

Scotland Excel

To: Executive Sub Committee

On: 28 September 2018

Report by Audit Scotland

Annual Audit Report 2017-18

1. Summary

- 1.1 At the meeting of Scotland Excel Joint Committee on 29 June 2018 a report on the unaudited annual accounts for the year ended 31 March was noted.
- 1.2 The audit certificate issued by Audit Scotland provides an unqualified opinion that the annual accounts presents a true and fair view of the financial position of the Joint Committee as at 31 March 2018, in accordance with the accounting policies detailed in the accounts.
- 1.3 A member of the Audit Scotland team will present this report and answer any questions.

2. Recommendations

- 2.1 It is recommended that members note the report by Audit Scotland.

Scotland Excel

2017/18 Annual Audit Report PROPOSED



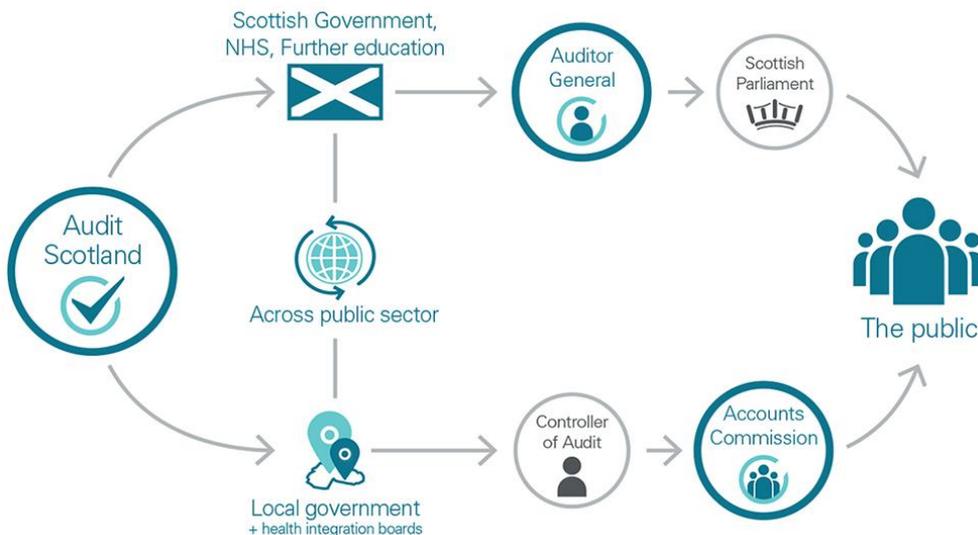
 AUDIT SCOTLAND

Prepared for the Members of Scotland Excel Executive Sub-Committee and the Controller of Audit
28 September 2018

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

2017/18 annual report and accounts

- 1** In our opinion the Scotland Excel's financial statements give a true and fair view and were properly prepared and, expenditure and income were in accordance with applicable enactments and guidance.
- 2** The audited part of the Remuneration Report, Management Commentary and the Governance Statement were all consistent with the financial statements.
- 3** Academy training income has been incorrectly recognised in year. This resulted in both income and reserves being overstated.
- 4** The pension fund liability on the balance sheet was overstated. This was due to asset return assumptions in the actuary's report being significantly different to actual returns.

Financial sustainability and Governance Statement

- 5** A deficit of £0.076 million was generated from core activities in 2017/18 which was slightly lower than budgeted. The cost of service delivery has been met through requisition income and the planned use of reserves.
- 6** We concluded that the information in the Governance Statement is consistent with the financial statements and complies with the guidance issued by the Scottish Ministers.
- 7** Budget monitoring reports should include an appropriate level of detail on projects to allow members to assess and scrutinise performance.

Introduction

1. This report summarises the findings from our 2017/18 audit of Scotland Excel.
2. The scope of our audit was set out in our Annual Audit Plan presented to the 23 March 2018 meeting of the Executive Sub-committee. This report comprises the findings from:
 - an audit of the Scotland Excel annual report and accounts
 - consideration of the financial sustainability and Governance Statement.
3. Our standard audits are based on four audit dimensions that frame the wider scope of public sector audit requirements. These are:
 - financial sustainability
 - financial management
 - governance and transparency
 - value for money.
4. The [Code of Audit Practice 2016](#) (the Code) includes provisions relating to the audit of small bodies. Where the application of the full wider audit scope is judged by auditors not to be appropriate to an audited body then the annual audit work can focus on the appropriateness of the disclosures in the Governance Statement and the financial sustainability of the body and its services.
5. As highlighted in our [2017/18 Annual Audit Plan](#) (paragraph 21), due to the volume and lack of complexity of the financial transactions, and nature and size of Scotland Excel, we applied the small body provisions of the Code to the 2017/18 audit of Scotland Excel.
6. Scotland Excel has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing an annual report and accounts that are in accordance with the accounts direction from Scottish Ministers. Scotland Excel is also responsible for compliance with legislation putting arrangements in place for governance, propriety and regularity that enable it to successfully deliver its objectives.
7. Our responsibilities as independent auditor are established by the Local Government (Scotland) Act 1973 and the [Code of Audit Practice 2016](#), and guided by the auditing profession's ethical guidance.
8. As public sector auditors we give independent opinions on the annual report and accounts and conclusions on securing financial sustainability and appropriateness of the Governance Statement disclosures. In doing this, we aim to support improvement and accountability.
9. The weaknesses or risks identified are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.

10. Our Annual Audit Report contains an agreed action plan at [Appendix 1](#) setting out specific recommendations, responsible officers and dates for implementation. It also includes actions from last year and progress against these.

11. We confirm that we comply with the Financial Reporting Council's Ethical Standard. We have not undertaken any non-audit related services and therefore the 2017/18 audit fee of £5,700 as set out in our Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

Adding value through the audit

12. Our aim is to add value to Scotland Excel by providing insight on financial sustainability and by identifying areas of improvement and recommending good practice. In so doing, we aim to help Scotland Excel promote improved standards of financial planning, better management and decision making.

13. This report is addressed to members of the Executive Sub-Committee and the Controller of Audit and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.

14. We would like to thank the management and staff who have been involved in our work for their cooperation and assistance during the audit.

Part 1

Audit of 2017/18 annual report and accounts



Main judgements

In our opinion Scotland Excel's financial statements give a true and fair view and were properly prepared and, expenditure and income were in accordance with applicable enactments and guidance.

The audited part of Remuneration Report, Management Commentary and the Governance Statement were all consistent with the financial statements.

Academy training income has been incorrectly recognised in year. This resulted in both income and reserves being overstated.

The pension fund liability on the balance sheet was overstated. This was due to asset return assumptions in the actuary's report being significantly different to actual returns.

Audit opinions on the annual report and accounts

15. The annual report and accounts for the year ended 31 March 2018 were approved by the Executive Sub-Committee on 28 September 2018. We reported, within our independent auditor's report:

- an unqualified opinion on the financial statements
- the audited part of the Remuneration Report, Management Commentary and Governance Statement were all consistent with the financial statements and properly prepared in accordance with the accounts direction.
- we have nothing to report in respect of those matters which we are required by the Accounts Commission to report by exception.

The annual report and accounts are the principal means of accounting for the stewardship of its resources and its performance in the use of those resources.

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

16. We received the unaudited annual report and accounts on 19 June 2018 which was earlier than our agreed audit timetable set out in our 2017/18 Annual Audit Plan.

17. The unaudited annual report and accounts provided for audit were complete and of a good standard and finance staff provided good support to the audit team which helped ensure the final accounts audit process ran smoothly.

Risks of material misstatement

18. [Appendix 2](#) provides a description of areas we assessed as being at risk of material misstatement at the planning stage, how we addressed them and our conclusions thereon. These risks influenced our overall audit strategy, the

allocation of staff resources to the audit and how the efforts of the audit team were directed.

Materiality

19. Misstatements are material if they could reasonably be expected to influence the economic decisions of users taken based on the financial statements. When deciding on what is material we consider both the amount and nature of the misstatement.

20. We carried out our initial assessment of materiality for the annual report and accounts during the planning phase of the audit. On receipt of the unaudited annual report and accounts we reviewed our planning materiality calculations and concluded that, while the values changed slightly, they remained appropriate and these are summarised in [Exhibit 1](#).

Exhibit 1

Materiality values

Materiality level	Annual Audit Plan	Unaudited annual report and accounts
Overall materiality – This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It has been set at 1% of gross expenditure for the year ended 31 March 2018.	£41,000	£50,000
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% of overall materiality.	£31,000	£37,500
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	£1,000

Source: Annual Audit Plan 2017/18

How we evaluate misstatements

21. It is our responsibility to request that all misstatements, other than those below the reporting threshold, are corrected. The final decision on this lies with those charged with governance considering advice from senior officers and materiality. There were two material adjustments to the unaudited financial statements which are outlined in [Exhibit 2](#). There were on other errors above the reporting threshold.

Significant findings from the audit (ISA 260)

22. International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance. These are summarised in [Exhibit 2](#).

Exhibit 2

Significant findings from the audit of Scotland Excel

Issue	Resolution
<p>1. Academy training income</p> <p>Academy training income of £127,486 and expenditure of £25,196 was recognised in the Comprehensive Income and Expenditure Statement (CIES). This resulted in a surplus of £102,290 which was held as a reserve at the year end. However, the training from which this income was generated had not been delivered at the year end. In accordance with International Accounting Standard 18 Revenue (IAS 18), the surplus element should not have been recognised which has resulted in income being overstated by £102,290.</p>	<p>This was corrected by management. An adjustment was processed to derecognise the income from the CIES and this was recognised as a deferred income balance, as is required by IAS 18. This resulted in the deficit on the provision of services increasing by £102,290 and reserves decreasing by the same amount.</p>
<p>2. Pension scheme valuation</p> <p>Scotland Excel accounts for its share of Strathclyde Pension Fund in accordance with International Accounting Standard 19 Employee Benefits (IAS 19). This relies on valuations of pension fund assets and liabilities by the actuary. The timing of actuarial reports means that actuaries produce their IAS 19 reports using estimated data for the final part of the year. Asset returns estimated by the actuary for the final part of the year were significantly lower than actual returns. This resulted in pension fund assets reported in Scotland Excel's balance sheet being understated by £256,000.</p>	<p>This was corrected by management. An adjustment was processed to reflect Scotland Excel's share of the pension fund assets based on the latest valuation at 31 March 2018. This had the impact of reducing the pension fund liability and increasing the pension reserve by £256,000. As local government accounting regulations require the general fund to be charged with amounts payable to the pension fund or directly to pensioners during the year rather than amounts calculated according to IAS 19, this adjustment does not impact the outturn for the year or the general fund balance</p>

Other issues

23. The Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 (the Accounting Code) outlines that for financial statements to be useful, they must provide a faithful representation of financial information with the substance of a transaction/process being reported as opposed to its legal form.

24. During the audit, we noted Scotland Excel had incurred capital expenditure, but this had been accounted for as revenue expenditure. The financial statements disclose that Scotland Excel does not have the power to hold assets therefore any capital expenditure is treated as revenue expenditure.

25. A similar disclosure issue was identified with Scotland Excel's reserves. The financial statements outline Joint Committees have no specific powers to hold reserves therefore reserves are transferred to creditors. Any reserves that have been built up will ultimately be returned to the member councils upon the cessation of Scotland Excel.

26. Discussions with management are ongoing to conclude whether the current treatment of capital expenditure and reserves is appropriate or needs to be revised going forward.



Recommendation 1

Management should continue to review how capital expenditure and reserves are disclosed within the financial statements.

27. The Management Commentary in the unaudited annual report and accounts has been prepared in line with statutory guidance. Management have revised the level of detail to provide readers with a better understanding of recent developments and expectations on the future. However, there is scope to make further enhancements and make better use of performance data.



Recommendation 2

Management should review the content of the Management Commentary and the use of performance data.

Follow up of prior year recommendations

28. We have followed up actions previously reported and assessed progress. Two agreed actions were raised in 2016/17 and both have been actioned as outlined in [Appendix 1](#).

Part 2

Financial sustainability and Governance Statement



Main judgements

A deficit of £0.076 million was generated from core activities in 2017/18 which was less than budgeted. The cost of service delivery has been met through requisition income and the planned use of reserves.

We concluded that the information in the Governance Statement is consistent with the financial statements and complies with the guidance issued by the Scottish Ministers.

Budget monitoring reports should include an appropriate level of detail on projects to allow members to assess and scrutinise performance.

Financial performance in 2017/18

29. The Joint Committee approved the 2017/18 budget in December 2016. Total budgeted core expenditure was £3.745 million and total budgeted core income was £3.679 million. This resulted in a budget gap of £0.066 million that management planned to meet through the use of reserves. In June 2017, the Joint Committee approved the additional use of reserves of £0.100 million to fund IT projects and the office upgrade. This increased the planned use of reserves to £0.166 million.

30. In addition to core income and expenditure, £0.196 million of income and expenditure was expected in relation to the National Care Home Contract. This is funded separately by councils that are members of this contract and is not included as part of requisitions.

31. Actual core outturn in 2017/18 was total expenditure of £3.683 million and total income of £3.607 million. This resulted in a deficit of £0.076 million for the year which was £0.090 million lower than the budgeted figure.

32. The Management Commentary in the annual report and accounts also reports income and expenditure from projects. Project expenditure was £0.764 million and income was £1.011 million, resulting in a surplus of £0.247 million. When this is offset against the core deficit, the net surplus for the year is £0.171 million.

33. Core and project activity are reported separately as there are differences in how these activities align to Scotland Excel's role and objectives. Core activities cover day to day operations which benefits all members. Whereas project activity does not involve all members and agreements are in place between Scotland Excel and members who participate in these projects.

34. The 2017/18 budget outlined core income and expenditure but there were no details on project income and expenditure. The budget monitoring reports only contain performance on core activity.

35. The Joint Committee approved changes to Scotland Excel's funding model in June 2018. Going forward, Scotland Excel is expected to reduce its reliance on requisition income and fund operations through other income that is generated. With this change in funding, it would be beneficial for members if budget monitoring reports also included an appropriate level of detail on performance for projects.

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.

This will allow a better understanding of Scotland Excel's overall performance and where budget pressures may arise.



Recommendation 3

Budget monitoring reports should include an appropriate level of detail on projects to allow members to assess and scrutinise performance.

Short and medium term financial planning

36. The largest source of income for Scotland Excel is requisitions from members of the Joint Committee. Other sources of income include rebates, associate memberships, projects, and other funding from external bodies.

37. The Joint Committee approved the 2018/19 budget in December 2017. Requisition income remained unchanged at 2017/18 levels at £3.484 million. Total budgeted income and expenditure was £3.644 million, resulting in a breakeven position. The budgeted income included £0.070 million from a forecast core underspend in 2017/18. As outlined in paragraph 30, reserves used in 2017/18 were £0.090 million less than budgeted. The 2018/19 budget also outlines forecast project income and expenditure of £0.960 million.

38. Forecasts up to 2020/21 were included within the 2018/19 budget. The forecasts estimate a budget gap in 2019/20 and 2020/21 of £0.168 million and £0.254 million respectively, and savings will need to be delivered in each year to achieve a breakeven position.

39. As outlined in paragraph 33, changes were approved by the Joint Committee to the funding model. As part of the review, forecasting was carried out to 2023/24 which outlined an operating budget gap every year which reached £0.494 million in 2023/24.

40. However, the actions approved by the Joint Committee and the work being carried out by management, a net surplus is expected from 2022/23 which will allow Scotland Excel to increase reserves. In the short term, there is expected to be net deficits and management will need to use reserves and take other actions to ensure these are managed.

41. From the work carried out, we have concluded that Scotland Excel has adequate financial planning arrangements in place. Management are well sighted on pressures in the coming years and have taken action to mitigate against the pressures and ensure Scotland Excel is sustainable and able to deliver services effectively.

Governance Statement

42. Our review of the Governance Statement assessed the assurances which are provided to the Director regarding the adequacy and effectiveness of the committee's system of internal control which operated in the financial year. The statement also summarises internal audit findings with the Chief Internal Auditor's annual assurance statement concluding 'that a reasonable level of assurance can be placed upon the adequacy and effectiveness of the Joint Committee's internal control system'.

43. We concluded that the information in the Governance Statement is consistent with the financial statements and complies with the guidance issued by the Scottish Ministers.

General Data Protection Regulation

44. The General Data Protection Regulation (GDPR) became enforceable on 25 May 2018. The regulation made changes to data protection laws and the ways in which entities address data protection compliance. Failure to comply with the regulation could result in significant sanctions.

45. Renfrewshire Council has provided support to Scotland Excel in preparation for GDPR. In addition, management have also been carrying out work to assess Scotland Excel's preparedness for GDPR and ensure all stakeholders are aware of expectations.

46. As a Joint Committee, Scotland Excel is not specifically impacted by the requirements of GDPR. However, management have decided it will fall within the arrangements in place at Renfrewshire Council, as host authority, and the Data Protection Officer (DPO) of Renfrewshire Council will assume responsibility of data protection arrangements at Scotland Excel.

Appendix 1

Action plan 2017/18

2017/18 recommendations for improvement



No.	Issue/risk	Recommendation	Agreed management action/timing
1	<p>Capital expenditure and reserves</p> <p>The financial statements disclose Scotland Excel does not have the power to hold assets or reserves therefore capital expenditure and reserves are not reflected within the financial statements.</p> <p>Risk</p> <p>There is a risk the financial statements do not fully reflect the substance of Scotland Excel's transactions.</p>	<p>It is recommended that management continue to review how capital expenditure and reserves are reported in the financial statements.</p> <p>Paragraph 23 – 26</p>	<p>This will be reviewed and updated as appropriate.</p> <p>Responsible officer: Head of Finance Renfrewshire Council,</p> <p>Target date: 31 March 2019</p>
2	<p>Management Commentary</p> <p>The Management Commentary has been prepared in accordance with statutory guidance. However, there is scope to improve how performance is reported.</p> <p>Risk</p> <p>There is a risk that the Management Commentary does not give the reader a full understanding of Scotland Excel performance.</p>	<p>It is recommended that management review the content of the Management Commentary and the use of performance data.</p> <p>Paragraph 27</p>	<p>In light of discussions with Audit Scotland, the management commentary has been updated. It is recognised that further improvements can be made, and these will be agreed with the finance team.</p> <p>Responsible officer:</p> <p>Director, Scotland Excel/ Head of Finance, Renfrewshire Council</p> <p>Target date: 31 March 2019</p>
3	<p>Budget monitoring reports</p> <p>Budget monitoring reports only provide details on core performance.</p> <p>Risk</p> <p>There is a risk that members may not be fully sighted on Scotland Excel's overall performance if project information is not reported.</p>	<p>It is recommended that budget monitoring reports include an appropriate level of detail of both core and project performance.</p> <p>Paragraph 35</p>	<p>High level reports will be provided to the Executive Subcommittee in relation to projects</p> <p>Responsible Officer:</p> <p>Head of Customer & Business Services, Scotland Excel/ Head of Finance, Renfrewshire Council</p> <p>Target date: 31 Jan 2019</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
Follow up of prior year recommendations			
1	<p>Medium term financial Planning</p> <p>Budgets are prepared on an annual basis and 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 that medium term financial planning is shared with members and scenario planning is incorporated into the financial planning process.</p>	<p>The 2018/19 budget included revenue estimates to 2020/21. In addition, the funding review included forecasts to 2023/24.</p> <p>Responsible officer: Head of Customer and Business Services/Head of Finance</p> <p>Target date: 31 March 2018</p> <p>Actual date: 8 December 2017</p>
2	<p>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 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>2017/18 Update</p> <p>A review of internal audit arrangements was carried out and presented to the Joint Committee in June 2018. However, members raised concerns about the level of detail that was provided in summary reports. As a result, the Chief Internal Auditor, management, and members are in discussions around the level of detail provided in future.</p>	<p>The Chief Auditor met with the Convenor and agreed that members of the Joint Committee will be provided confidentially with a copy of audit reports and the summary reports will continue to be presented to the Joint Committee in public.</p> <p>Responsible officer: Chief Internal Auditor</p> <p>Revised date: 28 September 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 conclusion. The risks are categorised between those where there is a risk of material misstatement in the annual report and accounts and those relating our wider responsibility under the [Code of Audit Practice 2016](#).

Audit risk	Assurance procedure	Results and conclusions
Risks of material misstatement in the financial statements		
<p>1 Risk of 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 accounting estimates.</p> <p>Focused testing of accruals and prepayments.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p>	<p>No unusual or inappropriate transactions were identified as part of our detailed journal testing.</p> <p>A review of accounting estimates did not show any evidence of bias.</p> <p>Focused testing of accruals and prepayments did not identify any balances that were incorrectly held on the Balance Sheet.</p> <p>Focused testing on a sample of transactions outside the normal course of business did not show any evidence of management override of controls.</p> <p>Conclusion: no evidence of management override of controls.</p>
<p>2 Risk of fraud over income</p> <p>Scotland Excel has a number of funding sources which includes income generation. The extent of income means that, in accordance with ISA 240, there is an inherent risk of fraud that requires an audit response.</p>	<p>Analytical procedures on income streams.</p> <p>Detailed testing of revenue transactions focusing on the areas of greatest risk.</p>	<p>Analytical procedures were carried out over all income streams and satisfactory responses were provided for all significant variances.</p> <p>Detailed testing of revenue transactions confirmed these were normal business transactions and had been accounted for in the correct year. An error was identified in the recognition of academy training income which overstated income. This was corrected by management.</p> <p>Conclusion: no evidence of fraud over income.</p>

Audit risk	Assurance procedure	Results and conclusions
<p>3 Risk of fraud over 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 risk of fraud over expenditure applies due to the variety and extent of expenditure incurred by Scotland Excel in delivering services.</p>	<p>Analytical procedures on expenditure streams.</p> <p>Detailed testing of expenditure transactions focusing on the areas of greatest risk.</p>	<p>Analytical procedures were carried out over all expenditure streams and satisfactory responses were provided for all significant variances.</p> <p>Detailed testing of expenditure transactions confirmed these were normal business transactions and had been accounted for in the correct year.</p> <p>Conclusion: no evidence of fraud over expenditure.</p>

Risks identified from the auditor's wider responsibility under the Code of Audit Practice

<p>4 Financial Sustainability</p> <p>The approved 2018/19 budget includes the flexible use of resources being brought forward from a projected underspend in 2017/18. The budget report also indicated a requirement for Scotland Excel to make significant savings over the medium term to remain financially sustainable. There is limited capacity to utilise reserves to address financial targets, nor is this a sustainable solution. Scotland Excel is exploring options to address this issue through revised governance and funding structures. However, until these are fully developed there remains a risk to financial sustainability.</p>	<p>Review of budget monitoring reports during the year and comment on the financial position within the annual audit report.</p>	<p>A review of budget monitoring reports and the financial statements highlight that an overall surplus was achieved in 2017/18. However, there was a deficit on core activities which was met through the planned use of reserves.</p> <p>Paragraph 37 outlines a budget gap is expected in 2019/20 and 2020/21 and savings will be required to achieve breakeven. However, changes to the funding model approved by the Joint Committee should allow increased levels of income to be generated which will help address the budget gap.</p> <p>Conclusion: Scotland Excel continues to operate in a challenging financial climate, with budget pressures expected in the coming years. However, action has been taken to change the funding model and allow Scotland Excel to generate increased levels of income to help manage the budget pressures.</p>
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Audit risk	Assurance procedure	Results and conclusions
<p>5 General Data Protection Regulation</p> <p>The General Data Protection Regulation (GDPR) becomes enforceable from May 2018. The regulation makes changes to data protection laws and the ways in which entities address data protection compliance. Failure to comply with the regulation can result in significant sanctions.</p> <p>Ensuring compliance with the regulation is resource intensive and will require Scotland Excel to designate a Data Protection Officer (DPO). Work is ongoing to ensure Scotland Excel is prepared for GDPR and has the necessary arrangements in place for the enforcement date.</p>	<p>Attendance at Joint Committee meetings and review of Joint Committee meeting papers.</p> <p>Discussions with management to monitor and discuss developments.</p>	<p>Renfrewshire Council has provided support to Scotland Excel in preparation for GDPR. In addition, management have also carried out work to assess Scotland Excel's preparedness for GDPR and ensure all stakeholders are aware of expectations. The DPO of Renfrewshire Council has assumed responsibility for data protection arrangements at Scotland Excel.</p> <p>Conclusion: GDPR has only been enforceable for a short period of time. Steps have been taken by management to ensure the statutory requirements of GDPR have been met. Compliance with GDPR will be assessed as part of our audit work over the remainder of the audit engagement.</p>
<p>6 Business Continuity Planning</p> <p>Scotland Excel has been working on developing business continuity arrangements. However, these are still at an early stage of development and further work needs to be done to ensure the arrangements in place are adequate.</p> <p>There is a risk that Scotland Excel may not be able to sufficiently deal with events if the arrangements are not fully developed.</p>	<p>Attendance at Joint Committee meetings and review of Joint Committee meeting papers.</p> <p>Discussions with management to monitor and discuss developments.</p>	<p>Management reviewed business continuity arrangements and work centred on ICT arrangements. Scotland Excel now operates using Office 365 and all staff have been issued a laptop to allow flexible working. The business continuity arrangements were tested earlier in the year due to adverse weather conditions. There was no disruption to services and all staff could carry on working from various locations.</p> <p>Conclusion: work has been carried out to improve business continuity arrangements. The arrangements in place were effective when they were tested due to adverse weather conditions.</p>

Scotland Excel

2017/18 Annual Audit Report PROPOSED

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Scotland Excel Executive Sub-Committee

28 September 2018

Scotland Excel Audit of 2017/18 annual accounts

Independent auditor's report

1. Our audit work on the 2017/18 annual accounts is now substantially complete. Subject to receipt of a revised set of annual accounts for final review, we anticipate being able to issue unqualified audit opinions in the independent auditor's report on 28 September 2018 (the proposed report is attached at [Appendix A](#)).

Annual audit report

2. Under International Standards on Auditing in the UK, we report specific matters arising from the audit of the financial statements to those charged with governance of a body in sufficient time to enable appropriate action. We present for Scotland Excel Executive Sub-Committee's consideration our proposed annual report on the 2017/18 audit. The section headed "Significant findings from the audit in accordance with ISA 260" sets out the issues identified in respect of the annual accounts.
3. The report also sets out conclusions from our consideration of the four audit dimensions that frame the wider scope of public audit as set out in the Code of Audit Practice.
4. This report will be issued in final form after the annual accounts have been certified.

Unadjusted misstatements

5. We also report to those charged with governance all unadjusted misstatements which we have identified during our audit, other than those of a trivial nature and request that these misstatements be corrected.
6. We have no unadjusted misstatements to be corrected.

Fraud, subsequent events and compliance with laws and regulations

7. In presenting this report to Scotland Excel Executive Sub-Committee we seek confirmation from those charged with governance of any instances of any actual, suspected or alleged fraud; any subsequent events that have occurred since the date of the financial statements; or material non-compliance with laws and regulations affecting the entity that should be brought to our attention.

Representations from Section 95 Officer

8. As part of the completion of our audit, we are seeking written representations from the Section 95 Officer on aspects of the annual accounts, including the judgements and estimates made.
9. A draft letter of representation is attached at **Appendix B**. This should be signed and returned to us by the Section 95 Officer with the signed annual accounts prior to the independent auditor's report being certified.

APPENDIX A: Proposed Independent Auditor's Report

Independent auditor's report to the members of Scotland Excel Executive Sub-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 for the year ended 31 March 2018 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Movement in Reserves Statement, Comprehensive Income and Expenditure Statement, 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 2017/18 (the 2017/18 Code).

In my opinion the accompanying financial statements:

- give a true and fair view in accordance with applicable law and the 2017/18 Code of the state of affairs of the body as at 31 March 2018 and of its income and expenditure 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 2017/18 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 (UK) (ISAs (UK)). 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 Standard, 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 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) 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.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of my auditor's report.

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, the audited part of the Remuneration Report, 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, my responsibility is to read all the other information in the annual accounts and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Report on other requirements

Opinions on matters prescribed by the Accounts Commission

In my opinion, the audited 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 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).

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 audited 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

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8 Nelson Mandela Place
Glasgow
G2 1BT
September 2017

APPENDIX B: Letter of Representation (ISA 580)

Mark Ferris
Senior Audit Manager
Audit Scotland
4th Floor
8 Nelson Mandela Place
Glasgow
G2 1BT

Dear Mark

Scotland Excel Annual Accounts 2017/18

1. This representation letter is provided about your audit of the annual accounts of Scotland Excel for the year ended 31 March 2018 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the financial reporting framework, and for expressing other opinions on the remuneration report, management commentary and annual governance statement.
2. I confirm to the best of my knowledge and belief, and having made appropriate enquiries of the Executive Sub-Committee, the following representations given to you in connection with your audit of Scotland Excel's annual accounts for the year ended 31 March 2018.

General

3. Scotland Excel and I have fulfilled our statutory responsibilities for the preparation of the 2017/18 annual accounts. All the accounting records, documentation and other matters which I am aware are relevant to the preparation of the annual accounts have been made available to you for the purposes of your audit. All transactions undertaken by Scotland Excel have been recorded in the accounting records and are properly reflected in the financial statements.
4. I confirm that the effects of uncorrected misstatements are immaterial, individually and in aggregate, to the financial statements as a whole. I am not aware of any uncorrected misstatements other than those reported by you.

Financial Reporting Framework

5. The annual accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 (2017/18 accounting code), and in accordance with the requirements of the Local Government (Scotland) Act 1973, the Local Government in Scotland Act 2003 and The Local Authority Accounts (Scotland) Regulations 2014.
6. In accordance with the 2014 regulations, I have ensured that the financial statements give a true and fair view of the financial position of the Scotland Excel at 31 March 2018 and the transactions for 2017/18.

Accounting Policies & Estimates

7. All significant accounting policies applied are as shown in the notes to the financial statements. The accounting policies are determined by the 2017/18 accounting code where applicable. Where the code does not specifically apply I have used judgement in developing and applying an accounting policy that results in information that is relevant and reliable. All accounting policies applied are appropriate to Scotland Excel circumstances and have been consistently applied.
8. The significant assumptions used in making accounting estimates are reasonable and properly reflected in the financial statements. Judgements used in making estimates have been based on the latest available, reliable information. Estimates have been revised where there are changes in the circumstances on which the original estimate was based or as a result of new information or experience.

Going Concern Basis of Accounting

9. I have assessed Scotland Excel's ability to continue to use the going concern basis of accounting and have concluded that it is appropriate. I am not aware of any material uncertainties that may cast significant doubt on Scotland Excel's ability to continue as a going concern.

Liabilities

10. All liabilities at 31 March 2018 of which I am aware have been recognised in the annual accounts.
11. The accrual recognised in the financial statements for holiday untaken by 31 March 2018 has been estimated on a reasonable basis.
12. The pension assumptions made by the actuary in the IAS 19 report for Scotland Excel have been considered and I confirm that they are consistent with management's own view.
13. There are no plans or intentions that are likely to affect the carrying value or classification of the liabilities recognised in the financial statements.

Fraud

14. I have provided you with all information in relation to:
 - my assessment of the risk that the financial statements may be materially misstated because of fraud
 - any allegations of fraud or suspected fraud affecting the financial statements
 - fraud or suspected fraud that I am aware of involving management, employees who have a significant role in internal control, or others that could have a material effect on the financial statements.

Laws and Regulations

15. I have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

Related Party Transactions

16. All material transactions with related parties have been disclosed in the financial statements in accordance with the 2017/18 accounting code. I have made available to you the identity of all

Scotland Excel's related parties and all the related party relationships and transactions of which I am aware.

Remuneration Report

17. The Remuneration Report has been prepared in accordance with the Local Authority Accounts (Scotland) Amendment Regulations 2014, and all required information of which I am aware has been provided to you.

Management commentary

18. I confirm that the Management Commentary has been prepared in accordance with the statutory guidance and the information is consistent with the financial statements.

Corporate Governance

19. I confirm that Scotland Excel has undertaken a review of the system of internal control during 2017/18 to establish the extent to which it complies with proper practices set out in the Delivering Good Governance in Local Government: Framework 2016. I have disclosed to you all deficiencies in internal control identified from this review or of which I am otherwise aware.
20. I confirm that the Governance Statement has been prepared in accordance with the Delivering Good Governance in Local Government: Framework 2016 and the information is consistent with the financial statements. There have been no changes in the corporate governance arrangements or issues identified, since 31 March 2018, which require to be reflected.

Events Subsequent to the Date of the Balance Sheet

21. All events subsequent to 31 March 2018 for which the 2017/18 accounting code requires adjustment or disclosure have been adjusted or disclosed.

Yours sincerely

Treasurer