

SCOTLAND EXCEL

To: Scotland Excel Executive Sub Committee

On: 28 August 2015

Report by: Joint Report by the Treasurer and the Director

Heading: Audited Annual Accounts 2014-15

1. Summary

- 1.1 At the meeting of Scotland Excel Joint Committee on 12 June 2015 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 2015, in accordance with the accounting policies detailed in the accounts.
- 1.3 A report on the 2014-15 audit by Audit Scotland is also submitted for members information. There are no matters arising from the audit which require specific reporting to members.
- 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

Annual Financial Statements 2014/15

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Management Commentary

Introduction

The requirements governing the format and content of local authorities' annual accounts (under s106 of the Local Government (Scotland) Act 1973 joint boards and committees are classed as local authorities) are contained in The Code of Practice on Local Authority Accounting in the United Kingdom ("the Code"). The annual accounts and contents have been prepared in accordance with chapter 5 of HM Treasury's Financial Reporting Manual 2014-15.

History and Statutory Background

Scotland Excel was launched in April 2008 to establish a centre of procurement expertise for the local government sector in Scotland. Its remit is to work collaboratively with members and suppliers to raise procurement standards, secure best value for customers and to improve the efficiency and effectiveness of public sector procurement in Scotland.

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.

Values

The following principles, which are shared across Scotland Excel, underpin our approach and are integral to our success.

Excellence: We practice excellence in everything that we do - in our procurement activities and our service to customers.

Innovation: We will be innovative across all areas - in the strategies we develop and how we share best practice.

Commitment: We are committed to our employees and our customers - in working sustainably to deliver best value.

Strategic Aims

Scotland Excel has five strategic aims which shape our business plans, objectives and activities.

Best Value: Develop and implement new collaborative contracts, actively managing supplier relationships, and providing high quality business information and reports which support decision making at a national and local level.

Procurement Capability: Deliver a range of best practise projects, initiatives and activities to raise procurement capability across our sector.

Stakeholder Engagement: Engage with local authority stakeholders across all aspects of our business to ensure that our policies, plans and activities are aligned to the strategic priorities of our sector.

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Corporate Social Responsibility: Adopt a proactive approach to corporate social responsibility and sustainable practices by taking a holistic view of the social, economic and environmental implications of procurement choices.

Organisational Development: Progress the development of Scotland Excel through the continuous improvement of staff skills, systems and internal process.

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

<http://www.scotland-excel.org.uk/home/AboutUs/StrategyAndGovernance/StrategicAims.aspx>

A copy of the 2014-15 year end report, which measures performance against the business plan for the current year, can be found at the address below.

<http://renfrewshire.cmis.uk.com/renfrewshire/Meetings/tabid/70/ctl/ViewMeetingPublic/mid/397/Meeting/691/Committee/80/Default.aspx>

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 £401,539 for the financial year 2014/15, compared to a budgeted deficit of £455,383; returning an underspend of £53,844. In line with the agreed business plan, the deficit incurred was funded from reserves.

The difference between the employee costs in the figure below and the figure reported in the Comprehensive Income and Expenditure report is due to accounting adjustments for pension costs (£119,000) and accrued employee benefits (£5,100).

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 (£74,000).

	Budget £	Actual £	Variance £
Employee Costs	2,720,600	2,795,687	(75,087)
Property Costs	176,500	177,476	(976)
Supplies and Services	182,500	119,258	63,242
Contractors & Others	249,000	254,008	(5,008)
Administrative Costs	308,000	353,045	(45,045)
Payments to Other Bodies	33,000	122,151	(89,151)
Total Expenditure	3,669,600	3,821,625	(152,025)
Requisition Income	(3,184,217)	(3,184,217)	-
Other Income	(30,000)	(235,869)	205,869
Total Income	(3,214,217)	(3,420,086)	205,869
(Surplus)/Deficit for Year	455,383	401,539	53,844

The overspend in Employee Costs is due to voluntary redundancy/early retirement packages as agreed by the Joint Committee. The recruitment of a temporary employee, whose costs are fully recovered and included in Other Income, has contributed to the overspend. The overspend has been partially offset by vacancies within Procurement.

The underspend in Supplies and Services is due to the planned systems development programme not being completed by the end of the financial year.

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The overspend in Administrative Costs is a result of recruitment and advertising costs and legal fees associated with a supplier challenge to a contract award.

The overspend in Payments to Other Bodies relates to external training courses arranged by Scotland Excel for Local Authority employees, which is fully recovered within Other income

The over recovery of Other Income is due to the recovery of training fees and reimbursement of the temporary employee costs mentioned above.

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 £733,567.

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 £3.460 million, a deterioration of £1.798 million in their assessment of the position of the pension fund. The net deficit position of the pension reserve impacts on the net asset position of Scotland Excel as a whole, however the funding of these future liabilities will be met from future requisitions from members and as such the going concern assumption is valid.

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

Service changes and Future Developments

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

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

Local government is actively managing an ongoing reduction in available resources which is anticipated to continue over at least the medium term. In response to this, Scotland Excel has taken proactive measures to reorganise itself into a more streamlined organisation which has allowed the requisitions from member authorities to be held in 2015-16 at the same level as 2014-15

The balance of Scottish Government grant funding made available to set up Scotland Excel continues to be used to ensure the organisation is fit for purpose; and to fund procurement reform activity.

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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 28 August 2015.

Signed on behalf of Scotland Excel:

Councillor Michael Holmes

Convenor
28 August 2015

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 2015.

Alan Russell CPFA

Treasurer
28 August 2015

Governance Statement

Scope of Responsibility

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

The Joint Committee's Governance Framework

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

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

The main features of our governance arrangements are summarised below:

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

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

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

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

Review of Effectiveness

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

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

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

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

The Joint Committee's internal audit service operates in accordance with the Public Sector Internal Audit Standards. Internal Audit undertakes an annual programme following an assessment of risk completed during the strategic audit planning process. The Chief Auditor provides an annual report to the Joint Committee and an independent opinion on the adequacy and effectiveness of the system of internal control. The Chief Auditor's annual assurance statement concluded that a 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 2015/16

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.

Councillor Michael Holmes
Convenor

Julie Welsh
Director

Remuneration report

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

1. Remuneration policy for elected members

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

2. Remuneration policy for senior employees

The Remuneration Policy of the Joint Committee is based on that agreed as part of the establishment of the Authorities Buying Consortium by Strathclyde Regional Council in 1996/7. It was agreed that the Director of the Authorities Buying Consortium receive a fixed salary set at SCP 35 (Grade CO8) of the Scottish Joint Negotiating Committee for Chief Officials pay scales, equivalent to 68.72% of the salary of the Chief Executive of Renfrewshire Council. At the Authorities Buying Consortium Joint Committee meeting of 25th October 2002 it was agreed to continue the existing percentage salary relationship. Following the retirement of the existing Director, 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.

2013/14	Senior Employees		2014/15			
Total	Name	Post Held	Salary, fees and allowances (i)	Expenses allowance chargeable to UK income tax	Other (ii)	Total
£			£	£	£	£
95,290	Dorothy Cowie	Director (until 31/08/14)	40,343	-	-	40,343
-	Julie Welsh	Director (from 01/09/14)	54,253	-	-	54,253
59,188	Irene McCulloch	Head of Professional Services (until 30/01/15)	48,629	-	41,226	89,855
72,732	Hugh Carr	Head of Strategic Procurement	73,459	-	-	73,459
227,211	Total		216,684	-	41,226	257,910

(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;

(ii) "other" includes any payments made by Scotland Excel by way of remuneration to, or in respect of, the person that do not otherwise fall within this paragraph, other than payments relating to pensions.

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 2015, 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).

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For local government employees this is a final salary pension scheme. This means that pension benefits are based on the final year's pay and the number of years that person has been a member of the scheme. The scheme's normal retirement age is 65.

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.

2013/14	Member contribution rates on earnings in the bands below	2014/15
Up to £19,800	5.5%	Up to £20,335
£19,801 to £24,200	7.25%	£20,336 to £24,853
£24,201 to £33,200	8.5%	£24,854 to £34,096
£33,201 to £44,200	9.5%	£34,097 to £45,393
Over £44,201	12%	Over £45,394

If a person works part-time their contribution rate is worked out on the whole-time pay rate for the job, with actual contributions paid on actual pay earned.

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 1/60th of final pensionable salary and years of pensionable service. (Prior to 2009 the accrual rate guaranteed a pension based on 1/80th and a lump sum based on 3/80th of final pensionable salary and years of pensionable service).

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						
Name	Post Held	Accrued Pension benefits as at 31 March 2015		Change in accrued pension benefits since 31 March 2014		Pension contributions made by Scotland Excel during 2014-2015
		Pension	Lump Sum	Pension	Lump Sum	(i)
		£m	£m	£m	£m	£
Dorothy Cowie	Director (until 31/08/14)	0.044	0.107	+0.001	+0.001	7,786
Julie Welsh	Director (from 01/09/14)	0.008	0.001	+0.002	+0.000	10,517
Irene McCulloch	Head of Professional Services (until 30/01/15)	0.018	0.109	-0.001	+0.067	9,392
Hugh Carr	Head of Strategic Procurement	0.004	0.000	+0.000	+0.000	14,178
Total		0.074	0.217	+0.002	+0.068	41,873

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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 2014/15, in bands of £5,000.

2013/14 Number of employees	Remuneration Band	2014/15 Number of employees
-	£50,000 - £54,999	2
1	£55,000 - 59,999	
-	£60,000 - £64,999	-
-	£65,000 - 69,999	-
1	£70,000 - £74,999	1
-	£75,000 - £79,999	-
-	£80,000 - £84,999	-
-	£85,000 - £89,999	1
1	£90,000 - £94,999	-
-	£95,000 - £99,999	-
<hr/> 3		<hr/> 4

5. Exit Packages

Scotland Excel has agreed four exit packages in 2014-15 as detailed in the table below. The exit packages agreed were all on a voluntary basis with no compulsory redundancies.

The total exit package costs in the table below include redundancy, pension strain and compensatory lump sum payments; and also the notional capitalised costs of compensatory added years. These notional costs are not based on actual costs but are the estimated present value of projected costs over the lifetime of the individuals in receipt of the exit package based on the following assumptions:

	2013/14	2014/15
Future Life Expectancy at age 65 - males	23.3 years	24.8 years
Future Life Expectancy at age 65 - females	25.3 years	26.2 years
Pension Increase Rate	2.8%	2.4%
Discount Rate	4.3%	3.2%

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2013/14		Exit package cost	2014/15	
Number of departures agreed	Total cost of exit packages in each band £m		Number of departures agreed	Total cost of exit packages in each band £m
-	-	£0 - £20,000	2	0.027
-	-	£20,001 - £40,000	-	-
-	-	£40,001 - £60,000	1	0.042
-	-	£60,001 - £80,000	-	-
-	-	£80,001 - £100,000	-	-
-	-	£100,001 - £150,000	1	0.125
-	-	£150,001 - £200,000	-	-
-	-	£200,001 - £250,000	-	-
-	-	£250,001 - £300,000	-	-
-	-	£300,001 - £350,000	-	-
-	-		4	0.193

Councillor Michael Holmes
Convenor

Julie Welsh
Director

Independent Auditors Report

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I certify that I have audited the financial statements of the Scotland Excel Joint Committee for the year ended 31 March 2015 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 2014/15 (the 2014/15 Code).

This report is made solely to the parties to whom it is addressed in accordance with the 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 the Director of Finance and Resources at Renfrewshire Council, as 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 body's circumstances 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:

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- give a true and fair view in accordance with the applicable law and the 2014/15 Code of the state of the affairs of the body as at 31 March 2015 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 2014/15 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

28 August 2015

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Movement in Reserves Statement for the year ended 31 March 2015

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
		£	£	£	£
Balance at 31 March 2013 carried forward		-	(1,226,000)	(56,518)	(1,282,518)
<i>Movement in reserves during 2013-14</i>					
Surplus or (deficit) on the provision of services		(158,360)			(158,360)
Other comprehensive income and expenditure	15a	-	(317,000)		(317,000)
Total comprehensive income and expenditure		(158,360)	(317,000)	-	(475,360)
Adjustments between accounting basis and funding basis under regulations	6b & 6c	120,602	(119,000)	(1,602)	0
Transfer from Creditors	6a	1,172,864			1,172,864
Net increase or (decrease) before transfers to other statutory reserves		1,135,106	(436,000)	(1,602)	697,504
Transfers to or (from) other statutory reserves		-	-	-	-
Transfer to creditors	6a	(1,135,106)	-	-	(1,135,106)
Increase or (decrease) in 2013-14		-	(436,000)	(1,602)	(437,602)
Balance at 31 March 2014 carried forward		-	(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)
Total comprehensive income and expenditure		(599,639)	(1,605,000)	-	(2,204,639)
Adjustments between accounting basis and funding basis under regulations	6b & 6c	198,100	(193,000)	(5,100)	-
Transfer from Creditors	6a	1,135,106			1,135,106
Net increase or (decrease) before transfers to other statutory reserves		733,567	(1,798,000)	(5,100)	(1,069,533)
Transfers to or (from) other statutory reserves					-
Transfer to creditors	6a	(733,567)			(733,567)
Increase or (decrease) in 2014-15		-	(1,798,000)	(5,100)	(1,803,100)
Balance at 31 March 2015 carried forward		-	(3,460,000)	(63,220)	(3,523,220)

Comprehensive Income and Expenditure Statement for the year ended 31 March 2015

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**.

2013/14			2014/15	
£		Note		£
2,662,994	Employee Costs			2,919,787
170,738	Property Costs			177,476
67,693	Supplies & Services			119,258
299,099	Contractors			254,008
234,575	Administration Costs			353,045
102,733	Payments to Other Bodies			122,151
3,537,832	Cost of Services			3,945,725
(237,317)	Sales, Fees & Charges			(226,270)
42,062	Financing & Investment Income and Expenditure	8		64,401
(3,184,217)	Requisitions from Members Authorities	13		(3,184,217)
158,360	(Surplus) or deficit on the provision of services			599,639
317,000	Actuarial (Gains) or losses on pension assets and liabilities	15a		1,605,000
317,000	Other Comprehensive Income & Expenditure			1,605,000
475,360	Total Comprehensive Income & Expenditure			2,204,639

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Balance Sheet as at 31 March 2015

The **balance sheet** shows the value as at 31 March 2015 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 2014 £		Note	31st March 2015 £
	<u>Current Assets</u>		
1,233,271	Funds held by Renfrewshire Council		958,439
70,108	Debtors and Prepayments	10	34,700
150	Cash in Hand		150
<hr/> 1,303,529			<hr/> 993,289
	<u>less Current Liabilities</u>		
(1,361,649)	Creditors And Accruals	11	(1,056,509)
<hr/> (58,120)	Net Assets Excluding Pension (Liability)/Asset		<hr/> (63,220)
	<u>Long Term Liabilities</u>		
(1,662,000)	Pension (liability)/Asset	15c	(3,460,000)
<hr/> (1,720,120)	Net (Liabilities)/Asset Including Pension		<hr/> (3,523,220)
	<u>Represented by:</u>		
	Usable Reserves - Revenue		
1,135,106	Balance due to Scottish Government and related parties		733,567
(1,135,106)	Transfer to Creditors		(733,567)
	Unusable Reserves		
(58,120)	Employee Statutory Adjustment Account	6c	(63,220)
(1,662,000)	Pension Reserve	6b	(3,460,000)
<hr/> (1,720,120)			<hr/> (3,523,220)

The audited accounts were issued on the 28 August 2015, Balance Sheet signed by:

Alan Russell CPFA
Treasurer
28 August 2015

Cash flow Statement for the year ended 31 March 2015

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.

2013/14		2014/15
£		£
	Operating Activities	
	Cash Inflows	
(3,391,132)	Sale of goods and rendering of services	(3,435,027)
(14,938)	Interest received	(9,599)
(3,406,070)	Cash inflows generated from operating activities	(3,444,626)
	Cash Outflows	
2,217,646	Cash paid to and on behalf of employees	2,342,746
963,510	Cash paid to suppliers of goods and services	1,013,720
352,751	Other payments for operating activities	362,992
3,533,907	Cash outflows generated from operating activities	3,719,458
127,837	Net (increase)/decrease in cash and cash equivalents	274,832
1,361,258	Cash and cash equivalents at the beginning of the reporting period - short term deposits with Renfrewshire Council	1,233,421
1,233,421	Cash and cash equivalents at the end of the reporting period - short term deposits with Renfrewshire Council	958,589
127,837	Net cash outflow in cash and cash equivalents in year	274,832

Note 1 Summary of Significant Accounting Policies

The Financial Statements for the year ended 31 March 2015 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

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Expenditure Statement also recognises changes during the year in the pension asset or liability. 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

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classified as operating leases. Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

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 the balance of start-up funding made available to the Joint Committee through a Scottish Government grant and any balance of requisition income from members of the Joint Committee.

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

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

VAT

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

Note 2 Accounting Standards Issued not Adopted

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

Note 3 Critical Judgements in Applying Accounting Policies

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

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, and the remaining balance will continue to be used to ensure that Scotland Excel provides appropriate procurement reform support to local authorities in Scotland.
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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 2015 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Results differ from Assumption
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Joint Committee with expert advice about the assumptions to be applied.	The effects on the net pensions liability of changes in individual assumptions can be measured. For instance, a 0.5% decrease in the discount rate assumption would result in an decrease in the pension liability of £1.784 million. However, the assumptions interact in complex ways. During 2014/15, the appointed actuaries advised that the net pension liability had decreased by £1.605 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 2015, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information. There are no non adjusting events.

Note 6 Details of Movement in Reserves

a. Revenue Reserve

2013/14		2014/15
£		£
(1,172,864)	Balance as at 1 April	(1,135,106)
(119,000)	Transfer to pension reserve	(193,000)
(1,602)	Transfer to employee statutory adjustment account	(5,100)
158,360	(Surplus) or Deficit on the provision of services (from the Comprehensive Income & Expenditure Account)	599,639
<u>(1,135,106)</u>	Balance as at 31 March	<u>(733,567)</u>

This represents the excess of member authority requisitions over expenditure in any one year and is shown as payable to the member authorities

b. Pension Reserve

2013/14		2014/15
£		£
(1,226,000)	Balance as at 1 April	(1,662,000)
(317,000)	Actuarial Gains and Losses (see note 15)	(1,605,000)
(119,000)	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	(193,000)
<u>(1,662,000)</u>	Balance as at 31 March	<u>(3,460,000)</u>

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

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c. Employee Statutory Adjustment Account

2013/14		2014/15
£		£
56,518	Balance as at 1 April	58,120
(56,518)	Reversal of prior year accrual for short-term accumulating compensated absences	(58,120)
58,120	Recognition of the accrual for short-term accumulating compensating absences at 31 March	63,220
58,120	Balance as at 31 March	63,220

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 £198,100 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.

2013/14		2014/15
£		£
	Amounts to be included in the Comprehensive Income and Expenditure Statement but required by statute to be excluded when determining Movement in Reserves Statement	
(463,000)	Net charges made for retirement benefits in accordance with IAS19	(535,000)
(1,602)	Net charges for employment short-term accumulating absences	(5,100)
(464,602)		(540,100)
	Amounts not included in the Comprehensive Income and Expenditure Statement but required to be included by statute when determining Movement in Reserves Statement	
344,000	Employers contributions payable to the Strathclyde Pension Fund	342,000
(120,602)	Net additional amount required to be debited or credited to the Revenue Reserves balance for the year	(198,100)

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Note 8 Financing & Investment Income

2013/14		2014/15
£		£
(14,938)	Interest on Balances	(9,599)
57,000	Pension Interest Cost	74,000
42,062	Total Financing and Investment (Income)/Cost	64,401

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 (2013/14 £87,320).

2013/14		2014/15
£		£
	Future Minimum Lease Payments	
87,320	- not later than one year	87,320
250,716	- later than one year and not later than five years	163,396
-	- later than five years	-
338,036	Total	250,716

Note 10 Debtors

31st March 2014		31st March 2015
£		£
-	Central government bodies	-
-	Other local authorities	-
70,108	Other Entities and Individuals	34,700
70,108	Total short term debtors	34,700

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Note 11 Creditors

31st March 2014		31st March 2015
£		£
589,490	Central government bodies	288,091
561,277	Other local authorities	464,780
58,120	Short Term Accumulating Absences	63,220
125,850	Accrued Payrolls	140,945
26,913	Other entities and individuals	99,473
<u>1,361,649</u>	Total short term creditors	<u>1,056,509</u>

Note 12 Transfer to Creditors

2013/14		2014/15
£		£
<u>1,135,106</u>	In terms of Section 58 of the Local Government (Scotland) Act 1973, Joint Committees have no specific powers to retain reserves to meet future funding requirements and the amount due to funding bodies has been transferred to creditors.	<u>733,567</u>

Note 13 Related parties

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

The member authorities of the Joint Committee have contributed requisitions in the following proportions to enable the Joint Committee to carry out its objectives. The Joint Committee in turn pays Renfrewshire Council for support services.

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The amount paid in respect of these services for the year ended 31 March 2015 was £185,000 (2013/14 £174,500).

2013/14		Percentage	2014/15
£	Council		£
124,108	Aberdeen City	3.9%	124,108
135,624	Aberdeenshire	4.3%	135,624
73,910	Angus	2.3%	73,910
65,691	Argyll & Bute	2.1%	65,691
43,592	Clackmannanshire	1.4%	43,592
94,018	Dumfries & Galloway	3.0%	94,018
91,930	Dundee City	2.9%	91,930
79,994	East Ayrshire	2.5%	79,994
73,631	East Dunbartonshire	2.3%	73,631
65,585	East Lothian	2.1%	65,585
64,871	East Renfrewshire	2.0%	64,871
246,599	Edinburgh (City of)	7.7%	246,599
32,658	Eilean Siar	1.0%	32,658
93,365	Falkirk	2.9%	93,365
197,793	Fife	6.2%	197,793
311,813	Glasgow City	9.8%	311,813
125,364	Highland	3.9%	125,364
61,512	Inverclyde	1.9%	61,512
59,820	Midlothian	1.9%	59,820
63,746	Moray	2.0%	63,746
88,354	North Ayrshire	2.8%	88,354
182,483	North Lanarkshire	5.7%	182,483
29,218	Orkney	0.9%	29,218
88,333	Perth & Kinross	2.8%	88,333
106,061	Renfrewshire	3.3%	106,061
74,295	Scottish Borders	2.3%	74,295
30,515	Shetlands Council	1.0%	30,515
75,966	South Ayrshire	2.4%	75,966
172,952	South Lanarkshire	5.4%	172,952
63,194	Stirling	2.0%	63,194
66,208	West Dunbartonshire	2.1%	66,208
101,014	West Lothian	3.2%	101,014
3,184,217	Total	100%	3,184,217

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 2014/15 were £5,720 (£5,660 in 2013/14). 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 2014/15:

2013/14 £		Note	2014/15 £
	Comprehensive Income & Expenditure Statement		
	Cost of Services		
406,000	Current service cost	(i)	461,000
-	Past service cost/(gain)	(ii)	-
-	Settlements & curtailments	(iii)	-
406,000			461,000
	Financing & Investment Income & Expenditure		
57,000	Net Interest	(iv)	74,000
463,000	Total post employment benefit charged to the Surplus or Deficit on the Provision of Services		535,000
	Other post employment benefit charged to the Comprehensive Income and Expenditure Statement		
(175,000)	Return on assets excluding amounts included in net interest		(792,000)
492,000	Actuarial (gains) and losses arising on changes in financial assumptions		2,397,000
317,000	Total Actuarial (gains) and losses		1,605,000
780,000	Total post employment benefit charged to the Comprehensive Income and Expenditure Statement		2,140,000
	Movement in Reserves Statement	(v)	
	Reversal of net charges made to the Surplus or Deficit for the		
(436,000)	Provision of Services for post employment benefits according with the Code		(1,798,000)
344,000	Employers Contributions paid to Strathclyde Pension Fund		342,000

Notes

- i. Current service cost is the cost of future entitlements to pension payments to current employees
- ii. Past service cost is the cost of discretionary pension benefits to former employees who retired on the grounds of efficiency etc or savings made for commuting part of the pension for additional cash.
- iii. Curtailments are the pension costs to employees retired under redundancy terms.

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- 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.
- 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 (£193,000).

The Joint Committee is also responsible for all pension payments relating to added years benefits it has awarded, together with related increases. In 2014/15 these amounted to £17,648 (2013/14 £16,107).

In addition to the recognised gains and losses included in the Comprehensive Income and Expenditure Statement, losses of £1.605 million are included in the Movement in Reserves Statement (2013/14 £0.317 million loss). The cumulative amount of actuarial losses is £(4.012) million (2013/14 £ (2.407) million).

15b. Assets and liabilities in relation to retirement benefits

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

2013/14		2014/15
£000		£000
8,873	Opening present value	10,210
406	Current service cost	461
409	Interest Cost	449
125	Employee Contributions	124
	Remeasurement (gains)/losses:	
492	Actuarial (gains)/losses arising from changes in financial assumptions	2,397
(95)	Benefits Paid	(92)
10,210	Balance as at 31 March	13,549

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

2013/14		2014/15
£000		£000
7,647	Opening Fair Value	8,548
352	Interest Income	375
	Remeasurement gain/(loss):	
175	Return on assets excluding amounts included in net interest	792
344	Contributions from employer	342
125	Contributions from employee	124
(95)	Benefits Paid	(92)
8,548	Closing fair value of scheme assets	10,089

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15c. Fund history

	2010/11	2011/12	2012/13	2013/14	2014/15
	£000	£000	£000	£000	£000
Present Value of Liabilities	(7,685)	(6,881)	(8,873)	(10,210)	(13,549)
Fair value of assets	7,704	6,243	7,647	8,548	10,089
Surplus/(deficit) in the Fund	19	(638)	(1,226)	(1,662)	(3,460)

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

The total liability of £3.460 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 2011.

The principal assumptions used by the actuary have been:

31st March 2014	Year Ended:	31st March 2015
Mortality assumptions		
	Longevity at 65 for current pensioners	
21.0 years	• Men	22.1 years
23.4 years	• Women	23.6 years
	Longevity at 65 for Future pensioners	
23.3 years	• Men	24.8 years
25.3 years	• Women	26.2 years
5.1%	Rate of increase in salaries*	4.3%
2.8%	Rate of increase in pensions	2.4%
4.3%	Rate for discounting scheme liabilities	3.2%
	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%

* Salary increases are assumed at 1% p.a. until 31 March 2015 and reverting to the long term assumption thereafter

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

31st March 2014			31st March 2015
£000		Percentage	£000
	Equity Securities		
787	Consumer	9.4%	953
692	Manufacturing	7.5%	761
313	Energy and Utilities	3.0%	300
572	Financial Institutions	6.9%	701
293	Health and Care	4.1%	410
466	Information Technology	5.7%	580
3,123	Total Equity	36.7%	3,705
	Private Equity		
806	All	9.7%	982
806	Total Private Equity	9.7%	982
	Real Estate		
599	UK Property	9.1%	922
-	Overseas Property	0.0%	-
599	Total Real Estate	9.1%	922
	Investment Funds & Unit Trusts		
2,602	Equities	28.7%	2,895
992	Bonds	12.7%	1,278
3	Commodities	0.0%	4
12	Infrastructure	0.3%	34
-	Other	0.2%	18
3,609	Total Investment Funds & Unit Trusts	41.9%	4,229
	Derivatives		
2	Other	0.0%	3
2	Total Derivatives	0.0%	3
	Cash & Cash Equivalents		
409	All	2.5%	248
409	Total Cash & Cash Equivalents	2.5%	248
8,548	Total	100%	10,089

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 and 2016-17. This rate may vary thereafter following triennial valuation carried out as at 31 March 2014.

The fund will require to assess the impact for future accruals and contributions from impending changes to the LGPS such as the move from 1 April 2015 to a career average revalued earning (CARE) scheme.

The total contributions expected to be made by the Joint Committee to the Strathclyde Pension Fund in the forthcoming year to 31 March 2016 is £0.370 million.

Note 16 Contingent Liabilities and Assets

Following the awarding of a new Framework contract, a legal challenge has been notified. 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

Proposed Annual audit
report to Members and
the Controller of Audit

August 2015

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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)

Audit Scotland is a statutory body which provides audit services to the Accounts Commission and the Auditor General. (www.audit-scotland.gov.uk)

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.

This report will be published on our website after it has been considered by Scotland Excel. 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

	<ul style="list-style-type: none"> • Unqualified auditor's report on the 2014/15 financial statements.
	<ul style="list-style-type: none"> • Scotland Excel reported a deficit of £402k compared to a budgeted deficit of £455k. • Reform funding balance soon to be fully utilised increasing pressure for a new funding regime to be developed and implemented for 2016/17. • Balances with local authorities are £0.5m, which is 14% of 2015/16 budget and sufficient to cover unexpected costs.
	<ul style="list-style-type: none"> • New governance statement completed and included in the 2014/15 financial statements. • Satisfactory internal control arrangements. • Register of interests being implemented. • New corporate strategy in place for 2015-18.
	<ul style="list-style-type: none"> • In common with other public sector organisations, Scotland Excel faces the key challenges of reducing budgets and the public expectation of high quality services value. The Corporate Strategy emphasises Scotland Excel's role in supporting public sector bodies deliver better and more cost effective services. Key to this is developing a new funding model.

Introduction

1. This report is a summary of our findings arising from the 2014/15 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, summarised at **appendices II and III**, include recommendations for improvements.
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. The Joint Committee and executive officers group 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.

Audit of the 2014/15 financial statements

Audit opinion	<ul style="list-style-type: none">We have completed our audit and issued an unqualified independent auditor’s report.
Going concern	<ul style="list-style-type: none">The financial statements were prepared on the going concern basis. We are unaware of any events or conditions that may cast significant doubt on Scotland Excel to continue as a going concern.
Other information	<ul style="list-style-type: none">We review and report on other information published with the financial statements, including the management commentary, annual governance statement and the remuneration report. There were minor disclosure changes made to these statements as a result of the audit.

Submission of financial statements for audit

9. We received the unaudited financial statements on 3 June 2015, in accordance with the agreed timetable. The working papers were of a high standard and staff provided good support to the audit team.

not undertaken non-audit related services. The 2014/15 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.

12. 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

Overview of the scope of the audit of the financial statements

10. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined in our Annual Audit Plan provided to management in March 2015.

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.

11. As part of the requirement to provide full and fair disclosure of matters relating to our independence, we can confirm that we have

13. Our audit involved 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.

Materiality

14. 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).

15. 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.

16. 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 2014/15 at £33,000 (1% of gross expenditure). We report all misstatements greater than £1,000. Performance materiality was calculated at £16,000 to reduce to an acceptable level the probability of uncorrected and undetected audit differences exceeding our planning materiality level.

17. On receipt of the financial statements we reviewed our materiality levels. Materiality remained at 1% but all pension costs were now

included and materiality increased to £40,197 and performance materiality to £20,098.

Evaluation of misstatements

18. 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 impacting on the Comprehensive Income and Expenditure Statement.

Significant findings from the audit

19. 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.

20. There are no matters, other than those set out elsewhere in this report, to which we wish to draw to you attention.

Financial management and sustainability

Income	
Surplus £0.206m LY surplus £0.222m	
Initial Budget	£3.214m
Final Budget	£3.214m
Actual Outturn	£3.420m
Surplus	£0.206m

Expenditure	
Overspend (£0.152m) LY underspend £0.193m	
Initial Budget	£3.575m
Final Budget	£3.670m
Actual Outturn	£3.822m
Under/(over)spend	(£0.152m)

Net deficit	
Initial planned deficit - £0.360m Final planned deficit - £0.455m	
Actual deficit £0.401m	

Reserves balances at year-end	
31 March 2015 £0.7m	
31 March 2014 £1.1m	

Financial management

21. Scotland Excel sets an annual budget to meet its commitments for the forthcoming financial year. Regular monitoring of expenditure and income against agreed budgets is central to effective financial management.

Financial outcomes

22. Scotland Excel incurred an accounting deficit on the provision of services of £0.6m, as shown in the Comprehensive Income and Expenditure Statement (CIES). In the CIES, cost of services increased from £3.538m to £3.946m, a 12% increase. The main increases from 2013/14 are on employee costs due to voluntary redundancy/ early retirement costs and on administration costs, due to recruitment costs and legal fees associated with a supplier challenge to a contract.

- 23.** The deficit as presented in the management commentary of £0.401m 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.
- 24.** Overall Scotland Excel reported an underspend of £0.054m against a budgeted deficit of £0.455m. The surplus on other income of £0.206m is due to the recovery of training fees and reimbursements of temporary employee costs. These costs contribute to the overspend recorded against employee costs (£0.075m) and payments to other bodies (£0.089m). In addition there was an underspend on supplies and services due to delays in systems development work.

Financial management arrangements

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

- 26.** Revenue budget monitoring reports are regularly provided to the Scotland Excel Executive sub-committee and core operations split from non-core.
- 27.** Internal audit confirmed that regulations reviewed and updated, then approved in December 2014.
- 28.** Forecasting the year-end deficit is complicated by the difficulty in recruiting staff and the level of re-charges received for costs incurred. For 2014/15 and 2013/14, other income budget was £0.03m but outturn was £0.252m and £0.236m, respectively.
- 29.** The anticipated year-end budget fluctuated during the year: original £0.036m; revised £0.455m; at 10 months £0.338m and then the outturn was £0.401m In quarter 4, Scotland Excel took the opportunity to fund voluntary severance costs, bringing the anticipated year-end deficit back to nearer the revised budget.
- 30.** For 2015/16, the budget level has remained at £30k but based on previous years may increase due to the level of recharges.

Conclusion on financial management

- 31.** We have concluded that the Scotland Excel's financial management arrangements are broadly satisfactory but that more work is required on planning for re-charged costs. The new funding model will look in particular at the charging regime with local authorities.

Appendix 4 – Action Plan No. 1

Financial sustainability

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

Effective long-term financial planning, asset management and workforce planning are crucial to sustainability.

Pension liability

33. The net liability on Scotland Excel's balance sheet has increased from £1.720m in 2013/14 to £3.523m in 2014/15. The principal reason for this increase is the pension liability rise from £1.662m to £3.460m. This increase is driven by changes in pension actuary's assumptions, mainly by the reduction in the net discount rate over this period.

34. The pension liability represents the difference between expected future pension payments and the underlying value of pension fund assets available to meet this cost.

35. 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.

Reserve balances

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

37. Total reserves decreased by £0.401m from £1.135m to £0.734m at March 2015, as Scotland Excel uses these balances to fund reform activities. As noted in previous years, Scotland Excel has been investigating options on how to fund procurement improvement activity, as the ring-fenced reform funding of £0.287m will be used by 2016/17. The remaining balance of £0.447m is 14% of 2015/16 budget and therefore can cover unexpected costs.

Financial planning

38. Scotland Excel approved its 2015/16 budget in November 2014 and made an alteration to this at the Joint Committee meeting in June 2015. The 2015/16 budget of total expenditure was set at £3.214m representing a decrease of £0.456m from 2014/15. The main alterations from the previous year are budgeting for a decrease in employee costs of £0.118m, a decrease in supplies and services costs of £0.095m and decrease of £0.249 million as there is no budget for contractor costs in the year.

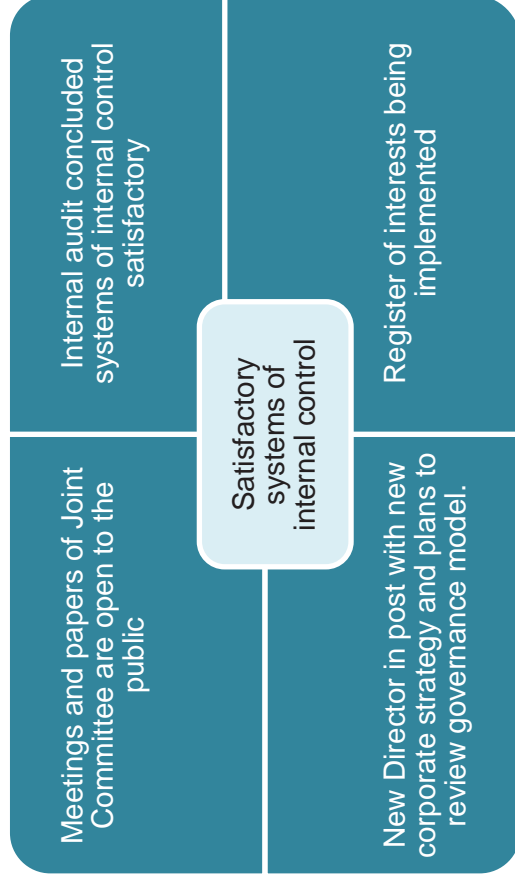
39. An indicative budget was not formally presented and approved for Scotland Excel for 2016/17 as the funding settlement for that year and beyond is uncertain and they also intended to undertake a fundamental review of the funding model during 2015. In the mean time officers have carried out medium term financial planning based on certain assumptions and changes to national insurance.

Conclusion on financial sustainability

40. We conclude Scotland Excel has an adequate level of reserves and is containing its core expenditure within annual budgets for the immediate future but funding models need to be prepared to delivery the corporate plan.

Appendix 4 – Action Plan No. 1

Governance and transparency



Corporate governance

43. During the year there has been a change in Director with Dorothy Cowie leaving on 31 August 2014 and Julie Welsh starting on 1 September 2014.
44. A new corporate strategy 2015-18 and operating plan are in place. It concludes that the governance model needs to be reviewed; much has changed since the inception of Scotland Excel and the 2015-16 operating plan includes a review to see how the oversight of Scotland Excel can support, through challenge and accountability, its performance and business activities.

Internal control

45. 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.
46. 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.

41. 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.
42. Citizens should be able to hold audited bodies to account about the services provided. Transparency means that citizens have access to understandable, relevant and timely information about how an audited body is taking decisions and how it is using its resources.

47. In the Internal Audit Annual Report 2014/15 on Scotland Excel, the Chief Auditor concluded that the system of internal control is operating in a satisfactory manner.

Internal audit

48. 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.

49. 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. We placed reliance on their work on Renfrewshire Council's treasury management and payroll systems.

Arrangements for the prevention and detection of fraud

50. In our Annual Audit Plan we highlighted the responsibility audited bodies have for establishing arrangements to prevent and detect fraud and other irregularities, although it should be noted that no system can eliminate the risk of fraud entirely. In our opinion the overall arrangements for the prevention of fraud within Scotland Excel is satisfactory but could be improved with the points below.

51. Scotland Excel is not part of this year's National Fraud Initiative (NFI). NFI is 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>.

52. We would encourage Scotland Excel to consider being involved in the next exercise in 2016/17.

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

53. Scotland Excel has in place codes of conduct for employees and members. In our 2013/14 annual audit report, we recommended that Scotland Excel follow the recommendation from Audit Scotland's report *Procurement in Councils*, to establish a register of interests. We consider this principle should apply to staff involved in negotiating contracts. Scotland Excel is implementing the registers, planning to have them in place for senior management and contract owners by October.

Appendix 4 – Action Plan No. 2

Transparency

54. 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?

55. Meetings of Scotland Excel Joint Committee are held in public and papers available from the Renfrewshire Council website. Where commercially sensitive contracts are being discussed, the papers for sub-committees are not publicly available, which is appropriate. Scotland Excel website also publishes the new corporate strategy and operating plan. We concluded that the financial statements are

clear and actual expenditure and income clearly linked to budgeted figures, as described in the commentary.

56. Under the new corporate strategy there is a commitment to transparent reporting with plans that clear annual performance metrics will be provided and progress reported to governance bodies on a quarterly basis

57. Scotland Excel is implementing a register of interests and putting this online when complete would add to the body's commitment to transparency.

Appendix 4 – Action Plan No. 2

Best Value and performance

£102m below target of £750m. Setting realistic timescales for new areas of contracting was a recommendation in the *Procurement in Councils* report and this is included in the 2015-16 business plan.

59. 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.

Overview of performance targets in 2014/15

60. The year-end performance report was given to the Executive Sub-Committee in May 2015 showing performance against the business plan. For 2014/15 the business plan had 21 objectives and the following performance was noted:
- Nine objectives were fully achieved including: achieve savings of between 2-7% against the delivery programme, reduce and maintain sickness absence at below 4%.
 - Seven objectives were partially achieved including: eight extensions and 11 renewals were made to contracts and developing a new three-year corporate strategy which has subsequently been approved.
 - Five objectives were not achieved, including eight new contracts were delivered against a target of 16 and the advertised annual value of contracts on the portfolio falling

Corporate Strategy

61. In June 2015, members approved a three-year strategic plan which covers the period 2015-2018. The strategy is based around 12 objectives aligned to four business goals:
- Supporting the delivery of better and more effective public services.
 - Being sustainable in everything we do.
 - Placing customers at the heart of our business.
 - Becoming the partner of choice for delivering shared services.
62. Scotland Excel also developed an annual operating plan which will be used to cascade objectives and activities throughout the organisation in order to deliver agreed goals. The strategy and operating plan was issued to all Joint Committee members and communicated to wider stakeholder groups. Clear annual performance metrics will be provided and progress reported to governance bodies on a quarterly basis.

Audit Scotland national study

63. On behalf of the Accounts Commission, Audit Scotland carried out an audit on how well councils in Scotland manage procurement and

Scotland Excel was part of that study. The report was published in April 2014 and included three recommendations for Scotland Excel.

Exhibit 1: Audit Scotland study *Procurement in councils and Scotland Excel's progress*

Recommendation	Progress
Set realistic timescales for contracts development, particularly in new areas of contracting.	2015/16 operating plan includes plans to deliver a rolling schedule of new contract opportunities identified and agreed with local authority stakeholders.
Maintain and improve its sharing of knowledge and experience with the Scottish Futures Trust.	New corporate strategy 2015-18 commits to ongoing partnership working, specifically mentioning areas like Review of Procurement in Construction.
Work with councils and review and formalise arrangements to fund procurement improvement activity beyond 2016.	The new corporate strategy 2015-18 and operating plan for 2015/16 include objective to develop a new sustainable funding and delivery model based around core and chargeable services.

Source: *Audit Scotland Report Procurement in councils; Scotland Excel corporate strategy 2015-18; Scotland Excel operating plan 2015-16*

Appendix 4 – Action Plan No. 1

National performance audit reports

64.

Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2014/15, a number of reports were issued specifically covering local government topics. These are outlined in appendix III. While these reports might not directly cover the work of Scotland Excel, there may be lessons learned or helpful information on wider issues in local government.
65.

Scotland Excel’s corporate strategy picks up the recommendations from Audit Scotland’s procurement study but there are no formal processes in place to update members on the wider reports and disseminate the impact for the work of Scotland Excel.

Appendix IV – action plan point 3

Outlook

66.

In common with other public sector organisations, Scotland Excel faces the key challenges of reducing budgets and the public expectation of high quality services value. The Corporate Strategy emphasises Scotland Excel’s role in supporting public sector bodies deliver better and more cost effective services.

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.

Audit Risk			Assurance procedure	Results and conclusions
Risk of material misstatement				
Approval of the accounts Due to the timetable of committee meetings for 2015 the approval of the accounts will be delegated to the Executive sub-committee; however this will require an amendment to the scheme of delegation that still requires Joint Committee approval.			<ul style="list-style-type: none"> Review revised scheme of delegation to ensure Executive sub-committee can approve the 2014/15 accounts. Continue to work with officers to deliver the audit to the revised timetable. 	<ul style="list-style-type: none"> For 2014/15 the approval of the accounts was delegated by the Joint Committee to the Executive sub-committee which will meet on 28 August.
Management override of controls As stated in ISA 240, management is in a unique position to perpetrate fraud because of management's ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.			<ul style="list-style-type: none"> Detailed testing of journal entries. Review of accounting estimates for bias. Evaluating significant transactions that are outside the normal course of business. 	<ul style="list-style-type: none"> No issues have arisen as part of our audit work that would indicate management override of controls affecting the outcome or year-end position.

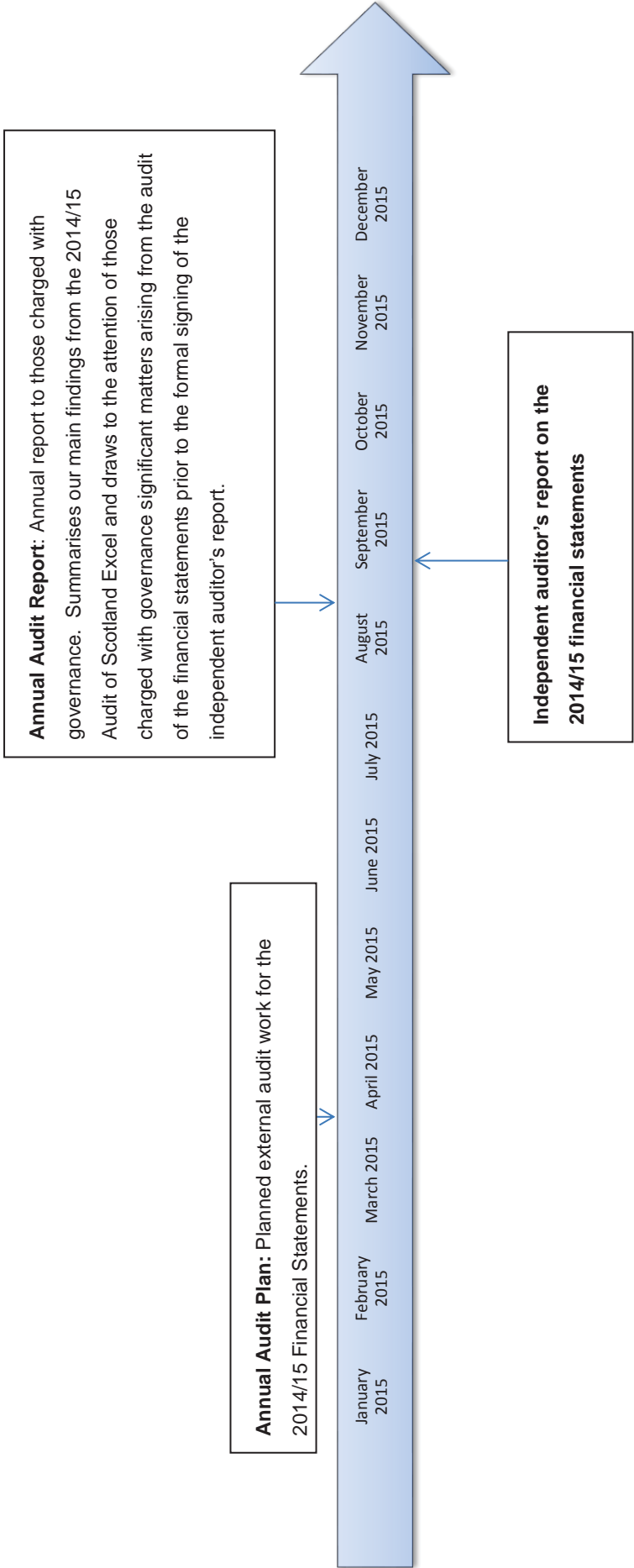
Audit Risk	Assurance procedure	Results and conclusions
<p>Annual Governance Statement</p> <p>The LG 2014 regulations require the annual accounts to include a governance statement, when in the past Scotland Excel would prepare a statement on the system of internal financial control (SSIFC). The governance statement contains a number of additional disclosures compared to the SSIFC and there is a risk not all the required disclosures are made.</p>	<ul style="list-style-type: none"> Review of disclosures in annual governance statement against the <i>Delivering good governance in local government</i> framework. Ensure disclosures are consistent with the information within the financial statements and internal audit reports. 	<ul style="list-style-type: none"> The annual governance statement followed the guidelines and was consistent with information on the audit. There was only a minor presentation change to wording.
<p>Management Commentary</p> <p>The LG 2014 regulations require the annual accounts to include a management commentary, which will include a number of additional disclosures in comparison to the current explanatory foreword. The Scottish Government is providing guidelines on preparing the management commentary but these have not yet been issued.</p>	<ul style="list-style-type: none"> Ensure information in management commentary is consistent with that contained in the financial statement and complies with disclosure requirements. 	<ul style="list-style-type: none"> The management commentary was compared to the Scottish Government guidance issued. In general the commentary met the guidance. Minor changes were made to include more information about 2014/15 performance against objectives.

Audit Risk	Assurance procedure	Results and conclusions
<p>Staff costs and changes</p> <p>2014/15 Scotland Excel's staff costs will cover exit packages, permanent and temporary staff costs.</p> <p>The Code and the LG 2014 regulations require specific disclosures for exit packages for the remuneration report and signed agreements should be in place for all exit packages and temporary contracts.</p> <p>There is a risk the different costs are not disclosed correctly or not supported by formal and signed agreements.</p>	<ul style="list-style-type: none"> Review of remuneration report to ensure that exit packages disclosures are complete, accurate and follow guidance. Review accounts to check that all costs to the council are included e.g. amounts paid to individuals and strain-on-the-fund costs. We will undertake substantive testing on temporary staff in order to ensure that they are being paid the correct remuneration according to contracts / invoices. Review final breakdown of permanent versus temporary costs in the financial statements for large and unusual movements. 	<ul style="list-style-type: none"> We tested the exit packages and confirmed they were all approved and strain-on-the-fund costs included in the accounts. However, notional costs for the capitalised costs of added years had not been included. Officers changed the exit packages note and added information to explain the nature of the costs. Total cost of exit packages increased from £0.110m to £0.193m. All other testing was satisfactory.

Audit Risk	Assurance procedure	Results and conclusions
<p>Financial position</p> <p>In previous years we have noted that the funds available for procurement improvement activity were being gradually utilised and new models were needed to resource this type of work. In 2014, Audit Scotland published its report on how well councils in Scotland manage procurement. This reiterated the need to for Scotland Excel to work with councils to review and formalise arrangements to fund procurement improvement activity beyond 2016.</p> <p>There has been a change in Director following the report being published and a risk of delay in addressing the recommendations.</p>	<ul style="list-style-type: none"> We will follow-up progress on the recommendations for Scotland Excel provide an update in the annual report on the audit. 	<ul style="list-style-type: none"> In 2015 Scotland Excel published a new Corporate Strategy for 2015-18 and the 2015-16 business plan includes an objective for review funding and business delivery models. The funding model needs to be reviewed for setting the budget for 2016/17, which will go to members in November 2015.
<p>Staffing Vacancies</p> <p>There have been a number of staff changes in 2014/15. A new Director joined Scotland Excel and a small number of exit packages were approved for 2014/15. As in previous years Scotland Excel has had difficulties in recruiting permanent staff members for a number of vacancies and relied on temporary staff.</p> <p>There is a risk changes will further impact on the staffing pressures currently faced and delay contract development.</p>	<ul style="list-style-type: none"> Monitoring of revenue budget monitoring reports for employee cost spend against budget. Review business plans for work planned on contract development. Report on position in final report on the audit. 	<ul style="list-style-type: none"> Contractor costs only £5k over budget of £249k and employee costs £75k over budget due to redundancy/ early retirement. New operating plan includes workforce plans to address recruitment and retention risks.

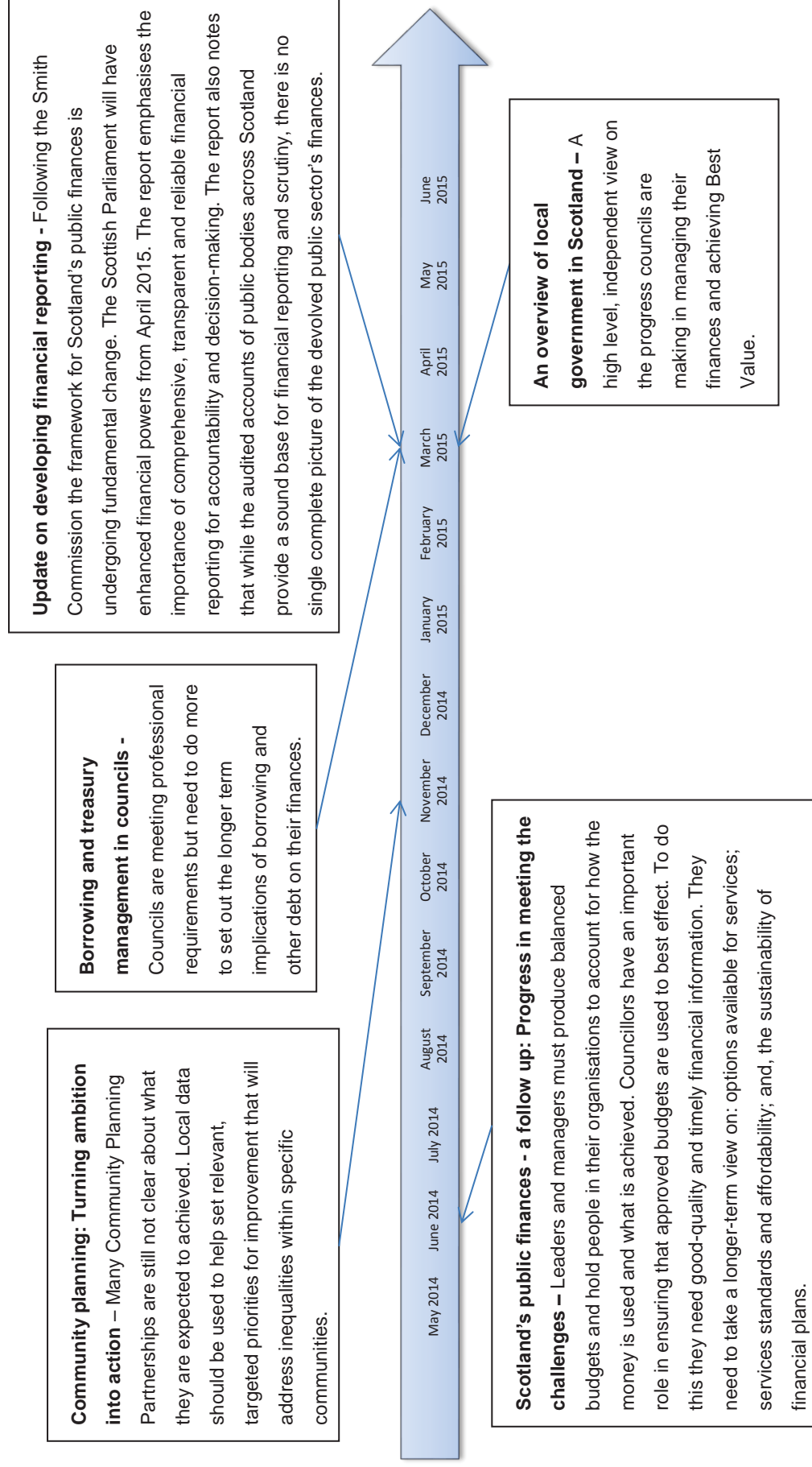
Appendix II

Summary of Scotland Excel local audit reports 2014/15



Appendix III

Summary of Audit Scotland national reports 2014/15



Appendix IV

Action plan

No./para	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
1 31/40/63	<p>Financial planning</p> <p>The balance of ring-fenced reform funding is likely to be fully utilised in 2016 and there are no agreed plans in place to fund future reform work from 2016 onwards.</p> <p>Risk</p> <p>There is a risk Scotland Excel cannot fund its plans under its new corporate strategy 2015-18.</p> <p>Recommendation</p> <p>Options are prepared and recommendations made to members as part of the budget-setting process for 2016/17.</p>	The 2015-16 Operating plan includes commitment to develop and implement a transparent funding model based around core and chargeable services.	Director and Treasurer	30 November 2015

No./ para	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
<p>2</p> <p>53/57</p>	<p>Register of interests The Audit Scotland April 2014 report on <i>Procurement in Councils</i> recommended that council staff involved in procurement should complete a register of interest statement and we consider this principle should apply to staff involved in negotiating contracts at Scotland Excel.</p> <p>Risk A register of interests can improve the transparency around the awarding of contracts and is an appropriate arrangement for prevention and detection of corruption.</p> <p>Recommendation A register of interests is put in place for all senior staff and all staff involved in negotiating contracts. This should be available on Scotland Excel's website once complete.</p>	<p>A new template is now in place and will be completed by senior managers and contract owners by 2 October. The registers will be reviewed annually thereafter.</p>	<p>Director</p>	<p>Original target date: 31 December 2014</p> <p>Revised target date: 2 October 2015</p>

No./para	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
365	<p>Audit Scotland National Reports</p> <p>There is no formal process in place to review Audit Scotland national reports pertinent to Scotland Excel.</p> <p>Risk</p> <p>There is a risk that Scotland Excel misses out on lessons learned from other audits across local government.</p> <p>Recommendation</p> <p>Audit Scotland reports are reviewed by officers and summary information or lessons learned disseminated to members, as appropriate.</p>	As part of the procurement development role, reports will be reviewed bi-annually to identify key issues on commissioning or on specific councils.	Head of Strategic Procurement	30 November 2015