

# Scotland Excel

2018/19 Annual Audit Report – Proposed



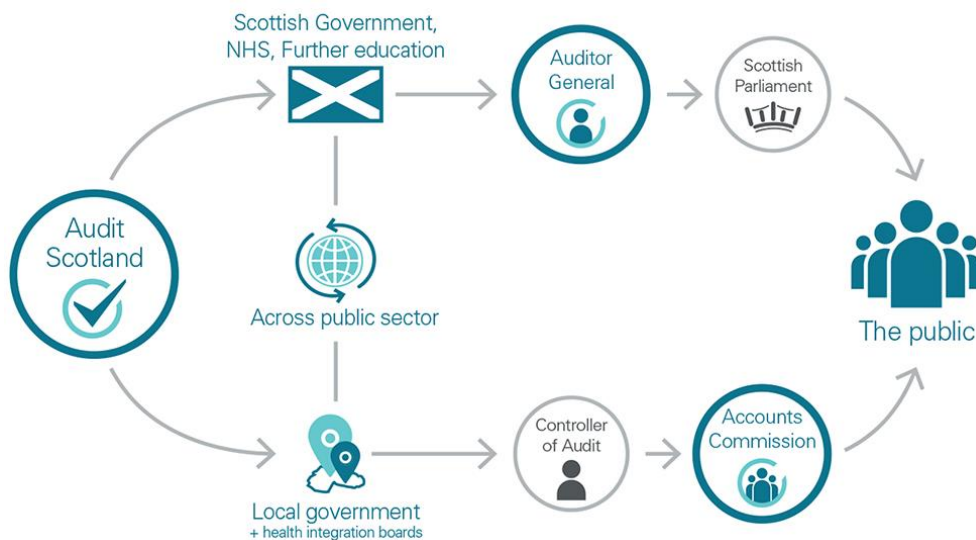
 **AUDIT SCOTLAND**

Prepared for Scotland Excel Executive Sub-Committee and the Controller of Audit  
September 2019

## 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

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## 2018/19 annual accounts

- 1 Scotland Excel's financial statements give a true and fair view and were properly prepared.
- 2 An adjustment to pension disclosures and balances was required as a result of a legal judgment. This resulted in an increase of £0.227 million to the pension fund liability reported in the Balance Sheet.
- 3 The Management Commentary, the Annual Governance Statement, and the audited part of the Remuneration Report were all consistent with the financial statements and properly prepared in accordance with the applicable requirements.

## Financial sustainability and Annual Governance Statement

- 4 Scotland Excel achieved a surplus of £0.318 million in 2018/19. This comprises a deficit of £0.098 million for core services and a surplus of £0.416 million for projects.
- 5 The 2019/20 budget projected total budgeted income and expenditure of £4.002 million, resulting in a breakeven position. Budgeted income included £0.120 million planned use of reserves and net project income of £0.173 million. To aid achieving this breakeven position, an increase of two per cent in requisition income was agreed.
- 6 Future planning indicates a budget gap in 2020/21 of £90,000 and a breakeven position in 2021/22. This position is based on a three per cent increase in requisition income in both years. The budget gap experienced in 2020/21 is expected to be managed through savings.
- 7 We concluded that the information in the Annual Governance Statement is consistent with the financial statements and complies with the guidance issued by the Scottish Ministers.

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# Introduction

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1. This report summarises the findings from our 2018/19 audit of Scotland Excel.

2. The scope of our audit was set out in our [Annual Audit Plan](#) presented to the 22 March 2019 meeting of the Joint Committee. This report comprises the findings from:

- an audit of Scotland Excel annual accounts
- consideration of the financial sustainability and Annual Governance Statement.

## Adding value through the audit

3. We add value to Scotland Excel through the audit by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations for improvements
- reporting our findings and conclusions in public
- sharing intelligence and good practice through our national reports ([Appendix 2](#)) and good practice guides
- providing clear conclusions on the appropriateness, effectiveness and impact of corporate governance and financial sustainability.

4. In so doing, we aim to help Scotland Excel promote improved standards of governance, better management and decision making and more effective use of resources.

## Responsibilities and reporting

5. The Joint Committee has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual accounts that are in accordance with proper accounting practices. The Joint Committee is also responsible for compliance with legislation putting arrangements in place for governance, propriety and regularity that enable it to successfully deliver its objectives.

6. Our responsibilities as independent auditor appointed by the Accounts Commission are established by the Local Government in Scotland Act 1973, the [Code of Audit Practice \(2016\)](#) and supplementary guidance and International Standards on Auditing in the UK.

7. As public sector auditors we give independent opinions on the annual accounts and conclude on securing financial sustainability and appropriateness of the Annual Governance Statement disclosures. In doing this, we aim to support improvement and accountability.

8. 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 Annual Governance Statement and the financial sustainability of the body and its services. As

highlighted in our 2018/19 Annual Audit Plan, due to the volume and lack of complexity of the financial transactions, we applied the small body provisions of the Code to the 2018/19 audit.

**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.** 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 2018/19 audit fee of £5,880 as set out in our Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

**11.** This report is addressed to both the Executive Sub-Committee and the Controller of Audit and will be published on Audit Scotland's website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk) in due course.

**12.** We would like to thank the management and staff for their cooperation and assistance during the audit.

# Part 1

## Audit of 2018/19 annual accounts



### Main judgements

**Scotland Excel's financial statements give a true and fair view and were properly prepared.**

**An adjustment to pensions disclosures and balances was required as a result of a legal judgement. This resulted in an increase of £0.227 million to the pension fund liability reported in the Balance Sheet.**

**The Management Commentary, the Annual Governance Statement, and the audited part of the Remuneration Report were all consistent with the financial statements and properly prepared in accordance with the applicable requirements.**

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

### Audit opinions on the annual accounts

**13.** The annual accounts for the year ended 31 March 2019 were approved by the Executive Sub-Committee on 20 September 2019. We reported, within the independent auditor's report that:

- the financial statements give a true and fair view and were properly prepared
- the Management Commentary, the Annual Governance Statement and the audited part of the Remuneration Report, were all consistent with the financial statements and properly prepared in accordance with the applicable requirements
- we have nothing to report in respect of those matters which we are required by the Accounts Commission to report by exception.

### Submission of annual accounts for audit

**14.** We received the unaudited annual accounts on 21 June 2019 in line with our agreed audit timetable.

**15.** The unaudited annual 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.

**16.** The Local Authority Accounts (Scotland) Regulations 2014 required Scotland Excel to give public notice for inspection and objection of the 2018/19 unaudited annual accounts by 17 June 2019. The public notice was published on the Scotland Excel website on 26 June 2019 and in a newspaper on 28 June 2019, meaning this deadline was not met.

## Risks of material misstatement

**17.** [Appendix 1](#) provides a description of those assessed risks of material misstatement in the annual accounts and any wider audit dimension risks that were identified during the audit planning process. It also summarises the work we have done to gain assurance over the outcome of these risks.

**18.** We have no issues to report from our work on the risks of material misstatement highlighted in our 2018/19 Annual Audit Plan.

## 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.** Our initial assessment of materiality for the annual accounts was carried out during the planning phase of the audit and is summarised in [Exhibit 1](#). With regards to the annual accounts, we assess the materiality of uncorrected misstatements both individually and collectively.

**21.** On receipt of the unaudited annual accounts we reviewed our materiality calculations as detailed in [Exhibit 1](#).

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### Exhibit 1 Materiality values

Materiality level	Amount
Overall materiality	£56,900
Performance materiality	£33,600
Reporting threshold	£1,000

Source: Audit Scotland

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## 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, including our view about the qualitative aspects of the body's accounting practices covering accounting policies, accounting estimates and financial statements disclosures. The significant findings are summarised in [Exhibit 2](#).

**23.** We have no significant findings to report around the qualitative aspects of the 2018/19 accounting practices.



## Exhibit 2

### Significant findings from the audit of the financial statements

Finding	Resolution
<p><b>1. Capital accounting</b></p> <p>We recommended in our <a href="#">2017/18 Annual Audit Report</a> that management review how capital expenditure is reflected in the financial statements. This was discussed further with management as part of the 2018/19 audit and it was agreed that capital expenditure would be reflected in the financial statements to reflect the substance of arrangements rather than just their legal form.</p> <p>This change resulted in new accounting policies for property, plant, and equipment (PPE) and intangible assets. To comply with <i>International Accounting Standard 8 – Accounting Policies, Changes in Accounting Estimates and Errors</i>, retrospective restatements and a third Balance Sheet were required. A number of new transactions, balances, and statutory adjustments have been reflected in the financial statements.</p>	<p>The audit recommendation has been fully implemented by management within the 2018/19 financial statements.</p>
<p><b>2. Reserves accounting</b></p> <p>We recommended in our 2017/18 Annual Audit Report that management review how reserves are reflected in the financial statements. This was discussed further with management as part of the 2018/19 audit and it was agreed that the accounting treatment for reserves would be updated to reflect the substance of arrangements rather than just their legal form.</p> <p>This change resulted in a revenue reserve balance being recognised in the financial statements at the year end. Prior year comparatives were also restated to reflect the updated accounting treatment. The revenue reserve balance reflects accumulated surpluses that have been generated in previous years which are available to Scotland Excel.</p>	<p>The audit recommendation has been fully implemented by management within the 2018/19 financial statements.</p>
<p><b>3. Pension fund liability legal judgement</b></p> <p>Legal cases were brought against the UK government regarding the transition arrangements made in each of the pension schemes for judges and firefighters. These arrangements came into effect as part of the move from a Final Salary Pension Scheme to a Career Average Pension Scheme in 2015 and included certain protections for active members of the schemes.</p> <p>The claimants successfully argued, in the resultant Employment Tribunal hearing, that some elements of the protection measures were unlawful on the grounds of age discrimination. The Employment Tribunal's ruling on this matter was upheld by the Supreme Court in June 2019.</p> <p>As this would have an impact on the transition arrangements of all government backed pension schemes, the council instructed, on behalf of Scotland Excel, the actuary to the Strathclyde Pension Fund to quantify the impact on the Scotland Excel's pension fund liability. The actuary estimated that the impact from this case is to increase the Scotland Excel's pension fund liability by £0.227 million.</p>	<p>The financial statements were updated to reflect the impact of the legal judgement on the pension fund liability.</p>

Finding	Resolution
<p>The impact of this adjustment resulted in a £0.227 million increase to the pension fund liability reported in the Balance Sheet from £3.394 million to £3.621 million, with a matching increase in the unusable pension reserve. This also resulted in a £0.223 million increase in the pension cost charge incorporated within the Comprehensive Income and Expenditure Statement in the accounts. As these adjustments are fully mitigated by a statutory adjustment, they have no impact on the £0.098 million deficit reported in the general fund reserve balance in the unaudited accounts.</p>	
<p><b>4. Cashflow Statement</b></p> <p>As part of audit work during the year, we had discussions with management on the presentation of the financial statements and the requirement for a Cashflow Statement. Scotland Excel does not have a bank account and all income and expenditure transactions are processed through Renfrewshire Council's, as the administering authority, bank account. The only cash held by Scotland Excel is petty cash which amounted to £150 at the year end.</p> <p>As a result, it was agreed that the Cashflow Statement could be removed as the cash held by Scotland Excel was not significant and the Cashflow Statement should only reflect cash transactions processed by Scotland Excel, of which there were none. The Cashflow Statement was removed in the unaudited annual accounts considered by the Joint Committee in June 2019.</p>	<p>The financial statements were updated to remove the Cashflow Statement.</p>
<p><b>5. Capital expenditure</b></p> <p>As part of our work on PPE and intangible assets, we identified capital expenditure transactions had been correctly capitalised on the Balance Sheet. However, the transactions had also been processed incorrectly through the Comprehensive Income and Expenditure Statement as revenue expenditure. This resulted in income and expenditure being overstated by £94,074 in 2018/19.</p>	<p>The overstatement of income and expenditure in 2018/19 was corrected within the Comprehensive Income and Expenditure Statement.</p> <p>As income and expenditure were overstated by the same amount, this did not impact on the deficit on the provision of services.</p>

Source: Audit Scotland

## How we evaluate misstatements

**24.** 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](#).

## Other Findings

**25.** From the audit work we performed, we noted three additional errors resulting in expenditure being understated by £11,406. This comprises £2,242 of lease costs and a £2,631 service charge for core services and £6,533 of expenditure relating to recruitment for projects that had not been recognised in the unaudited annual accounts. These errors were corrected by management.

## Follow up of prior year recommendations

**26.** We have followed up actions previously reported and assessed progress. Three agreed actions were raised in 2017/18 and all have been fully actioned.

### Recommendation 1 – Capital Expenditure and Reserves

**27.** As detailed in [Exhibit 2](#) above, during the 2017/18 audit, we noted that Scotland Excel had incurred capital expenditure, but this has been accounted for as revenue expenditure. The financial statements disclosed that Scotland Excel did not have the power to hold assets therefore any capital expenditure was treated as revenue expenditure.

**28.** A similar disclosure issue was identified in respect of Scotland Excel's reserves. The financial statements outlined that the Joint Committee had no specific powers to hold reserves therefore reserves were transferred to creditors. Any reserves that have been built up will ultimately be returned to the member councils upon the cessation of Scotland Excel or when the Joint Committee decides to reimburse the reserves to member councils.

**29.** The Code of Practice on Local Authority Accounting in the United Kingdom states 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.

**30.** We recommended that management should review how capital expenditure and reserves were disclosed within the financial statements.

**31.** For the 2018/19 financial statements management have revised their accounting treatment and now recognise assets and reserves within the financial statements. As a result, the Balance Sheet has been restated to reflect the impact of this change in accounting treatment.

### Recommendation 2 – Management Commentary

**32.** As part of the 2017/18 audit, we reported that the Management Commentary had been prepared in accordance with statutory guidance. However, there was scope to improve how performance was reported and we recommended that management review the content of the Management Commentary and the use of performance data.

**33.** The Management Commentary in the 2018/19 annual accounts has undergone a significant update. It now provides a clear and user-friendly summary of Scotland Excel's performance over the year. Management have also incorporated a number of charts and exhibits to improve the transparency of the details reported.

### Recommendation 3 – Budget monitoring reports

**34.** Income generated from projects has grown considerably in recent years and is expected to form a greater proportion of Scotland Excel's funding in future years. As a result, it was recommended in our 2017/18 Annual Audit Report that management update the content of budget monitoring reports to include details on projects.

**35.** The content of budget monitoring reports was updated from January 2019 and these now include details on income and expenditure associated with projects. Management will review the level of detail reported on projects and discuss with members if any changes are required in future due to the developing nature and significance of projects.

# Part 2

## Financial sustainability and Annual Governance Statement



### Main judgements

Scotland Excel achieved a surplus of £0.318 million in 2018/19. This comprises a deficit of £0.098 million for core services and a surplus of £0.416 million for projects.

The 2019/20 budget projected total budgeted income and expenditure of £4.002 million, resulting in a breakeven position. Budgeted income included £0.120 million planned use of reserves and net project income of £0.173 million. To aid achieving this breakeven position, an increase of two per cent in requisition income was agreed.

Future planning indicates a budget gap in 2020/21 of £90,000 and a breakeven position in 2021/22. This position is based on a three per cent increase in requisition income in both years. The budget gap experienced in 2020/21 is expected to be managed through savings.

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

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.

### Financial performance in 2018/19

**36.** The Joint Committee approved the 2018/19 budget in December 2017. Total budgeted income and expenditure was £3.644 million, resulting in a breakeven position. Budgeted income included an underspend of £70,000 carried forward from 2017/18. Budgeted project income and expenditure was £0.960 million, resulting in a breakeven position for projects.

**37.** Actual outturn in 2018/19 was total expenditure of £5.102 million and total income of £5.420 million. This resulted in a surplus of £0.318 million for the year compared to a budgeted breakeven position. While an overall surplus was achieved, this was driven by projects and there was a deficit on core services ([Exhibit 3](#)).

## Exhibit 3

### 2018/19 Outturn

	Core (£ millions)	Projects (£ millions)	Total (£ millions)
Income	3.555	1.865	5.420
Expenditure	3.653	1.449	5.102
Net (Income) / Expenditure	0.098	(0.416)	(0.318)

Source: Scotland Excel 2018/19 annual accounts

### Short term financial planning

**38.** The largest source of income for Scotland Excel is requisitions from members of the Joint Committee. However, the level of income from other sources has increased in recent years and makes up approximately 37 per cent of total income in 2018/19. The other sources of income include rebates, associate memberships, projects, and the Academy.

**39.** The Joint Committee approved the 2019/20 budget in December 2018. Total budgeted income and expenditure was £4.002 million, resulting in a breakeven position. However, budgeted income included £0.120 million planned use of reserves and net project income of £0.173 million (i.e. the budgeted surplus from projects). A two per cent increase in requisition income was agreed by the Joint Committee which resulted in requisitions increasing from £3.484 million in 2018/19 to £3.554 million in 2019/20.

### Medium to long term financial planning

**40.** We reviewed the financial planning systems and assessed how effective they are in identifying and addressing risks to the financial sustainability of Scotland Excel over the medium and long term.

**41.** As part of the budget setting process, revenue estimates are prepared for a three-year period. This allows management and members to identify pressures and take early actions to mitigate against these pressures.

**42.** Forecasts up to 2021/22 were included within the 2019/20 budget. The forecasts estimate a budget gap in 2020/21 of £90,000, that is to be managed through savings, followed by a breakeven position in 2021/22. This position is based on a three per cent increase in requisition income for both 2020/21 and 2021/22.

**43.** Scotland Excel carried out a review of its funding model in June 2018. The review highlighted the challenging financial landscape within local government and the work Scotland Excel would be doing to manage its financial position and support member councils. An update on the funding model was reported at the June 2019 Joint Committee meeting and the key developments are outlined below.

- **Consultancy:** a number of projects are underway with various types of organisations including East Renfrewshire Council, Fife Council, Tayside Procurement, Cycling Scotland, and City Property (Glasgow) LLP. A surplus target of £70,000 was approved by the Joint Committee and Scotland Excel is on target to achieve this, with opportunity to exceed the target.

- **Learning and development – the Academy:** programmes have been delivered and are progressing over a range of topics including project management and procurement. A marketing campaign was launched to help build the Academy's profile and create demand and awareness of programmes available. The Academy has also been approved to deliver a Business Analysis, Decision Making and Innovation programme which is accredited by the Scottish Qualifications Authority. A surplus target of £53,000 was approved by the Joint Committee and Scotland Excel is on target to achieve this target.
- **Rebates:** the Joint Committee approved the use of volume rebates within appropriate contracts. Consideration of the appropriateness of using rebates is now standard practice within the internal contract governance process. Rebates are forecast to achieve a surplus in 2020/21.

**44.** From the work carried out, we have concluded that Scotland Excel has appropriate financial planning arrangements in place. Cost and income generation pressures are expected to continue in the medium term. However, the financial planning arrangements in place allow management to plan for these pressures and ensure necessary actions are taken when required.

## Annual Governance Statement

**45.** Our review of the Annual Governance Statement assessed the assurances which are provided to the Director regarding the adequacy and effectiveness of the Joint 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'.

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

## EU Withdrawal

**47.** There remains significant uncertainty surrounding the terms of the UK's withdrawal from the European Union (EU). EU withdrawal will inevitably have implications for devolved government in Scotland and for audited bodies. It is critical that public sector bodies are working to understand, assess and prepare for the impact on their business in three broad areas:

- workforce – the extent to which potential changes to migration are likely to affect the availability of the people and skills needed to deliver services
- funding – the extent to which potential changes to existing EU funding programmes are likely to affect the finances of public bodies and the activity that such funding supports
- regulation – the extent to which potential changes to EU regulations are likely to affect the activities of some public bodies.

**48.** Management have been carrying out work to assess the potential impact of EU withdrawal on operations. This includes research, active engagement, partnership working, and briefings to ensure management and Scotland Excel are aware of the potential impact and can respond to developments. This has also been reflected within Scotland Excel's Risk Register.

**49.** In addition, Renfrewshire Council is the lead authority for Scotland Excel. As a result, Scotland Excel is expected to follow and reflect the work done by the council in preparation for EU withdrawal where required.

**50.** We have concluded that Scotland Excel has appropriate arrangements in place in preparing for EU withdrawal.



# Appendix 1

## 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 accounts and those relating our wider responsibility under the [Code of Audit Practice 2016](#).

Audit risk	Assurance procedure	Results and conclusions
<b>Risks of material misstatement in the financial statements</b>		
<b>1 Risk of management override of controls</b>  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 to change the position disclosed in the financial statements.	Detailed testing of journal entries.  Review of accounting estimates.  Focused testing of accruals and prepayments.  Evaluation of significant transactions that are outside the normal course of business.	No unusual or inappropriate transactions were identified as part of our detailed journal testing.  A review of accounting estimates did not show any evidence of bias.  Focused testing of accruals and prepayments did not identify any balances that were incorrectly held on the balance sheet.  Focused testing on a sample of transactions outside the normal course of business did not show any evidence of management override of controls.  <b>Conclusion: no evidence of management override of controls.</b>
<b>2 Risk of fraud over income</b>  Scotland Excel receives a significant amount of income from several sources including, income generated from sales, fees and charges. The extent and complexity of income means that, in accordance with ISA240, there is an inherent risk of fraud.	Analytical procedures on income streams.  Detailed testing of income transactions focusing on the areas of greatest risk.	Analytical procedures were carried out over all income streams and satisfactory responses were provided for all significant variances.  Detailed testing of revenue transactions confirmed these were normal business transactions and had been accounted for in the correct year.  <b>Conclusion: no evidence of fraud over income.</b>
<b>3 Risk of fraud over expenditure</b>  Most public sector bodies are net expenditure bodies and therefore the risk of fraud is more likely to occur in expenditure.	Analytical procedures on expenditure streams.  Detailed testing of expenditure transactions focusing on the areas of greatest risk.	Analytical procedures were carried out over all expenditure streams and satisfactory responses were provided for all significant variances.  Detailed testing of expenditure transactions confirmed these were normal business



Audit risk	Assurance procedure	Results and conclusions
<p>The Code of Audit Practice expands the consideration of fraud under ISA 240 to include the risk of fraud over expenditure. This applies to Scotland Excel due to the variety and extent of expenditure incurred in delivering services.</p>		<p>transactions and had been accounted for in the correct year.</p> <p><b>Conclusion: no evidence of fraud over expenditure.</b></p>
<p><b>4 IFRS 15 and accounting for income</b></p> <p>IFRS 15 Revenue from contracts with customers comes in to effect in 2018/19 and requires entities to use a five-step approach to recognising income.</p> <p>In June 2018 the Joint Committee approved changes to Scotland Excel's funding model. The changes approved will result in greater reliance on generated income as a source of funding and less reliance on requisition income. Income is expected to be generated from a number of sources and some projects span a number of years.</p> <p>The expected increases in income generated, the sources and timing of income generated, and the requirements of IFRS 15 represent an increased risk of material misstatement in the financial statements.</p>	<p>Review of income sources and detailed testing of income transactions against the recognition requirements of IFRS 15.</p> <p>Review of reserves and deferred income balances at the year-end.</p>	<p>Detailed testing of income transactions from all sources confirmed these had been correctly recognised in accordance with IFRS 15.</p> <p>A review of reserves and deferred income balances at the year-end confirmed these had been appropriately classified in the Balance Sheet.</p> <p><b>Conclusion: income has been recognised in accordance with IFRS 15 and reserves and deferred income balances have been appropriately classified.</b></p>
<p><b>5 Estimates and Judgements</b></p> <p>There is a significant degree of subjectivity in the measurement and valuation of the material account area of pensions.</p> <p>Scotland Excel's net liability relating to the Strathclyde Pension Fund at 31 March 2018 was £1.441 million. This value is an estimate based on a number of assumptions from the pension fund actuary.</p> <p>This subjectivity represents an increased risk of material misstatement in the financial statements.</p>	<p>Review of the pension actuary and the assumptions made in calculating the estimated pension liability.</p>	<p>A review of the actuary and the assumptions made in calculating the estimated pension liability was carried out and found the approach and assumptions used by the actuary to be reasonable and in line with expectation.</p> <p><b>Conclusion: the estimates and judgements made to calculate the net pension liability were reasonable.</b></p>

Audit risk	Assurance procedure	Results and conclusions
<p><b>6 New accounting system</b></p> <p>Renfrewshire Council implemented an enterprise resource planning system (Business World), in October 2018 which combines finance, HR, payroll and procurement into a single integrated application.</p> <p>The implementation of Business World during the 2018/19 financial year means that the annual accounts will be prepared using information recorded both before and after the change in system, under two different control environments.</p> <p>This introduces additional risks:</p> <ul style="list-style-type: none"> <li>- The new control environment may be less robust</li> <li>- Data may not be correctly transferred to the new system</li> <li>- Differences in the new system may make accounts preparation more challenging</li> </ul> <p>The overall impact of the move to Business World is an increased risk of material misstatement in the annual accounts. This affects Scotland Excel as Renfrewshire Council is the host authority and Scotland Excel uses its accounting system.</p>	<p>Gaining an understanding of Business World by reviewing process maps and through discussions with key officers.</p> <p>Detailed testing of significant transactions processed during the change period and rolled forward balances.</p> <p>Review of account/cost code mapping from legacy system to Business World.</p> <p>The work outlined above will be completed as part of the Renfrewshire Council audit and the Scotland Excel audit team will take assurances from that work.</p>	<p>As part of work on the Renfrewshire Council audit, a review of the process maps and the operation of the key systems was carried out. This was reported in the 2018/19 Management Report for Renfrewshire Council.</p> <p>Detailed testing of transactions processed during the change period and rolled forward balances did not identify any issues.</p> <p>A review of account code/cost code mapping from the legacy system to Business World did not identify any issues.</p> <p><b>Conclusion: audit work carried out did not identify any issues in the roll forward of balances and mapping of account codes/cost centres to the new system.</b></p>

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

<p><b>7 Financial sustainability</b></p> <p>The 2018/19 Revenue Estimates and finance reports to members throughout the year highlight uncertainties in future funding and increasing pressures on available resources. It is likely future savings will need to be made to achieve a breakeven position and maintain reserves at an appropriate level.</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 a surplus was achieved in year compared to a budgeted breakeven position. This increases reserves and provides management flexibility to deal with adverse and unforeseen events in the medium term.</p> <p>Financial planning has highlighted the need to achieve savings and use reserves to achieve a breakeven position in future years. There are also risks associated with the funding model review. These issues could lead</p>
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Audit risk	Assurance procedure	Results and conclusions
		<p>pressures on the provision of services in future years. However, appropriate financial planning arrangements are in place and these will allow management to plan and take action against pressures and risks.</p> <p><b>Conclusion: Scotland Excel continues to operate in a challenging financial climate. However, action has been taken by management to manage financial pressures.</b></p>

# Appendix 2

## Summary of national performance reports 2018/19

### 2018/19 Reports

Local government in Scotland:  
Challenges and performance 2018



Apr

Councils' use of arm's-length  
organisations



May



Scottish Fire and Rescue Service:  
an update

Scotland's colleges 2018



Jun

Jul



The National Fraud Initiative  
in Scotland 2016/17

Forth Replacement Crossing



Aug



Major project and procurement lessons

Children and young people's  
mental health



Sept



Superfast broadband for Scotland:  
further progress update

NHS in Scotland 2018



Oct

Health and social care integration:  
update on progress



Nov



Local government in Scotland:  
Financial overview 2017/18

Dec

Jan

Feb

Mar



Local government in Scotland:  
Challenges and performance 2019

# Scotland Excel

## 2018/19 Annual Audit Report – Proposed

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## Scotland Excel Executive Sub-Committee

20 September 2019

### Scotland Excel Audit of 2018/19 annual accounts

#### Independent auditor's report

1. Our audit work on the 2018/19 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 24 September 2019 (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 the Executive Sub-Committee's consideration our draft Annual Audit Report on the 2018/19 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. As outlined within our Annual Audit Plan, due to the nature and size of Scotland Excel, we have assessed the extent of wider dimensions work and concluded that a reduced scope, as outlined in paragraph 53 of the Code of Audit Practice, can be applied.
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 the 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 Treasurer, as 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 Treasurer 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

### 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 2019 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Comprehensive Income and Expenditure Statement, Movement in Reserves Statement, Balance Sheet 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 2018/19 (the 2018/19 Code).

In my opinion the accompanying financial statements:

- give a true and fair view in accordance with applicable law and the 2018/19 Code of the state of affairs of Scotland Excel as at 31 March 2019 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 2018/19 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 for opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)), as required by the [Code of Audit Practice](#) approved by the Accounts Commission for Scotland. 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 was appointed under arrangements approved by the Accounts Commission on 10 April 2017. The period of total uninterrupted appointment is three years. 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. Non-audit services prohibited by the Ethical Standard were not provided to the body. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

#### Conclusions relating to going concern basis of accounting

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Treasurer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about body's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

#### Risks of material misstatement

I have reported in a separate Annual Audit Report, which is available from the [Audit Scotland website](#), the most significant assessed risks of material misstatement that I identified and my conclusions thereon.



## **Responsibilities of the Treasurer and Scotland Excel Executive Sub-Committee 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.

In preparing the financial statements, the Treasurer is responsible for assessing Scotland Excel's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

The Executive Sub-Committee is responsible for overseeing the financial reporting process.

## **Auditor's responsibilities for the audit of the financial statements**

My objectives are to obtain 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.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, intentional omissions, misrepresentations, or the override of internal control. The capability of the audit to detect fraud and other irregularities depends on factors such as the skilfulness of the perpetrator, the frequency and extent of manipulation, the degree of collusion involved, the relative size of individual amounts manipulated, and the seniority of those individuals involved. I therefore design and perform audit procedures which respond to the assessed risks of material misstatement due to fraud.

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](http://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 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).

### **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.

I have nothing to report in respect of these matters.

### **Conclusions on wider scope responsibilities**

In addition to my responsibilities for the annual accounts, my conclusions on the wider scope responsibilities specified in the Code of Audit Practice are set out in my Annual Audit Report.

### **Use of my report**

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, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Mark Ferris  
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The Athenaeum Building  
8 Nelson Mandela Place  
Glasgow  
G2 1BT

September 2019

## 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 2018/19**

1. This representation letter is provided about your audit of the annual accounts of Scotland Excel for the year ended 31 March 2019 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 Director and 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 2019.

### **General**

3. Scotland Excel and I have fulfilled our statutory responsibilities for the preparation of the 2018/19 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.

### **Financial Reporting Framework**

4. The annual accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 (2018/19 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.
5. In accordance with the 2014 regulations, I have ensured that the financial statements give a true and fair view of the financial position of Scotland Excel at 31 March 2019 and the transactions for 2018/19.

### **Accounting Policies & Estimates**

6. All significant accounting policies applied are as shown in the notes to the financial statements. The accounting policies are determined by the 2018/19 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's circumstances and have been consistently applied.

7. 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**

8. 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.

### **Assets**

9. All assets at 31 March 2019 of which I am aware have been recognised in the annual accounts.
10. I carried out an assessment at 31 March 2019 as to whether there is any indication that an asset may be impaired and have recognised any impairment losses identified.
11. There are no plans or intentions that are likely to affect the carrying value or classification of the assets recognised within the financial statements.
12. Owned assets are free from any lien, encumbrance or charge except as disclosed in the financial statements.

### **Liabilities**

13. All liabilities at 31 March 2019 of which I am aware have been recognised in the annual accounts.
14. The accrual recognised in the financial statements for holiday untaken by 31 March 2019 has been estimated on a reasonable basis.
15. 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.
16. There are no plans or intentions that are likely to affect the carrying value or classification of the liabilities recognised in the financial statements.

### **Contingent liabilities**

17. There are no significant contingent liabilities, other than those disclosed in Note 17 to the financial statements, arising either under formal agreement or through formal undertakings requiring disclosure in the accounts. All known contingent liabilities have been fully and properly disclosed, including any outstanding legal claims which have not been provided under the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 and IAS 37.

### **Fraud**

18. 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**

19. 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**

20. All material transactions with related parties have been appropriately accounted for and disclosed in the financial statements in accordance with the 2018/19 accounting code. I have made available to you the identity of all of Scotland Excel's related parties and all the related party relationships and transactions of which I am aware.

## **Remuneration Report**

21. 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**

22. 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**

23. I confirm that the Joint Committee has undertaken a review of the system of internal control during 2018/19 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.
24. I confirm that the Annual 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 2019, which require to be reflected.

## **Events Subsequent to the Date of the Balance Sheet**

25. All events subsequent to 31 March 2019 for which the 2018/19 accounting code requires adjustment or disclosure have been adjusted or disclosed.

## **Prior Period Restatements**

26. I confirm the prior period restatements in respect of the accounting treatment for capital transactions and reserves in the Comprehensive Income and Expenditure Statement, Balance Sheet, Movement in Reserves Statement, and in the notes to the financial statements are accurate and in line with accounting records.

Yours sincerely

Treasurer