

Scotland Excel**To: Executive Sub-Committee****On: 20 September 2019****Report
By:**

The Treasurer

Heading:

Annual Audit Report on the Annual Accounts 2018/19

1. Summary

- 1.1. The Local Authority Accounts (Scotland) Regulations 2014 (the Regulations) require Scotland Excel to prepare and publish annual accounts that are subject to external audit.
- 1.2. Section 10 of the Regulations requires the committee to consider any report made by the appointed auditor before deciding whether to sign the audited accounts.
- 1.3. The findings of the appointed auditor, Audit Scotland, are included in the Annual Audit Report at Appendix 1, which also confirms their opinion that the annual accounts are free from material misstatement and present a true and fair view of Scotland Excel's financial position at 31 March 2019.
- 1.4. The Unaudited Annual Accounts for the year 2018/19 were reported to the Joint Committee on 21 June 2019. Owing to a revision in pension estimates, there is an increase in net liabilities in the Balance Sheet of £0.227m in the Audited Annual Accounts, attached for reference at Appendix 2. Further information is outlined at paragraph 3.5 below.
- 1.5. There has also been a prior year restatement of capital expenditure and intangible assets. Neither the net deficit nor the Usable Reserve is affected by this change. Further detail can be found in Note 2 of the annual accounts.

2. Background

- 2.1 The Unaudited Annual Accounts for 2018/19 were submitted to Audit Scotland by the statutory deadline of 30 June 2019. The external auditor is required to complete the audit by 30 September 2019 and provide an opinion about whether the financial statements as a whole are free from material misstatement.
- 2.2 The Annual Audit Report (Appendix 1) highlights significant risk areas identified by the auditor during planning, as follows:

- Risk of management override of controls;
- Risk of fraud over income;
- Risk of fraud over expenditure;
- IFRS15 and accounting for income;
- Estimates and judgements;
- New accounting system; and
- Financial sustainability.

2.3 Pages 16 to 18 of the report at Appendix 1 presents how, in each of these areas, the result of audit testing was satisfactory.

2.4 As well as reviewing the annual accounts, the scope of the audit includes financial sustainability. Audit Scotland concluded that:

“Scotland Excel continues to operate in a challenging financial climate. However, action has been taken by management to manage financial pressures.”

2.5 Information relating to the pension liability has been revised in the Audited Annual Accounts, owing to two developments that affect potential costs. The first relates to a Court of Appeal ruling (McCloud/Sargeant) that transitional protections on implementation of the new pension benefit structure in 2015 for members close to retirement age were unlawful on the grounds of age discrimination. For Scotland Excel, the impact of this is an additional £0.227m of pension liability, which has been reflected in the Management Commentary, financial statements and notes.

The second change relates to potential amendments to the rules governing the indexation of Guaranteed Minimum Pension. For Scotland Excel, the impact of this is an estimated £0.095m; however this has not been reflected in the financial statements because the liability has not yet crystallised. Instead, a Contingent Liability is reported on page 34 of the accounts (Appendix 2).

2.6 Audit Scotland will be present at the meeting of the Executive Sub-Committee to speak to the appended Annual Audit Report 2018/19.

3. **Recommendations**

The Committee is asked to:

3.1 Note the findings of the 2018/19 audit as contained in the external auditor's Annual Audit Report at Appendix 1;

3.2. Approve the Scotland Excel 2018/19 Audited Annual Accounts (Appendix 2) for signature.