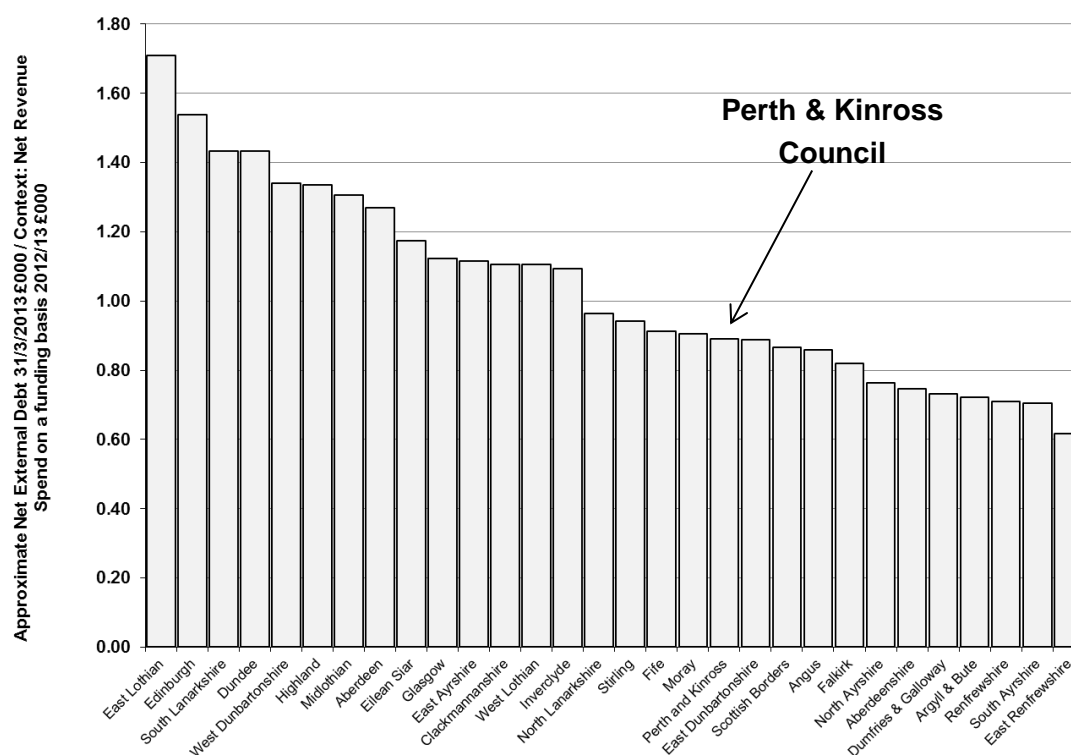
Exhibit 5: Sources of finance for capital expenditure

Description	2009	2010	2011	2012	2013
	£m	£m	£m	£m	£m
Capital Receipts	3.217	3.320	3.781	2.952	2.430
Government Grants and Contributions	8.317	11.149	8.519	15.383	13.502
Revenue Contributions	11.762	4.017	7.638	7.219	6.448
Loans Fund	38.862	26.939	14.271	14.887	15.685
Total	62.158	45.425	34.209	40.441	38.065

Source: Perth & Kinross Council financial statements

Treasury management

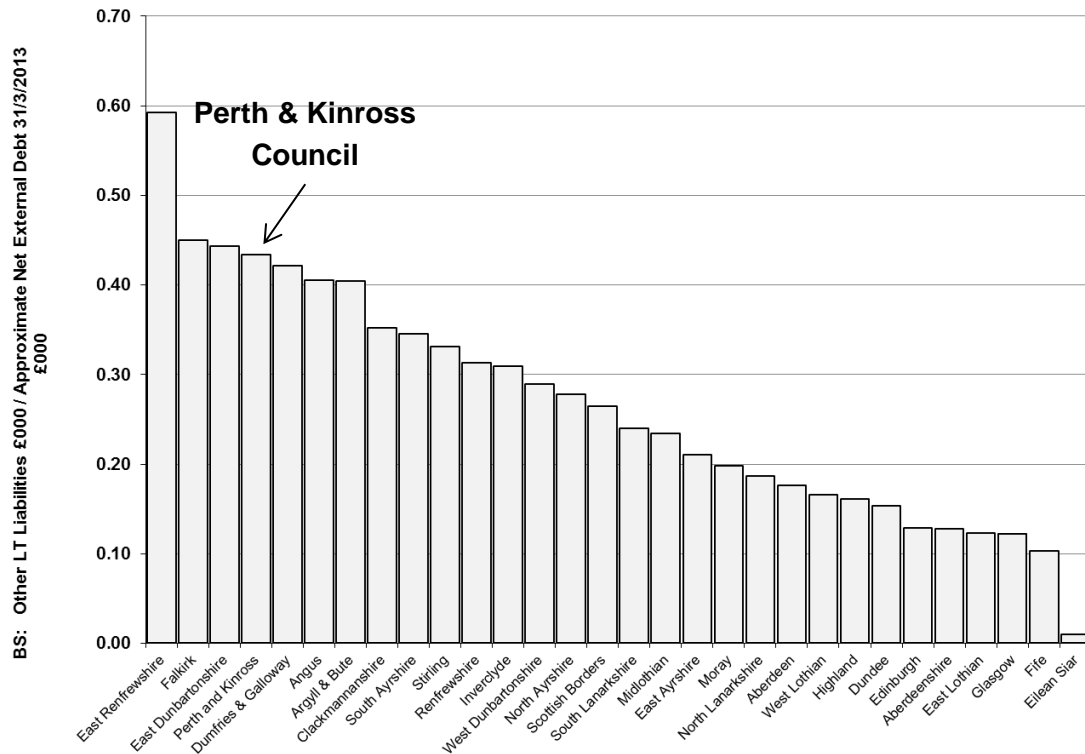
54. The Council's level of borrowing in 2012/13 has decreased and its net external debt as a proportion of net revenue spend is relatively low when compared to other Scottish councils (refer exhibit 6). At 31 March 2013 the Council had total borrowings of £205.163 million (2011/12 £209.167 million), 79.7% of which is at fixed rate.

Exhibit 6: Net external debt as a proportion of net revenue spend (unaudited accounts)

Source: Audit Scotland

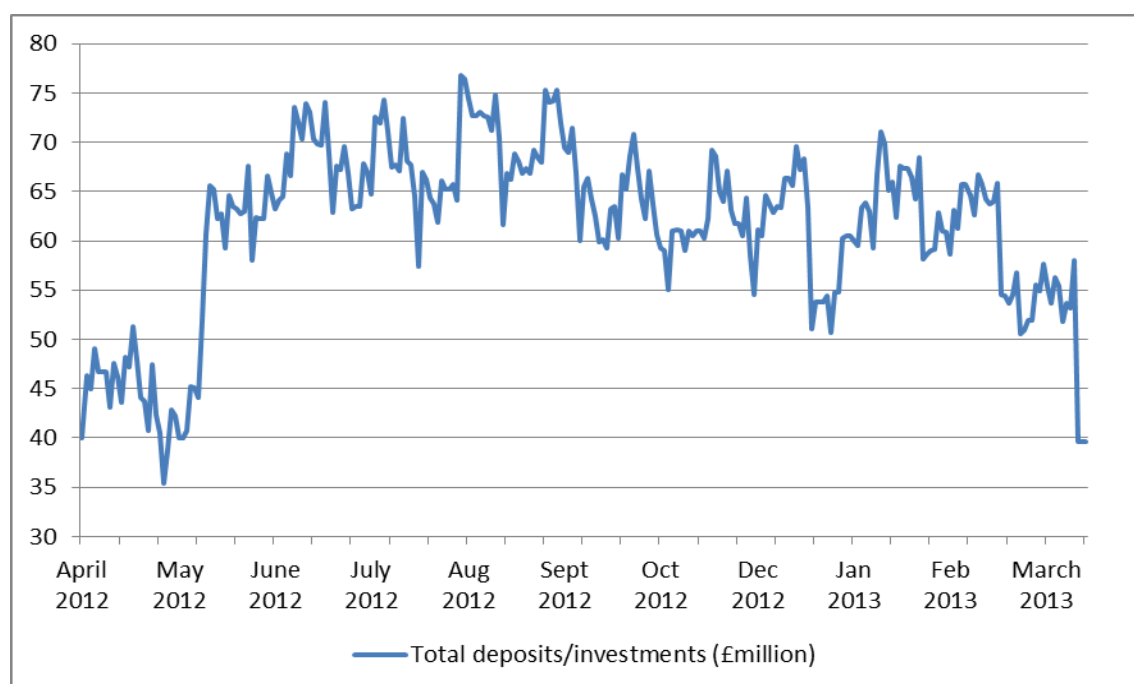
55. However, compared to other local authorities the Council's exposure to other long term liabilities, including Public Private Initiative (PPP), is much greater as illustrated by Exhibit 7. Exposure to PPP debt is of interest as many local authorities have incurred high contingent rent increases in recent years making servicing this debt more expensive. Perth & Kinross Council's contingent rentals to service the PPP debt continues to increase. As at 31 March 2013 the Council projected £116.5 million contingent rentals are payable over the remainder of the contracts (2011/12: £112.5 million). The Council have three PPP projects (a schools project to deliver six school campuses, an office accommodation project and a car park project). Accounting requirements mean that the Council must recognise both the asset acquired under the PPP scheme and the related liability in its balance sheet. PPP/PFI obligations of this degree reduce the Council's flexibility in dealing with future funding challenges that are likely to present themselves across the public sector.

Exhibit 7: Long term PFI / PPP and lease debt as a proportion of net external debt (unaudited accounts)



Source: Audit Scotland

56. In this continuing period of economic instability interest rates on investments remain low and the Bank of England's forward expectations report reiterated the widely held assumption that rates are unlikely to change in the near future. The Council received £1 million in investment income this year compared to £0.7 million in 2011/12 which reflected the investments held during 2012/13 which were between £35.3 million and £76.8 million as illustrated in Exhibit 8. These cash balances are planned to be utilised to enable the Council to reduce its borrowing requirement from 2013/14 onwards.

Exhibit 8: Deposits/Investments held

Source: Audit Scotland - Scotland's Public Finances Follow-up report

57. The Council has £0.221 million deposit in Icelandic Krona that, due to currency restrictions, remains in Iceland. Whilst interest is payable on this foreign deposit, the Council is monitoring the position closely with a view to transferring the funds back to the United Kingdom.

Financial planning to support priority setting and cost reductions

Savings

58. The Council has a challenging transformation programme *Securing the Future - Towards 2015 and Beyond*, in place. The programme has a large number of projects at both a corporate and service level. The transformation programme has been addressing fundamental issues such as the basis for delivering services (statutory or discretionary), the mode of delivery (provider or enabler) and the resources required over the last few years.
59. In addition to this, a number of years ago the Council introduced "budget headroom" which set corporate savings targets in excess of the anticipated reductions in grant funding and agreed corporate pressures. This approach is intended to provide members with flexibility in choosing between different budget options and create capacity to:
- offset future budget pressures in the medium term
 - allow for adverse movements in the Council's overall financial position
 - consider investment in regeneration projects, transformational change or severance costs.
60. Through its transformation programme and budget headroom the Council has actively accelerated savings in recent years to enable it to manage the anticipated financial challenges

faced by the public sector. Whilst many of the more readily achievable savings have already been made, services are required to continue to identify recurring savings going forward. The Council recognises that there are likely to be difficult decisions ahead about prioritising services and allocating resources. Through its transformation work it has an on-going programme of service reviews, in place, including IT services, cultural and community services and reshaping older peoples care, looking at delivery models that may lead to further efficiency savings.

Procurement

61. The public procurement reform programme aims to drive continuous improvement in public sector procurement. In 2009 the Scottish Government introduced an annual evidence-based assessment, the procurement capability assessment (PCA), to monitor public bodies' adoption of good purchasing practice and as a basis for sharing best practice. In 2012 the Council achieved a PCA score of 54%, which is classed as 'improved' and demonstrates a further improvement on the 2011 score of 45%. It should also be noted that the Council's score meets the national PCA target of 50% by March 2013.

Workforce reduction

62. Since 2009, the Council has implemented a range of workforce management measures which were designed to make the best use of opportunities to reshape the workforce on an on-going basis, enable service redesign and deliver a leaner workforce whilst avoiding compulsory redundancies to date. This has resulted in the Council reporting a 5.9% reduction in the full time equivalent number of employees, a change in the proportion of permanent and fixed term employees (from 8.4% fixed term to 10.4%) and staff costs reducing from 62% of the net revenue budget in 2009/10 to 59% in 2012/13.
63. The Council has also sought to reduce the workforce through early retirements, voluntary severance schemes etc. These decisions need to be affordable, fully funded and demonstrate value for money. An initial scheme run in 2011/12 resulted in annual recurring savings of £2.9 million over a five year period. A second voluntary severance scheme (for non teaching staff) was launched in September 2013.

Partnership working

64. The Scottish Government and Convention of Scottish Local Authorities reviewed community planning and Single Outcome Agreements in 2012 following which they published their 'Statement of Ambition'. This makes it clear that significant changes to improve community planning are needed to respond to the challenges of reducing public finances while demand for services increases.
65. The Audit Scotland report *Improving community planning in Scotland (March 2013)* concluded that partnerships have not been able to show that they have had a significant impact on delivering improved outcomes across Scotland.

66. Against this background however, Perth & Kinross Council has a strong track record of partnership working and the new Community Plan/Single Outcome Agreement (CP/SOA) 2013-2023 aims to continue this and outlines an ambitious vision for the area centred around five strategic objectives:
- giving every child the best start in life
 - developing educated, responsible and informed citizens
 - promoting a prosperous, inclusive and sustainable economy
 - supporting people to lead independent, healthy and active lives
 - creating a safe and sustainable place for future generations
67. On 2 October 2013 the Council considered the next steps to successfully implement the CP/SOA through new partnership governance arrangements, proposed new ways of working within the Council and a shift towards locality working. We will monitor progress against the new CP/SOA during 2013/14.

Outlook

2013/14 budget and beyond

68. In setting its 2013/14 budget the Council agreed to freeze council tax. The net revenue expenditure budget set for 2013/14 of £319.5 million shows an increase of 3.3% on that set for 2012/13 (£309.3 million after adjusting for Fire and Police).
69. The financial position for the first quarter of 2013/14 anticipates an underspend of £2.3 million. At this stage there are no significant overspends identified with all services reporting underspends.
70. In December 2012 the Council considered its medium term financial plan and updated indicative budgets for the years to 2014/15. An update on the medium term financial plan was considered by the Council on 2 October 2013 where it was agreed that the provisional budget for 2015/16 would be prepared setting a corporate savings target of £5 million. These plans reflect the most up to date commentary on the economic climate and the latest information from the Scottish Government on the provisional settlement figures. Given the uncertainty going forward the Council consider a longer term revenue plan to be an unrealistic aspiration.
71. Looking ahead it is clear that the outlook for public spending remains challenging for the foreseeable future. At the same time the demand for public services is rising as the economy feels the effects of uncertainties in the world's financial markets, questions about the sustainability of the eurozone and Scotland's changing population demographic. The Council recognises that continuing to deliver vital public services with a reducing budget will remain a significant challenge.

Refer to Action Point No. 1

Governance and accountability

72. The three fundamental principles of corporate governance – openness, integrity and accountability – apply to all audited bodies, whether their members are elected or appointed, or whether they comprise groups of people or an individual accountable officer.
73. Through its chief executive or accountable officer, each body is responsible for establishing arrangements for ensuring the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies usually involve those charged with governance, including audit committees, in monitoring these arrangements.
74. Consistent with the wider scope of public audit, auditors have a responsibility to review and report on audited bodies' corporate governance arrangements as they relate to:
 - corporate governance and systems of internal control
 - the prevention and detection of fraud and irregularity
 - standards of conduct and arrangements for the prevention and detection of corruption.
75. In this part of the report we comment on key areas of governance.

Corporate governance

Processes and committees

76. In 2012/13 Perth & Kinross Council had a well-established corporate governance framework in place focused on a Full Council supported by a number of standing committees which were accountable to it including, for example, the Strategic Policy and Resources Committee.
77. In December 2012, the Council considered its political decision-making structure and agreed to retain its traditional committee-based approach although the Audit Sub-Committee became a full committee effective from January 2013.
78. The Audit Committee is a key part of the Council's governance framework. Its remit includes risk management and consideration of audit plans and reports.
79. Our annual audit plan details the reports we will deliver during the year. To meet the target dates we ask officers to respond to draft report within three weeks. The pre-agenda meetings for the Audit Committee are generally held around two weeks before the committee meetings with papers being issued a week in advance. As a result reports are required three weeks in advance of the Audit Committee and items are only tabled in exceptional circumstances. These lead in times are generally replicated across other Council committees. As a result the clearance process can take a minimum of six weeks to finalise and report to the Audit Committee.

Internal control

80. While auditors concentrate on significant systems and key controls in support of the opinion on the financial statements, their wider responsibilities require them to consider the financial systems and controls of audited bodies as a whole. The extent of this work is informed by their assessment of risk and the activities of internal audit.
81. As part of our audit we reviewed the high level controls in a number of the Council's financial systems. Our work covered several systems including general ledger, trade receivables, trade payables, cash and cash equivalents, council tax, non domestic rates, treasury management, benefits, capital accounting and SWIFT as well as aspects of the payroll and housing rents systems. The findings from this work were reported to the Audit Committee in September 2013 and an action plan of improvements agreed.
82. No material weaknesses in the accounting and internal control systems were identified during the audit which could adversely affect the ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.
83. In addition, the Chief Internal Auditor's year end report presented to the Audit Committee in June 2013 concluded that reasonable reliance can be placed on the Council's systems of internal control for 2012/13, subject to management implementing the agreed actions detailed in internal audit reports.

Internal audit

84. A key element of our work on internal controls is the extent of reliance that we place on the work of internal audit in terms of International Standards on Auditing 610 (Considering the work of internal audit). The findings from our review of internal audit were reported as part of our internal controls work and we concluded that the internal audit service operates in accordance with the CIPFA Code of Practice for Internal Audit in Local Government.
85. Auditing standards require internal and external auditors to work closely together to make optimal use of available audit resources. We seek to place assurance on the work of internal audit wherever possible not only to avoid duplication of effort but also to enable us to focus on other areas of risk. This year we were able to take assurance from internal audit work on housing rents and payroll (excluding starters). This was an improvement on the 2011/12 position where only a few controls across four of the key financial systems were covered. Incremental improvements year on year are in line with our expectations.

Data management

86. As part of our 2012/13 audit work we carried out a review of the Council's data management arrangements. This included completing a questionnaire in consultation with the Information Compliance section and reviewing relevant documentary evidence.
87. Our report highlighted the progress being made in a number of good practice areas including:

- a start being made in creating an information asset register recording the information assets and the responsible owner
 - a survey being designed to gauge staff information security awareness which will be rolled out across the Council in due course.
88. We also identified some areas where the Council is exposed to a degree of risk, including
- the information asset register is in a preliminary stage, and further data about information assets should be considered to help assess and mitigate the risks associated with these assets
 - data sharing agreements are not subject to regular periodic review to identify any changes required
 - training for staff on information security and data protection available on the Council's intranet has only been taken up by around 30% of staff.
 - privacy impact assessments are not always carried out when significant changes are made to systems.
89. An action plan of improvements to address these risks has been discussed and agreed with management. We reported our findings and the agreed action plan to the Audit Committee in September 2013.

Public Services Network

90. The Council exchanges data with many other public bodies and in so doing makes use of Cabinet Office sponsored arrangements to share electronic data with other public sector bodies. For example, the Council shares benefit information with the Department of Works and Pensions while social work and education departments exchange information with the police, Criminal Justice Partnership and Children's' Hearings.
91. The Government Secure Intranet (GSI) is the mechanism that allows the Council to share data and services. The Council must re-apply annually to the Cabinet Office to be allowed to connect to the government secure network. This year the government is replacing GSI with the Public Services Network (PSN).
92. From November 2012 all user organisation have to apply to connect to PSN which means complying with the stricter PSN code of connection. The new code of connection is challenging and uncompromising about security measures as it aims to establish trust between organisations dealing with each other electronically.
93. The Council's initial application was unsuccessful and it continues to work with Cabinet Office assessors to progress the transition to PSN. The Council have also engaged a specialist consultant to help with this work. Existing electronic data sharing activity across a wide range of services would be at risk of interruption if the Council does not meet the PSN requirements or demonstrate realistic plans to achieve compliance. However the Cabinet Office have removed the immediate suspension risk for organisations demonstrating genuine appetite and realistic plans to achieve compliance. The Council will be submitting another application at

the beginning of November 2013 and we will monitor the outcome of this as part of our 2013/14 audit.

Prevention and detection of fraud and irregularities

94. Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity. We noted that the Council has a range of measures in place to prevent and detect fraud, including Standing Orders and Financial Instructions, Codes of Conduct for members and staff. A number of other policies are also available to staff via the intranet including a procedure for employees to report concerns ('whistleblowing'). The Council has recently included fraud and corruption as a corporate risk and we have been advised that work will be undertaken with Police Scotland to develop a strategic approach to the prevention and detection of fraud and irregularities.
95. The Council's internal audit function has a formal programme of work, which, although not designed to detect fraud, does provide assurance on the operation of the control systems which are designed to prevent fraud.
96. Overall, we have concluded that the Council's arrangements were adequate in relation to the prevention and detection of fraud and irregularities, although it should be noted that no system can eliminate the risk of fraud entirely.

NFI in Scotland

97. The Council participates in the National Fraud Initiative (NFI). The NFI uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify circumstances (matches) that might suggest the existence of fraud or error.
98. Public bodies investigate these matches and, if fraud or error has taken place, can stop payments and attempt to recover the amounts involved. It is the responsibility of auditors to assess the arrangements that the bodies have put in place to prevent and detect fraud, including how they approach the NFI exercise itself.
99. Within the Council, NFI is co-ordinated by internal audit although services are responsible for the initial investigation of data matches.
100. The most recent data matching exercise collected data from participants in October 2012 with matches identified for follow-up in February 2013. A total of 3,963 data matches were identified for the Council of which 983 were recommended for investigation. The Council also takes a sample of the remaining matches to check. Good progress has been made in investigating data matches with 1,767 matches being investigated to date. Of these, two have been classified as fraud and a further twenty six as errors.
101. Overall, we concluded that the Council has satisfactory arrangements in place for investigating and reporting data matches identified by the NFI.

102. Since February 2013 participating Scottish Council's have identified and corrected £2.4 million of council tax single person discount overpayments. Section 26A of the Public Finance and Accountability (Scotland) Act 2000 provides that Audit Scotland may carry out data matching exercises for the purposes of assisting in the prevention and detection of fraud or other crime and in the apprehension and prosecution of offenders. A request by Audit Scotland was made for the Council electoral register data in October 2012 to match against council tax single person discounts to identify any instance where these should not have been awarded. Based on advice from the Head of Legal Services this request was turned down as this was not within the Council's powers.
103. The Council was one of only two local authorities across the UK not to submit the electoral register as part of the NFI submission in October 2012. The UK Office of the Information Commissioner has never indicated to us that submission of the electoral register for this purpose would be against the data protection principles.
104. The Council had indicated that it would be undertaking its own data matching exercise using the electoral register to detect any potential fraud. However, we have not seen any evidence of this review and would encourage the Council to use the electoral register for data matching purposes including the next NFI exercise.

Refer to Action Plan No. 2

Standards of conduct and arrangements for the prevention and detection of corruption

105. Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and have proper arrangements in place for implementing and monitoring compliance with standards and codes of conduct, standing orders and financial instructions. Auditors consider whether bodies have adequate arrangements in place.
106. The Council has Codes of Conduct for both members and officers that cover a number of areas including gifts and hospitality, use of Council resources and personal conduct.
107. The Council also has a Fraud and Corruption Policy, however this has not been updated since 2006 and while much of the policy remains relevant it does not include specific reference to the requirements of the Bribery Act 2010 which came into force in July 2011. Any update to the Council's fraud prevention policies would have to be accompanied by training to ensure that staff are aware of how these apply in the work place.
108. We have concluded that the arrangements for the prevention and detection of corruption in the Council are adequate subject to the Fraud and Corruption Policy being updated to include reference to the requirements of the Bribery Act.

Refer to Action Plan No. 3

Welfare Reform

109. The Welfare Reform Act 2012, as reported last year, represents the biggest reform of the UK welfare system for 60 years. The Council have produced a number of leaflets and information

posters to raise awareness of the changes locally and in February 2013 it set up a Welfare Rights Virtual Hub to provide both training and technical information for frontline staff and web-based information to the public. As part of this Virtual Hub, the Welfare Rights pages of the Council's website include:

- information, guidance and step-by-step guides on how to make benefits claims
- details about the changes that welfare reform is bringing
- a directory of frequently requested contacts
- guidance on how to lodge appeals against benefit decisions.

110. As part of a communications strategy the Council also held awareness sessions for staff and the public. Officers have also communicated directly with households affected by the changes by phone, letter and visits.
111. Nationally there are early indications that welfare reform is resulting in increased rents arrears. Whilst there were no significant increase in housing rent arrears at the Council during 2012/13 in the first six months of 2013/14 arrears rose to £1.036 million (31 March 2013 - £0.912 million). This may be indicative of welfare reforms and officers continue to monitor the position.
112. Although the in-year collection rate for council tax (97.4%) is consistent with previous years and remains above the national average (2012/13 - 95.2%) council tax arrears increased during 2012/13 by £1.7 million (8.1%). Officers have advised that this was due to a reduction in the repayment of prior-year debt during the year and that the council tax collection rate for the first 6 months of 2013/14 has seen an improvement on previous years.

Outlook

113. Welfare reform will continue for several years to come and from October 2013 to October 2017 the Universal Credit will be rolled-out nationally. This will replace a range of existing means-tested benefits and tax credits for people of working age. It is important that the Council continues to monitor the impact of these reforms closely and develop efficient and effective strategies that address the welfare reform agenda. The Council is continuing to actively explore ways of tackling welfare reform problems through prevention, intervention (support) and sanctions. We will continue to monitor this as part of our 2013/14 audit.

Best Value, use of resources and performance

114. Audited bodies have a specific responsibility to ensure that arrangements have been made to secure Best Value. The Local Government (Scotland) Act 1973 places a duty on the auditors of local government bodies to be satisfied that proper arrangements have been made for securing Best Value and complying with responsibilities relating to community planning. Auditors are also required to review and report on audited body's progress against its Best Value improvement plan.
115. Additionally, auditors of local government bodies have a responsibility to review and report on the arrangements that specified audited bodies have made to prepare and publish performance information in accordance with directions issued by the Accounts Commission.
116. Furthermore, as part of their statutory responsibilities, the Auditor General and the Accounts Commission may procure, through Audit Scotland, examinations of the use of resources by audited bodies and publish reports or guidance. Auditors may be requested from time to time to participate in:
- a performance audit which may result in the publication of a national report
 - an examination of the implications of a particular topic or performance audit for an audited body at local level
 - a review of a body's response to national recommendations.
117. This section includes a commentary on the Best Value/ performance management arrangements within the Council. We also note any headline performance outcomes and measures used by the council and comment on any relevant national reports and the Council's response to these.

Management arrangements

Performance management

118. The Council displays a robust approach to performance management and has a Performance, Planning & Risk Group which meets monthly. This group comprises the Corporate Strategic Planning and Improvement Team and a network of performance managers from all services. In addition to the regular monthly meetings of this group an annual meeting is held with a wider group of employees involved in the collection of performance information to discuss any changes in performance information required internally and any changes to the Accounts Commission Direction. The meetings ensure that systems are in place to facilitate the collection of performance information. The Corporate Partnership and Improvement Team also has a role to play in auditing local procedures.

119. The Council's annual performance report for 2012/13 was published in June 2013. This report provides an update on progress against the Single Outcome Agreement (SOA) and national outcomes and includes both statutory and local performance indicators. The report includes performance information relating to the wider community planning partnership area, which included Tayside Police, NHS Tayside, Tayside Fire & Rescue Service, Perth College, TACTRAN (Tayside and Central Scotland Transport Partnership) and PKAVS (Perth & Kinross Association of Voluntary Service).
120. In its Direction 2012, the Accounts Commission acknowledged the local government community's developments to improve performance information through the Local Government benchmarking framework (LGBF). This framework provides a comparative benchmarking framework for Scottish Local Government covering all major service areas including cost information. The LGBF indicators draw on existing performance information including the local financial returns to the Scottish Government, other indicators sourced from Government departments and the Scottish Household Survey. The Direction 2012 includes a new statutory performance indicator in 2013/14 for councils to report performance in accordance with the LGBF benchmarking framework.
121. In anticipation of this change the LGBF indicators for 2010/11 and 2011/12 were collated and considered by COSLA and were considered by the Council's Strategic Policy & Resources Committee and the Scrutiny Committee in April 2013.
122. The Corporate Partnership and Improvement team is currently looking at consolidating and streamlining the performance measurements process in light of the new benchmarking indicators. In particular, differences in definitions between local and benchmarking indicators need to be addressed and we will monitor progress in this area as part of our 2013/14 audit.

Overview of performance in 2012/13

Performance measurement outcomes

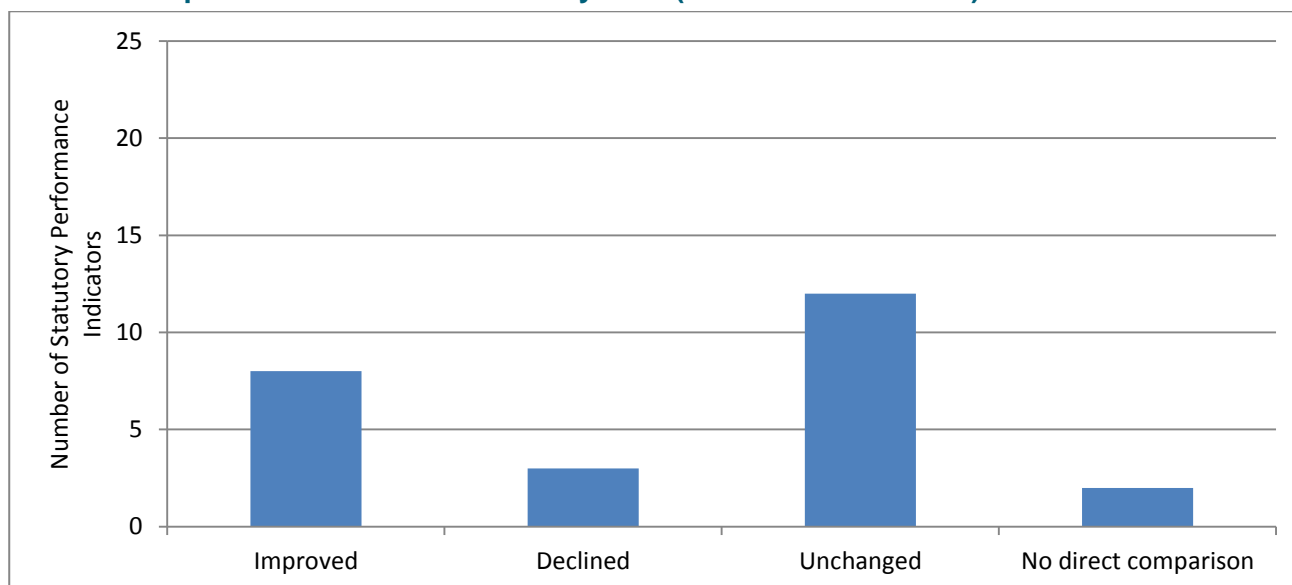
123. For 2012/13 performance measures were grouped under the 15 local outcome areas outlined within the Single Outcome Agreement 2009-13. These ranged from Economy to Health and Public Services, and were aligned to the Scottish Government's national outcomes. For 2012/13 the Council reported positive improvements in eight areas and performance was maintained in the remaining seven. On 20 February 2013 the CPP approved the Community Plan/SOA 2013-23. This contains 12 revised local outcomes for the Council each with a set of key performance indicators which will be used to measure and report performance in 2013/14. The revised governance framework arrangements were reported to the Council in October 2013 and are currently being implemented.
124. *PK Performs* on the Council's website contains the links to support the performance indicators reported. In addition the online PKC Evidence Portal contains a directory of information, reports, plans, awards and other documents structured around the local outcomes and key areas. These pages are designed to allow all interested parties to find out more about how the Council is performing.

125. The performance reports highlight the Council's achievements in the past year and detail areas for improvement. Some of the significant achievements highlighted 2012/13 include positive attainment results, reductions in crime rates, changes to services following consultation (the 'Big Listen') and attracting major events to the area (e.g. Ryder Cup in 2014). Some areas where the Council is focussing improvement include implementing several strategy areas ('Evidence2Success', *Employability Strategy*, *Charter for People who have Learning Disabilities and their Carers* and the *Mental Health and Well-being Strategy*) and continuing to prepare for the impact of welfare reforms.

Statutory performance indicators

126. In 2012/13, a total of 25 Statutory Performance Indicators (SPIs) were required and these indicate a mostly improving or stable picture of performance as illustrated by exhibit 9 below. The SPIs have been included, and considered by the Council, as part of the annual performance report.

Exhibit 9: Improvements demonstrated by SPIs (total of 25 indicators)



Source: Perth & Kinross Council SPI data returns

127. Improved performance was recorded for indicators relating to housing quality, public access to buildings, preventing homelessness and timely payment of invoices. Some decline in performance was noted in administration costs, management of tenancy changes and refuse collection, however, this decline was not significant.

Local performance reporting

Scotland's Public Finances

128. In July 2013 we issued Scotland's Public Finances: addressing the challenges a targeted follow-up report. This report looked at the way that the Council is responding to the challenges of public sector budget constraints and its efforts to achieve financial sustainability.

129. Our report highlighted that the Council continues to show a good understanding of the financial challenges it faces, and has been proactive in preparing financial plans to manage budget reductions. It has a clear understanding of its costs and the impact efficiency savings have on service delivery. The reserves strategy and medium term financial plan allows the Council to mitigate the risks associated with the current financial climate and service pressures.
130. In addition we recommended that the Council may want to consider further improvements to its approach to the financial planning framework by:
- developing a long term revenue financial plans looking at the impact of reducing budgets on service delivery
 - ensuring the capital investment programmes are implemented to ensure the Council's infrastructure is able to deliver efficient and effective services and contribute to a prosperous, sustainable and inclusive economy for its area
 - further development of 'process' benchmarking (i.e. comparing the systems/approaches used by comparators to identify improvements that can be achieved locally) with other organisations with a view to identifying efficiencies and improvements
 - incorporating the views of users of the service in the planning framework where appropriate.
131. We will continue to monitor the Council's response to the challenges of public sector budget constraints and its efforts to achieve financial sustainability during 2013/14.

National performance reporting

132. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland and reports of direct interest in 2012/13 are outlined in the exhibit 10 below.

Exhibit 10: A selection of National performance reports 2012/13

- | | |
|---|---|
| • Responding to challenge and change - An overview of local government in Scotland 2013 | • Protecting consumers |
| • Improving community planning in Scotland | • Using cost information to improve performance - are you getting it right? |
| • Major capital investment in councils. | • Health inequalities in Scotland |
| | • Reducing reoffending in Scotland. |

Source: www.audit-scotland.gov.uk

133. Audit Scotland encourages councils to review national reports, consider key findings and assess local performance against these and identify improvement actions where appropriate. The national reports are accompanied by checklists which officers can use to carry out a self-assessment of performance. The expectation is that Audit Scotland's performance reports are

presented to an audit or scrutiny committee for members to consider and hold management to account for local performance.

134. Officers maintain a record of national reports identifying the lead officer and what action has been taken to respond to the report. In 2011/12 we noted that in a number of instances these actions were reported to members but there was no formal process to make members aware of all national reports of relevance to the Council. Officers agreed to submit a report to the Strategic Policy & Resources Committee on a 6 monthly basis to update members.
135. Improvements have been made to the approach taken by the Council since our 2011/12 report. The record maintained by officers now includes details of which committee each national report has been submitted to. Given this officers felt that a 6 monthly report to Strategic Policy & Resources would be duplication. As reports go to various committees there may still be scope for a 6 monthly report to, for example, either Audit or Scrutiny committee to ensure all national reports are appropriately actioned, and the Council may wish to consider this going forward.

Assurance and improvement plan update 2013-16

136. The Local Area Network of scrutiny partners (LAN) for the Council, conducted a Shared Risk Assessment (SRA), and produced an Assurance and Improvement Plan (AIP) covering the period 2013 to 2016. This was published on Audit Scotland's website and was submitted to the Council meeting on 1 May 2013 for information and consideration by members.
137. The 2013-16 AIP continued to recognise the strength of the Council's self-evaluation and performance management arrangements and its achievements in securing improved performance and better outcomes for local people.
138. The AIP concluded that no additional scrutiny work was required although the following areas of national follow up or work requested by Ministers were included:
 - Scotland's Public Finances: Addressing the challenges (see paragraphs 131 to 134)
 - Reshaping Scotland's public sector workforce (report due to be published Autumn 2013)
 - Supported self-evaluation of the impact on quality of the newly introduced national assessment and care planning instrument in local criminal justice social work services (date to be confirmed)
139. It also drew attention to a follow up housing benefits performance audit which is scheduled to start in November 2013. This will give an indication of the impact of welfare reform on the processing and payment of benefits.
140. The Scottish Housing Regulator (SHR) undertook focused scrutiny work on the Council's progress in delivering the Scottish Housing Quality Standard in 2015 and its approach to managing rent arrears. The SHR has issued a draft report on the findings of this piece of work to the Council.

Equality Act 2010

141. In April 2011, the Equality Act 2010 introduced a new public sector 'General Duty' which encourages equality to be mainstreamed into public bodies' core work so that it is not a marginal activity but part and parcel of how public bodies operate. One of the key requirements of the legislation is for public bodies to publish a set of equality outcomes (and reporting requirements) no later than 30 April 2013.
142. The Council produced a Statutory Mainstreaming report in April 2013 which outlined the work undertaken to ensure that all parts of its work reflect the requirements of the General Duty of the Equality Act 2010. The following three equality outcomes have also been developed in consultation with voluntary groups in Perth via the Community Equality Advisory Group (CEAG) and online forums:
- knowing where to get help from the Council
 - providing opportunities to influence Council decisions
 - enhancing community involvement and inclusion.
143. The Council is proactive in promoting the equality agenda and is well placed to mainstream equality within everyday work.

Outlook

144. In response to a request from the Cabinet Secretary for Finance, Employment and Sustainable Growth the Accounts Commission has led development work, with scrutiny partners, on how audit and inspection can support the delivery of better outcomes by Community Planning Partnerships. Following on from the initial pilot work, CPP audits will be carried out at Falkirk, Moray, West Lothian, Orkney and Glasgow City Councils during 2013/14. The findings from these areas will inform our future work programme.

Appendix A: audit reports

External audit reports and audit opinions issued for 2012/13

Title of report or opinion	Date of issue	Date presented to Audit Committee/Council
Annual Audit Plan	28 February 2013	27 March 2013
Assurance and Improvement Plan	22 March 2013	1 May 2013
Internal controls management letter	15 July 2013	25 September 2013
Scotland's Public Finances - local follow-up audit	26 July 2013	25 September 2013
Review of Data Management	26 August 2013	25 September 2013
Report on financial statements to those charged with governance	20 September 2013	25 September 2013
Audit opinion on the 2012/13 financial statements	25 September 2013	25 September 2013
Audit opinion on the 2012/13 Whole of Government accounts consolidation pack	25 October 2013	N/A
Report to Members on the 2012/13 audit	31 October 2013	11 December 2013

Appendix B: action plan

Key Risk Areas and Planned Management Action

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1	71	<p>The Council is facing unprecedented demand for its services at a time when public sector budgets are under severe pressure.</p> <p>Risk: <i>The Council may not be able to deliver its services and maintain financial sustainability.</i></p>	<p>The Council addresses this risk through its Medium Term Financial Plan with the latest version submitted to Council on 2 October 2013</p>	John Symon, Head of Finance	Completed
2	104	<p>The Council did not submit the electoral register as part of the National Fraud Initiative submission.</p> <p>There is no evidence that the Council have undertaken data matching using the register to identify potential frauds.</p> <p>Risk: <i>Fraud or error is not detected.</i></p>	<p>The Council will review its position regarding submission of the electoral register to the NFI.</p> <p>The Council will commit to a data-matching exercise to identify potential fraud, with particular attention to Council Tax single occupancy discounts.</p>	<p>Ian Innes, Head of Legal Services</p> <p>Kevin Fraser Assistant Revenues Manager</p>	<p>Dec 2013</p> <p>Feb 2014</p>

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
3	108	<p>The Council's Fraud and Corruption Policy has not been updated since 2006 and therefore does not include specific reference to the requirements of the Bribery Act 2010.</p> <p>Risk: <i>Council policies are not up to date and do not reflect current legislation.</i></p>	<p>Legal Services are in the process of drawing up a programme of training and risk assessment across Council Services and amending its guidance in respect of the Bribery Act 2010.</p> <p>The Council is currently working with Police Scotland to develop the approach to the prevention of fraud and corruption and to update the fraud & corruption policy.</p>	Ian Innes Head of Legal Services	January 2014