

Scotland Excel

To: Joint Committee

On: 08 December 2017

**Report
by
Joint Report by the Treasurer and the Director
Audited Annual Accounts 2016-2017**

1. Summary

- 1.1 At the meeting of the Scotland Excel Joint Committee on 30 June 2017 a report on the unaudited annual accounts for the year ended 31 March was noted.
- 1.2 At the meeting of the Scotland Excel Executive Sub Committee on 15 September 2017 it was reported that Audit Scotland had issued an audit certificate providing an unqualified opinion that the annual accounts presented a true and fair view of the financial position of the Joint Committee as at 31 March 2017, in accordance with the accounting policies detailed in the accounts.
- 1.3 In accordance with the revised Scheme of Delegation and the Local Authority Accounts (Scotland) Regulations 2014, the Scotland Excel Executive Sub Committee considered and approved the Audited Annual Accounts 2016-17 for signature. Attached are copies of both the Audited Annual Accounts 2016-17 and Audit Scotland's report on the audit.

2 Recommendations

- 2.1 Members are asked to note the report.



Scotland Excel

Annual Financial Statements 2016/17

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Management Commentary

Introduction

Scotland Excel is the Centre of Procurement Expertise for the local government sector. Established in 2008, we are a leading non-profit shared service funded by Scotland's 32 local authorities.

At Scotland Excel we are leaders of change. Over the past nine years, we have helped to raise the profile of procurement in local authorities by championing its potential to shape markets, support policy priorities and, ultimately, ensure the sustainable delivery of the services that every community needs.

Our services are designed to help councils meet the twin challenges of reducing budgets at a time of growing demand. Shared procurement services increase efficiency and ensure money is saved to protect front line services. By working together through Scotland Excel, councils can realise a host of social, economic and environmental benefits from their procurement spend.

Our c. £950m contract portfolio supports the delivery of social care, construction, roads, transport, environment, corporate, education and ICT services. Our contracts achieve annual savings of c. £16m, and encourage innovation, facilitate policy, support local economies and generate social value for communities.

Scotland Excel offers award-winning training and provides assessment, consultancy and improvement services to help councils transform their procurement capability. We represent the sector at a national level on all matters relating to public procurement, and provide support for national sector initiatives.

Structure

Scotland Excel is governed by three groups of stakeholders from our member organisations:

The Joint Committee is made up of one or more Elected Members (Councillors) from each of Scotland's local authorities. It meets twice a year and is responsible for the strategic direction of the organisation and for approving the annual budget and business plan.

The Executive Sub-Committee is a sub-group of Elected Members from the Joint Committee who meet regularly to approve contract awards and other business decisions.

The Chief Executive Officers' Management Group consists of six local authority Chief Executives responsible for monitoring Scotland Excel's performance against its business plan and objectives.

Strategic Aims

Scotland Excel has established a 3 year Strategy and Operating Plan that states the goals, value, vision and mission that the organisation will work to.

Goal 1: Supporting the delivery of better and more effective public services

Deliver a range of collaborative procurement and supplier development services which support customers at a strategic and operational level

Deliver a range of shared services which support customers in the development of their professional, organisational and commercial capability

Deliver a range of new shared services which support the effectiveness and efficiency of customer operations

Goal 2: Being sustainable in everything we do

Work with stakeholders to develop procurement strategies which support the delivery of national and local policy priorities

Deliver positive and measurable social, economic and environmental impact to local communities

Lead and support customers in the development and implementation of best practice in sustainable procurement

Goal 3: Placing customers at the heart of our business

Work with customers to develop and implement bespoke plans for maximising the value of our services

Develop robust communications strategies which support customer engagement and position Scotland Excel and its customers as leaders in public procurement /shared services

Represent the views and needs of customers in the wider stakeholder environment

Goal 4: Becoming the partner of choice for delivering shared services

Implement organisational development policies which support a highly skilled, motivated and engaged workforce

Implement best practice processes and technology which support the efficient and effective delivery of services to customers

Implement robust strategies, governance, risk management and funding models which demonstrate a measurable return on investment to customers and secure Scotland Excel's future

Values

The following principles, which were developed by staff from across the organisation, guide our approach to our work.

Professional: We establish goals and objectives to achieve excellence and demonstrate leadership in everything we do.

Courageous: We listen with an open mind and respond honestly and constructively.

Respectful: We achieve the best possible outcomes through our determination, resilience and innovation.

Integrity: We are transparent and fair in all our actions securing trust and building confidence.

Vision

To be the shared service partner of choice for the Local Government sector.

Mission

To deliver effective and customer-orientated shared services which support collaborative, innovative and sustainable public services, add measurable value for our customers, and bring tangible benefits for local communities and service users.

A copy of the current three year business plan, risk register and the 2016-17 operating plan year end report, which measures performance against the business plan for the current year, can be found at the link below.

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<http://www.scotland-excel.org.uk/home/Resources/Publications.aspx>

Financial Performance

Revenue

The Comprehensive Income and Expenditure Account on page 19 summarises the total costs of providing services and the income available to fund those services.

Excluding accounting adjustments relating to pensions and short term accumulating absences, the Joint Committee has returned a deficit of £97,552 for the financial year 2016/17, compared to a budgeted deficit of £199,510; returning an underspend of £101,958. In line with the agreed business plan, the deficit incurred was funded from reserves.

The difference between the employee costs in the figure below and the figure reported in the Comprehensive Income and Expenditure report is due to accounting adjustments for pension costs (£119,000) and accrued employee benefits, (£14,438).

The difference between other income in the figure below and the figure reported in the Comprehensive Income and Expenditure report is due to accounting adjustments for pension interest costs (£79,000).

	Budget £	Actual £	Variance £
Employee Costs	2,927,110	3,053,666	(126,556)
Property Costs	176,500	177,099	(599)
Supplies and Services	210,500	119,395	91,105
Contractors & Others	65,000	132,835	(67,835)
Administrative Costs	315,600	363,541	(47,941)
Payments to Other Bodies	19,000	64,159	(45,159)
Total Expenditure	3,713,710	3,910,695	(196,985)
Requisition Income	(3,484,200)	(3,484,200)	-
Other Income	(30,000)	(328,943)	298,943
Total Income	(3,514,200)	(3,813,143)	298,943
(Surplus)/Deficit for Year	199,510	97,552	101,958

The overspend in Employee Costs is primarily related to costs associated with the delivery of the National Care Home Contract and is fully offset by additional income.

The underspend within Supplies and Services relates to the IT budget. The Scotland Excel planned IT migration plan has, following discussion with Renfrewshire IT staff, been revised. As a result of changes planned by Renfrewshire to their infrastructure it would have been inappropriate to proceed on the basis that had been planned when, working in conjunction with Renfrewshire Council, there is the opportunity to be part of their migration to a cloud environment. There will now be a requirement to defer the previously agreed draw down of reserves to 2017 / 18 for the changes in the IT infrastructure. This was previously reported to the February 2017 Executive Sub Committee.

The Contractors and Others overspend relates to consultancy expenditure in relation to the National Care Home Contract which is fully offset by additional income.

The overspend within Administration Costs relates to the legal costs associated with a challenge to a framework award. At present there is no indication of the settlement that will be recovered in relation to the expenses incurred.

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As part of its planned activities, Scotland Excel delivers a range of training courses which are recharged back to delegates. This results in the reported overspend within Payments to Other Bodies, which is offset by an over recovery of income against budget.

The over recovery of Other Income relates to the Training Costs discussed above, additional full year Associate Member Fees and the income received in relation to the National Care Home Contract.

Capital and Reserves

The Joint Committee does not have the legal powers necessary to hold assets and as such the organisation has no capital spend. Cash balances held by the Joint Committee are matched by creditor balances. The largest creditor balance relates to the revenue reserve balance of £385,384.

The balance on revenue reserves is made up as follows:

General Revenue Reserve	£367,928
National Care Home Ring-fenced Reserve *	£17,456
Balance at 31 March 2017	<u>£385,384</u>

* The ring-fenced reserve in relation to the National Care Home contract has resulted from underspends specifically related to this contract and is distributable to those Authorities participating in the contract.

Provisions, Contingencies and Write-offs

The Joint Committee has included a contingent asset (see note 16) within the accounts.

In general, any contingent liabilities known to the Joint Committee are covered by insurance arrangements.

There were no debt write-offs during the year.

Net Pension Position

The disclosure requirements for pension benefits under IAS19 are detailed at Note 15. The appointed actuaries have confirmed a net deficit position of £4.673 million, a deterioration of £2.478 million in their assessment of the position of the pension fund. The net deficit position of the pension reserve impacts on the net asset position of Scotland Excel as a whole, however the funding of these future liabilities will be met from future requisitions from members and as such the going concern assumption is valid.

The appointed actuaries remain of the view that the asset holdings of the Strathclyde Pension Fund and the contributions from employees and employers together with planned increases in employers' contributions provide sufficient security and income to meet future pension liabilities.

Service changes and Future Developments

The overall strategic aim of Scotland Excel is to deliver best value for local authorities through the development and management of collaborative contracts; and to stimulate, facilitate and deliver advanced procurement across local government. Given the financial challenges facing local authorities and the wider public sector however, it is important that Scotland Excel reflects council priorities and ensures the organisation supports and complements the drive for efficiencies and cost reduction.

A copy of the 2017-18 Operating Plan can be found at the address below.

<http://www.scotland-excel.org.uk/home/Resources/Publications.aspx>

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Events after the Balance Sheet Date

Events from the Balance Sheet Date until the Date of Signing the Accounts have been taken into consideration

Impact of Economic Climate

It is recognised that over the medium term Local Government in Scotland is potentially facing a contraction in available resources relating predominantly to the provision of revenue grant from the Scottish Government and that this may have a consequential impact on the level of requisition funding available to Scotland Excel. It has been agreed that the 2017/18 requisition remain at 2016/17 levels but the Joint Committee will continue to pursue efficiencies and cost reductions.

Conclusion

We would wish to take this opportunity to acknowledge the team effort required to produce the accounts and to record our thanks to all the staff involved for their continued hard work and support. Further information on the Annual Accounts can be obtained from Scotland Excel, Renfrewshire House, Cotton Street, Paisley, PA1 1AR; or by telephone on 0300 300 1200.

Councillor John Shaw
Convenor

Alan Russell CPFA
Treasurer

Julie Welsh
Director

Statement of Responsibilities for the Annual Accounts

The Joint Committee's Responsibilities

The Joint Committee is required:

- to make arrangements for the proper administration of its financial affairs and to secure that the proper officer of the Joint Committee has the responsibility for the administration of those affairs (section 95 of the Local Government (Scotland) Act 1973). The Director of Finance and Resources at Renfrewshire Council is the designated Officer and operates as the Treasurer for Scotland Excel;
- to manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- Ensure the Annual Accounts are prepared in accordance with legislation (The Local Authority Accounts (Scotland) Regulations 2014), and so far as is compatible with that legislation, in accordance with proper accounting practices (section 12 of the Local Government in Scotland Act 2003);
- Approve the Annual Accounts for signature.

I confirm that these Annual Accounts were approved for signature by the Executive Sub Committee at its meeting on the 15 September 2017.

Signed on behalf of Scotland Excel:

John Shaw

Convenor

15 September 2017

The Treasurer's Responsibilities

The Treasurer is responsible for the preparation of the Joint Committee's Annual Accounts in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom ('the Code').

In preparing this statement of accounts, the Treasurer has:

- Selected suitable accounting policies and then applied them consistently;
- Made judgements and estimates which were reasonable and prudent;
- Complied with legislation;
- Complied with the local authority Accounting Code (in so far as it is compatible with legislation);
- Kept proper accounting records which were up to date;
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

I certify that the financial statements give a true and fair view of the financial position of the Joint Committee at the reporting date and the transactions of the Joint Committee for the year ended 31 March 2017.

Alan Russell CPFA

Treasurer

15 September 2017

Governance Statement

Scope of Responsibility

Scotland Excel's Joint Committee is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for, and used economically, efficiently and effectively. The Joint Committee also has a statutory duty to make arrangements to secure best value under the Local Government in Scotland Act 2003. In discharging this overall responsibility, the Joint Committee's elected members and senior officers are responsible for putting in place proper arrangements for its affairs and facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

The Joint Committee's Governance Framework

The governance framework comprises the systems and processes, and culture and values, by which the Joint Committee is directed and controlled. It also describes the way it engages with, and accounts to its stakeholders.

The Joint Committee has also put in place a system of internal control designed to manage risk to a reasonable level. Internal control cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Joint Committee's policies aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The main features of our governance arrangements are summarised below:

- Clearly defined Procedural Standing Orders, Scheme of Delegation, Financial Regulations and Standing Orders Relating to Contracts,
- Comprehensive business planning arrangements, setting key targets and action plans designed to achieve our corporate objectives,
- Application of the Chartered Institute of Purchasing and Supply, Code of Professional Ethics,
- Regular performance reporting to the Executive Sub Committee and public performance reporting through the Annual Report,
- A range of policies to regulate employee related matters, including the employee code of conduct, and disciplinary procedures,
- Arrangements to manage risk, including the risk management strategy and Corporate Risk Register and business continuity plans,
- Clear customer complaints procedures,
- Comprehensive policies and procedures for information security,
- An anti-fraud and corruption strategy and arrangements supported by a range of policies and guidelines.

Within the overall control arrangements the system of internal financial control is intended to ensure that assets are safeguarded, transactions are authorised and properly recorded and material errors are detected and corrected. The system is based on a framework of management information, financial regulations, administrative procedures (including segregation of duties), management and supervision, and a system of delegation and accountability. The system includes:

- Financial management is supported by comprehensive financial regulations and codes,
- Comprehensive budgeting systems, and detailed guidance for budget holders,
- Regular reviews of periodic and annual financial reports which indicate financial performance against the forecasts,
- Setting targets to measure financial and other performance,
- The preparation of regular financial reports that indicate actual expenditure against the forecasts,

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With Renfrewshire Council being the lead authority, all financial transactions of the Joint Committee are processed through the financial systems of the Council and are subject to the same controls and scrutiny as those of Renfrewshire Council. This includes regular reviews by the Chief Auditor of Renfrewshire Council.

Review of Effectiveness

Members and officers of the Joint Committee are committed to the concept of sound governance and the effective delivery of services and take into account comments made by internal and external auditors.

The effectiveness of the governance framework is reviewed annually by the Director, including the use of a self-assessment tool involving completion of a 30 point checklist covering four key areas of governance.

- Service Planning and Performance Management
- Internal Control Environment
- Budgeting, Accounting and Financial Control
- Risk Management and Business Continuity

This self-assessment indicated that the governance framework is being complied with in all material respects.

The Joint Committee's internal audit service operates in accordance with the Public Sector Internal Audit Standards. Internal Audit undertakes an annual programme following an assessment of risk completed during the strategic audit planning process. The Chief Auditor provides an annual report to the Joint Committee and an independent opinion on the adequacy and effectiveness of the system of internal control. The Chief Auditor's annual assurance statement concluded that a reasonable level of assurance can be placed upon the adequacy and effectiveness of the Joint Committee's internal control systems.

Statement on the Role of the Chief Financial Officer

CIPFA published this statement in 2010 and under the Code, the Joint Committee is required to state whether it complies with the statement, and if not, to explain how their governance arrangements deliver the same impact. The full statement is:

The Chief Financial Officer in a public service organisation:

- is a key member of the Leadership Team, helping it to develop and implement strategy and to resource and deliver the authority's strategic objectives sustainably and in the public interest;
- must be actively involved in, and able to bring influence to bear on, all material business decisions to ensure immediate and longer term implications, opportunities and risks are fully considered, and alignment with the authority's financial strategy; and
- must lead the promotion and delivery by the whole authority of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently and effectively.

To deliver these responsibilities the Chief Financial Officer:

- must lead and direct a finance function that is resourced to be fit for purpose; and
- must be professionally qualified and suitably experienced.

The Joint Committee complies with the principles set out in CIPFA's Role of the Chief Financial Officer.

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Assurance

In conclusion, it is our opinion that the annual review of governance together with the work of internal and external auditors and certification of assurance from the Director provide sufficient evidence that the principles of good governance operated effectively and the Joint Committee complies with its governance arrangements in all material respects. Systems are in place to continually review and improve the governance and internal control environment. Future actions will be taken as necessary to maintain and further enhance the Joint Committee's governance arrangements.

Councillor John Shaw
Convenor

Julie Welsh
Director

Remuneration report

All information disclosed in sections two to five in this Remuneration Report will be audited by the council's appointed auditor, Audit Scotland. The other sections of the Remuneration Report will be reviewed by Audit Scotland to ensure that they are consistent with the financial statements.

1. Remuneration policy for elected members

The Joint Committee makes no remuneration payment to any elected member, nor does it pay any expenses, fees or allowances to elected members. Further, no recharges have been made by member authorities in relation to elected member remuneration.

2. Remuneration policy for senior employees

From 1 September 2014, the date of the appointment of the new Director, the Director's salary was revised to match the Renfrewshire Council Chief Officer pay scale CO21.

2015/16	Senior Employees		2016/17
Total Salary, fees and allowances	Name	Post Held	Total Salary, fees and allowances (i)
£			£
96,589	Julie Welsh	Director	100,172
74,765	Hugh Carr	Head of Strategic Procurement	75,307
61,178	Stephen Brannagan	Head of Customer & Business Services (from 25/05/15)	73,242
232,532	Total		248,721

(i) includes any other payments made to or receivable by the person in connection with the termination of their employment, or, in the case of a councillor, the total of any payment made to that person in connection with their ceasing to hold office before the end of a fixed term appointment;

The above tables show the relevant amounts, before tax and other deductions, due to, or receivable by, each of the persons named for the year to 31 March 2017, whether or not those amounts were actually paid to, or received by, those persons within that period.

3. Pension rights

Pension benefits for Joint Committee employees are provided through the Local Government Pension Scheme (LGPS).

From 1st April 2015 benefits are based on career average pay. Pension benefits are based on the pay received for each year in the scheme increased by the increase in the cost of living, as measured by the appropriate index (or indices). The scheme's normal retirement age is linked to the state pension age for each member.

From 1 April 2009 a five tier contribution system was introduced with contributions from scheme members being based on how much pay falls into each tier. This is designed to give more equality between the cost and benefits of scheme membership. Prior to 2009 contributions rates were set at 6% for all non manual employees.

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2015/16	Member contribution rates on earnings in the bands below	2016/17
Up to £20,500	5.5%	Up to £20,500
£20,501 to £25,000	7.25%	£20,501 to £25,000
£25,001 to £34,400	8.5%	£25,001 to £34,400
£34,401 to £45,800	9.5%	£34,401 to £45,800
Over £45,801	12%	Over £45,801

If a person works part-time their contribution rate will be based on their part time pay.

There is no automatic entitlement to a lump sum. Members may opt to give up (commute) pension for lump sum up to the limit set by the Finance Act 2004. The accrual rate guarantees a pension based on 1/49th of the pensionable pay for each year of membership, adjusted in line with the cost of living. (Prior to 2015 the accrual rate guaranteed a pension based on 1/60th of final pensionable salary).

The value of the accrued benefits has been calculated on the basis of the age at which the person will first become entitled to receive a full pension on retirement without reduction on account of its payment at that age; without exercising any option to commute pension entitlement into a lump sum; and without any adjustment for the effects of future inflation.

The pension figures shown relate to the benefits that the person has accrued as a consequence of their total local government employment, not just that relating to their current post.

Senior Employees		Accrued Pension benefits as at 31 March 2017		Change in accrued pension benefits since 31 March 2016		Pension contributions made by Scotland Excel during 2016-2017
Name	Post Held	Pension	Lump Sum	Pension	Lump Sum	(i)
		£m	£m	£m	£m	£
Julie Welsh	Director	0.015	0.002	+0.003	+0.000	19,333
Hugh Carr	Head of Strategic Procurement	0.008	0.000	+0.001	+0.000	14,534
Stephen Brannagan	Head of Customer & Business Services (from 25/05/15)	0.000	0.000	(*) +0.000	+0.000	14,136
Total		0.023	0.002	+0.004	+0.000	48,003

(*) pension figure for 2015-16 has been restated due to having less than 2 year's membership

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4. Remuneration of Employees

The following table gives a statement of the number of employees whose remuneration, excluding pension contributions, was in excess of £50,000 during 2016/17, in bands of £5,000.

2015/16	Remuneration Band	2016/17
Number of employees		Number of employees
-	£50,000 - £54,999	-
-	£55,000 - 59,999	-
1	£60,000 - £64,999	-
-	£65,000 - 69,999	-
1	£70,000 - £74,999	1
-	£75,000 - £79,999	1
-	£80,000 - £84,999	-
-	£85,000 - £89,999	-
-	£90,000 - £94,999	-
1	£95,000 - £99,999	-
-	£100,000 - £104,999	1
<hr/>		<hr/>
3		3

5. Exit packages

Scotland Excel agreed no exit packages in 2016-17.

Councillor John Shaw
Convenor

Julie Welsh
Director

Independent Auditors Report

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Independent auditor's report to the members of Scotland Excel Joint Committee and the Accounts Commission

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 120 of the Code of Audit Practice approved by the Accounts Commission, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Report on the audit of the financial statements

Opinion on financial statements

I certify that I have audited the financial statements in the annual accounts of Scotland Excel Joint Committee for the year ended 31 March 2017 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Movement in Reserves Statement, Comprehensive Income and Expenditure Statement, Expenditure Funding Analysis, Balance Sheet, Cash Flow Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (the 2016/17 Code).

In my opinion the accompanying financial statements:

- give a true and fair view in accordance with applicable law and the 2016/17 Code of the state of affairs of the body as at 31 March 2017 and of its deficit on the provision of services for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2016/17 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

Basis of opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing in the UK and Ireland (ISAs (UK&I)). My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am independent of the body in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standards for Auditors, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of the Treasurer for the financial statements

As explained more fully in the Statement of Responsibilities, the Treasurer is responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal control as the Treasurer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit and express an opinion on the financial statements in accordance with applicable legal requirements and ISAs (UK&I) as required by the Code of Audit Practice approved by the Accounts Commission. Those standards require me to comply with the Financial Reporting Council's Ethical Standards for Auditors. An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the circumstances of the body and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Treasurer; and the overall presentation of the financial statements.

My objectives are to achieve reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK&I) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Other information in the annual accounts

The Treasurer is responsible for the other information in the annual accounts. The other information comprises the information other than the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon except on matters prescribed by the Accounts Commission to the extent explicitly stated later in this report.

In connection with my audit of the financial statements in accordance with ISAs (UK&I), my responsibility is to read all the financial and non-financial information in the annual accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Report on other requirements

Opinions on other prescribed matters

I am required by the Accounts Commission to express an opinion on the following matters.

In my opinion, the auditable part of the Remuneration Report has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014.

In my opinion, based on the work undertaken in the course of the audit

- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003; and
- the information given in the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016).

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Matters on which I am required to report by exception

I am required by the Accounts Commission to report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements and the auditable part of the Remuneration Report are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit; or
- there has been a failure to achieve a prescribed financial objective.

I have nothing to report in respect of these matters.

Mark Ferris
Audit Scotland
4th Floor, South Suite
The Athenaeum Building
8 Nelson Mandela Place
Glasgow
G2 1BT

September 2017

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Movement in Reserves Statement for the year ended 31 March 2017

This statement shows the movement in the year on the different reserves held by the Joint Committee, analysed into usable reserves (that is, those reserves that can be applied to fund expenditure) and unusable reserves. The surplus or deficit on the provision of services line shows the true economic cost of providing the Joint Committee's services, more details of which are shown in the **comprehensive income and expenditure statement**.

		Usable reserves		Unusable reserves	
		Revenue Reserve	Pension Reserve	Employee Statutory Adjustment Account	Total Reserves
	Note	£	£	£	£
Balance at 31 March 2015 carried forward		-	(3,460,000)	(63,220)	(3,523,220)
Movement in reserves during 2015-16					
Total comprehensive income and expenditure		(561,881)	1,579,000	-	1,017,119
Adjustments between accounting basis and funding basis under regulations	6a & 6b	311,250	(314,000)	2,750	0
Transfer from Creditors	6a	733,567			733,567
Net increase or (decrease) before transfers to other statutory reserves		482,936	1,265,000	2,750	1,750,686
Transfers to or (from) other statutory reserves		-	-	-	-
Transfer to creditors	12	(482,936)	-	-	(482,936)
Increase or (decrease) in 2015-16		-	1,265,000	2,750	1,267,750
Balance at 31 March 2016 carried forward		-	(2,195,000)	(60,470)	(2,255,470)
Movement in reserves during 2016-17					
Total comprehensive income and expenditure		(309,990)	(2,280,000)	-	(2,589,990)
Adjustments between accounting basis and funding basis under regulations	6a & 6b	212,438	(198,000)	(14,438)	-
Transfer from Creditors	6a	482,936			482,936
Net increase or (decrease) before transfers to other statutory reserves		385,384	(2,478,000)	(14,438)	(2,107,054)
Transfers to or (from) other statutory reserves					-
Transfer to creditors	12	(385,384)			(385,384)
Increase or (decrease) in 2016-17		-	(2,478,000)	(14,438)	(2,492,438)
Balance at 31 March 2017 carried forward		-	(4,673,000)	(74,908)	(4,747,908)

Comprehensive Income and Expenditure Statement for the year ended 31 March 2017

This statement shows the accounting cost of providing services and managing the Joint Committee during the year. It includes, on an accruals basis, all of the Joint Committee's day-to-day expenses and related income. It also includes transactions measuring the value of non-current assets actually consumed during the year and the real projected value of retirement benefits earned by employees during the year. The statement shows the accounting cost in accordance with generally accepted accounting practices, rather than the cost according to the statutory regulations that specify the net expenditure that local authorities need to take into account. The required adjustments between accounting basis and funding basis under regulations are shown in the **movement in reserves statement**.

2015/16			2016/17	
£		Note		£
3,007,406	Employee Costs		3,187,104	
178,250	Property Costs		177,100	
139,516	Supplies & Services		119,395	
113,796	Contractors		132,835	
340,661	Administration Costs		363,541	
68,264	Payments to Other Bodies		64,159	
3,847,893	Cost of Services		4,044,134	
(209,958)	Sales, Fees & Charges		(324,424)	
108,163	Financing & Investment Income and Expenditure	8	74,481	
(3,184,217)	Requisitions from Members Authorities	13	(3,484,200)	
561,881	(Surplus) or deficit on the provision of services		309,990	
(1,579,000)	Actuarial (Gains) or losses on pension assets and liabilities	15a	2,280,000	
(1,579,000)	Other Comprehensive Income & Expenditure		2,280,000	
(1,017,119)	Total Comprehensive Income & Expenditure		2,589,990	

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Expenditure Funding Analysis for the year ended 31 March 2017

This statement shows how annual expenditure is used and funded from resources and provides a reconciliation of the statutory adjustments between the Joint Committees financial performance on a funding basis and the (surplus) or deficit on the provision of service in the Comprehensive Income and Expenditure statement.

2016/17	(Surplus)/Deficit for Year	Net Expenditure Chargeable to the General Fund	Adjustments between Funding and Accounting basis	Net Expenditure in the Comprehensive Income and Expenditure Statement
	£	£	£	£
Balance as at 31st March 2017	(101,958)			(101,958)
Approved draw on reserves	199,510			199,510
Employee Statutory Adjustment		14,438		14,438
Pension Cost			119,000	119,000
Pension Interest			79,000	79,000
(Surplus) or deficit on the provision of service				309,990

2015/16	(Surplus)/Deficit for Year	Net Expenditure Chargeable to the General Fund	Adjustments between Funding and Accounting basis	Net Expenditure in the Comprehensive Income and Expenditure Statement
	£	£	£	£
Balance as at 31st March 2016	(254,869)			(254,869)
Approved draw on reserves	505,500			505,500
Employee Statutory Adjustment		(2,750)		(2,750)
Pension Cost			200,000	200,000
Pension Interest			114,000	114,000
(Surplus) or deficit on the provision of service				561,881

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Balance Sheet as at 31 March 2017

The **balance sheet** shows the value as at 31 March 2017 of the assets and liabilities recognised by the Joint Committee. The net assets of the Joint Committee (assets less liabilities) are matched by the reserves held. Reserves are reported in two categories. The first category comprises usable reserves, which are those reserves that the Joint Committee may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use. The second category of reserves comprises those that the Joint Committee is not able to use to provide services. This category includes reserves that hold unrealised gains and losses in the value of assets.

2015/16 £		Note	2016/17 £
	<u>Current Assets</u>		
658,283	Funds held by Renfrewshire Council		620,120
21,887	Debtors and Prepayments	10	19,891
150	Cash in Hand		150
<hr/> 680,320			<hr/> 640,161
	<u>less Current Liabilities</u>		
(740,790)	Creditors And Accruals	11	(715,069)
<hr/> (60,470)	Net (Liabilities)/Asset Excluding Pension		<hr/> (74,908)
	<u>Long Term Liabilities</u>		
(2,195,000)	Pension (liability)/Asset	15c	(4,673,000)
<hr/> (2,255,470)	Net (Liabilities)/Asset Including Pension		<hr/> (4,747,908)
	<u>Represented by:</u>		
	Usable Reserves - Revenue		
482,936	Balance due to Scottish Government and related parties		385,384
(482,936)	Transfer to Creditors	12	(385,384)
	Unusable Reserves		
(60,470)	Employee Statutory Adjustment Account	6c	(74,908)
(2,195,000)	Pension Reserve	6b	(4,673,000)
<hr/> (2,255,470)			<hr/> (4,747,908)

The audited accounts were issued on the 15 September 2017. Balance Sheet signed by:

Alan Russell CPFA
Treasurer
15 September 2017

Cash flow Statement for the year ended 31 March 2017

This statement shows the changes in cash and cash equivalents during the year. It shows how the Joint Committee generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Joint Committee are funded by way of requisition income or from the recipients of services provided. Investing activities represent the extent to which cash outflows have been made for resources that are intended to contribute to the Joint Committee's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (that is, borrowing) to the Joint Committee.

2015/16		2016/17
£		£
	Operating Activities	
	Cash Inflows	
(3,401,539)	Sale of goods and rendering of services	(3,793,803)
-	Grants	(52,750)
(5,837)	Interest received	(4,519)
(3,407,376)	Cash inflows generated from operating activities	(3,851,072)
	Cash Outflows	
2,444,429	Cash paid to and on behalf of employees	2,563,936
848,190	Cash paid to suppliers of goods and services	871,764
414,913	Other payments for operating activities	453,535
3,707,532	Cash outflows generated from operating activities	3,889,235
300,156	Net (increase)/decrease in cash and cash equivalents	38,163
958,589	Cash and cash equivalents at the beginning of the reporting period - short term deposits with Renfrewshire Council	658,433
658,433	Cash and cash equivalents at the end of the reporting period - short term deposits with Renfrewshire Council	620,270
300,156	Net cash outflow in cash and cash equivalents in year	38,163

Note 1 Summary of Significant Accounting Policies

The Financial Statements for the year ended 31 March 2017 have been prepared in accordance with proper accounting practice as per section 12 of the Local Government in Scotland Act 2003. Proper accounting practice comprises the Code of Practice on Local Authority Accounting in the United Kingdom (the Accounting Code) and the Best Value Accounting Code of Practice, supported by International Financial Reporting Standards and recommendations made by the Local Authority (Scotland) Accounts Advisory Committee (LASAAC). They are designed to give a true and fair view of the financial performance and position of the Joint Committee and comparative figures for the previous financial year are provided. There are no significant departures from these recommendations.

The following accounting concepts have been considered in the application of accounting policies:

Accruals basis - the accruals concept requires the non-cash effects of transactions to be included in the financial statement for the year in which they occur, not in the period in which payment is made or income received.

Going concern - the going concern concept assumes that the Joint Committee will continue in existence for the foreseeable future.

Understandability – users of the financial statements are assumed to have a reasonable knowledge of accounting and local government.

Relevance – the information in the financial statements is useful for assessing Joint Committee's stewardship of public funds and for making economic decisions.

Materiality - information is included in the financial statements where the information is of such significance that it could influence the decisions or assessments of users of the information.

Reliability – information included in the financial statements faithfully represents the substance of transactions, is free from bias and material error, is complete within the bounds of materiality and cost, and has been prudently prepared.

Primacy of legislative requirements - legislative requirements have priority over accounting principles in the event of conflict between legislation and the Accounting Code.

The accounts have been prepared under the historic cost convention. The following accounting policies used in the preparation of the statements have been reviewed in line with changes made to the Accounting Code following the introduction of International Financial Reporting Standards.

Accruals of Expenditure and Income

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- i. Revenue from the sale of goods is recognised when the Joint Committee transfers the significant risks and rewards of ownership to the purchaser, and it is probable that the economic benefits or service potential associated with the transaction will flow to the Joint Committee.
- ii. Revenue from the provision of services is recognised when the Joint Committee can measure reliably the percentage of completion of the transaction and it is probable that the economic benefits or service potential associated with the transaction will flow to the Joint Committee.
- iii. Supplies are recorded as expenditure when they are consumed. Where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.

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- iv. Where income and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where there is evidence that debts are unlikely to be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.
- v. Suppliers invoices paid in the two weeks following the year-end are accrued together with specific accruals in respect of further material items provided the goods or services were received by the Balance Sheet date.

Cash and Cash Equivalents

Cash is defined as cash in hand and deposits repayable on demand less overdrafts repayable on demand.

Contingent Assets and Liabilities

Contingent assets and liabilities are not recognised in the financial statements, but are disclosed as a note to the accounts where they are deemed material.

Employee Benefits

Benefits payable during employment

All salaries and wages earned up to the Balance Sheet date are included in the Accounts irrespective of when payment was made. An accrual is made for the cost of holiday and flexi-leave entitlements earned by employees but not taken before the year end; and which employees may carry forward into the next financial year.

Termination benefits

Termination benefits are amounts payable as a result of a decision by the Joint Committee to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary severance. They are charged on an accruals basis to the Employee Costs line in the Comprehensive Income and Expenditure Statement when the Joint Committee is demonstrably committed to either terminating the employment of an officer or making an offer to encourage voluntary severance. The Joint Committee is only demonstrably committed to a termination when it has a detailed formal plan for the termination and it is without realistic possibility of withdrawal; and agreement to the termination has been granted by the Executive Sub-Committee.

Where termination benefits involve the enhancement of pensions, statutory provisions require the Revenue balances to be charged with the amount payable by the Joint Committee to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and to replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

Post employment benefits

The Joint Committee participates in the Local Government Pension Scheme which is administered by Strathclyde Pension Fund. The Local Government Pension Scheme is accounted for as a defined benefit scheme, and in accordance with International Accounting Standard 19 (IAS19,) the Joint Committee has disclosed certain information concerning the assets, liabilities, income and expenditure relating to the pension scheme. IAS 19 requires that an organisation must account for retirement benefits when it is committed to giving them, even if the giving will be many years into the future.

This involves the recognition in the Balance Sheet of the Joint Committee's share of the net pension asset or liability in Strathclyde Pension Fund and a pension reserve. The Comprehensive Income and Expenditure Statement also recognises changes during the year in the pension asset or liability.

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Service expenditure includes pension costs based on employers' pension contributions payable and payments to pensioners in the year.

The liabilities of the Strathclyde Pension Fund attributable to the Joint Committee are included in the Balance Sheet on an actuarial basis using the projected unit method i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates and projections of earnings for current employees. Liabilities are discounted to their value at current prices using a discount rate based on the indicative rate of return on high quality corporate bonds.

The assets of the Strathclyde Pension Fund attributable to the Joint Committee are included in the Balance Sheet at their fair value, principally the bid price for quoted securities, and estimated fair value for unquoted securities.

Note 15 to the Core Financial Statements provides further information.

Events after the Balance Sheet date

Events after the balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statements are authorised for issue. There are two types of events:

- Adjusting events – those that provide evidence of conditions that existed at the end of the reporting period, and the Statements are adjusted to reflect such events
- Non-adjusting events – those that are indicative of conditions that arose after the reporting period, and the Statements are not adjusted. Where a category of events would have a material effect, disclosure is made in the notes of the nature of the event and its estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statements. Note 5 provides further information.

Prior Period Adjustments

Where there has been a change in accounting policy, that change will be applied retrospectively, that is, prior period figures will be restated unless the Code specifies transitional provisions that shall be followed. Where there has been a change in accounting estimate, that change will be applied prospectively, that is, prior period figures will not be restated. Where a material misstatement or omission has been discovered relating to a prior period, that misstatement or omission will be restated unless it is impracticable to do so.

Government Grants and other Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Joint Committee when there is reasonable assurance that:

- the Joint Committee will comply with the conditions attached to the payments, and
- the grants or contributions will be received.

Amounts recognised as due to the Joint Committee are not credited to the Comprehensive Income and Expenditure Account until conditions attaching to the grant or contribution have been satisfied. Monies advanced as grants and contributions are carried in the Balance Sheet as creditors.

Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property from the lessor to the lessee. All other leases are classified as operating leases. Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

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Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets. The Joint Committee is not party to any finance leases.

Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefiting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g., there is a rent-free period at the commencement of the lease). The risks and rewards of ownership remain with the lessors along with the title of the property.

Property, Plant and Equipment

Scotland Excel is a Joint Committee as constituted under s106(1) of the Local Government (Scotland) Act 1973. The Joint Committee has no legal power to hold assets. Any cash assets held are matched by an equivalent creditor balance.

Provisions

Provisions are made where an event has taken place that gives the Joint Committee a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that Scotland Excel becomes aware of the obligation, and measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service. Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Joint Committee settles the obligation.

Reserves

The Joint Committee has three reserve funds. The Revenue Reserve contains any balance of requisition income from members of the Joint Committee together with the balance of members' contributions in relation to the National Care Home contract.

The Pension Reserve arises from the IAS19 accounting disclosures for retirement benefits and recognises the Joint Committee share of actuarial gains and losses in the Strathclyde Pension Fund and the change in the Joint Committee's share of the Pension Fund net liability chargeable to the Income and Expenditure Account.

The Employee Statutory Adjustment Account absorbs the differences that would otherwise arise on the Revenue Reserve from accruing for short term accumulating absences at the end of the financial year. Generally accepted accounting practices require that all short-term employee benefits, including accumulating compensated absences, should be recognised as a cost in the accounts for the year to which they relate. This means that where employees' full holiday entitlement, time in lieu or credit flexi-time balance has not been taken by the financial year-end, the cost of the untaken days or time is calculated and recorded as an accrued expense. However, statutory arrangements require that the impact of such accrued expenditure on the Revenue Reserve is neutralised by transfers to or from the Employee Statutory Adjustment Account.

VAT

Income and Expenditure excludes any amount relating to Value Added Tax (VAT), as all VAT is payable to HM Revenue & Customs and all VAT is recoverable from them.

Note 2 Accounting Standards Issued not Adopted

There are no accounting standards relevant to the financial statements of the Joint Committee which have not been adopted.

Note 3 Critical Judgements in Applying Accounting Policies

In applying the accounting policies set out in Note 1, the Joint Committee has had to make certain judgements about complex transactions or those involving uncertainty about future events. Where a critical judgement has been made this is referred to in the relevant note to the core financial statements; however a summary of those with the most significant effect is detailed below.

Leases	An analysis of the terms of the lease for the office accommodation at Renfrewshire House leased by the Joint Committee has concluded it is an operating lease. Note 9 provides further information.
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Note 4 Assumptions made about the future

The Statement of Accounts contains estimated figures that are based on assumptions made by the Joint Committee about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Balance Sheet at 31 March 2017 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Results differ from Assumption
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Joint Committee with expert advice about the assumptions to be applied.	The effects on the net pensions liability of changes in individual assumptions can be measured. For instance, a 0.5% decrease in the discount rate assumption would result in an decrease in the pension liability of £2.490 million. However, the assumptions interact in complex ways. During 2016/17, the appointed actuaries advised that the net pension liability had increased by £2.280 million as a result of estimates being corrected.

Note 5 Events after the balance sheet date

Events taking place after the authorised for issue date per the balance sheet are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2017, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information. There are no non adjusting events.

Note 6 Details of Movement in Reserves

a. Revenue Reserve

2015/16		2016/17
£		£
(733,567)	Balance as at 1 April	(482,936)
(314,000)	Transfer to pension reserve	(198,000)
2,750	Transfer to employee statutory adjustment account	(14,438)
561,881	(Surplus) or Deficit on the provision of services (from the Comprehensive Income & Expenditure Account)	309,990
(482,936)	Balance as at 31 March	(385,384)

This represents the excess of member authority requisitions over expenditure in any one year, together with the balance of members contributions in relation to the National Care Home contract, and is shown as payable to the member authorities.

b. Pension Reserve

2015/16		2016/17
£		£
(3,460,000)	Balance as at 1 April	(2,195,000)
1,579,000	Actuarial Gains and Losses (see note 15)	(2,280,000)
(314,000)	Net additional amount required by statute and non-statutory proper practices to be taken into account when determining the surplus or deficit on the revenue reserves for the year	(198,000)
(2,195,000)	Balance as at 31 March	(4,673,000)

The Pension Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The Joint Committee accounts for post-employment benefits in the **comprehensive income and expenditure statement** as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Joint Committee makes employer's contributions to pension funds. The credit balance on the Pension Reserve shows a surplus in the benefits earned by past and current employees and the Joint Committee's share of Strathclyde Pension Fund resources available to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

c. Employee Statutory Adjustment Account

2015/16		2016/17
£		£
63,220	Balance as at 1 April	60,470
(63,220)	Reversal of prior year accrual for short-term accumulating compensated absences	(60,470)
60,470	Recognition of the accrual for short-term accumulating compensating absences at 31 March	74,908
60,470	Balance as at 31 March	74,908

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The Employee Statutory Adjustment Account absorbs the differences that would otherwise arise on revenue balances from accruing for short-term accumulating compensated absences at the end of the financial year. Generally accepted accounting practices require that all short-term employee benefits, including accumulating compensated absences, should be recognised as a cost in the accounts for the year to which they relate. This means that where employees' full holiday entitlement, time in lieu or credit flexi-time balance has not been taken by the financial year-end, the cost of the untaken days or time is calculated and recorded as an accrued expense. However, statutory arrangements [or regulations] require that the impact of such accrued expenditure on revenue balances is neutralised by transfers to or from the Employee Statutory Adjustment Account.

Note 7 Reconciliation of the Balance on the Comprehensive Income and Expenditure Statement to the Movement in Reserves Statement

The deficit for the year on the Revenue Reserves was £212,438 greater than the Comprehensive Income and Expenditure Statement result. The table below gives a breakdown of the differences between the income and expenditure included in the Joint Committee's Comprehensive Income and Expenditure Statement in accordance with the Code and the amounts that statute and non-statutory proper practice require the Joint Committee to debit and credit the Revenue Reserve Balance.

2015/16 £		2016/17 £
	Amounts to be included in the Comprehensive Income and Expenditure Statement but required by statute to be excluded when determining Movement in Reserves Statement	
(700,000)	Net charges made for retirement benefits in accordance with IAS19	(622,000)
2,750	Net charges for employment short-term accumulating absences	(14,438)
<u>(697,250)</u>		<u>(636,438)</u>
	Amounts not included in the Comprehensive Income and Expenditure Statement but required to be included by statute when determining Movement in Reserves Statement	
<u>386,000</u>	Employers contributions payable to the Strathclyde Pension Fund	<u>424,000</u>
<u>(311,250)</u>	Net additional amount required to be debited or credited to the Revenue Reserves balance for the year	<u>(212,438)</u>

Note 8 Financing & Investment Income

2015/16 £		2016/17 £
(5,837)	Interest on Balances	(4,519)
114,000	Pension Interest Cost	79,000
<u>108,163</u>	Total Financing and Investment (Income)/Cost	<u>74,481</u>

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Note 9 Operating Leases

Scotland Excel acquired an operating lease for accommodation at Renfrewshire House effective from February 2013 until February 2018. The annual rental charge is £87,320. The expenditure charged in year to the Comprehensive Income and Expenditure Statement was £87,320 (2015/16 £87,320).

2015/16		2016/17
£		£
	Future Minimum Lease Payments	
87,320	- not later than one year	76,076
76,076	- later than one year and not later than five years	-
-	- later than five years	-
163,396	Total	76,076

Note 10 Debtors

2015/16		2016/17
£		£
-	Other local authorities	1,454
21,887	Other Entities and Individuals	18,437
21,887	Total short term debtors	19,891

Note 11 Creditors

2015/16		2016/17
£		£
3,168	Central government bodies	52,750
493,136	Other local authorities	387,324
60,470	Short Term Accumulating Absences	74,908
168,799	Accrued Payrolls	180,279
15,217	Other entities and individuals	19,808
740,790	Total short term creditors	715,069

Note 12 Transfer to Creditors

2015/16		2016/17
£		£
<u>482,936</u>	In terms of Section 58 of the Local Government (Scotland) Act 1973, Joint Committees have no specific powers to retain reserves to meet future funding requirements and the amount due to funding bodies has been transferred to creditors.	<u>385,384</u>

Note 13 Related parties

The Joint Committee's related parties are those bodies or individuals that have the potential to control or significantly influence the Joint Committee, or to be controlled or significantly influenced by the Joint Committee. The Joint Committee is required to disclose material transactions that have occurred with related parties and the amount of any material sums due to or from related parties. Related party relationships require to be disclosed where control exists, irrespective of whether there have been transactions between the related parties.

The member authorities of the Joint Committee have contributed requisitions in the following proportions to enable the Joint Committee to carry out its objectives. In accordance with Scotland Excel's Terms and Conditions, member authority requisitions are adjusted to reflect changes in the size of the populations within member authority areas.

The Joint Committee in turn pays Renfrewshire Council for support services. The amount paid in respect of these services for the year ended 31 March 2017 was £186,850 (2015/16 £185,000).

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2015/16			2016/17
£	Council	Percentage	£
128,501	Aberdeen City	4.0%	140,607
143,137	Aberdeenshire	4.5%	156,621
75,480	Angus	2.4%	82,591
62,001	Argyll & Bute	1.9%	67,842
44,420	Clackmannanshire	1.4%	48,605
91,751	Dumfries & Galloway	2.9%	100,395
90,747	Dundee City	2.8%	99,296
78,444	East Ayrshire	2.5%	85,835
70,517	East Dunbartonshire	2.2%	77,160
68,365	East Lothian	2.1%	74,806
63,651	East Renfrewshire	2.0%	69,647
252,995	Edinburgh (City of)	7.9%	276,829
33,002	Eilean Siar	1.0%	36,111
95,036	Falkirk	3.0%	103,989
195,335	Fife	6.1%	213,737
305,136	Glasgow City	9.6%	333,882
131,284	Highland	4.1%	143,652
58,300	Inverclyde	1.8%	63,793
60,399	Midlothian	1.9%	66,090
65,013	Moray	2.0%	71,138
85,368	North Ayrshire	2.7%	93,410
181,383	North Lanarkshire	5.7%	198,471
30,214	Orkney	0.9%	33,061
90,546	Perth & Kinross	2.8%	99,076
103,049	Renfrewshire	3.2%	112,758
74,347	Scottish Borders	2.3%	81,351
30,994	Shetlands Council	1.0%	33,914
73,859	South Ayrshire	2.3%	80,817
170,443	South Lanarkshire	5.4%	186,501
63,536	Stirling	2.0%	69,522
62,843	West Dunbartonshire	2.0%	68,763
104,121	West Lothian	3.3%	113,930
3,184,217	Total	100%	3,484,200

Note 14 External audit costs

Fees payable to Audit Scotland in respect of external audit services undertaken in accordance with Audit Scotland's *Code of Audit Practice* in 2016/17 were £5,620 (£5,720 in 2015/16). There were no fees paid to Audit Scotland in respect of any other services.

Note 15 Retirement Benefits

As part of the terms and conditions of employment of its employees, the Joint Committee offers retirement benefits. Although these benefits will not actually be payable until employees retire, the Joint Committee has a commitment to make the payments that need to be disclosed at the time that employees earn their future entitlement. The scheme for employees is Strathclyde Pension Fund which is administered by Glasgow City Council. This is a “funded” defined benefit final salary scheme meaning that the Joint Committee and its employees pay contributions into a fund, calculated at a level intended to balance the pensions liability with investment assets.

15a. Transactions relating to retirement benefits

The cost of retirement benefits is recognised in Gross Expenditure when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge that is statutorily required to be made in the accounts is based upon pension contributions payable by the Joint Committee in the year, and an adjustment is made within the Movement in Reserves Statement to replace the cost of retirement benefits with employers’ contributions. The following transactions have been made in the accounting statements in 2016/17:

2015/16 £		Note	2016/17 £
	Comprehensive Income & Expenditure Statement		
	Cost of Services		
586,000	Current service cost	(i)	543,000
-	Past service cost/(gain)	(ii)	-
-	Settlements & curtailments	(iii)	-
<u>586,000</u>			<u>543,000</u>
	Financing & Investment Income & Expenditure		
<u>114,000</u>	Net Interest	(iv)	<u>79,000</u>
700,000	Total post employment benefit charged to the Surplus or Deficit on the Provision of Services		622,000
	Other post employment benefit charged to the Comprehensive Income and Expenditure Statement		
62,000	Return on assets excluding amounts included in net interest		(2,171,000)
(1,641,000)	Actuarial (gains) and losses arising on changes in financial assumptions		<u>4,451,000</u>
(1,579,000)	Total Actuarial (gains) and losses		2,280,000
(879,000)	Total post employment benefit charged to the Comprehensive Income and Expenditure Statement		2,902,000
	Movement in Reserves Statement	(v)	
(1,265,000)	Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits according with the Code		<u>2,478,000</u>
386,000	Employers Contributions paid to Strathclyde Pension Fund		424,000

Notes

- i. Current service cost is the cost of future entitlements to pension payments to current employees
- ii. Past service cost is the cost of discretionary pension benefits to former employees who retired on the grounds of efficiency etc or savings made for commuting part of the pension for additional cash.
- iii. Curtailments are the pension costs to employees retired under redundancy terms.
- iv. The Interest Cost is an actuarial adjustment to the inflation element in the cost of funding current and future pension obligations. This is the expected increase during the year in the present value of the Joint Committee's share of Strathclyde Pension Fund's liabilities because they are one year closer to settlement.

**Scotland Excel
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- v. The Movement on Pension Reserve represents the net change in the pension liability recognised in the Movement in Reserves Statement for pension payments made by the Joint Committee to the Strathclyde Pension Fund during the year (£198,000).

The Joint Committee is also responsible for all pension payments relating to added years benefits it has awarded, together with related increases. In 2016/17 these amounted to £20,479 (2015/16 £19,652).

In addition to the recognised gains and losses included in the Comprehensive Income and Expenditure Statement, actuarial losses of £2.280 million are included in the Movement in Reserves Statement (2015/16 £1.579 million gain). The cumulative amount of actuarial losses is £(4.713) million (2015/16 £ (2.433) million).

15b. Assets and liabilities in relation to retirement benefits

A reconciliation of the Joint Committee's share of the **present value** of Strathclyde Pension Fund's **liabilities** is as follows:

2015/16		2016/17
£000		£000
13,549	Opening present value	12,980
586	Current service cost	543
444	Interest Cost	465
136	Employee Contributions	151
	Remeasurement (gains)/losses:	
(1,641)	Actuarial (gains)/losses arising from changes in financial assumptions	4,451
(94)	Benefits Paid	(97)
<u>12,980</u>	Balance as at 31 March	<u>18,493</u>

A reconciliation of the Joint Committee's share of the **fair** value of Strathclyde Pension Fund's **assets** is as follows:

2015/16		2016/17
£000		£000
10,089	Opening Fair Value	10,785
330	Interest Income	386
	Remeasurement gain/(loss):	
(62)	Return on assets excluding amounts included in net interest	2,171
386	Contributions from employer	424
136	Contributions from employee	151
(94)	Benefits Paid	(97)
<u>10,785</u>	Closing fair value of scheme assets	<u>13,820</u>

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15c. Fund history

	2012/13	2013/14	2014/15	2015/16	2016/17
	£000	£000	£000	£000	£000
Present Value of Liabilities	(8,873)	(10,210)	(13,549)	(12,980)	(18,493)
Fair value of assets	7,647	8,548	10,089	10,785	13,820
Surplus/(deficit) in the Fund	(1,226)	(1,662)	(3,460)	(2,195)	(4,673)

The main fund (Fund 1) of Strathclyde Pension Fund does not have an asset and liability matching (ALM) strategy.

The total liability of £4.673 million has a significant impact on the net worth of the Joint Committee as recorded in the Balance Sheet. However, any deficit on Strathclyde Pension Fund will be made good by increased contributions over the remaining working life of employees, as assessed by the Fund actuary.

15d. Basis for estimating assets and liabilities

The Joint Committee's share of the liabilities of Strathclyde Pension Fund have been assessed on an actuarial basis using the projected unit method, that estimates the pensions that will be payable in future years dependent upon assumptions about mortality rates, salary levels and so on. The Scheme's liabilities have been assessed by Hymans Robertson, an independent firm of Actuaries, and the estimates are based on the latest full valuation of the Fund at 31 March 2014.

The principal assumptions used by the actuary have been:

2015/16	Financial Year:	2016/17
Mortality assumptions		
	Longevity at 65 for current pensioners	
22.1 years	• Men	22.1 years
23.6 years	• Women	23.6 years
	Longevity at 65 for Future pensioners	
24.8 years	• Men	24.8 years
26.2 years	• Women	26.2 years
4.2%	Rate of increase in salaries*	4.4%
2.2%	Rate of increase in pensions	2.4%
3.5%	Rate for discounting scheme liabilities	2.6%
	Take-up of option to convert annual pension into retirement lump sum:	
50.0%	Pre April 2009 service	50.0%
75.0%	Post April 2009 service	75.0%

The pension scheme's assets consist of the following categories, by proportion of the total assets held:

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2015/16			2016/17
£000		Percentage	£000
	Equity Securities		
1,011	Consumer	9.5%	1,307
808	Manufacturing	7.5%	1,037
318	Energy and Utilities	3.0%	411
744	Financial Institutions	7.0%	962
435	Health and Care	4.1%	562
616	Information Technology	5.8%	795
3,932	Total Equity	36.7%	5,074
	Private Equity		
1,049	All	8.2%	1,139
1,049	Total Private Equity	8.2%	1,139
	Real Estate		
1,159	UK Property	12.1%	1,667
-	Overseas Property	0.0%	-
1,159	Total Real Estate	12.1%	1,667
	Investment Funds & Unit Trusts		
2,799	Equities	32.2%	4,443
1,316	Bonds	5.6%	776
4	Commodities	0.1%	9
-	Infrastructure	0.0%	-
151	Other	1.4%	187
4,270	Total Investment Funds & Unit Trusts	39.2%	5,415
	Derivatives		
-	Foreign Exchange	0.0%	2
3	Other	0.0%	1
3	Total Derivatives	0.0%	3
	Cash & Cash Equivalents		
372	All	3.8%	521
372	Total Cash & Cash Equivalents	3.8%	521
10,785	Total	100%	13,820

15e. Impact on cashflows

An objective of the fund is to keep employer's contributions at as constant a rate as possible. The fund has agreed a strategy to achieve a funding rate of 100% in the longer term. Employers' and employees' contributions have been determined so that rates are standard across all participating employers. The rate for employer contributions has been set at 19.3% for 2016-17 and 2017-18.

The total contributions expected to be made by the Joint Committee to the Strathclyde Pension Fund in the forthcoming year to 31 March 2018 is £0.424 million.

Note 16 Contingent Liabilities and Assets

Scotland Excel was subject to a legal challenge in June 2016 following the award of a framework for Demolition Services. The action was successfully defended and costs were awarded by the court in favour of Scotland Excel. The payment of the costs has not yet been completed and will be subject to further unrecoverable costs associated with the completion of the case.

Scotland Excel Joint Committee

2016/17 Annual Audit Report



 **AUDIT SCOTLAND**

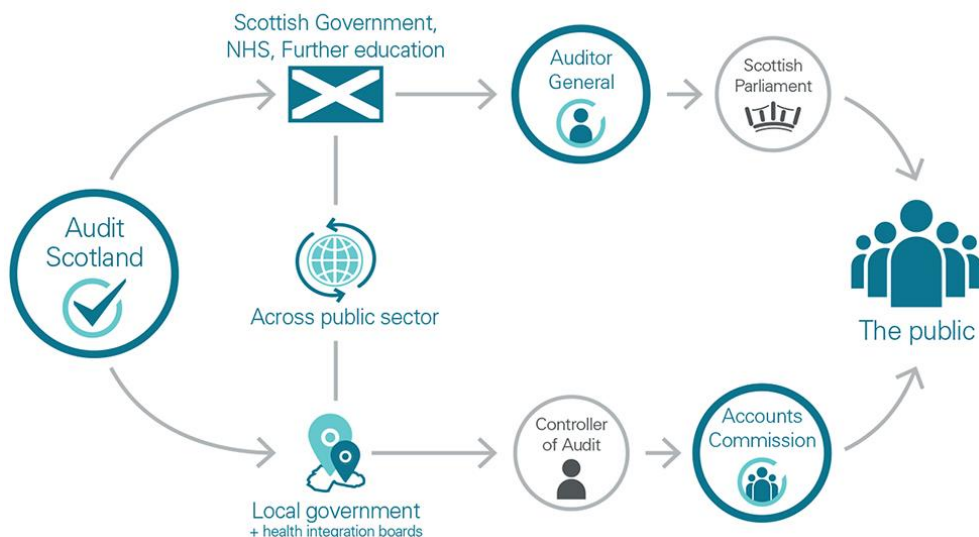
To Members of Scotland Excel Joint Committee and the Controller of Audit

15 September 2017

Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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Key messages

Audit of the 2016/17 annual accounts

- 1 Our audit opinions were all unqualified. These covered the financial statements, management commentary, remuneration report and the annual governance statement.

Financial management

- 2 A deficit of £0.098 million was delivered during the year. This was less than forecast in the 2016/17 budget.
- 3 The cost of service delivery has been met through requisition income and continued use of reserves.

Financial sustainability

- 4 The Joint Committee's financial position has been managed through planned use of reserves. Declining reserves and increasing costs will continue to place a strain on the Joint Committee's capacity to deliver the current level of service.
- 5 The level of useable reserves is forecast to fall to £0.215 million by the end of 2017/18.

Governance and transparency

- 6 The Joint Committee has appropriate governance arrangements in place to support the scrutiny of decision making.
- 7 The Joint Committee is open and transparent in the way it conducts its business.
- 8 Internal audit reports are only reviewed by management and are not shared with members of the Joint Committee.

Value for money

- 9 Performance against the Operational Plan is reported quarterly to the Joint Committee or Executive Sub-Committee.
- 10 Overall performance was positive but there were areas for improvement.

Introduction

1. This report is a summary of the findings arising from the 2016/17 audit of Scotland Excel Joint Committee (Scotland Excel).
2. The scope of the audit was set out in our Annual Audit Plan presented to the February 2017 meeting of the Scotland Excel Executive Sub-Committee. This report comprises:
 - an audit of the annual report and accounts
 - consideration of the four dimensions that frame the wider scope of public sector audit requirements as shown in [Exhibit 1 \(page 5\)](#).

Exhibit 1 Audit dimensions



Source: Code of Audit Practice 2016

3. The main elements of our audit work in 2016/17 have been:
 - an interim audit of Renfrewshire Council's main financial systems and governance arrangements which are used by Scotland Excel
 - an audit of Scotland Excel's 2016/17 annual report and accounts including the issue of an independent auditor's report setting out our opinions.
4. Scotland Excel is responsible for preparing the annual report and accounts that show a true and fair view in accordance with the Local Authority Accounts (Scotland) Regulations 2014. It is also responsible for establishing effective governance arrangements and ensuring financial management is effective.

5. Our responsibilities as independent auditor are established by the Local Government in Scotland Act 1973 and the [Code of Audit Practice 2016](#) guided by the auditing profession's ethical guidance.
6. As public sector auditors we provide an independent auditor's report on the annual report and accounts. We also review and report on the arrangements within Scotland Excel to manage its performance and use of resources such as money, staff and assets. Additionally, we consider Scotland Excel's best value arrangements. In doing this, we aim to support improvement and accountability.
7. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#).
8. This report raises matters from the audit of the annual report and accounts, risks or control weaknesses. Communicating these does not absolve management from its responsibility to address the issues we raise, and to maintain adequate systems of control.
9. Our Annual Audit Report contains an action plan at [Appendix 1 \(page 21\)](#). It sets out specific recommendations, responsible officers and dates for implementation.
10. As part of the requirement to provide fair and full disclosure of matters relating to our independence, we can confirm that we have not undertaken non-audit related services. The 2016/17 audit fee for the audit was set out in our Annual Audit Plan and as we did not carry out any work additional to our planned audit activity, the fee remains unchanged.
11. This report is addressed to both the Joint Committee and the Controller of Audit and will be published on Audit Scotland's website www.audit-scotland.gov.uk.
12. We would like to thank all management and staff who have been involved in our work for their co-operational and assistance during the audit.

Part 1

Audit of 2016/17 annual report and accounts



Main judgements

Unqualified audit opinions on Scotland Excel's annual report and accounts.

Unqualified audit opinions

13. The annual report and accounts for the year ended 31 March 2017 were approved by the Scotland Excel Executive Sub-Committee on 15 September 2017. We reported, within our independent auditor's report:

- an unqualified opinion on the financial statements
- unqualified opinions on the management commentary, remuneration report and annual governance statement.

14. Additionally, we have nothing to report in respect of those matters which we are required by the Accounts Commission to report by exception.

Submission of Scotland Excel's annual report and accounts for audit

15. We received the unaudited annual report and accounts on 30 June, in line with the audit timetable set out in our 2016/17 Annual Audit Plan.

16. The working papers provided with the unaudited report and accounts were of a good standard and finance staff provided good support to the audit team during the audit. This helped ensure that the final accounts process ran smoothly.

The Joint Committee's annual report and accounts are the principal means of accounting for the stewardship of its resources and its performance in the use of its resources.

Risk of material misstatement

17. [Appendix 2 \(page 22\)](#) provides a description of those assessed risks of material misstatement that were identified during the planning process which had the greatest effect on the overall audit strategy, the allocation of resources to the audit and directing the efforts of the audit team. Also, included within the appendix are wider audit dimension risks, how we addressed these and our conclusions.

Materiality

18. Materiality defines the maximum error that we are prepared to accept and still conclude that our audit objective has been achieved (i.e. true and fair view). The assessment of what is material is a matter of professional judgement. It involves considering both the amount and nature of the misstatement.

19. Our initial assessment of materiality for the annual report and accounts was undertaken during the planning phase of the audit and is summarised in [Exhibit 2](#)

(page 8). Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.

20. On receipt of the annual report and accounts and following completion of audit testing we reviewed our original materiality calculations and concluded that they remained appropriate.

Exhibit 2

Materiality values

Materiality level	Amount
Overall materiality – This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It was set at 1 per cent of gross expenditure for the year ended 31 March 2017.	£41,100
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement we have calculated performance materiality at 75 per cent of overall materiality.	£30,800
Reporting threshold (i.e. clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements in excess of the 'reporting threshold' amount.	£1,000

Source: Audit Scotland

How we evaluate misstatements

21. It is our responsibility to request that all errors are corrected although the final decision on this lies with those charged with governance taking into account advice from senior officers and materiality. No errors were identified during the course of the audit.

Significant findings

22. International Standard on Auditing 260 (UK & Ireland) requires us to communicate to you significant findings from the audit. We have no matters to report in respect of this requirement.

Going concern

23. The financial statements of Scotland Excel have been prepared on the going concern basis. No issues were identified with the assessment on going concern.

Other findings

24. Our audit identified a number of presentational and disclosure issues which were discussed with management. These were adjusted and reflected in the audited annual report and accounts.

Objections

25. The Local Authority Accounts (Scotland) Regulations 2014 require a local government bodies to publish a public notice on its website that includes details of

the period for inspecting and objecting to the accounts. This must remain on the website throughout the inspection period. Scotland Excel complied with the regulations.

Part 2

Financial management



Main judgements

A deficit of £0.098 million was delivered during the year. This was less than forecast in the 2016/17 budget.

The cost of service delivery has been met through requisition income and continued use of reserves.

Financial performance in 2016/17

26. In November 2015 the Joint Committee approved its budget for 2016/17. Total budget expenditure was £3.880 million and total budget income was £3.680 million. This resulted in a forecast deficit of £0.200 million which management planned to meet through the use of reserves.

27. Actual outturn for the year was total expenditure of £3.911 million and total income of £3.813 million. This resulted in a deficit of £0.098 million for the year which was £0.102 million lower than the budgeted figure.

28. The largest source of income was requisitions from members of the Joint Committees. This was £3.484 million in 2016/17, an increase of £0.300 million from 2015/16 (£3.184 million). The increase in requisition income was to allow delivery of services which had previously been funded through reserves. The budget was aligned to Scotland Excel's statutory objectives to ensure services were delivered.

29. Details of significant variances are summarised in [Exhibit 3 \(page 11\)](#). Scotland Excel has incurred a deficit in each of the last 4 financial years. The deficits have been managed through the drawdown of reserves from a grant provided by the Scottish Government. This reserve was fully utilised in 2015/16 and general reserves have been used to manage the deficit. While deficits have been delivered over the last 4 years, actual outturn against budget has been favourable each year ([Exhibit 4 \(page 12\)](#)).

30. The deficit of £0.098 million reported in the Management Commentary is different to the deficit of £0.310 million reported in the Comprehensive Income and Expenditure Statement (CIES). This is due to accounting adjustments required for pension costs and the employee leave accrual. As the budget is prepared and monitored in this way, it is appropriate for it to be detailed in the Management Commentary in this way.

Exhibit 3

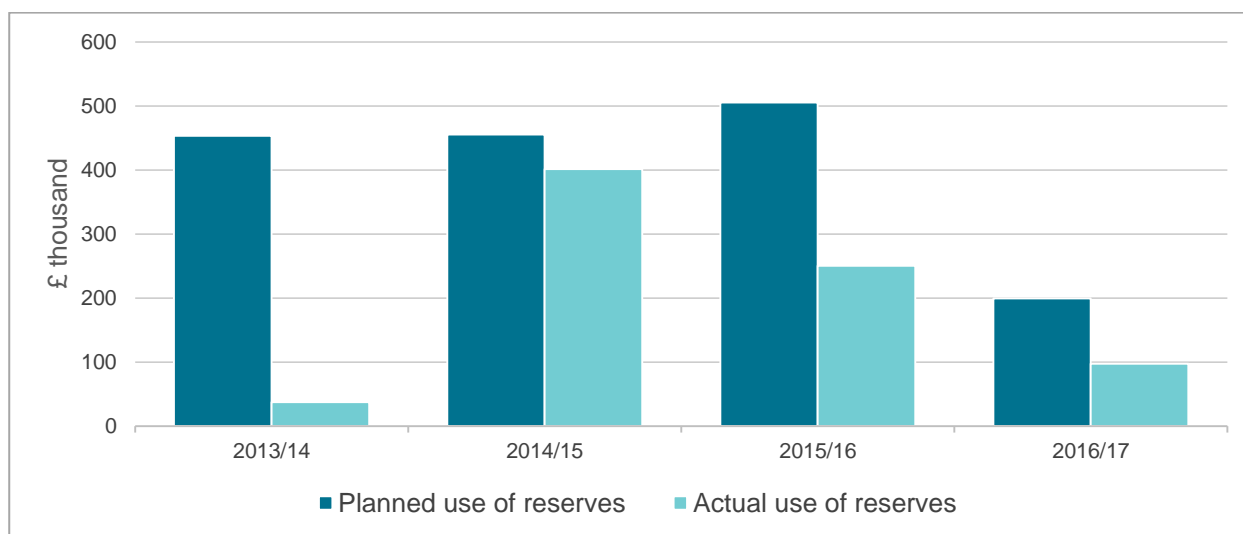
Summary of significant over and under spends/recovery against budget

Area	Under/over spend/recovery (£)	Reason(s) for variance
Underspends/over recovery		
Supplies and Services	£91,105	Due to IT budget revision. The planned migration plan was revised during the year and the costs associated with migration will likely be incurred in 2017/18.
Other Income	£298,943	Due to training costs which are recovered by Scotland Excel, additional full year Associate Member Fees and income received in relation to the National Care Home Contract.
Overspends/under recovery		
Employee Costs	£126,556	Due to costs associated with the delivery of the National Care Home Contract. However, these costs are fully offset by additional income outlined above.
Contractors and Others	£67,835	Due to overspend in consultancy costs in relation to the National Care Home Contract. However, these costs are fully offset by additional income outlined above.
Administrative Costs	£47,941	Due to legal costs associated with a challenge to a framework award. The majority of these costs are expected to be recovered through a settlement.
Payments to Other Bodies	£45,159	Due to costs associated with delivering training. However, these costs are recharged to delegates and included as other income.

Source: Scotland Excel annual report and accounts 2016/17

Exhibit 4

Analysis of planned use of reserves against actual use of reserves



Source: Scotland Excel annual report and accounts 2013/14 – 2016/17

Budgetary monitoring and control

31. The [Local Government in Scotland: Financial overview 2015/16](#) (November 2016) highlighted that the need for budgets and forecasts to reflect actual spending becomes increasingly important for local government bodies with decreasing (or low levels) of usable reserves to rely on. An analysis of reserves can be seen in Part 3 of the report.

32. We noted that Scotland Excel's budget is aligned to its statutory objectives. Budgets are approved by the Joint Committee and budget monitoring updates are provided quarterly to the Scotland Excel Executive Sub-Committee. The budget monitoring updates provide details on variances against the budget and forecast year-end positions. This allows members and officers to take actions to address variances and address forecast over and under spends.

Internal controls

33. As part of our audit we identify and inspect the key internal controls in those accounting systems which we regard as significant for the production of the financial statements. Our objective is to gain assurance that Scotland Excel has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements.

34. The systems in place at Scotland Excel are hosted by Renfrewshire Council and were assessed as part of the Renfrewshire Council audit. As part of the Renfrewshire Council audit we concluded that the key controls were operating effectively, although there were areas where improvements could be made. Overall, no significant control weaknesses were identified which could affect the council's, and by extension Scotland Excel's, ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.

Prevention and detection of fraud

35. We have responsibility for reviewing the arrangements put in place by management for the prevention and detection of fraud. We reviewed Scotland

Excel's arrangements including policies and codes of conduct for staff and elected members, whistleblowing, and fraud prevention.

36. Based on the evidence reviewed by us, we concluded that the Scotland Excel has adequate arrangements in place for the prevention and detection of fraud.

National Fraud Initiative

37. The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise co-ordinated by Audit Scotland. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify 'matches' that might suggest the existence of fraud or error.

38. Scotland Excel does not participate in the NFI exercise. This was reported within the Action Plan in the 2015/16 Annual Audit Report. Due to the nature of operations the majority of expenditure incurred relates to staff costs and the majority of income received is from requisitions. These are low risk areas as requisition income is agreed by the members of the Joint Committee and the payroll system is hosted and operated by Renfrewshire Council. This separates and minimises control and opportunities for fraud.

39. Renfrewshire Council participates in the NFI exercise and if any frauds are identified the improvements to systems would also impact on Scotland Excel due to the use of Renfrewshire Council's financial systems.

40. While we recognise the reasons why Scotland Excel does not currently participate in the NFI exercise, we would recommend Scotland Excel and Renfrewshire Council discuss the possibility to participate in the NFI exercise in future.

Part 3

Financial sustainability



Main judgements

The Joint Committee's financial position has been managed through planned use of reserves. However, declining reserves and increasing costs will continue to place a strain on the Joint Committee's capacity to deliver the current level of service.

The level of useable reserves is forecast to fall to £0.215 million by the end of 2017/18. Management monitor the reserves position and it is recommended this continues to be reviewed to ensure there are sufficient funds to address ongoing demand on services.

Financial planning

41. It is important that long-term financial strategies (typically covering five to ten years) are in place which link spending to Scotland Excel's strategies. Although members only approve the budget for a single year, this should be supported by indicative future spending plans (covering three years at least) that forecast the impact of relevant pressures on Scotland Excel.

42. Scotland Excel's budgets are prepared on an annual basis and do not include longer term strategies. The Accounts Commission recommended that when future Scottish Government funding is not known, bodies should plan for a range of scenarios so they are prepared for different levels of funding and income.

43. This was recommended in the 2015/16 Annual Audit Report. Management indicated there was too much uncertainty in future funding to prepare medium term budgets. As a result, budgets continue to be prepared on a yearly basis.

44. Management has advised that medium term financial planning is carried out and assesses expected levels of income and expenditure in the medium term and forecasts the reserves position based on this assessment.

45. The medium term planning is reviewed by management and the Treasurer but is not shared with members. It is recommended that the medium term planning is shared with members and scenario planning is incorporated into the budget setting process to allow members and management to understand the impact of possible developments.

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

Appendix 1, Action Plan, point 1

Funding position

46. The Joint Committee approved its 2017/18 budget in December 2016 with proposed total expenditure of £3.941 million and total income of £3.875 million. The resulting budget gap of £0.066 million will be met through the use of reserves. Requisition income has remained at the same level as 2016/17 at £3.484 million.

Savings plans

47. A review of Scotland Excel's budget information and financial projections for 2017/18 to 2019/20 highlight that the funding settlement for 2018/19 and beyond is uncertain. It is recognised that over the medium term the funding position of local government across Scotland is likely to involve a further period of contraction. The Joint Committee recognises these pressures and will continue to seek operational savings where possible. The Joint Committee will also look to develop alternative services which generate income in order to try and diversify its funding base.

Reserves

48. Like all joint Committees, Scotland Excel has no specific powers to retain reserves to meet future requirements. These balances are used to support medium-term financial planning and address any unforeseen costs.

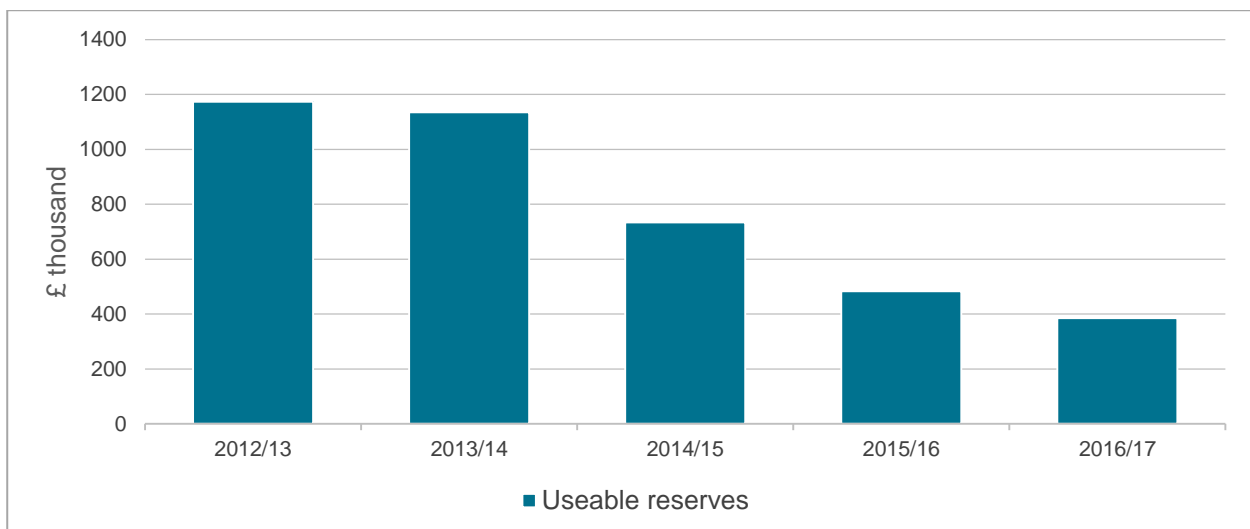
49. In 2016/17 the overall level of useable reserves held by Scotland Excel decreased by £0.098 million (20 per cent). The closing balance of £0.385 million is 10 per cent of 2016/17 budgeted expenditure. Officers have assessed this as being a prudent level to protect against unforeseen costs.

50. [Exhibit 5 \(page 15\)](#) provides an analysis of useable reserves over the last five years. The usable reserves / balances due to member authorities' have reduced significantly since 2012/13. The Scottish Government provided a grant of £4.5 million to fund start up costs. As highlighted in paragraph 29, this reserve has been used to deliver services, resulting in the annual reduction in the level of reserves. The reserve was fully drawn down during 2015/16 and general reserves have been used to deliver services.

51. Budget monitoring reports up to July 2017 forecast the level of usable reserves at the end of the 2017/18 financial year will be £0.215 million. This equates to 5 per cent of budgeted total expenditure in 2017/18 and is a significant decrease from 2016/17. The level of reserves is reviewed as part of the budget monitoring reported to the Executive Sub-Committee. It is recommended that the balance held in reserves continues to be reviewed to ensure there are sufficient funds to address ongoing demand on services.

Exhibit 5

Analysis of useable reserves over last five years



Source: Scotland Excel annual report and accounts 2012/13 – 2016/17

Part 4

Governance and transparency



Main Judgements

The Joint Committee has appropriate governance arrangements in place to support the scrutiny of decision making.

The Joint Committee is open and transparent in the way it conducts its business; the public can attend meetings and access agendas and meeting papers.

Internal audit reports are only reviewed by management and are not shared with members of the Joint Committee. There is a risk that members are not fully aware of weaknesses identified in systems and processes.

Governance arrangements

52. Members and management of Scotland Excel are responsible for establishing arrangements to ensure that its business is conducted in accordance with the law and proper standards, that public money is safeguarded and for monitoring the adequacy and effectiveness of these arrangements. We concluded that Scotland Excel has effective governance arrangements which provide an appropriate framework for organisational decision-making.

53. Citizens should be able to hold Scotland Excel to account about the services it provides. Transparency means that citizens have access to understandable, relevant and timely information about how Scotland Excel is taking decisions and how it is using its resources. Overall we concluded that Scotland Excel is open and transparent.

Management commentary, annual governance statement and remuneration report

54. The Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 requires Joint Committees to prepare and publish, along with their financial statements, a management commentary, an annual governance statement and a remuneration report that are consistent with the disclosures made in the financial statements. The management commentary should be fair, balanced and understandable and also clearly address the longer-term financial sustainability of the body.

55. Based on our knowledge and work performed, we concluded that the management commentary, annual governance statement and remuneration report are consistent with the financial statements.

Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making and transparent reporting of financial and performance information.

Internal audit

56. Internal audit provides senior management and elected members with independent assurance on Scotland Excel's overall risk management, internal control and corporate governance processes.

57. The internal audit function is carried out by Renfrewshire Council's internal audit team. We carried out a review of the adequacy of Renfrewshire Council's internal audit function and concluded that it operates in accordance with the Public Sector Internal Audit Standards (PSIAS). However, there were areas where we identified recommendations for improvement.

58. To avoid duplication, we place reliance on the work of internal audit wherever possible. In 2016/17 we did not place any formal reliance on internal audit reviews for the purpose of obtaining direct assurance for our financial statements work. However, we did review audit reports that were relevant to our work to help with our understanding of the systems and processes in place.

59. From a review of committee minutes it was identified that internal audit reports are not provided to members of the Joint Committee. During the year internal audit carried out work on the governance arrangements and the findings were only shared with management. The only information members receive on the work of internal audit is in the Internal Audit Annual Report. As a result members were considering the opinions given in the Internal Audit Annual Report without being aware of the work that was used to form the conclusions.

Appendix 1, Action Plan, point 2

ICT risks

60. Since moving in to Renfrewshire House, Scotland Excel's business continuity arrangements have been encompassed within Renfrewshire Council's arrangements. During the year management assessed the position and felt the involvement and role of Scotland Excel was insufficient and should be reviewed. As a result, work is being done to develop Scotland Excel's business continuity arrangements. Scotland Excel has been working with Renfrewshire Council's civil contingencies team and it has been agreed that Scotland Excel will develop its own business continuity plan and this will be included within the larger Renfrewshire Council business continuity plan.

Transparency

61. Transparency means that the public, in particular local residents have access to understandable, relevant and timely information about how Scotland Excel is taking decisions and how it is using resources such as money, people and assets.

62. There is evidence from a number of sources which demonstrate Scotland Excel's commitment to transparency. Members of the public can attend Joint Committee meetings and minutes of the meetings and supporting papers are readily available through Scotland Excel's website.

63. The Joint Committee's website allows the public to access a wide range of information on corporate policies, targets and performance.

64. The Joint Committee makes its annual accounts available on its website. These include a management commentary which provides details of performance against budget, information on the use of reserves and risks and uncertainties facing the Joint Committee.

65. Overall, we concluded that the Joint Committee conducts its business in an open and transparent manner.

Equalities

66. The Equality Act 2010 introduced a public sector general duty that encourages public bodies to mainstream equality, that is, ensure it is part of their core work. The Act requires that by no later than 30 April 2015 and every two years thereafter, public bodies must publish a report on the progress made to achieve the quality of outcomes it has set.

67. Under the terms of the Act and supporting legislation, Scotland Excel does not have a requirement to fulfil this duty. However, Renfrewshire Council, as lead authority for Scotland Excel, is required to fulfil this duty. Therefore, the work done and reports published by Renfrewshire Council will include Scotland Excel as Scotland Excel is covered by Renfrewshire Council's policies.

Part 5

Value for money



Main judgements

Performance against the Operational Plan is reported quarterly to the Joint Committee or Executive Sub-Committee.

Overall performance was positive but there were areas for improvement.

Best Value

68. Best value is a key factor to consider when planning policies, programmes and projects and when taking any spending decisions. Scotland Excel should have systems and processes to ensure that it can demonstrate that it is delivering best value by assessing and reporting on the economy, efficiency, effectiveness and equality in service provision.

Following the public pound

69. Local government bodies have a statutory responsibility to comply with the Accounts Commission / COSLA Code of Guidance on funding external bodies and following the public pound.

70. The Joint Committee's financial regulations state that it will continuously strive to secure best value for money and economy, efficiency and effectiveness in their use of resources.

Performance management

71. In June 2015 the Joint Committee approved its 3 year strategy and rolling Operational Plan. The Operational Plan is reviewed and updated each year to ensure that it remains closely aligned with the strategy and to respond to any external developments which have occurred.

72. Quarterly progress reports on performance against the Operational Plan are reported to the Joint Committee or Executive Sub-Committee throughout the year. A traffic light system has been used to provide a high level overview of how Scotland Excel is performing against objectives and activities. More detailed information is also provided to support the traffic light system.

73. The 2016/17 Operational Plan year end progress report was presented to the Joint Committee in June 2017. There are 22 activities in the Operational Plan and in the year end progress report outlined:

- 18 were green which indicates these were completed or progressing in line with plan,
- 3 were amber which indicates progress was slower than expected or results were weaker than planned, and

Value for money is concerned with using resources effectively and continually improving services.

- 1 was red which indicates activity has stalled or is significantly behind plan.

74. The activity classified as red related to developing and implementing a stakeholder engagement strategy. This strategy was expected to be completed during 2016/17 but has been postponed to 2017/18 due to resource constraints. This has had an impact on other aspects of this activity as the implementation of a cross functional customer care forum was also delayed due to the late implementation of the strategy.

National performance audit reports




75. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2016/17, a number of reports were issued which may be of interest to the Joint Committee. These are outlined in [Appendix 3 \(page 25\)](#).

76. Scotland Excel has quarterly horizon scanning review meetings for the senior management team. These include external factors that impact on Scotland Excel and its members. Audit Scotland national performance reports will be considered as part of the meetings if they are relevant to customers and their environment.

Appendix 1

Action plan 2016/17

2016/17 recommendations for improvement

Page no.	Issue/risk	Recommendation	Agreed management action/responsible officer/timing
14 – para 45	 <p>1. Medium term financial planning</p> <p>Budgets are prepared on an annual basis and do not include any scenario planning. Medium term financial planning is carried out by management but this is not shared with members. As a result there is a risk members have insufficient information to make informed decisions.</p>	 <p>It is recommended medium term financial planning is shared with members and scenario planning is incorporated into the budget setting process.</p>	 <p>Scenario planning will be built into the estimates process. Head of Finance 31 March 2018</p>
17 – para 59	<p>2. Internal Audit reporting</p> <p>A review of committee papers and minutes identified that internal audit reports are not provided to members of the Joint Committee.</p> <p>As a result there is a risk that members are not aware of any weaknesses that have been identified and may not be able to make informed decisions.</p>	<p>It is recommended that management take internal audit reports to Joint Committee or Executive Sub-Committee meetings to allow members to understand the findings of the work carried out.</p>	<p>Internal audit reports will be taken to Joint Committee/Executive Sub-Committee meetings. Director of Scotland Excel 31 March 2018</p>

Appendix 2

Significant audit risks identified during planning

The table below sets out the audit risks we identified during our planning of the audit and how we addressed each risk in arriving at our opinion on the financial statements.

Audit risk	Assurance procedure	Results and conclusions
Risks of material misstatement in the financial statements		
<p>1 Management override of controls</p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.</p>	<p>Detailed testing of journal entries.</p> <p>Review of significant management estimates and evaluation of the impact of any variability in key assumptions.</p> <p>Focused testing of accruals and prepayments.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p> <p>Substantive testing of transactions after the year end to confirm expenditure and income has been accounted for in the correct financial year.</p>	<p>Our audit procedures did not uncover evidence of management override of controls.</p>
<p>2 Risk of fraud over income/expenditure</p> <p>ISA 240 presumes a risk of fraud over income, which is expanded to include fraud over expenditure in the public sector by the Code of Audit Practice.</p> <p>The majority of Scotland Excel's income is in the form of annual funding from member authorities. Due to the predictable nature of this, the risk of fraud over income has been rebutted.</p> <p>The presumed risk of fraud over expenditure remains relevant and therefore requires an audit response.</p>	<p>Analytical procedures over areas of expenditure.</p> <p>Detailed testing of expenditure transactions focusing on the areas of greatest risk.</p>	<p>Our audit procedures did not uncover any evidence of fraud over expenditure.</p>
<p>3 Revised format of financial statements</p> <p>The 2016/17 Code of Practice on Local Authority Accounting (the</p>	<p>Review of structure of CIES and MIRS.</p> <p>Detailed analysis of account code mapping for CIES.</p>	<p>Our audit procedures did not identify any errors in the structure of the CIES or MIRS and all account codes had</p>





















Audit risk	Assurance procedure	Results and conclusions
Code) makes changes to the structure of the Comprehensive Income and Expenditure Statement (CIES) and the Movement in Reserves Statement (MIRS). This will require the restatement of prior year comparatives and presents a risk of misstatement in the financial statements.	Review of prior year comparatives and restatements.	been mapped across correctly.
4 New expenditure and funding analysis The Code sets out a new requirement for an expenditure and funding analysis. This will provide a reconciliation of the statutory adjustments between Scotland Excel's financial performance on a funding basis and the surplus or deficit on the provision of services in the CIES. This presents an increased risk of misstatement as the analysis may not be in line with the requirements of the Code. There is also an increased risk of inconsistencies between the analysis and the financial statements.	Detailed testing of expenditure and funding analysis. Review of prior year comparatives and restatements. Review of consistency between expenditure and funding analysis and information contained elsewhere within the annual accounts.	Our audit procedures did not identify any errors within the Expenditure Funding Analysis statement and all information was consistent with information contained elsewhere within the annual accounts.
5 Changes to governance disclosures The Code makes changes to the requirements of the governance statement. This will require additional information to be disclosed to ensure all requirements of the Code are met. This presents a risk that the governance disclosures may not be complete.	Review of governance statement content. Testing of governance disclosures.	Our audit procedures did not identify any errors with the governance statement and all disclosures required had been included.
Risks identified from the auditor's wider responsibility under the Code of Audit Practice		
6 Financial sustainability In prior financial years Scotland Excel has used reserves to fund improvement projects. Due to the low level of reserves this practice is no longer sustainable. This puts additional pressure on Scotland Excel to meet budget targets. There is a risk that the governance and funding structure may impact on the long term financial sustainability of Scotland Excel.	Review of budget monitoring reports during the year and comment on the financial position within the Annual Audit Report.	A review of budget monitoring reports and the financial statements highlight that reserve usage was less than planned in 2016/17. Reserves as at 31 March 2017 were £0.385 million but £0.166 million is expected to be used in 2017/18. The Treasurer has assessed the level of reserves and is satisfied levels are sufficient. Scotland Excel recognises there may be a need to achieve cost savings

Audit risk	Assurance procedure	Results and conclusions
		or develop alternative services which generate income in future to be financially sustainable.

Appendix 3

Summary of national performance reports 2016/17



Apr			
May		Common Agricultural Policy Futures programme: an update	
Jun		South Ayrshire Council: Best Value audit report	 The National Fraud Initiative in Scotland
Jul		Audit of higher education in Scottish universities	 Supporting Scotland's economic growth
Aug		Maintaining Scotland's roads: a follow-up report	 Superfast broadband for Scotland: a progress update
			 Scotland's colleges 2016
Sept		Social work in Scotland	 Scotland's new financial powers
Oct		Angus Council: Best Value audit report	 NHS in Scotland 2016
Nov		How councils work – Roles and working relationships in councils	 Local government in Scotland: Financial overview 2015/16
Dec		Falkirk Council: Best Value audit report	 East Dunbartonshire Council: Best Value audit report
Jan			
Feb		Scotland's NHS workforce	
Mar		Local government in Scotland: Performance and challenges 2017	 i6: a review
			 Managing new financial powers: an update

Local government relevant reports

[*The National Fraud Initiative in Scotland - June 2016*](#)

[*How councils work - Roles and working relationships in councils - November 2016*](#)

[*Local government in Scotland: Financial overview 2015/16 - November 2017*](#)

[*Local government in Scotland: Performance and challenges 2017 - March 2017*](#)

Scotland Excel Joint Committee

2016/17 Annual Audit Report

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