

Scotland Excel

To: Executive Sub Committee

On: 15 September 2017

Report by Audit Scotland

Annual Audit Report 2016-17

1. Summary

- 1.1 At the meeting of Scotland Excel Joint Committee on 30 June 2017 a report on the unaudited annual accounts for the year ended 31 March was noted.
- 1.2 The audit certificate issued by Audit Scotland provides an unqualified opinion that the annual accounts presents a true and fair view of the financial position of the Joint Committee as at 31 March 2017, in accordance with the accounting policies detailed in the accounts.
- 1.3 The Annual Audit report outlines the findings of the audit team with regards to the annual accounts and the performance of Scotland Excel generally.
- 1.4 A member of the Audit Scotland team will present this report and answer any questions.

2 Recommendations

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

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15 September 2017

Scotland Excel Joint Committee 2016/17 Annual Audit Report

1. International Standard on Auditing (UK and Ireland) 260 (ISA 260) requires auditors to report specific matters arising from the audit of the financial statements to those charged with governance of a body in sufficient time to enable appropriate action. We are drawing to your attention matters for your consideration before the financial statements are approved and certified. We also present for your consideration our draft annual report on the 2016/17 audit which identifies significant findings from the financial statements audit. The section headed "Significant findings from the audit in accordance with ISA 260" in the attached annual audit report sets out the issues identified. This report will be issued in final form after the financial statements have been certified.
2. Our work on the financial statements is now substantially complete. Subject to the satisfactory conclusion of any outstanding matters and receipt of a revised set of financial statements for final review, we anticipate being able to issue an unqualified auditor's report on 15 September 2017 (the proposed report is attached at [Appendix A](#)). There are no anticipated modifications to the audit report.
3. In presenting this report to the Joint Committee we seek confirmation from those charged with governance of any instances of any actual, suspected or alleged fraud; any subsequent events that have occurred since the date of the financial statements; or material non-compliance with laws and regulations affecting the entity that should be brought to our attention.
4. We are required to report to those charged with governance all unadjusted misstatements which we have identified during the course of our audit, other than those of a trivial nature and request that these misstatements be corrected. We have no unadjusted misstatements to bring to your attention.
5. As part of the completion of our audit we seek written assurances from the Treasurer on aspects of the financial statements and judgements and estimates made. A draft letter of representation under ISA580 is attached at [Appendix B](#). This should be signed and returned by the Treasurer with the signed financial statements prior to the independent auditor's opinion being certified.

APPENDIX A: Proposed Independent Auditor's Report

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

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

Report on the audit of the financial statements

Opinion on financial statements

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

In my opinion the accompanying financial statements:

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

Basis of opinion

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

Responsibilities of the Treasurer for the financial statements

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

Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit and express an opinion on the financial statements in accordance with applicable legal requirements and ISAs (UK&I) as required by the Code of Audit Practice approved by the Accounts Commission. Those standards require me to comply with the Financial Reporting Council's Ethical Standards for Auditors. An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial

statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the circumstances of the body and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Treasurer; and the overall presentation of the financial statements.

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

Other information in the annual accounts

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

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

Report on other requirements

Opinions on other prescribed matters

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

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

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

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

Matters on which I am required to report by exception

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

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

I have nothing to report in respect of these matters.

Mark Ferris

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September 2017

APPENDIX B: Letter of Representation (ISA 580)

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Senior Audit Manager
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Dear Mark

Scotland Excel Joint Committee Annual Accounts 2016/17

1. This representation letter is provided in connection with your audit of the financial statements of Scotland Excel Joint Committee for the year ended 31 March 2017 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view of the financial position of Scotland Excel Joint Committee, as at 31 March 2017 and its comprehensive net expenditure for the year then ended.
2. I confirm to the best of my knowledge and belief, and having made appropriate enquiries of the Joint Committee, the following representations given to you in connection with your audit of Scotland Excel Joint Committee for the year ended 31 March 2017.

General

3. I acknowledge my responsibility and that of Scotland Excel Joint Committee for the financial statements. All the accounting records requested have been made available to you for the purposes of your audit. All material agreements and transactions undertaken by Scotland Excel Joint Committee have been properly reflected in the financial statements. All other records and information have been made available to you, including minutes of all management and other meetings.
4. The information given in the Annual Report to the financial statements, including the Management Commentary, Governance Statement and Remuneration Report, presents a balanced picture of Scotland Excel Joint Committee and is consistent with the financial statements.
5. I confirm that the effects of uncorrected misstatements are immaterial, individually and in aggregate, to the financial statements as a whole. I am not aware of any uncorrected misstatements other than those identified in the auditor's report to those charged with governance (ISA260).

Financial Reporting Framework

6. The financial statements have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, and in accordance with the requirements of

Local Government (Scotland) Act 1973, the Local Authority Accounts (Scotland) Regulations 2014, the Local Government in Scotland Act 2003 and directions made thereunder by the Scottish Ministers including all relevant presentation and disclosure requirements.

7. Disclosure has been made in the financial statements of all matters necessary for them to show a true and fair view of the transactions and state of affairs of Scotland Excel Joint Committee for the year ended 31 March 2017.

Accounting Policies & Estimates

8. All material accounting policies adopted are as shown in the Summary of Significant Accounting Policies included in the financial statements. The continuing appropriateness of these policies has been reviewed since the introduction of IAS 8 and on a regular basis thereafter, and takes account of the requirements set out in the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.
9. The significant assumptions used in making accounting estimates are reasonable and properly reflected in the financial statements. There are no changes in estimation techniques which should be disclosed due to their having a material impact on the accounting disclosures.

Going Concern

10. The Joint Committee has assessed Scotland Excel Joint Committee's ability to carry on as a going concern, as identified in the Summary of Significant Accounting Policies, and have disclosed, in the financial statements, any material uncertainties that have arisen as a result.

Related Party Transactions

11. All transactions with related parties have been disclosed in the financial statements. I have made available to you all the relevant information concerning such transactions, and I am not aware of any other matters that require disclosure in order to comply with the requirements of IAS24, as interpreted by the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

Events Subsequent to the Date of the Balance Sheet

12. There have been no material events since the date of the Balance Sheet which necessitate revision of the figures in the financial statements or notes thereto including contingent assets and liabilities.
13. Since the date of the Balance Sheet no events or transactions have occurred which, though properly excluded from the financial statements, are of such importance that they should be brought to your notice.

Corporate Governance

14. I acknowledge as Treasurer my responsibility for the corporate governance arrangements. I confirm that I have disclosed to the auditor all deficiencies in internal control of which I am aware.
15. The corporate governance arrangements have been reviewed and the disclosures I have made are in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17. There have been no changes in the corporate governance arrangements or issues identified, since 31 March 2017, which require disclosure.

Fraud

16. I have considered the risk that the financial statements may be materially misstated as a result of fraud. I have disclosed to the auditor any allegations of fraud or suspected fraud affecting the financial statements. There have been no irregularities involving management or employees who have a significant role in internal control or that could have a material effect on the financial statements.

Assets

17. The assets shown in the Balance Sheet at 31 March 2017 were owned by Scotland Excel Joint Committee, other than assets which have been purchased under finance leases. Assets are free from any lien, encumbrance or charge except as disclosed in the financial statements.

Liabilities

18. All liabilities have been provided for in the financial records, including the liabilities for all purchases to which title has passed prior to 31 March 2017.

Carrying Value of Assets and Liabilities

19. The assets and liabilities have been recognised, measured, presented and disclosed in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17. There are no plans or intentions that are likely to affect the carrying value of classification of the assets and liabilities within the financial statements.

Annual Leave Accrual

20. The holiday pay accrual included in the financial statements includes any flexi time balance due at the year end.

Yours sincerely

Treasurer

Scotland Excel Joint Committee

2016/17 Annual Audit Report



 **AUDIT SCOTLAND**

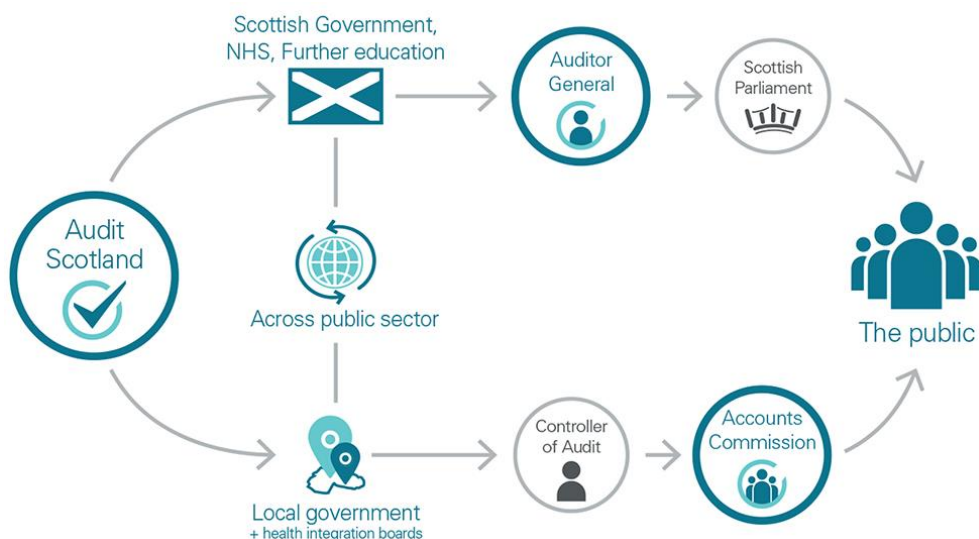
To Members of Scotland Excel Joint Committee and the Controller of Audit

15 September 2017

Who we are

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

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



About us

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

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

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

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Key messages

Audit of the 2016/17 annual accounts

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

Financial management

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

Financial sustainability

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

Governance and transparency

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

Value for money

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

Introduction

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

Exhibit 1 Audit dimensions



Source: Code of Audit Practice 2016

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

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

Part 1

Audit of 2016/17 annual report and accounts



Main judgements

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

Unqualified audit opinions

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

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

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

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

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

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

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

Risk of material misstatement

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

Materiality

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

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

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

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

Exhibit 2

Materiality values

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

Source: Audit Scotland

How we evaluate misstatements

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

Significant findings

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

Going concern

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

Other findings

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

Objections

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

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

Part 2

Financial management



Main judgements

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

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

Financial performance in 2016/17

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

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

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

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

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

Exhibit 3

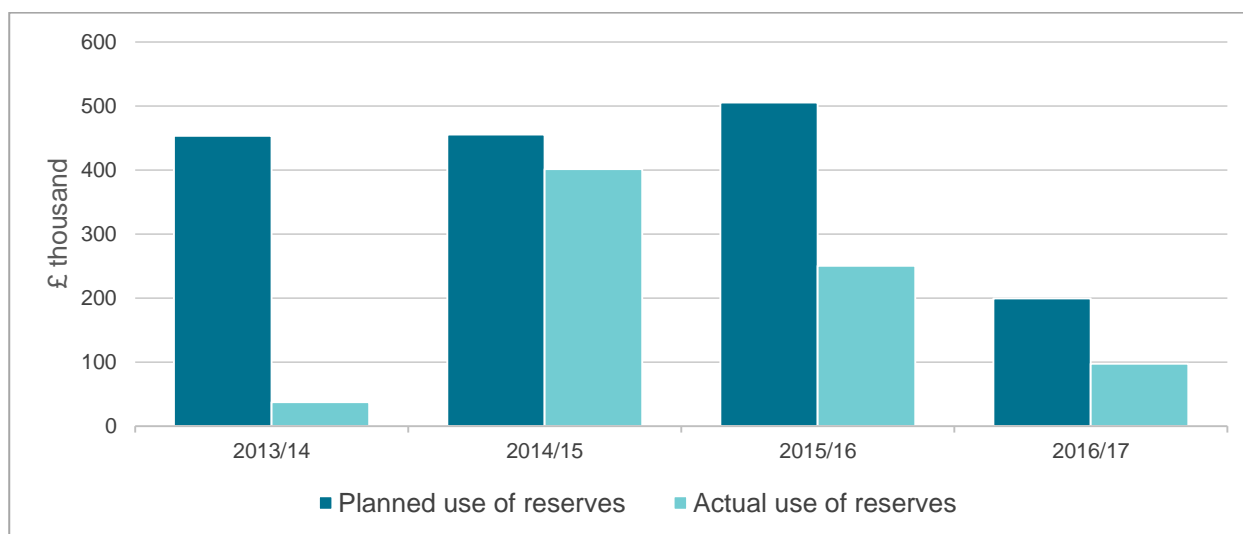
Summary of significant over and under spends/recovery against budget

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

Source: Scotland Excel annual report and accounts 2016/17

Exhibit 4

Analysis of planned use of reserves against actual use of reserves



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

Budgetary monitoring and control

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

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

Internal controls

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

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

Prevention and detection of fraud

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

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

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

National Fraud Initiative

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

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

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

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

Part 3

Financial sustainability



Main judgements

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

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

Financial planning

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

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

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

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

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

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

Appendix 1, Action Plan, point 1

Funding position

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

Savings plans

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

Reserves

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

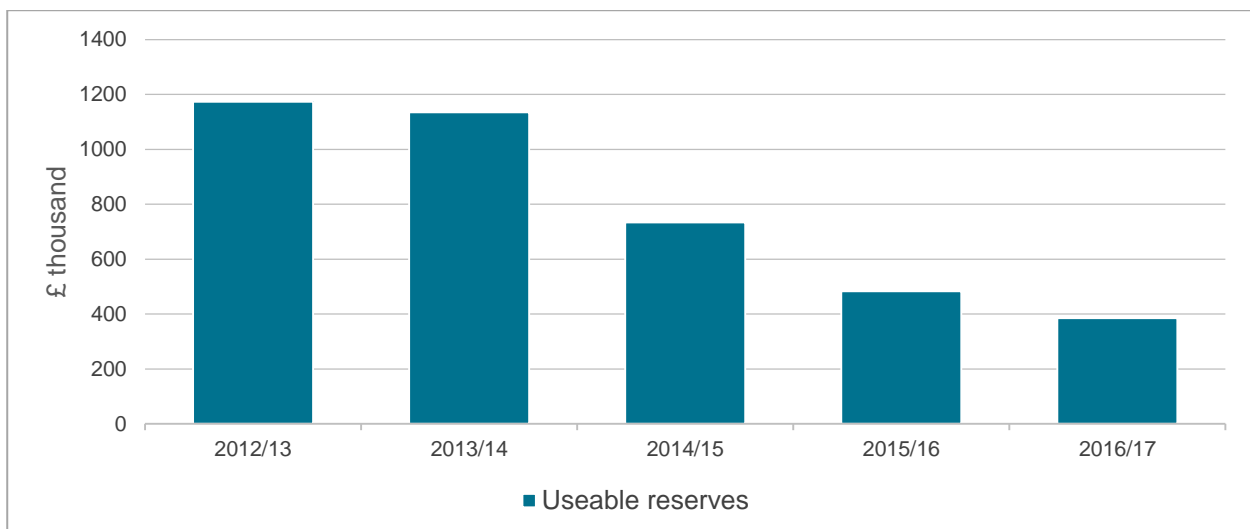
49. In 2016/17 the overall level of useable reserves held by Scotland Excel decreased by £0.098 million (20 per cent). The closing balance of £0.385 million is 10 per cent of 2016/17 budgeted expenditure. Officers have assessed this as being a prudent level to protect against unforeseen costs.

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

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

Exhibit 5

Analysis of useable reserves over last five years



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

Part 4

Governance and transparency



Main Judgements

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

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

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

Governance arrangements

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

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

Management commentary, annual governance statement and remuneration report

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

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

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

Internal audit

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

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

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

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

Appendix 1, Action Plan, point 2

ICT risks

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

Transparency

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

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

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

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

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

Equalities

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

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

Part 5

Value for money



Main judgements

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

Overall performance was positive but there were areas for improvement.

Best Value

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

Following the public pound

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

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

Performance management

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

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

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

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

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

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

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

National performance audit reports




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

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

Appendix 1

Action plan 2016/17

2016/17 recommendations for improvement

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

Appendix 2

Significant audit risks identified during planning

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

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





















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

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

Appendix 3

Summary of national performance reports 2016/17



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

Local government relevant reports

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

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

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

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

Scotland Excel Joint Committee

2016/17 Annual Audit Report

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