

## **Scotland Excel**

**To: Executive Sub Committee**

**On: 16<sup>th</sup> September 2016**

### **Report**

**by**

**Joint Report by the Treasurer and the Director**

### **Audited Annual Accounts 2015-16**

#### **1. Summary**

- 1.1 At the meeting of Scotland Excel Joint Committee on 17 June 2016 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 abstract of the accounts presents a true and fair view of the financial position of the Joint Committee as at 31 March 2016, in accordance with the accounting policies detailed in the accounts.
- 1.3 A report on the 2015-16 audit by Audit Scotland is also submitted for members information.
- 1.4 Following the introduction of the Local Authority Accounts (Scotland) Regulations 2014 the audited accounts must be approved for signature by the Executive Sub Committee no later than 30 September each year. Following this approval the audited accounts will be submitted to The Director, The Convenor and The Treasurer for signature.

#### **2 Recommendations**

- 2.1 It is recommended that members approve the audited accounts for signature and note the report by Audit Scotland.





# Scotland Excel

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Annual Financial Statements 2015/16



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## **Management Commentary**

### **Introduction**

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

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

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

Our c. £700m contract portfolio supports the delivery of social care, construction, roads, transport, environment, corporate, education and ICT services. Our contracts achieve annual savings of c. £15.7m, and encourage innovation, facilitate policy, support local economies and generate social value for communities.

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

### **Structure**

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

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

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

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

### **Strategic Aims**

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

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

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

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

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

**Goal 2: Being sustainable in everything we do**

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

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

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

**Goal 3: Placing customers at the heart of our business**

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

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

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

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

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

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

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

**Values**

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

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

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

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

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

**Vision**

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

**Mission**

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

A copy of the current three year business plan can be found at the address below.

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



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A copy of the 2015-16 year end report, which measures performance against the business plan for the current year, can be found at the link below.

[Operating Plan Update 2015-16](#)

A copy of the current risk register can be found at the address below.

<http://www.scotland-excel.org.uk/nmsruntime/saveasdialog.aspx?IID=11272&SID=25652>

## **Financial Performance**

### **Revenue**

The Comprehensive Income and Expenditure Account on page 18 summarises the total costs of providing services and the income available to fund those services.

Excluding accounting adjustments relating to pensions and short term accumulating absences, the Joint Committee has returned a deficit of £250,631 for the financial year 2015/16, compared to a budgeted deficit of £505,500; returning an underspend of £254,869. In line with the agreed business plan, the deficit incurred was funded from reserves.

The difference between the employee costs in the figure below and the figure reported in the Comprehensive Income and Expenditure report is due to accounting adjustments for pension costs (£200,000) and accrued employee benefits, £2,750.

The difference between other income in the figure below and the figure reported in the Comprehensive Income and Expenditure report is due to accounting adjustments for pension interest costs (£114,000).

	Budget £	Actual £	Variance £
Employee Costs	2,762,803	2,810,156	(47,353)
Property Costs	176,500	178,250	(1,750)
Supplies and Services	169,900	139,516	30,384
Contractors & Others	265,000	113,796	151,204
Administrative Costs	323,514	340,661	(17,147)
Payments to Other Bodies	22,000	68,264	(46,264)
<b>Total Expenditure</b>	<b>3,719,717</b>	<b>3,650,643</b>	<b>69,074</b>
Requisition Income	(3,184,217)	(3,184,217)	-
Other Income	(30,000)	(215,795)	185,795
<b>Total Income</b>	<b>(3,214,217)</b>	<b>(3,400,012)</b>	<b>185,795</b>
<b>(Surplus)/Deficit for Year</b>	<b>505,500</b>	<b>250,631</b>	<b>254,869</b>

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

Scotland Excel initiated a project to investigate ICT development opportunities to deliver both efficiencies and improvements in its ICT infrastructure. It was anticipated that this project would be completed by the end of the financial year but the project will now be completed in 2016/17. This has resulted in the underspend in Supplies and Services

The underspend in Contractors is due to a reduction in the use of consultants to assist Scotland Excel develop tenders for future contracts. As part of the long term aim of achieving a sustainable budget, in line with member's requirements and expectations, Scotland Excel is reducing the requirement for external consultants over employed staff members.

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The overspend in Administrative Costs is a result of the costs associated with the Scotland Excel Supplier Awards and the Annual Event.

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

The over recovery of Other Income relates to the Training Costs discussed above. In addition, income in relation to the National Care Home Contract, covering the period September 2015 to March 2016, has been received. This initiative was planned and agreed with member's during 2015/16.

### **Capital and Reserves**

The Joint Committee does not have the legal powers necessary to hold assets and as such the organisation has no capital spend. Cash balances held by the Joint Committee are matched by creditor balances. The largest creditor balance relates to the revenue reserve balance of £482,936.

The balance on revenue reserves is made up as follows:

General Revenue Reserve	£465,411
National Care Home Ring-fenced Reserve *	<u>£17,525</u>
<b>Balance at 31 March 2016</b>	<b><u>£482,936</u></b>

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

### **Provisions, Contingencies and Write-offs**

The Joint Committee is not aware of any eventualities which may have a material effect on the financial position and has made no provisions for such eventualities.

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

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

There were no debt write-offs during the year.

### **Net Pension Position**

The disclosure requirements for pension benefits under IAS19 are detailed at Note 15. The appointed actuaries have confirmed a net deficit position of £2.195 million, an improvement of £1.265 million in their assessment of the position of the pension fund. The net deficit position of the pension reserve impacts on the net asset position of Scotland Excel as a whole, however the funding of these future liabilities will be met from future requisitions from members and as such the going concern assumption is valid.

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

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**Service changes and Future Developments**

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

A copy of the 2016-17 Operating Plan can be found at the address below.

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

**Events after the Balance Sheet Date**

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

**Impact of Economic Climate**

It is recognised that over the medium term Local Government in Scotland is potentially facing a contraction in available resources relating predominantly to the provision of revenue grant from the Scottish Government and that this will have a consequential impact on the level of requisition funding available to Scotland Excel. The 2016/17 revenue estimates were developed to ensure that core operations were fully funded from requisition income on a flat cash basis, with any increase being related to the costs of transitioning Procurement Improvement Program activities, which were previously funded from reserves, into the core service provision.

**Conclusion**

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

**Councillor Michael Holmes**  
Convenor

**Alan Russell CPFA**  
Treasurer

**Julie Welsh**  
Director

## **Statement of Responsibilities for the Annual Accounts**

### **The Joint Committee's Responsibilities**

The Joint Committee is required:

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

I confirm that these Annual Accounts were approved for signature by the Executive Sub Committee at its meeting on the 16 September 2016.

Signed on behalf of Scotland Excel:

### **Councillor Michael Holmes**

Convenor  
16 September 2016

### **The Treasurer's Responsibilities**

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

In preparing this statement of accounts, the Treasurer has:

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

I certify that the financial statements give a true and fair view of the financial position of the Joint Committee at the reporting date and the transactions of the Joint Committee for the year ended 31 March 2016.

### **Alan Russell CPFA**

Treasurer  
16 September 2016

## **Governance Statement**

### **Scope of Responsibility**

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

### **The Joint Committee's Governance Framework**

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

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

The main features of our governance arrangements are summarised below:

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

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

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

## **Scotland Excel Annual Accounts 2015/16**

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

### **Review of Effectiveness**

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

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

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

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

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

### **Statement on the Role of the Chief Financial Officer**

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

The Chief Financial Officer in a public service organisation:

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

To deliver these responsibilities the Chief Financial Officer:

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

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

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**Continuous Improvement**

The annual review of corporate governance arrangements and their effectiveness has identified the following areas for improvement to be progressed during 2016/17.

Scotland Excel will, through the Senior Management Team and the Executive Sub Committee, carry out a review of the management and reporting of risk in the organisation. The resultant risk register will reflect the new business and operating plans for the organisation and new areas of contract development as appropriate.

**Assurance**

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

**Alan Russell CPFA**  
Treasurer

**Julie Welsh**  
Director

## Remuneration report

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

### 1. Remuneration policy for elected members

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

### 2. Remuneration policy for senior employees

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

2014/15	Senior Employees		2015/16		
Total	Name	Post Held	Salary, fees and allowances (i)	Expenses allowance chargeable to UK income tax	Total
£			£	£	£
54,253	Julie Welsh	Director (from 01/09/14)	96,589	-	96,589
73,459	Hugh Carr	Head of Strategic Procurement	74,765	-	74,765
-	Stephen Brannigan	Head of Customer & Business Services (from 25/05/15)	61,178	-	61,178
<b>127,712</b>	<b>Total</b>		<b>232,532</b>	<b>-</b>	<b>232,532</b>

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

The above tables show the relevant amounts, before tax and other deductions, due to, or receivable by, each of the persons named for the year to 31 March 2016, whether or not those amounts were actually paid to, or received by, those persons within that period.

### 3. Pension rights

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

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

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



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2014/15	Member contribution rates on earnings in the bands below	2015/16
Up to £20,335	5.5%	Up to £20,500
£20,336 to £24,853	7.25%	£20,501 to £25,000
£24,854 to £34,096	8.5%	£25,001 to £34,400
£34,097 to £45,393	9.5%	£34,401 to £45,800
Over £45,394	12%	Over £45,801

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

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

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

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

Senior Employees		Accrued Pension benefits as at 31 March 2016		Change in accrued pension benefits since 31 March 2015		Pension contributions made by Scotland Excel during 2015-2016 (i)
Name	Post Held	Pension £m	Lump Sum £m	Pension £m	Lump Sum £m	£
Julie Welsh	Director (from 01/09/14)	0.012	0.002	+0.004	+0.001	18,943
Hugh Carr	Head of Strategic Procurement	0.007	0.000	+0.003	+0.000	14,430
Stephen Brannigan	Head of Customer & Business Services (from 25/05/15)	0.001	0.000	+0.001	+0.000	11,807
<b>Total</b>		<b>0.020</b>	<b>0.002</b>	<b>+0.008</b>	<b>+0.001</b>	<b>45,180</b>

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**4. Remuneration of Employees**

The following table gives a statement of the number of employees whose remuneration, excluding pension contributions, was in excess of £50,000 during 2015/16, in bands of £5,000.

<b>2014/15</b>	<b>Remuneration Band</b>	<b>2015/16</b>
<b>Number of employees</b>		<b>Number of employees</b>
2	£50,000 - £54,999	-
-	£55,000 - 59,999	-
-	£60,000 - £64,999	1
-	£65,000 - 69,999	-
1	£70,000 - £74,999	1
-	£75,000 - £79,999	-
-	£80,000 - £84,999	-
1	£85,000 - £89,999	-
-	£90,000 - £94,999	-
-	£95,000 - £99,999	1
<hr/> 4		<hr/> 3

**5. Exit packages**

Scotland Excel had no exit packages in 2015-16.

**Alan Russell CPFA**  
Treasurer

**Julie Welsh**  
Director

## **Independent Auditor's Report**

### **Annual Accounts 2015-16**

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

I certify that I have audited the financial statements of Scotland Excel Joint Committee for the year ended 31 March 2016 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 and Cash flow Statement and the related notes. 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 2015/16 (the 2015/16 Code).

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 125 of the Code of Audit Practice approved by the Accounts Commission for Scotland, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

#### **Respective responsibilities of the treasurer and auditor**

As explained more fully in the Statement of Responsibilities for the Annual Accounts, the treasurer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Accounts Commission for Scotland. Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

#### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the circumstances of the body and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the treasurer; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the Annual Accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

#### **Opinion on financial statements**

In my opinion the financial statements:

- give a true and fair view in accordance with applicable law and the 2015/16 Code of the state of the affairs of the body as at 31 March 2016 and of the income and expenditure of the body 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 2015/16 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.

**Opinion on other prescribed matters**

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014; and
- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements.

**Matters on which I am required to report by exception**

I am required to report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit; or
- the Governance Statement has not been prepared in accordance with Delivering Good Governance in Local Government; or
- there has been a failure to achieve a prescribed financial objective.

I have nothing to report in respect of these matters.

Anne McGregor  
Senior Audit Manager  
Audit Scotland  
4th Floor, South Suite  
The Athenaeum Building  
8 Nelson Mandela Place  
Glasgow  
G2 1BT

16 September 2016

## **Movement in Reserves Statement for the year ended 31 March 2016**

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

	Note	Usable reserves		Unusable reserves	
		Revenue Reserve	Pension Reserve	Employee Statutory Adjustment Account	Total Reserves
		£	£	£	£
<b>Balance at 31 March 2014 carried forward</b>		-	(1,662,000)	(58,120)	(1,720,120)
<i>Movement in reserves during 2014-15</i>					
Surplus or (deficit) on the provision of services		(599,639)			(599,639)
Other comprehensive income and expenditure	15a		(1,605,000)		(1,605,000)
<b>Total comprehensive income and expenditure</b>		<b>(599,639)</b>	<b>(1,605,000)</b>	<b>-</b>	<b>(2,204,639)</b>
Adjustments between accounting basis and funding basis under regulations	6a & 6b	198,100	(193,000)	(5,100)	-
Transfer from Creditors	6a	1,135,106			1,135,106
<b>Net increase or (decrease) before transfers to other statutory reserves</b>		<b>733,567</b>	<b>(1,798,000)</b>	<b>(5,100)</b>	<b>(1,069,533)</b>
Transfers to or (from) other statutory reserves		-	-	-	-
Transfer to creditors	12	(733,567)	-	-	(733,567)
<b>Increase or (decrease) in 2014-15</b>		<b>-</b>	<b>(1,798,000)</b>	<b>(5,100)</b>	<b>(1,803,100)</b>
<b>Balance at 31 March 2015 carried forward</b>		<b>-</b>	<b>(3,460,000)</b>	<b>(63,220)</b>	<b>(3,523,220)</b>
<i>Movement in reserves during 2015-16</i>					
Surplus or (deficit) on the provision of services		(561,881)			(561,881)
Other comprehensive income and expenditure	15a		1,579,000		1,579,000
<b>Total comprehensive income and expenditure</b>		<b>(561,881)</b>	<b>1,579,000</b>	<b>-</b>	<b>1,017,119</b>
Adjustments between accounting basis and funding basis under regulations	6a & 6b	311,250	(314,000)	2,750	-
Transfer from Creditors	6a	733,567			733,567
<b>Net increase or (decrease) before transfers to other statutory reserves</b>		<b>482,936</b>	<b>1,265,000</b>	<b>2,750</b>	<b>1,750,686</b>
Transfers to or (from) other statutory reserves					-
Transfer to creditors	12	(482,936)			(482,936)
<b>Increase or (decrease) in 2015-16</b>		<b>-</b>	<b>1,265,000</b>	<b>2,750</b>	<b>1,267,750</b>
<b>Balance at 31 March 2016 carried forward</b>		<b>-</b>	<b>(2,195,000)</b>	<b>(60,470)</b>	<b>(2,255,470)</b>

## **Comprehensive Income and Expenditure Statement for the year ended 31 March 2016**

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

<b>2014/15</b>			<b>2015/16</b>	
<b>£</b>		<b>Note</b>	<b>£</b>	
2,919,787	Employee Costs		3,007,406	
177,476	Property Costs		178,250	
119,258	Supplies & Services		139,516	
254,008	Contractors		113,796	
353,045	Administration Costs		340,661	
122,151	Payments to Other Bodies		68,264	
<b>3,945,725</b>	<b>Cost of Services</b>		<b>3,847,893</b>	
(226,270)	Sales, Fees & Charges		(209,958)	
64,401	Financing & Investment Income and Expenditure	8	108,163	
(3,184,217)	Requisitions from Members Authorities	13	(3,184,217)	
<b>599,639</b>	<b>(Surplus) or deficit on the provision of services</b>		<b>561,881</b>	
1,605,000	Actuarial (Gains) or losses on pension assets and liabilities	15a	(1,579,000)	
<b>1,605,000</b>	<b>Other Comprehensive Income &amp; Expenditure</b>		<b>(1,579,000)</b>	
<b>2,204,639</b>	<b>Total Comprehensive Income &amp; Expenditure</b>		<b>(1,017,119)</b>	

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**Balance Sheet as at 31 March 2016**

The **balance sheet** shows the value as at 31 March 2016 of the assets and liabilities recognised by the Joint Committee. The net assets of the Joint Committee (assets less liabilities) are matched by the reserves held. Reserves are reported in two categories. The first category comprises usable reserves, which are those reserves that the Joint Committee may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use. The second category of reserves comprises those that the Joint Committee is not able to use to provide services. This category includes reserves that hold unrealised gains and losses in the value of assets.

31st March 2015 £		Note	31st March 2016 £
	<b><u>Current Assets</u></b>		
958,439	Funds held by Renfrewshire Council		658,283
34,700	Debtors and Prepayments	10	21,887
150	Cash in Hand		150
<hr/> 993,289			<hr/> 680,320
	<b><u>less Current Liabilities</u></b>		
(1,056,509)	Creditors And Accruals	11	(740,790)
<hr/> (63,220)	<b>Net Assets Excluding Pension (Liability)/Asset</b>		<hr/> (60,470)
	<b><u>Long Term Liabilities</u></b>		
(3,460,000)	Pension (liability)/Asset	15c	(2,195,000)
<hr/> (3,523,220)	<b>Net (Liabilities)/Asset Including Pension</b>		<hr/> (2,255,470)
	<b><u>Represented by:</u></b>		
	<b>Usable Reserves - Revenue</b>		
733,567	Balance due to Scottish Government and related parties		482,936
(733,567)	Transfer to Creditors	12	(482,936)
	<b>Unusable Reserves</b>		
(63,220)	Employee Statutory Adjustment Account	6c	(60,470)
(3,460,000)	Pension Reserve	6b	(2,195,000)
<hr/> (3,523,220)			<hr/> (2,255,470)

The audited accounts were issued on the 16 September 2016. Balance Sheet signed by:

**Alan Russell CPFA**  
Treasurer  
16 September 2016

## **Cash flow Statement for the year ended 31 March 2016**

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

<b>2014/15</b>		<b>2015/16</b>
<b>£</b>		<b>£</b>
	<b>Operating Activities</b>	
	<b>Cash Inflows</b>	
(3,435,027)	Sale of goods and rendering of services	(3,401,539)
(9,599)	Interest received	(5,837)
<b>(3,444,626)</b>	<b>Cash inflows generated from operating activities</b>	<b>(3,407,376)</b>
	<b>Cash Outflows</b>	
2,342,746	Cash paid to and on behalf of employees	2,444,429
1,013,720	Cash paid to suppliers of goods and services	848,190
362,992	Other payments for operating activities	414,913
<b>3,719,458</b>	<b>Cash outflows generated from operating activities</b>	<b>3,707,532</b>
<b>274,832</b>	<b>Net (increase)/decrease in cash and cash equivalents</b>	<b>300,156</b>
	Cash and cash equivalents at the beginning of the reporting period - short term deposits with Renfrewshire Council	
1,233,421		958,589
	Cash and cash equivalents at the end of the reporting period - short term deposits with Renfrewshire Council	
958,589		658,433
<b>274,832</b>	<b>Net cash outflow in cash and cash equivalents in year</b>	<b>300,156</b>



## **Note 1 Summary of Significant Accounting Policies**

The Financial Statements for the year ended 31 March 2016 have been prepared in accordance with proper accounting practice as per section 12 of the Local Government in Scotland Act 2003. Proper accounting practice comprises the Code of Practice on Local Authority Accounting in the United Kingdom (the Accounting Code) and the Best Value Accounting Code of Practice, supported by International Financial Reporting Standards and recommendations made by the Local Authority (Scotland) Accounts Advisory Committee (LASAAC). They are designed to give a true and fair view of the financial performance and position of the Joint Committee and comparative figures for the previous financial year are provided. There are no significant departures from these recommendations.

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

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

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

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

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

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

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

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

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

### **Accruals of Expenditure and Income**

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

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

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

### **Cash and Cash Equivalents**

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

### **Contingent Assets and Liabilities**

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

### **Employee Benefits**

#### **Benefits payable during employment**

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

#### **Termination benefits**

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

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

#### **Post employment benefits**

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

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

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

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

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

Note 15 to the Core Financial Statements provides further information.

### **Events after the Balance Sheet date**

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

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

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

### **Prior Period Adjustments**

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

### **Government Grants and other Contributions**

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

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

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

### **Leases**

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

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

### ***Operating Leases***

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

### **Property, Plant and Equipment**

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

### **Provisions**

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

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

### **Reserves**

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

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

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

### **VAT**

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

## **Note 2 Accounting Standards Issued not Adopted**

The code requires the disclosure of information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. This applies to the adoption of the following new or amended standards within the 2016/2017 code:

- Amendment to IAS19 Employee Benefits (Defined Benefit Plans: Employee Contributions)
- Amendment to IAS1 Presentation of Financial Statements (Disclosure Initiatives)
- Changes to the format of the Comprehensive Income and Expenditure Statement

The code requires implementation from 1 April 2016 and there is therefore no impact on the 2015/2016 financial statements.

## **Note 3 Critical Judgements in Applying Accounting Policies**

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

Government Grant	The Joint Committee received Scottish Government grant support to fund set-up costs in 2007. The grant has been used according to the grant conditions.
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## **Note 4 Assumptions made about the future**

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

The items in the Balance Sheet at 31 March 2016 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

<b>Item</b>	<b>Uncertainties</b>	<b>Effect if Results differ from Assumption</b>
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Joint Committee with expert advice about the assumptions to be applied.	The effects on the net pensions liability of changes in individual assumptions can be measured. For instance, a 0.5% decrease in the discount rate assumption would result in an decrease in the pension liability of £1.721 million. However, the assumptions interact in complex ways. During 2015/16, the appointed actuaries advised that the net pension liability had decreased by £1.579 million as a result of estimates being corrected.

## **Note 5 Events after the balance sheet date**

Events taking place after the authorised issue date per the balance sheet are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2016, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information. There are no non adjusting events.

On 23 June the result of the referendum on membership of the European Union was a majority vote to leave. The UK Government would cease its EU membership from the date of agreement or, failing that, within two years of the notification under Article 50 process to negotiate the terms of the UK's exit, with the possibility of extending this time frame with the agreement of the other 27 member states. There is no immediate impact on Scotland Excel, however, the referendum result has created uncertainty in various areas, for example, employment legislation, procurement, pension liabilities and many more. It is not currently possible to comment on the impact that this may have on the medium term for the Scotland Excel.

## **Note 6 Details of Movement in Reserves**

### **a. Revenue Reserve**

<b>2014/15</b>		<b>2015/16</b>
£		£
(1,135,106)	Balance as at 1 April	(733,567)
(193,000)	Transfer to pension reserve	(314,000)
(5,100)	Transfer to employee statutory adjustment account	2,750
599,639	(Surplus) or Deficit on the provision of services (from the Comprehensive Income & Expenditure Account)	561,881
<b><u>(733,567)</u></b>	<b>Balance as at 31 March</b>	<b><u>(482,936)</u></b>

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

### **b. Pension Reserve**

<b>2014/15</b>		<b>2015/16</b>
£		£
(1,662,000)	Balance as at 1 April	(3,460,000)
(1,605,000)	Actuarial Gains and Losses (see note 15)	1,579,000
(193,000)	Net additional amount required by statute and non-statutory proper practices to be taken into account when determining the surplus or deficit on the revenue reserves for the year	(314,000)
<b><u>(3,460,000)</u></b>	<b>Balance as at 31 March</b>	<b><u>(2,195,000)</u></b>

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



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surplus in the benefits earned by past and current employees and the Joint Committee's share of Strathclyde Pension Fund resources available to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

**c. Employee Statutory Adjustment Account**

2014/15		2015/16
£		£
58,120	Balance as at 1 April	63,220
(58,120)	Reversal of prior year accrual for short-term accumulating compensated absences	(63,220)
63,220	Recognition of the accrual for short-term accumulating compensating absences at 31 March	60,470
<b>63,220</b>	<b>Balance as at 31 March</b>	<b>60,470</b>

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

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

The deficit for the year on the Revenue Reserves was £311,250 less than the Comprehensive Income and Expenditure Statement result. The table below gives a breakdown of the differences between the income and expenditure included in the Joint Committee's Comprehensive Income and Expenditure Statement in accordance with the Code and the amounts that statute and non-statutory proper practice require the Joint Committee to debit and credit the Revenue Reserve Balance.

2014/15		2015/16
£		£
	<b>Amounts to be included in the Comprehensive Income and Expenditure Statement but required by statute to be excluded when determining Movement in Reserves Statement</b>	
(535,000)	Net charges made for retirement benefits in accordance with IAS19	(700,000)
(5,100)	Net charges for employment short-term accumulating absences	2,750
<u>(540,100)</u>		<u>(697,250)</u>
	<b>Amounts not included in the Comprehensive Income and Expenditure Statement but required to be included by statute when determining Movement in Reserves Statement</b>	
<u>342,000</u>	Employers contributions payable to the Strathclyde Pension Fund	<u>386,000</u>
<u>(198,100)</u>	<b>Net additional amount required to be debited or credited to the Revenue Reserves balance for the year</b>	<u>(311,250)</u>

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## Note 8 Financing & Investment Income

2014/15		2015/16
£		£
(9,599)	Interest on Balances	(5,837)
74,000	Pension Interest Cost	114,000
<b>64,401</b>	<b>Total Financing and Investment (Income)/Cost</b>	<b>108,163</b>

## Note 9 Operating Leases

Scotland Excel acquired an operating lease for accommodation at Renfrewshire House effective from February 2013 until February 2018. The annual rental charge is £87,320. The expenditure charged in year to the Comprehensive Income and Expenditure Statement was £87,320 (2014/15 £87,320).

2014/15		2015/16
£		£
	Future Minimum Lease Payments	
87,320	- not later than one year	87,320
163,396	- later than one year and not later than five years	76,076
-	- later than five years	-
<b>250,716</b>	<b>Total</b>	<b>163,396</b>

## Note 10 Debtors

31st March 2015		31st March 2016
£		£
-	Central government bodies	-
-	Other local authorities	-
34,700	Other Entities and Individuals	21,887
<b>34,700</b>	<b>Total short term debtors</b>	<b>21,887</b>

## Note 11 Creditors

31st March 2015		31st March 2016
£		£
288,091	Central government bodies	3,168
464,780	Other local authorities	493,136
63,220	Short Term Accumulating Absences	60,470
140,945	Accrued Payrolls	168,799
99,473	Other entities and individuals	15,217
<b>1,056,509</b>	<b>Total short term creditors</b>	<b>740,790</b>



## **Note 12 Transfer to Creditors**

2014/15		2015/16
£		£
<b><u>733,567</u></b>	In terms of Section 58 of the Local Government (Scotland) Act 1973, Joint Committees have no specific powers to retain reserves to meet future funding requirements and the amount due to funding bodies has been transferred to creditors.	<b><u>482,936</u></b>

## **Note 13 Related parties**

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

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

The Joint Committee in turn pays Renfrewshire Council for support services. The amount paid in respect of these services for the year ended 31 March 2016 was £185,000 (2014/15 £185,000).

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2014/15			2015/16
£	Council	Percentage	£
124,108	Aberdeen City	4.0%	128,501
135,624	Aberdeenshire	4.5%	143,137
73,910	Angus	2.4%	75,480
65,691	Argyll & Bute	1.9%	62,001
43,592	Clackmannshire	1.4%	44,420
94,018	Dumfries & Galloway	2.9%	91,751
91,930	Dundee City	2.8%	90,747
79,994	East Ayrshire	2.5%	78,444
73,631	East Dunbartonshire	2.2%	70,517
65,585	East Lothian	2.1%	68,365
64,871	East Renfrewshire	2.0%	63,651
246,599	Edinburgh (City of)	7.9%	252,995
32,658	Eilean Siar	1.0%	33,002
93,365	Falkirk	3.0%	95,036
197,793	Fife	6.1%	195,335
311,813	Glasgow City	9.6%	305,136
125,364	Highland	4.1%	131,284
61,512	Inverclyde	1.8%	58,300
59,820	Midlothian	1.9%	60,399
63,746	Moray	2.0%	65,013
88,354	North Ayrshire	2.7%	85,368
182,483	North Lanarkshire	5.7%	181,383
29,218	Orkney	0.9%	30,214
88,333	Perth & Kinross	2.8%	90,546
106,061	Renfrewshire	3.2%	103,049
74,295	Scottish Borders	2.3%	74,347
30,515	Shetlands Council	1.0%	30,994
75,966	South Ayrshire	2.3%	73,859
172,952	South Lanarkshire	5.4%	170,443
63,194	Stirling	2.0%	63,536
66,208	West Dunbartonshire	2.0%	62,843
101,014	West Lothian	3.3%	104,121
<b>3,184,217</b>	<b>Total</b>	<b>100%</b>	<b>3,184,217</b>

#### **Note 14 External audit costs**

Fees payable to Audit Scotland in respect of external audit services undertaken in accordance with Audit Scotland's *Code of Audit Practice* in 2015/16 were £5,720 (£5,720 in 2014/15). There were no fees paid to Audit Scotland in respect of any other services.

## **Note 15 Retirement Benefits**

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

### **15a. Transactions relating to retirement benefits**

The cost of retirement benefits is recognised in Gross Expenditure when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge that is statutorily required to be made in the accounts is based upon pension contributions payable by the Joint Committee in the year, and an adjustment is made within the Movement in Reserves Statement to replace the cost of retirement benefits with employers' contributions. The following transactions have been made in the accounting statements in 2015/16:

2014/15		Note	2015/16
£			£
	<b>Comprehensive Income &amp; Expenditure Statement</b>		
	Cost of Services		
461,000	Current service cost	(i)	586,000
-	Past service cost/(gain)	(ii)	-
-	Settlements & curtailments	(iii)	-
<u>461,000</u>			<u>586,000</u>
	<b>Financing &amp; Investment Income &amp; Expenditure</b>		
<u>74,000</u>	Net Interest	(iv)	<u>114,000</u>
<b>535,000</b>	<b>Total post employment benefit charged to the Surplus or Deficit on the Provision of Services</b>		<b>700,000</b>
	<b>Other post employment benefit charged to the Comprehensive Income and Expenditure Statement</b>		
(792,000)	Return on assets excluding amounts included in net interest		62,000
2,397,000	Actuarial (gains) and losses arising on changes in financial assumptions		<u>(1,641,000)</u>
<b>1,605,000</b>	<b>Total Actuarial (gains) and losses</b>		<b>(1,579,000)</b>
<b>2,140,000</b>	<b>Total post employment benefit charged to the Comprehensive Income and Expenditure Statement</b>		<b>(879,000)</b>
	Movement in Reserves Statement	(v)	
	Reversal of net charges made to the Surplus or Deficit for the		
(1,798,000)	Provision of Services for post employment benefits according with the Code		1,265,000
<u><b>342,000</b></u>	<b>Employers Contributions paid to Strathclyde Pension Fund</b>		<u><b>386,000</b></u>

#### **Notes**

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

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- v. The Movement on Pension Reserve represents the net change in the pension liability recognised in the Movement in Reserves Statement for pension payments made by the Joint Committee to the Strathclyde Pension Fund during the year (£314,000).

The Joint Committee is also responsible for all pension payments relating to added years benefits it has awarded, together with related increases. In 2015/16 these amounted to £19,652 (2014/15 £17,648).

In addition to the recognised gains and losses included in the Comprehensive Income and Expenditure Statement, actuarial gains of £1.579 million are included in the Movement in Reserves Statement (2014/15 £1.605 million loss). The cumulative amount of actuarial losses is £(2.433) million (2014/15 £ (4.012) million).

**15b. Assets and liabilities in relation to retirement benefits**

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

2014/15		2015/16
£000		£000
10,210	Opening present value	13,549
461	Current service cost	586
449	Interest Cost	444
124	Employee Contributions	136
	Remeasurement (gains)/losses:	
2,397	Actuarial (gains)/losses arising from changes in financial assumptions	(1,641)
(92)	Benefits Paid	(94)
<b>13,549</b>	<b>Balance as at 31 March</b>	<b>12,980</b>

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

2014/15		2015/16
£000		£000
8,548	Opening Fair Value	10,089
375	Interest Income	330
	Remeasurement gain/(loss):	
792	Return on assets excluding amounts included in net interest	(62)
342	Contributions from employer	386
124	Contributions from employee	136
(92)	Benefits Paid	(94)
<b>10,089</b>	<b>Closing fair value of scheme assets</b>	<b>10,785</b>

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**15c. Fund history**

	2011/12	2012/13	2013/14	2014/15	2015/16
	£000	£000	£000	£000	£000
Present Value of Liabilities	(6,881)	(8,873)	(10,210)	(13,549)	(12,980)
Fair value of assets	6,243	7,647	8,548	10,089	10,785
<b>Surplus/(deficit) in the Fund</b>	<b>(638)</b>	<b>(1,226)</b>	<b>(1,662)</b>	<b>(3,460)</b>	<b>(2,195)</b>

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

The total liability of £2.195 million has a significant impact on the net worth of the Joint Committee as recorded in the Balance Sheet. However, any deficit on Strathclyde Pension Fund will be made good by increased contributions over the remaining working life of employees, as assessed by the Fund actuary.

**15d. Basis for estimating assets and liabilities**

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

The principal assumptions used by the actuary have been:

31st March 2015	Year Ended:	31st March 2016
<b>Mortality assumptions</b>		
	Longevity at 65 for current pensioners	
22.1 years	• Men	22.1 years
23.6 years	• Women	23.6 years
	Longevity at 65 for Future pensioners	
24.8 years	• Men	24.8 years
26.2 years	• Women	26.2 years
4.3%	Rate of increase in salaries*	4.2%
2.4%	Rate of increase in pensions	2.2%
3.2%	Rate for discounting scheme liabilities	3.5%
	Take-up of option to convert annual pension into retirement lump sum:	
50.0%	Pre April 2009 service	50.0%
75.0%	Post April 2009 service	75.0%

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

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<b>31st March 2015 £000</b>		<b>Percentage</b>	<b>31st March 2016 £000</b>
	<b>Equity Securities</b>		
953	Consumer	9.4%	1,011
761	Manufacturing	7.5%	808
300	Energy and Utilities	2.9%	318
701	Financial Institutions	6.9%	744
410	Health and Care	4.0%	435
580	Information Technology	5.7%	616
<b>3,705</b>	<b>Total Equity</b>	<b>36.5%</b>	<b>3,932</b>
	<b>Private Equity</b>		
982	All	9.7%	1,049
<b>982</b>	<b>Total Private Equity</b>	<b>9.7%</b>	<b>1,049</b>
	<b>Real Estate</b>		
922	UK Property	10.7%	1,159
-	Overseas Property	0.0%	-
<b>922</b>	<b>Total Real Estate</b>	<b>10.7%</b>	<b>1,159</b>
	<b>Investment Funds &amp; Unit Trusts</b>		
2,895	Equities	26.0%	2,799
1,278	Bonds	12.2%	1,316
4	Commodities	0.0%	4
34	Infrastructure	0.0%	0
18	Other	1.4%	151
<b>4,229</b>	<b>Total Investment Funds &amp; Unit Trusts</b>	<b>39.6%</b>	<b>4,270</b>
	<b>Derivatives</b>		
3	Other	0.0%	3
<b>3</b>	<b>Total Derivatives</b>	<b>0.0%</b>	<b>3</b>
	<b>Cash &amp; Cash Equivalents</b>		
248	All	3.4%	372
<b>248</b>	<b>Total Cash &amp; Cash Equivalents</b>	<b>3.4%</b>	<b>372</b>
<b>10,089</b>	<b>Total</b>	<b>100%</b>	<b>10,785</b>

**15e. Impact on cashflows**

An objective of the fund is to keep employer's contributions at as constant a rate as possible. The fund has agreed a strategy to achieve a funding rate of 100% in the longer term. Employers' and employees' contributions have been determined so that rates are standard across all participating employers. The rate for employer contributions has been set at 19.3% for 2015-16 to 2017-18.

The total contributions expected to be made by the Joint Committee to the Strathclyde Pension Fund in the forthcoming year to 31 March 2017 is £0.386 million.

**Note 16 Contingent Liabilities and Assets**

Prior to the award of a new Framework contract, a legal challenge has been notified in June 2016. Scotland Excel has recognised a contingent liability for potential costs and damages should the court rule in favour of the pursuer.

Similarly, a contingent asset has been recognised for the recovery of costs relating to defending the action should court rule in favour of Scotland Excel.



# Scotland Excel Joint Committee

Proposed 2015/16 Annual  
audit report to Members  
and the Controller of Audit

5 September 2016

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The Accounts Commission is a statutory body which appoints external auditors to Scottish local government bodies ([www.audit-scotland.gov.uk/about/ac/](http://www.audit-scotland.gov.uk/about/ac/)). Audit Scotland is a statutory body which provides audit services to the Accounts Commission and the Auditor General ([www.audit-scotland.gov.uk/about/](http://www.audit-scotland.gov.uk/about/)).

The Accounts Commission has appointed Anne McGregor as the external auditor of Scotland Excel for the period 2011/12 to 2015/16.

This report has been prepared for the use of Scotland Excel and no responsibility to any member or officer in their individual capacity or any third party is accepted.

The information in this report may be used for the Accounts Commission's annual overview report on local authority audits published on its website and presented to the Local Government and Regeneration Committee of the Scottish Parliament.

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# Key messages

<b>Audit of financial statements</b>	<ul style="list-style-type: none"><li>• Unqualified auditor's report on the 2015/16 financial statements</li></ul>
<b>Financial management and sustainability</b>	<ul style="list-style-type: none"><li>• Scotland Excel incurred a deficit of £0.25m against a budgeted deficit of £0.5m.</li><li>• Scottish Government set-up funding now utilised and requisition budget for 2016/17 increased by 9.4% to fund improvement activity. Reserves are sufficient to deal with unforeseen costs in the short-term.</li><li>• Scotland Excel is financially sustainable in the short term but uncertain in the medium to long-term. Scenario planning over the medium to long-term would support financial planning and management.</li></ul>
<b>Governance and transparency</b>	<ul style="list-style-type: none"><li>• Governance arrangements were reviewed in 2016 and there is now a clearer and expanded role for chief officers' management group.</li><li>• Internal audit concluded reasonable assurance over systems of internal control.</li><li>• Registers of interest now in place for all staff</li></ul>
<b>Outlook</b>	<ul style="list-style-type: none"><li>• Long-term financial sustainability is dependent on developing a sustainable funding model.</li><li>• The changed remit of the chief officers' management group to support delivery of the operating plan, which includes the goal to deliver and implement a clear and transparent sustainable funding and delivery model for Scotland Excel, aims to help with this challenge.</li></ul>

# Introduction

summarised at [appendix II](#) and [appendix III](#), include recommendations for improvements.

1. This report is a summary of our findings arising from the 2015/16 audit of Scotland Excel. The report is divided into sections which reflect our public sector audit model.
2. The management of Scotland Excel is responsible for:
  - preparing financial statements which give a true and fair view
  - implementing appropriate internal control systems
  - putting in place proper arrangements for the conduct of its affairs
  - ensuring that the financial position is soundly based.
3. Our responsibility, as the external auditor of Scotland Excel, is to undertake our audit in accordance with International Standards on Auditing, the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011 and the ethical standards issued by the Auditing Practices Board.
4. An audit of financial statements is not designed to identify all matters that may be relevant to those charged with governance. It is the auditor's responsibility to form and express an opinion on the financial statements; this does not relieve management of their responsibility for the preparation of financial statements which give a true and fair view.
5. A number of reports, both local and national, have been issued by Audit Scotland during the course of the year. These reports,
  6. [Appendix IV](#) is an action plan setting out our recommendations to address the high level risks we have identified during the course of the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "Management action/response". We recognise that not all risks can be eliminated or even minimised. What is important is that Scotland Excel understands its risks and has arrangements in place to manage these risks. Members should ensure that they are satisfied with proposed action and have a mechanism in place to assess progress and monitor outcomes.
  7. We have included in this report only those matters that have come to our attention as a result of our normal audit procedures; consequently, our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.
  8. The cooperation and assistance afforded to the audit team during the course of the audit is gratefully acknowledged.
  9. 2015/16 is the final year of the current five-year audit appointment. From 2016/17 the auditor of Scotland Excel will be a new Audit Scotland team. In accordance with agreed protocols and International Standards on Auditing we will be liaising with the incoming auditors as part of this transition.

# Audit of the 2015/16 financial statements

<b>Audit opinion</b>	<ul style="list-style-type: none"><li>• We have completed our audit of Scotland Excel and issued an unqualified independent auditor’s report.</li></ul>
<b>Going concern</b>	<ul style="list-style-type: none"><li>• The financial statements of Scotland Excel have been prepared on the going concern basis. We are unaware of any events or conditions that may cast significant doubt on Scotland Excel’s ability to continue as a going concern.</li></ul>
<b>Other information</b>	<ul style="list-style-type: none"><li>• We review and report on other information published with the financial statements, including the management commentary, annual governance statement and the remuneration report. We have nothing to report in respect of these statements.</li></ul>

## Submission of financial statements for audit

in our Annual Audit Plan presented to the Audit Committee on 17 June 2016.

10. We received the unaudited financial statements on 6 June 2016, in accordance with the agreed timetable. The working papers were of a good standard and finance staff provided good support to the audit team which assisted the delivery of the audit to deadline.

12. As part of the requirement to provide full and fair disclosure of matters relating to our independence, we can confirm that we have not undertaken non-audit related services. The 2015/16 agreed fee for the audit was set out in the Annual Audit Plan and, as we did not carry out any work additional to our planned audit activity, the fee remains unchanged.

## Overview of the scope of the audit of the financial statements

11. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined

13. The concept of audit risk is of central importance to our audit approach. During the planning stage of our audit we identified a number of key audit risks which involved the highest level of judgement and impact on the financial statements and consequently

had the greatest effect on the audit strategy, resources and effort. We set out in our Annual Audit Plan the audit work we proposed to undertake to secure appropriate levels of assurance. [Appendix I](#) sets out the significant audit risks identified during the course of the audit and how we addressed each risk in arriving at our opinion on the financial statements.

14. Our audit involved obtaining evidence about the amounts and disclosures in the financial statements. This was sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.

## Materiality

15. Materiality can be defined as the maximum amount by which auditors believe the financial statements could be misstated and still not be expected to affect the decisions of users of financial statements. A misstatement or omission, which would not normally be regarded as material by amount, may be important for other reasons (for example, an item contrary to law).

16. We consider materiality and its relationship with audit risk when planning the nature, timing and extent of our audit and conducting our audit programme. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.

17. We summarised our approach to materiality in our Annual Audit Plan. Based on our knowledge and understanding of Scotland Excel we set our planning materiality for 2015/16 at £32,000 (1% of

gross expenditure). Performance materiality was calculated at £24,000, to reduce to an acceptable level the probability of uncorrected and undetected audit differences exceeding our planning materiality level.

18. On receipt of the financial statements we reviewed our materiality levels. Materiality remained at 1% but all pension costs were now included in the calculation. Therefore materiality increased to £39,619 and performance materiality to £29,714. We report all misstatements greater than £1,000.

## Evaluation of misstatements

19. A number of presentational adjustments were identified within the financial statements during the course of our audit. These were discussed with relevant officers who agreed to amend the unaudited financial statements. There were no monetary errors.

## Significant findings from the audit

20. International Standard on Auditing 260 requires us to communicate to you significant findings from the audit, including:
  - The auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures.
  - Significant difficulties encountered during the audit.
  - Significant matters arising from the audit that were discussed, or subject to correspondence with management.

- 
- Written representations requested by the auditor.
  - Other matters which in the auditor's professional judgment, are significant to the oversight of the financial reporting process.
21. There are no matters, other than those set out elsewhere in this report, to which we wish to draw to your attention.

## **Future accounting and auditing developments**

### **Code of Audit Practice**

22. A new Code of Audit Practice will apply to all audits from financial year 2016/17. There will be a focus on four areas:
- Governance and transparency.
  - Value for money.
  - Financial management.
  - Financial sustainability.
23. In addition, as well as the annual audit report, other significant outputs, such as the annual audit plan, will be published on Audit Scotland's website.

# Financial management and sustainability



## Financial management

24. In this section we comment on Scotland Excel's financial outcomes and assess the council's financial management arrangements.
25. Scotland Excel sets an annual budget to meet its service and other commitments for the forthcoming financial year. Regular monitoring

of expenditure and income against agreed budgets is central to effective financial management.

## Financial outcomes

26. Scotland Excel incurred an accounting deficit on the provision of services of £0.562m, as shown in the Comprehensive Income and Expenditure Statement (CIES). The main decrease from 2014/15 is



on contractor costs, due to a planned move away from relying on contractors.

**27.** The deficit as presented in the management commentary (and in the table above), of £0.251m is different because it is prior to items such as pension adjustments and employee leave accrual. As the budget is prepared and monitored against in this way, it is appropriate for the management commentary details to be presented as such.

**28.** Scotland Excel planned for a deficit of £0.506m; the final deficit was £0.251m and is lower due to lower supplies and services costs and lower contractor costs.

### Financial management arrangements

**29.** As auditors, we need to consider whether councils have established adequate financial management arrangements. We do this by considering a number of factors, including whether:

- the proper officer has sufficient status within Scotland Excel to be able to deliver good financial management
- financial regulations are comprehensive, current and promoted within Scotland Excel
- reports monitoring performance against budgets are accurate and provided regularly to budget holders
- monitoring reports do not just contain financial data but are linked to information about performance.

- members provide a good level of challenge and question budget holders on significant variances.

**30.** We assessed the role and status of the proper officer against CIPFA's "Statement on the role of the Chief Financial Officer in Local Government" and concluded that Scotland Excel complies with the statement's five principles.

**31.** Revenue budget monitoring reports are regularly submitted to the executive sub-committee. As well as providing comments on income and expenditure to date, the reports forecast the year-end outturn. The accounts include details of final outturn to budget.

**32.** We have noted that over the past four years the budget for *Other income* has always been set at £30,000 but the final amount received is consistently higher than £215,000. Often the income is due to recovery of costs. We recommend Scotland Excel review the budget setting process for *Other Income* to see if they can find a process which would bring the budget figure more in line with the expected activity and recovery of costs. For 2016/17, we can see there is now a separate budget for National Care Home Contract.

### Appendix IV – action plan point 1

## Financial sustainability

**33.** Financial sustainability means that Scotland Excel has the capacity to meet the current and future plans.

**34.** In assessing financial sustainability we are concerned with whether:

- there is an adequate level of reserves

- spending is being balanced with income in the short term
  - long- term financial pressures are understood and planned for
  - investment in services and assets is effective.
35. Effective long-term financial planning, asset management and workforce planning are crucial to sustainability.

### Pension liability

36. The net liability on Scotland Excel's balance sheet decreased from £3.46m in 2014/15 to £2.195m in 2015/16, a reduction of £1.265m.
37. The pension liability represents the difference between expected future pension payments and the underlying value of pension fund assets available to meet this cost.
38. A material net liability can highlight a potential going concern issue however we recognise that the appointed actuary is of the view that the asset holdings and contributions from employees and employers together with increases in contributions provide security over future liabilities. In light of these factors, it is reasonable that the accounts are prepared on a going concern basis.

### Reserves

39. Like all joint committees, Scotland Excel has no specific powers to retain reserves to meet future requirements and technically the amounts are due to local authorities. These balances are used to support medium-term financial planning and address any unforeseen costs.

40. Scotland Excel's reserve opening position was split into the balance remaining on Scottish Government set-up costs and amounts due to local authorities. As planned, the Scottish Government balance was utilised during the year. The closing balance of £0.483m is now being used for medium term financial planning; to fund ICT developments (£0.2m) and as unallocated amount of £0.265m for unforeseen costs.

### Financial planning

41. Scotland Excel approved its 2016/17 budget in November 2015 with budgeted expenditure £3.879m. This is funded through requisition income of £3.514m, use of reserves of £0.2m and additional income for national care home contract. The main changes from the previous year are procurement reform being funded from a 9.4% increase in requisition income plus the significant decrease in contractor costs.

42. In June 2014, Audit Scotland reported on [Scotland's public finances](#) and identified that public bodies "face increasingly difficult choices in reducing spending while maintaining service standards and meeting rising demand". The report identified that financial planning improvements were required by public bodies.



43. In the [local government overview](#) report in March 2016, Audit Scotland set out some key questions, which can apply across the Scottish public sector. These include the following:





- Do we have a long-term financial strategy covering at least five years that accounts for future pressures?
- Is our five-year strategy supported by detailed financial plans covering a minimum period of three years?
- How well do our financial plans set out the implications of different levels of income spending and activity?
- How does our financial strategy link to our vision for the future?

**44.** Local Government bodies continue to have their overall budgets reduced each year which may have a consequential impact on the level of requisition funding available to the Joint Committee over the medium term. At present only the local government grant settlement position for 2016/17 has been announced by the Scottish Government meaning that Scotland Excel has published a budget for financial year 2016/17 only.

**45.** There is currently no 2017/18 budget in place due to the level of uncertainty over a range of financial risks including pay awards and budget settlements. We recommend that in the absence of longer term financial settlements, scenario planning is carried out to support Scotland Excel's strategy.

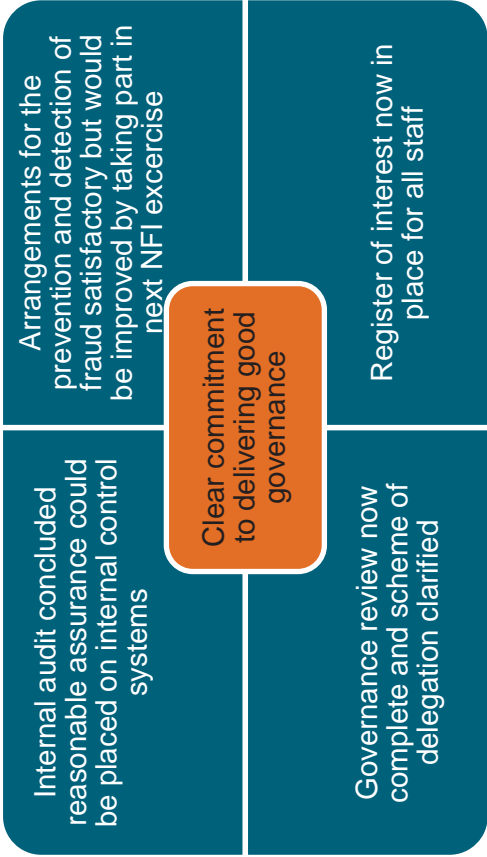
#### **Appendix IV – action plan point 2**

### **Conclusion on financial sustainability**

**46.** Overall we conclude that the financial position is sustainable in the short term but long-term financial sustainability is a key risk, as recognised by Scotland Excel in its risk register. While the 9.4%

increase was agreed for 2016/17 there will continue to be pressures on funding. Amongst different measures, the changed remit of the Chief Officers Management Group to support delivery of the operating plan, which includes the goal to deliver and implement a clear and transparent sustainable funding and delivery model for Scotland Excel, aims to help with this process.

# Governance and transparency



- 47. Members and management of Scotland Excel are responsible for establishing arrangements to ensure that its business is conducted in accordance with the law and proper standards, that public money is safeguarded and for monitoring the adequacy and effectiveness of these arrangements.
- 48. Scotland Excel has demonstrated a strong commitment to setting in place clear governance arrangements during a time of financial challenge and uncertainty.
- 49. Citizens should be able to hold Scotland Excel to account about the services it provides. Transparency means that citizens have access

to understandable, relevant and timely information about how the joint committee is taking decisions and how it is using its resources. Overall we concluded that Scotland Excel is open and transparent.

## Corporate Governance

- 50. In our annual audit plan we reported that the Chief Officers' group had not convened since 23 March 2015 with monitoring having been carried out by the Executive sub-committee. The Director was reviewing Scotland Excel's governance model as part of the operating plan 2015/16.
- 51. Following the review, in June 2016 members approved a new scheme of delegation. The Chief Executive officers Management Group will now have a greater role in supporting delivery of Scotland Excel's overall business plan objectives and in providing strategic direction for Scotland Excel.

## Internal control

- 52. While auditors concentrate on significant systems and key controls in support of the opinion on the financial statements, their wider responsibilities require them to consider the financial systems and controls of audited bodies as a whole. However, the extent of this work should also be informed by their assessment of risk and the activities of internal audit.
- 53. With Renfrewshire Council (the council) being the host for Scotland Excel, all financial transactions of Scotland Excel are processed through the financial systems of the council and are subject to the

same controls and scrutiny of the council including regular reviews of internal audit.

54. Internal audit issued two reports for 2015/16. The *Review of the contract monitoring arrangements* was given satisfactory level of assurance. The Annual Report provided overall reasonable assurance on the adequacy and effectiveness of Scotland Excel's internal control, risk management and governance arrangements.

## Internal audit

55. Internal audit provides members and management of Scotland Excel with independent assurance on risk management, internal control and corporate governance processes. We are required by international auditing standards to make an assessment of internal audit to determine the extent to which we can place reliance on its work. To avoid duplication, we place reliance on internal audit work where possible.

56. Our review of internal audit concluded that they operate in accordance with the Public Sector Internal Audit Standards and have sound documentation standards and reporting procedures in place. Per our audit plan, in respect of our wider governance and performance audit work we reviewed the findings of internal audit's annual report and Review of contract monitoring arrangements.

## Arrangements for the prevention and detection of fraud

57. In our Annual Audit Plan we highlighted the responsibility audited bodies have for establishing arrangements to prevent and detect fraud and other irregularities. In our opinion the overall arrangements for the prevention of fraud within Scotland Excel are satisfactory, but could be improved by participating in the National Fraud Initiative (NFI). No system can eliminate the risk of fraud entirely.

58. Scotland Excel is not part of this year's NFI; a counter-fraud exercise led by Audit Scotland, overseen by the Cabinet Office for the UK as a whole. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify circumstances (matches) that might suggest the existence of fraud or error. These exercises are undertaken every two years. <http://www.audit-scotland.gov.uk/work/nfi.phpf>.

59. We recommend Scotland Excel liaise with Renfrewshire Council Internal Audit (who manage the process for Renfrewshire Council) and consider being involved in the next exercise in 2016/17.

### Appendix II – action plan point 3

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## Arrangements for maintaining standards of conduct and the prevention and detection of corruption

60. The arrangements for the prevention and detection of corruption in Scotland Excel are satisfactory. During 2015/16 all members of staff completed a register of interest and these are available on request from Scotland Excel. We are not aware of any specific issues that we need to record in this report.

## Transparency

61. When assessing transparency we consider questions such as:
- Are meetings held in public?
  - Are papers and corporate documents available online and there is only limited use of taking papers in private?
  - Are financial statements clearly presented and budget monitoring papers concise and clear?
  - Is a register of interests available on the website?
62. We concluded that the financial statements are clear and accounts income and expenditure clearly linked to budgeted figures, as described in the management commentary.
63. Meetings of Scotland Excel are held in public and papers available from the Renfrewshire Council website. The Scotland Excel website also publishes information on consultations and progress with the strategic development plan.

# Best Value

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

## Performance management arrangements

65. Overall we conclude that performance management arrangements are clear and plans linked through to the strategic plan.
66. In June 2015, members approved a three-year strategic plan which covers the period 2015-2018 and each year there is an annual operating plan to cascade objectives and activities throughout the organisation in order to deliver agreed goals.

67. In June 2016 the Director presented her year-end report on the 2015/16 Operating plan. The traffic light system was used to provide a quick guide to activity, alongside more detailed narrative. Of the 22 activities, 15 were assessed as green, four as amber and three as red. Examples of performance include:

- flexible workforce model now been developed to resource current contract delivery plan
- enhanced procurement and contract management provided for the National Care Home Contract

- new national procurement capability assessment programme now in place, with workshops being held for local authorities to help them prepare for the new assessments
- a sustainability procurement strategy was planned for 2015/16 but will now developed in 2016/17; the focus for 2015/16 was to develop statutory guidance on sustainable procurement

68. Scotland Excel estimates that savings of £15.5m were achieved through their work in 2015, representing a return of £5 for every £1 invested in the organisation.

69. The operating plan is reviewed and updated each year and the 2016/17 operating plan was also taken to the June 2016 meeting. A set of ten key performance indicators (KPIs) will be monitored during 2016-17, including number and value of contracts delivered v plan and number of PCIP assessments completed v schedule and number of Community Benefits realised

70. KPI figures will be updated quarterly and included within reports summarising the progress made against operating plan priorities. These reports will be produced at the end of each quarter and submitted to the Executive Sub-Committee at the next scheduled meeting. Half yearly and annual reports will also be submitted to Joint Committee meetings.

## National performance audit reports

71. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2015/16, a number of reports were issued

specifically covering local government topics. These are outlined in appendix III.

**72.** While these reports might not directly cover the work of Scotland Excel there may be lessons learned or helpful information on wider issues. Last year we reported there were no formal processes in place to update members on these reports and disseminate the impact for Scotland Excel.

**73.** Scotland Excel has started quarterly horizon scanning review meetings for the senior management team, which cover the macro external factors that impact on the organisation and its members. Audit Scotland national reports, where relevant to customers and their environment, will be considered as part of the meetings.



# Appendix I: Significant audit risks

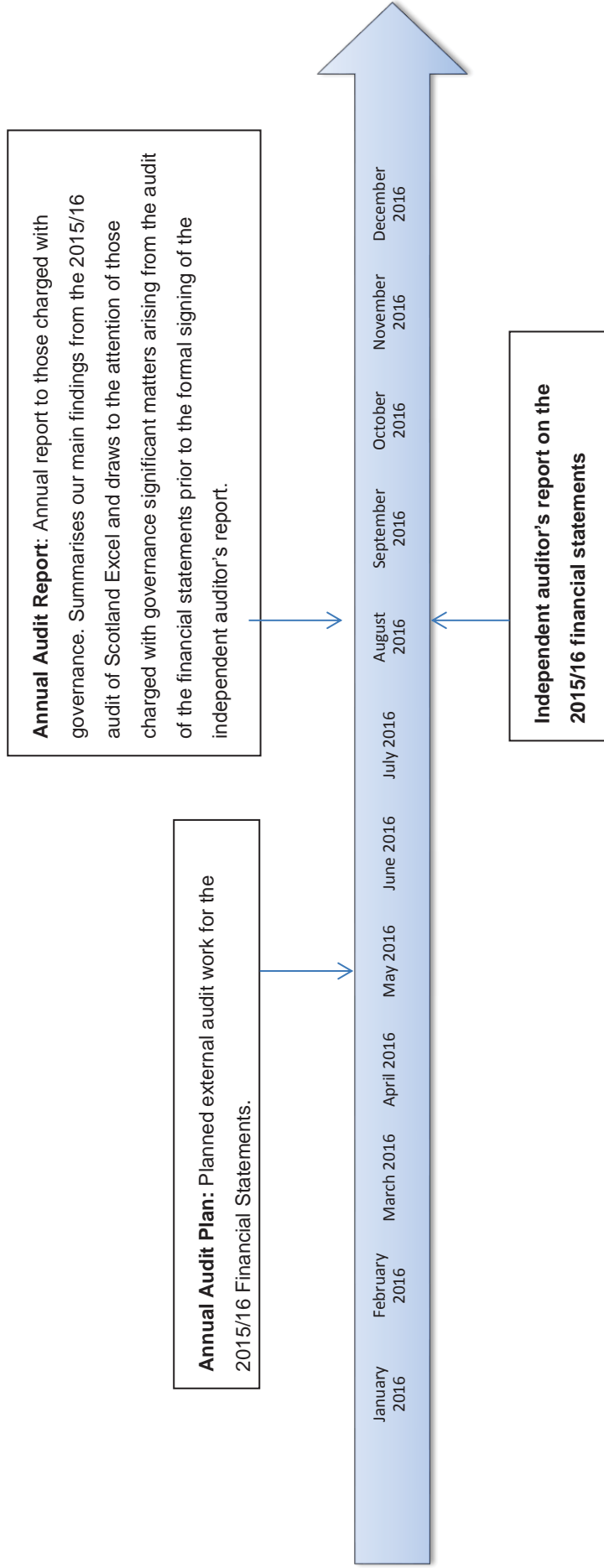
The table below sets out the financial statement audit risks we identified during the course of the audit and how we addressed each risk in arriving at our opinion on the financial statements.

Assurance procedure		Results and conclusions
Audit Risk		
Risk of material misstatement in financial statements		
<p><b>Risk of management override of control</b></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.</p> <p><b>Risk</b></p> <p>Management's ability to manipulate accounting records and prepare fraudulent or biased financial statements by overriding controls that otherwise appear to be operating effectively.</p>	<ul style="list-style-type: none"> <li>Detailed testing of journal entries</li> <li>Review of accounting estimates for bias</li> <li>Evaluating significant transactions that are outside the normal course of business.</li> </ul>	<ul style="list-style-type: none"> <li>No issues have arisen as part of our audit work that would indicate management override of controls affecting the outturn or year-end position.</li> </ul>
Wider dimension issues and risks		
<p><b>Financial sustainability</b></p> <p>In previous years we reported that the funds available for procurement improvement activity were being gradually utilised and new models were needed to resource this type of work.</p> <p>The 2016/17 budget has been approved and</p>	<ul style="list-style-type: none"> <li>Review final outturn position against budget and assess reserves position</li> <li>Enquire about, and consider arrangements for, financial planning for 2017/18 onwards and provide update in annual report on the audit</li> </ul>	<ul style="list-style-type: none"> <li>Set-up funding now utilised.</li> <li>General revenue reserve is £0.465m, 13% of 2016/17 budget so sufficient to deal with unforeseen costs.</li> <li>2016/17 operating plan includes commitment to explore new approaches</li> </ul>

Audit Risk	Assurance procedure	Results and conclusions
<p>included a 9.4% increase to fund the improvement/reform activity. However, the longer-term financial models and planning is to be developed and, as the tight financial climate continues, Scotland Excel risks not getting the long-term financial support from member authorities.</p>		<p>to funding and resourcing emerging procurement opportunities including chargeable services, partnership working and portfolio restructuring.</p>
<p><b>Governance arrangements:</b></p> <p>The Chief Officers' group is part of the governance arrangements for Scotland Excel but it has not convened since 23 March 2015; the monitoring role has been carried out by the Executive sub-committee. There is a risk there are unclear lines of accountability, and therefore a lack of proper oversight and chief officer input into Scotland Excel.</p>	<ul style="list-style-type: none"> <li>• Director was reviewing arrangements in 2016</li> <li>• Discuss plans with Director; assess and report update in annual report on the audit.</li> </ul>	<ul style="list-style-type: none"> <li>• Review of governance arrangements report taken to members in June 2016.</li> <li>• Group will now have a greater role in supporting delivery of Scotland Excel's overall business plan objectives. Annual nominations for its membership shall be sought from Solace Scotland.</li> </ul>

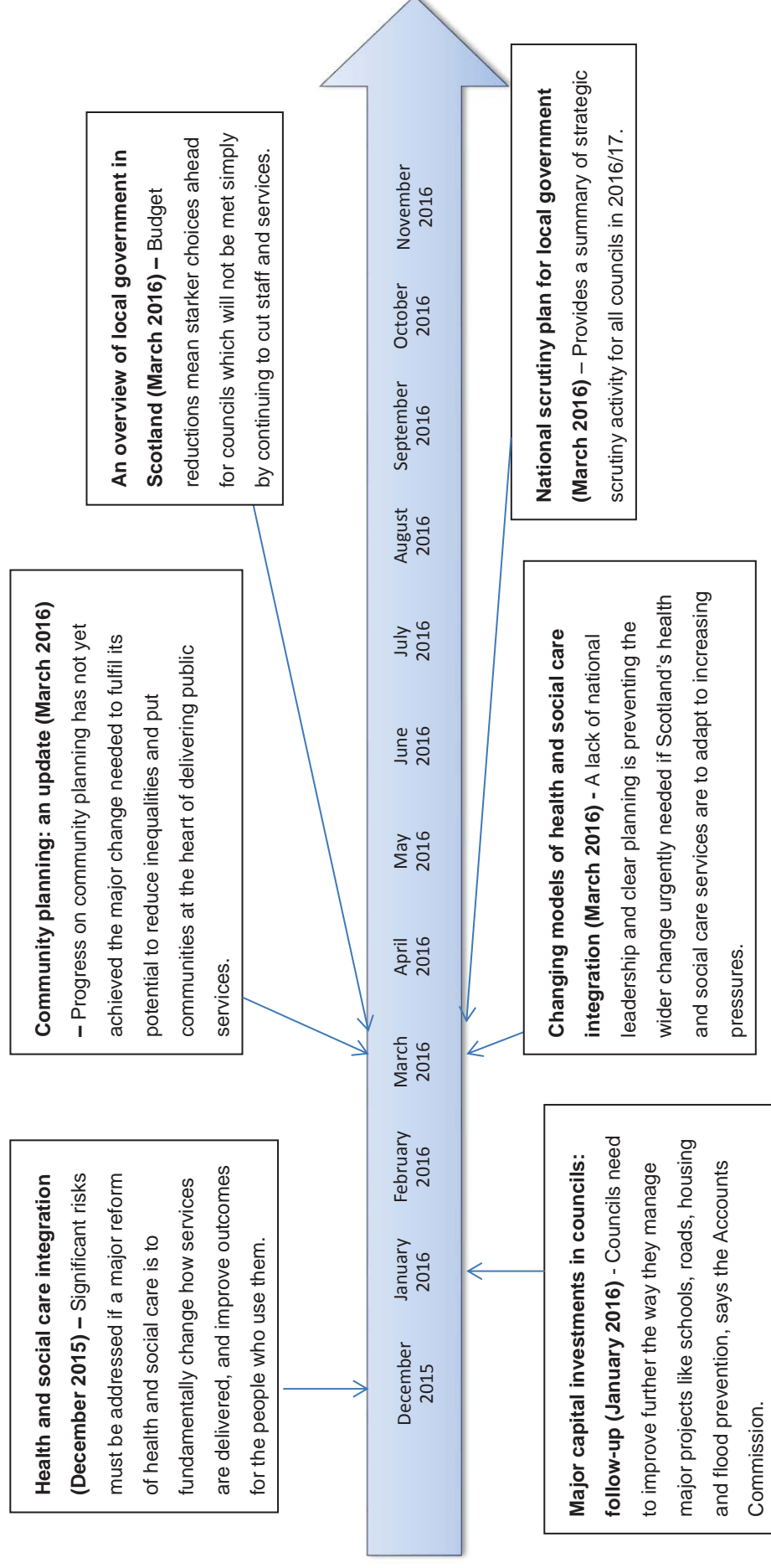


# Appendix II: Summary of local audit reports 2015/16





# Appendix III: Summary of Audit Scotland national reports 2015/16





# Appendix IV: Action plan

No.	Para ref.	Issue/risk/Recommendation	Management action/response	Responsible officer / Target date
1.	32	<p><b>Budgets for Other income</b></p> <p>In recent years Other income (i.e. non-requisition income) has been significantly different from that budgeted.</p> <p>There is a risk that the budgets are not reflecting all the different work and level of activity at Scotland Excel and budgets not being clear to members.</p> <p><b>Recommendation</b></p> <p>We recommend the budget process is reviewed to better identify all anticipated third party funding for projects.</p>	<p>Budget monitoring reports are taken to meetings of the executive sub-committee and contain updates on non-requisition income.</p> <p>Process has already started with National Care Home contract separately shown.</p> <p>Budget and reporting process for 2017/18 will review process for identifying and estimating non-requisition income and potentially put in place in-year budget adjustments.</p>	<p>Treasurer and Director</p> <p>31 December 2016</p>

No.	Para ref.	Issue/risk/Recommendation	Management action/response	Responsible officer / Target date
2.	45	<p><b>Medium-term financial planning</b></p> <p>Only budget details for 2016/17 have been published. No medium or long term plans have been provided to members with options or scenarios on savings.</p> <p>There is a risk there is insufficient information to inform decision-making.</p> <p><b>Recommendation</b></p> <p>We recommend that scenario planning is carried out and key messages from that planning presented to members.</p>	<p>We considered there was too much uncertainty for future funding to set indicative budgets for 2017/18 onwards. Implications of funding changes are discussed between senior officers and finance team.</p> <p>Financial plans and risks will continue to be closely monitored and updated, with financial issues being included as appropriate and reported to members regularly.</p>	<p>Treasurer</p> <p>31 December 2016</p>
3.	59	<p><b>National Fraud Initiative</b></p> <p>Scotland Excel has not been included in the NFI counter fraud exercise in recent years and there is a risk that fraud cases are being missed.</p> <p><b>Recommendation</b></p> <p>We recommend that senior officers liaise with Renfrewshire Council internal audit to put in place arrangements to be part of the next exercise.</p>	<p>The Director will liaise with internal audit to plan for Scotland Excel to be included in the next NFI exercise.</p>	<p>Director</p> <p>Treasurer</p> <p>Chief Internal Auditor</p> <p>31 October 2016</p>