

Tayside Contracts Joint Committee

2017/18 Annual Audit Report



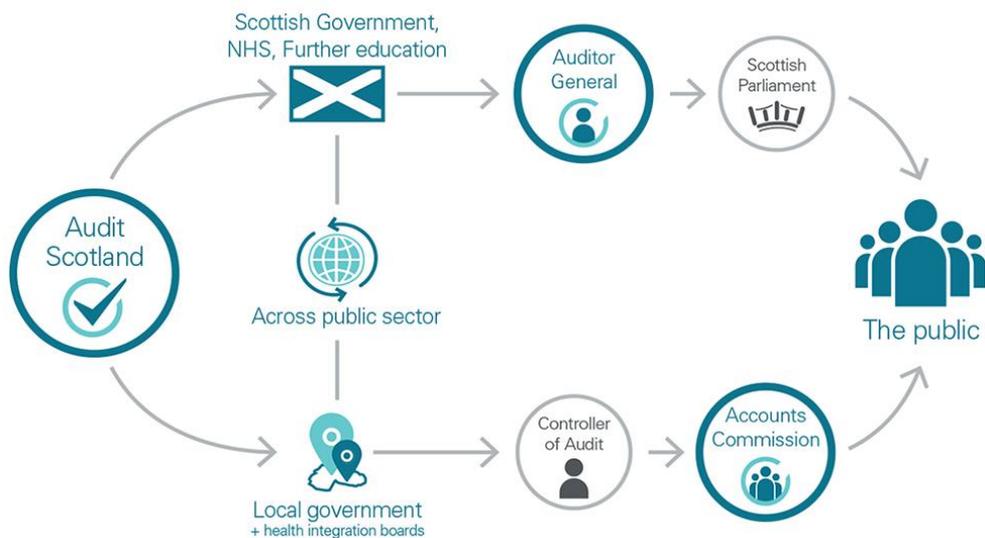
 AUDIT SCOTLAND

Prepared for the Members of Tayside Contracts Joint Committee and the Controller of Audit
27 August 2018

Who we are

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

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



About us

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

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

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

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Key messages

2017/18 annual accounts

- 1 In our opinion, Tayside Contracts Joint Committee (Tayside Contracts) financial statements give a true and fair view and were properly prepared.
- 2 The audited part of the remuneration report, management commentary and annual governance statement are all consistent with the financial statements and prepared in accordance with proper accounting practices.
- 3 The construction and facilities divisions failed to achieve the prescribed financial objective of attaining a breakeven position over a three-year rolling period. This has been highlighted in a 'failure to achieve a prescribed financial objective' paragraph in our audit opinion.

Financial management

- 4 Financial management is effective with a budget process focussed on Tayside Contracts priorities.
- 5 Tayside Contracts has a good track record of delivering services within budgets.

Financial sustainability

- 6 Tayside Contracts' financial position is sustainable in the short-term. However, as reported in previous years, without any medium/long term financial scenario planning, it is difficult to assess whether future demands and reductions of funding to councils will place a strain on Tayside Contracts' capacity to deliver services at current levels.

Governance and transparency

- 7 Tayside Contracts has appropriate governance arrangements in place that support the scrutiny of decisions made by members.
- 8 Tayside Contracts is open and transparent in the way that it conducts its business, with the public able to attend meetings. Minutes of the committee meetings and agenda papers and other key documents are available on Tayside Contracts website for public inspection.

Value for money

- 9 The performance management framework continues to provide assurance to members of improving performance, with most business plan targets being achieved in 2017/18.

Introduction

1. This report summarises the findings arising from the 2017/18 audit of Tayside Contracts Joint Committee (Tayside Contracts).
2. The scope of the audit was set out in our Annual Audit Plan presented to the 19 March 2018 meeting of Tayside Contracts. This report comprises the findings from:
 - an audit of the annual accounts
 - consideration of the four audit dimensions that frame the wider scope of public audit set out in the [Code of Audit Practice 2016](#) as illustrated in [Exhibit 1](#).

Exhibit 1

Audit dimensions



Source: *Code of Audit Practice 2016*

3. The main elements of our audit work in 2017/18 have been:
 - an audit of Tayside Contracts 2017/18 annual accounts including the issue of independent auditor's reports setting out our opinions
 - consideration of the four audit dimensions
4. Tayside Contracts has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual accounts that are in accordance with proper accounting practices.

5. Tayside Contracts is also responsible for compliance with legislation, and putting arrangements in place for governance, propriety and regularity that enable it to successfully deliver its objectives.
6. Our responsibilities as independent auditor appointed by the Accounts Commission are established by the Local Government in Scotland Act 1973, the [Code of Audit Practice \(2016\)](#) and supplementary guidance, and International Standards on Auditing in the UK.
7. As public sector auditors, we give independent opinions on the annual accounts. We also review and provide conclusions on the effectiveness of Tayside Contracts performance management arrangements, suitability and effectiveness of corporate governance arrangements, and financial position and arrangements for securing financial sustainability
8. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#).
9. This report raises matters from the audit of the annual accounts and consideration of the audit dimensions. Weaknesses or risks identified are only those which have come to their attention during our normal audit work and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.
10. Our annual audit report contains an agreed action plan at [Appendix 1](#) setting out specific recommendations, responsible officers and dates for implementation. It also includes outstanding actions from last year and progress against these.
11. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and the 2017/18 audit fee of £37,870 as set out in our Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

Adding value through the audit

12. Our aim is to add value to Tayside Contracts by providing insight into, and offering foresight on, financial sustainability, risk and performance by identifying areas of improvement and recommending and encouraging good practice. In so doing, we aim to help Tayside Contracts promote improved standards of governance, better management and decision making and more effective use of resources.
13. This report is addressed to both the Tayside Contracts and the Controller of Audit and will be published on Audit Scotland's website www.audit-scotland.gov.uk.
14. We would like to thank all management and staff who have been involved in our work for their co-operation and assistance during the audit.

Part 1

Audit of 2017/18 annual accounts



Main judgements

In our opinion, Tayside Contracts financial statements give a true and fair view and were properly prepared.

The audited part of the management commentary, annual governance statement and remuneration report are all consistent with the financial statements and prepared in accordance with proper accounting practices.

The construction and facilities divisions failed to achieve the prescribed financial objective of attaining a breakeven position over a three-year rolling period. This has been highlighted in a 'failure to achieve a prescribed financial objective' paragraph in our audit opinion.

Audit opinions on the annual accounts

15. The annual accounts for Tayside Contracts for the year ended 31 March 2018 were approved by the Tayside Contracts Joint Committee on 27 August 2018. We reported, within our independent auditor's report that, in our opinion:
 - financial statements give a true and fair view and were properly prepared
 - the audited part of the remuneration report, management commentary and the annual governance statement were all consistent with the financial statements and properly prepared in accordance with the guidance
16. We have nothing to report in respect of misstatements in information other than the financial statements, the adequacy of accounting records, the information and explanations we received.
17. Tayside Contracts has a duty under section 10 of the Local Government in Scotland Act 2003 to conduct each of its significant trading operations so that income is not less than expenditure over each three-year period. Due to the inclusion of IAS 19 pension costs, the construction and facilities divisions failed to achieve this prescribed financial objective. This has been highlighted in a 'failure to achieve a prescribed financial objective' paragraph in our audit opinion.

Tayside Contracts annual accounts are the principal means of accounting for the stewardship of resources and performance in the use of resources.

Risk of material misstatement

18. [Appendix 2](#) provides a description of those assessed risks of material misstatement that were identified during the planning process which had the greatest effect on the overall audit strategy, the allocation of resources to the audit and directing the efforts of the audit team and the wider audit dimension risks identified.

Materiality

19. Misstatements are material if they could reasonably be expected to influence the economic decisions of users taken based on the financial statements. The assessment of what is material is a matter of professional judgement and involves considering both the amount and nature of the misstatement. It is affected by our perception of the financial information needs of users of the financial statements.
20. Our initial assessment of materiality for the annual accounts was carried out during the planning phase of the audit. On receipt of the annual accounts we reviewed our planning materiality calculations and concluded that they remained appropriate.

Exhibit 2

Materiality values

Materiality level	Amount
Overall materiality- This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It has been set at 1% of gross expenditure for the year ended 31 March 2018.	£0.785 million
Performance materiality- This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement, we have calculated performance materiality at 60% of overall materiality.	£0.471 million
Reporting threshold- We are required to report to those charged with governance on all unadjusted misstatements in excess of the 'reporting threshold' amount. This has been calculated at 5% of overall materiality.	£39,000

Source: Audit Scotland

How we evaluate misstatements

21. There were no material adjustments to the unaudited financial statements arising from our audit.
22. It is our responsibility to request that all errors above the reporting threshold are corrected although the final decision on this lies with those charged with governance considering advice from senior officers and materiality. We do not have any matters to report in this instance.

Significant findings from the audit in accordance with ISA 260

23. International Standard on Auditing 260 (UK) requires us to communicate significant findings from the audit to those charged with governance. These are summarised in [Exhibit 3](#). Where a finding has resulted in a recommendation to management, a cross reference to the Action Plan in [Appendix 1](#) has been included.

24. The findings include our views about significant qualitative aspects of Tayside Contracts accounting practices including:

- | | |
|---|---|
| • Accounting policies | • Accounting estimates and judgements |
| • Significant financial statements disclosures | • Timing of transactions and the period in which they are recorded |
| • The impact on the financial statements of any uncertainties | • The effect of any unusual transactions on the financial statements |
| • Misstatements in the annual accounts | • Disagreement over any accounting treatment or financial statements disclosure |

Exhibit 3

Significant findings from the audit of the financial statements

Finding	Resolution
<p>1. Significant trading operations</p> <p>The trading accounts of significant trading operations have a statutory objective to break even over three years. Due to the inclusion of IAS 19 pension costs, the two trading divisions, construction and facilities services, failed to achieve this prescribed financial objective of attaining a breakeven position over a three-year rolling period. The deficits for the divisions over the three years to 31 March 2018 are as follows:</p> <ul style="list-style-type: none"> • Construction - £2.624 million • Facilities Services - £5.895 million 	<p>This has been highlighted in a ‘<i>failure to achieve a prescribed financial objective</i>’ paragraph in the audit opinion.</p> <p> Recommendation 1 (refer appendix 1, action plan)</p>

Source: Audit Scotland

Follow up of prior year recommendations

25. We have followed up actions previously reported and assessed progress with implementation, these are reported in [Appendix 1](#) and identified by the prefix b/f (brought forward).

26. In total, six agreed actions were raised in 2016/17. Of these:

- Four have been actioned and are now closed.
- Two have been carried forward into the current year.

27. Overall, Tayside Contracts has made good progress in implementing these actions. For those actions not yet implemented, revised responses and timescales have been agreed with management as set out in [Appendix 1](#).

Other findings

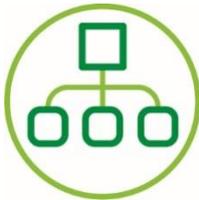
28. Our audit identified some presentational and disclosure issues which were discussed with management. These were adjusted and reflected in the audited annual accounts.

Objections

29. Local Authority Accounts (Scotland) Regulations 2014 require a local authority to publish a public notice on its website that includes details of the period for inspecting and objecting to the accounts. This must remain on the website throughout the inspection period. Tayside Contracts complied with the regulations. No objections were received in relation to the Tayside Contracts accounts.

Part 2

Financial management



Main judgements

Financial management is effective with a budget process focussed on Tayside Contracts priorities.

Tayside Contracts has consistently returned a surplus above that initially budgeted.

Financial performance in 2017/18

30. Tayside Contracts is a commercial trading organisation being constituted under a Minute of Agreement entered in 1996 by the three constituent councils (Angus, Dundee City and Perth & Kinross councils). Tayside Contracts approved a budget of £73.349 million for 2017/18 with a targeted surplus of £0.915 million prior to IAS 19 pension adjustments.
31. Tayside Contracts has a good track record of achieving a surplus against budget. In 2017/18 Tayside Contracts achieved a trading surplus, before IAS 19 pension adjustments, of £1.818 million (£0.903 million more than budget).
32. While Tayside Contracts has achieved the budgeted surplus, there are variations in how different services have performed. The more significant variations are summarised in [Exhibit 4](#).

Financial management is about financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively

Exhibit 4

Summary of significant variations against budget

Area	Exceeded Surplus (£m)	Reason for variance
Construction Division	£0.300	The 2017/18 winter turned out to be the third busiest for the last nine years, and the busiest since 2012/13. Further to this, direct costs were actively managed down to below budget levels, helping the target surplus to be exceeded.
Facilities Services Division	£0.603	Although school meal numbers showed a slight decrease against 2016/17, this was primarily due to a fall in trading days. Against budget, school meals performed well, particularly in secondary schools with the "Street Food" offering proving to be a key driver in the success of the catering business.

Area	Exceeded Surplus (£m)	Reason for variance
		In June 2017, janitorial and school crossing patrol services transferred over from Perth and Kinross Council. The use of the integrated facilities management service provided by Tayside Contracts has allowed for efficiencies and has resulted in savings to constituent councils.

Source: Tayside Contracts 2017/18 Annual Accounts

Significant trading operations

33. The Local Government in Scotland Act 2003 prescribes that Tayside Contracts' trading operations should achieve a breakeven position over a rolling three-year period. The rolling three-year deficit for the Construction Division was £2.624 million and £5.895 million for the Facilities Division. These results include IAS 19 pension adjustments made under accounting regulations without which there would have been three-year rolling surpluses of £2.934 million and £1.963 million respectively. As a result of the failure to deliver a breakeven position over a three-year period to 31 March 2018, the audit opinion notes a *'failure to achieve a prescribed financial objective'*.

Capital programme 2017/18 and 2018/19

34. Total capital expenditure in 2017/18 was £2.043 million which was broadly in line with the budget of £1.997 million.
35. Capital expenditure is mainly in relation to the ongoing replacement of the operational and winter maintenance fleet. Bodies are required to manage assets in an effective way to ensure the delivery of quality services. The fleet replacement programme is regularly monitored by members.
36. The capital budget for 2018/19 was agreed in March 2018 and anticipates capital expenditure of £1.937 million with an associated increase in the capital financing requirement of £1.176 million. The budget considers the affordability of capital investment decisions through an assessment of capital financing costs in comparison with income. This has consistently been below 2.5% and provides assurance that capital investment and borrowing decisions continue to be both affordable and prudent.

Borrowing in 2017/18

37. Tayside Contracts' outstanding loans at 31st March 2018 were £6.842 million, a decrease of £0.143 million on the previous year. £1.700 million of loan repayments were made including £0.276 million of interest costs. £1.281 million of new loans were agreed during the year.
38. Tayside Contracts' overall indebtedness as a percentage of annual income in 2017/18 (9.07%) is consistent with the previous years' levels of debt (2016/17: 9.94%; 2015/16: 9.84%). The current borrowing position is prudent and the consistency across the years provides further assurance that borrowing levels are affordable and sustainable.

Budgetary process

39. The [*Local Government in Scotland: Financial overview 2016/17*](#) (November 2017) highlighted the need for budgets and forecasts to reflect actual spending.
40. Internal audit carried out a review of Tayside Contracts 2017/18 budgetary process. This provided a strong level of assurance over the budget setting and financial monitoring arrangements within Tayside Contracts. They confirmed that the arrangements in place for the budgetary process are robust and operating effectively.
41. Financial management is effective with a budget process focussed on the priorities of Tayside Contracts.

Part 3

Financial sustainability



Main judgements

Tayside Contracts' financial position is sustainable in the short term. However, without medium/long term financial scenario planning, it is difficult to assess whether future demand and reductions to funding to councils will place a strain on Tayside Contracts' capacity to deliver services at the current levels.

Financial planning

42. It is important that long-term financial strategies (typically covering five to ten years) are in place which link spending to Tayside Contracts' strategies. Although budgets are only approved for a single year, these should be supported by indicative future spending plans (covering three years at least) that forecast the impact of relevant pressures on Tayside Contracts.
43. The Accounts Commission recommended that when future Scottish Government funding is not known, bodies should plan for a range of scenarios so they are prepared for different levels of funding and income.
44. The financial strategy should meet the requirements set out in [Scotland's public finances – a follow-up audit: Progress in meeting the challenges](#) (June 2014) including scenario planning. Having medium to longer term financial plans that incorporate scenario planning helps to set the context for annual budgets. They also help clarify the financial sustainability of an organisation over an extended period and can help identify problems with affordability at an early stage.

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

Business plan

45. 2017/18 was the first year of Tayside Contracts' three-year business plan, "The Road to 2020", covering the period 2017 to 2020, which was approved by the Joint Committee on 26 June 2017.
46. As part of internal audit's review of strategic planning within Tayside Contracts, a review of the business plan was performed. The review concluded that the business plan sets out the key strategic aims and objectives for Tayside Contracts and provides a clear framework of how these will be delivered.

2018/19 Budget

47. Tayside Contracts continues to face several challenges in maintaining a sustainable financial position in the future. This includes the budget being prepared against a backdrop of increasing budget pressures in the constituent councils.

48. The business plan currently does not contain financial projections over the period of the plan. Instead, the budget is set annually. Tayside Contracts' budget for 2018/19 was approved in March 2018. The budget anticipated income for year ending 31 March 2019 of £74.411 million and expenditure of £73.614 million. The trading account surpluses before IAS 19 adjustments are forecast as £0.379 million and £0.418 million for the Construction and Facilities divisions respectively.
49. However, without medium to longer term financial plans in place it is difficult to assess what impact reductions to constituent councils funding will have on future demand for services. Reductions to funding will place a strain on Tayside Contracts' capacity to deliver services at the current levels.

Recommendation 2

Tayside Contracts should develop medium to longer term financial plans aligned to its business plan.

Reserves

50. Tayside Contracts holds a general fund reserve, the main purpose of which is to provide a contingency fund to meet unexpected expenditure and as a working balance to help cushion the impact of uneven cash flows. The level of usable reserves held by Tayside Contracts remained the same from 2016/17 to 2017/18 at £0.580 million, with the surplus in the movement in reserves of £1.818m being returned to the constituent councils. The level of reserves held equates to 0.7% of the 2017/18 turnover.
51. We consider Tayside Contracts' financial position to be sustainable in the short term, however further information, including scenario planning, would be required to conclude on long term financial sustainability.

Ending of public sector pay cap

52. Given the nature of Tayside Contracts' workforce, the ending of the public sector pay cap is not expected to have a significant financial impact. In recent years, Tayside Contracts has been more affected by the implementation of the living wage which has resulted in significant additional payroll costs.

EU withdrawal

53. There remains significant uncertainty about the detailed implications of EU withdrawal (i.e. Brexit). It is critical that public sector bodies are working to understand, assess and prepare for the impact on their business in three broad areas:
- Workforce - the extent to which changes to migration and trade policies are likely to affect the availability of skilled and unskilled labour.
 - Funding – the extent to which potential changes to funding flows are likely to affect the finances of the organisation and the activity that such funding supports.
 - Regulation – the extent to which potential changes to regulation across a broad range of areas overseen at an EU level are likely to affect the activities of the organisation.

54. The impact of Brexit has been considered by Tayside Contracts and is included within the risk register. Tayside Contracts is closely liaising with the constituent councils regarding any potential impact on future budgets. Given the level of uncertainty around Brexit at this time, this monitoring appears reasonable and we will continue to monitor progress going forward.

Part 4

Governance and transparency



Main Judgements

Tayside Contracts has appropriate governance arrangements in place that support the scrutiny of decisions.

Tayside Contracts is open and transparent in the way that it conducts its business, with the public able to attend meetings. Minutes of the committee meetings and agenda papers and other key documents are available on Tayside Contracts website for public inspection.

Governance arrangements

55. A local code of corporate governance was adopted by Tayside Contracts in 2012 and an annual review considers Tayside Contracts compliance with the guidance on an annual basis. The review was considered by the Joint Committee in June 2018 and the issues highlighted are reflected in the Annual Governance Statement within the financial statements.
56. The key governance documents have been subject to review and update during the year, with revisions made to the Minute of Agreement, Standing Orders (both approved by the Joint Committee in March 2018) and the Financial Regulations (approved by the Joint Committee in June 2018). The reviews and subsequent changes made to these documents ensures the governance structure in place is up to date and relevant to the needs of the Joint Committee.
57. Tayside Contracts has taken steps to improve member training and development, including an introductory presentation by management to committee members. This was particularly beneficial for the new members who were appointed as a result of the May 2017 local government elections.
58. We have concluded that Tayside Contracts has adequate governance, decision making and scrutiny arrangements in place to support good governance and accountability.

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

Quality of financial and performance reporting

59. The quarterly financial performance is scrutinised by the Joint Committee.. Financial reports include comparisons to budget and the the previous year, with the financial prospects for the remainder of the financial year also outlined. They include good narrative explanations for significant variances against budget. These reports allow members and management to carry out scrutiny of Tayside Contracts finances. These reports are provided timeously and are sufficiently detailed.
60. Tayside Contracts has identified twelve Key Performance Indicators (KPIs) as part of the 2017-20 business plan. A six-monthly update on the plan is provided to members and this includes the progress made to date against the KPI

targets. The business plan is underpinned by the Corporate Improvement Plan (CIP) which details the enabler actions; how these will be achieved; the result and the target date. Again, members are provided with a six-monthly update on the CIP. The performance information provided to members is appropriate and allows for the proper scrutiny of Tayside Contracts performance.

Transparency

61. Transparency means that the general public have access to understandable, relevant and timely information about how Tayside Contracts is taking decisions and how it is using resources such as money, people and assets.
62. There is evidence from several sources which demonstrate Tayside Contracts' commitment to transparency. Members of the public can attend meetings. Minutes of these committee meetings and supporting papers are available on Tayside Contracts website.
63. Tayside Contracts' website is the principal means by which information is made available to the public. The annual accounts are available on its website. These include a management commentary which provides details of performance against budget and the risks and uncertainties facing Tayside Contracts. Key documents such as the business plan and annual performance reports are also available on the website.
64. Overall, we concluded that Tayside Contracts conducts its business in an open and transparent manner.

Internal audit

65. Tayside Contracts internal audit function is carried out by Wylie & Bisset. Each year we consider the extent of reliance on internal audit work. When we plan to place reliance on internal audit work, we carry out an assessment of the internal audit function to ensure that it is sufficient in terms of documentation standards, reporting procedures and quality, and is performed in accordance with Public Sector Internal Audit Standards (PSIAS).
66. We reviewed Tayside Contracts' internal audit arrangements in accordance International Standard on Auditing (UK) 610 (Using the Work of Internal Auditors) to determine the extent we could rely on the work of internal audit. Overall, we concluded that we would place reliance on aspects of internal audit work in the following areas – Budgetary and Financial Controls and 2017/18 Annual Governance Statement – for our financial statements responsibilities. We also took cognisance of their review into Strategic Planning as part of our wider dimension work.

Annual governance statement, management commentary and remuneration report

67. The Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 requires local government bodies to prepare and publish, along with their financial statements, an annual governance statement, management commentary and a remuneration report that are consistent with the disclosures made in the financial statements. The management commentary should be fair, balanced and understandable and clearly address the longer-term financial sustainability of Tayside Contracts.
68. Internal audit carried out a review of Tayside Contracts 2017/18 annual checklist of their compliance with the Local Code of Corporate Governance. This is used by Tayside Contracts to inform their Annual Governance Statement. Internal audit's review concluded that a strong level of assurance over the controls in place could be obtained. This review was used to supplement our work on the 2017/18 Annual Governance Statement.

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

National Fraud Initiative

70. The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise coordinated by Audit Scotland. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify 'matches' that might suggest the existence of fraud or irregularity.
71. NFI activity is summarised in [Exhibit 10](#). The current NFI exercise provided matches in January 2017 and for Tayside Contracts, identified 280 matches, of which 4 were recommended for investigation. Tayside Contracts have investigated a number of matches, including all recommended matches. The findings were satisfactory and have been documented on the NFI system.

Exhibit 10

NFI activity



280

Matches



4

Recommended for
investigation



15

Completed/closed
investigations

Source: NFI secure website: www.nfi.gov.uk

72. We reported in our 2016/17 Annual Audit Report that the findings of the NFI exercise were not reported to members. We are pleased to note that management have since reported the findings from the exercise to members which allows for proper scrutiny and aids transparency of the NFI exercise.

Standards of conduct for prevention and detection of fraud and error

73. Tayside Contracts has a range of established procedures for preventing and detecting fraud and irregularity including a whistleblowing policy and codes of conduct for members and officers. We assessed these to ensure that they were appropriate, readily available to staff and are regularly reviewed to ensure they remain relevant and current. We note that Tayside Contracts has revised its anti-fraud and anti-money laundering guidelines. These will further enhance the procedures already in place.
74. We concluded that Tayside Contracts has appropriate arrangements in place for the prevention and detection of bribery and corruption. We are not aware of any specific issues we require to bring to your attention.

General Data Protection Regulation

75. The new General Data Protection Regulation (GDPR) came into force on 25 May 2018. This replaced the UK Data Protection Act (DPA) 1998. As a Regulation, all EU member states must implement it in the same way. GDPR

sets out further requirements than the DPA and has introduced new and significantly changed data protection concepts.

76. GDPR introduces a wide range of new rights for individuals in respect of their personal data. These include the right to be forgotten, the right to object to certain processing activities and to decisions taken by automated processes. Failure to comply with new GDPR data handling arrangements could result in Tayside Contracts incurring significant fines.
77. Tayside Contracts has recently developed an Information and Records Management Strategy, with the aim of ensuring that it manages all its recorded assets as effectively and efficiently as possible. To ensure that the progression of the records management strategy is maintained, this remit will be assigned to a senior manager who will be reporting directly to the Managing Director.
78. Tayside Contracts has provided external training on records management and data protection to all senior and middle managers and all other employees with a particularly relevant job role. As well as this training, an advisory note to all employees raising awareness of the implications of GDPR for Tayside Contracts has been developed and distributed to staff.
79. The Data Protection Policy has been updated to incorporate the changes in regulations.
80. Tayside Contracts is continuing to monitor its compliance with these new regulations and this is reflected in the inclusion of GDPR on the corporate risk register.
81. Overall, Tayside Contracts has made good progress in implementing the required changes to ensure compliance with the new regulations.

Equalities

82. The Equality Act 2010 introduced a public sector general duty that encourages public bodies to mainstream equality as part of their core work. The Act requires that by no later than 30 April 2015 and every two years thereafter, public bodies must publish a report on the progress made to achieve the quality of outcomes it has set.
83. As part of our 2016/17 Annual Audit Report we noted that Tayside Contracts had not yet met this duty.
84. As part of our work in 2017/18, we have discussed this with management and it has been identified that Tayside Contracts complies with the general duties of the Equality Act but is not covered by legislation relating to the specific duties. Tayside Contracts is not a 'listed authority' and as such is not required to report or publish information in accordance with The Equality Act 2010.
85. Although Tayside Contracts does not have a statutory obligation to comply with this Act, we are pleased to note that it will report and publish equalities information as if it were a 'listed authority'.
86. An external consultant has undertaken an Equal Pay audit and a gender pay gap analysis for Tayside Contracts. This information will be incorporated into Tayside Contracts' Equalities Report.

Part 5

Value for money



Main judgements

The performance management framework continues to provide assurance to members of improving performance, with most business plan targets being achieved in 2017/18.

Performance management

87. Tayside Contracts has an established performance management framework that members and managers clearly understand, and this provides a sound base for improvement.
88. Tayside Contracts has a business plan in place which sets out the key aims, objectives and targets of Tayside Contracts. The business plan covers the period 2017-2020 and the broad framework of achieving these targets was approved by the Joint Committee in June 2017.
89. The Joint Committee receives regular performance reports throughout the year including:
- workload reports at every meeting considering the work in each division in the last quarter and an assessment for the next quarter
 - a six-monthly update on the business plan which reports on key performance indicators and progress against the Corporate Improvement Plan and Corporate risk register.
90. Tayside Contracts also produces an Annual Performance Report which is presented to the Joint Committee and is available on the Tayside Contracts website. The most recent report available is for 2016/17 and this was considered by the Joint Committee in November 2017. The 2017/18 Annual Performance Report is anticipated to be available in November 2018.
91. The Annual Performance Report focusses on the key areas of Tayside Contracts' activities and performance, as determined in the business plan. Tayside Contracts uses a performance framework based on the European Foundation for Quality Management model to measure and monitor performance.

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

Overview of performance targets

92. Tayside Contracts has generally performed well in 2017/18, as reported in the 2017/18 annual report. Financial performance for 2017/18 has been strong with surpluses generated exceeding the planned amount. However, income from partnerships as a percentage of total income (38%) was below the 2017/18 target of over 50%.

93. Of the remaining ten non-financial performance indicators, the results are relatively positive with seven of the ten performance indicators that have associated targets being categorised as having been met or exceeded. The two targets that have not been met for 2017/18 are:
- Reduction in days lost due to sickness – 5.9% (target <5.6%)
 - Local procurement spend – 41% (target 45%)
94. The remaining performance indicator is in relation to the completion of an Equal Pay Audit and publication of an Equal Pay Statement. This has a target date of August 2018.
95. Tayside Contracts continue to monitor progress in these areas

National performance audit reports

96. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2017/18, Audit Scotland published a number of reports were issued which are of direct interest to Tayside Contracts. These are outlined in [Appendix 3](#).
97. Constituent councils consider and report national performance reports to their committees. If, however, a specific report is applicable to Tayside Contracts, management will report it to members.

Appendix 1

Action plan 2017/18

2017/18 recommendations for improvement

No.	Issue/risk	Recommendation	Agreed management action/timing
1	<p>Significant trading operations</p> <p>The audit opinion highlights annually the failure to achieve the prescribed financial objective of breaking even over a three-year rolling period.</p> <p>Risk</p> <p>Tayside Contracts is failing to meet its statutory requirement.</p>	<p>Tayside Contracts should aim to achieve the statutory objective of breaking even over a three-year rolling period.</p> <p>Paragraph 33</p>	<p>Action not agreed – the failure to break even is solely due to an accounting adjustment for pensions (IAS19). The only way Tayside Contracts could attempt to achieve the statutory objective is to inflate our charges to the constituent Councils by at least £3m per year to cover this accounting adjustment which would not be acceptable.</p>
2	<p>Medium to longer term financial plans</p> <p>There is scope for more consideration of medium and long term financial planning by Tayside Contracts.</p> <p>Risk</p> <p>Tayside Contracts may fail to set realistic targets or may be unable to achieve its objectives due to lack of lack of forward planning.</p>	<p>Medium to long term financial plans should be developed to take account of any future budget pressures on Tayside Contracts.</p> <p>Paragraph 49</p>	<p>Agreed – we will consider 2 year projections as part of our 2019/20 budget setting process if we have the relevant financial information from the constituent Councils in order to provide meaningful projections.</p> <p>February 2019</p>
Follow up of prior year recommendations			
b/f A	<p>Significant trading Operations</p> <p>The audit opinion highlights annually the failure to achieve the prescribed financial objective of breaking-even over a three year rolling period.</p> <p>Risk: Tayside Contracts is failing to meet a statutory requirement.</p>	<p>Tayside Contracts should aim to achieve the statutory objective of breaking even over a three-year rolling period.</p>	<p>See action point 1 above.</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
b/f B	<p>Non-compliance with Guidance and Regulations</p> <p>A number of disclosures required by extant guidance and Regulations had not been presented appropriately in the annual report.</p> <p><i>Risk: The accounts may not comply with current guidance and Regulations.</i></p>	<p>Tayside Contracts should ensure that there is a process in place to ensure that the requirements of existing guidance and Regulations are met. The completion of the CIPFA Disclosure Checklist may assist with this process.</p>	<p>As part of our review of the disclosures in the 2017/18 Annual Accounts, we did not identify any significant deviations from the Regulations.</p> <p>Point actioned and closed.</p>
b/f C	<p>Financial planning</p> <p>Tayside Contracts does not consider medium or long term financial planning as part of its business planning or budget setting process.</p> <p><i>Risk: Tayside Contracts may fail to set realistic targets in its business plans or is unable to achieve its objectives due to lack of resources.</i></p>	<p>Tayside Contracts should develop medium/long term plans aligned to its recently approved business plan.</p>	<p>See action point 2 above.</p>
b/f D	<p>Members' training</p> <p>Although the skill sets may be different for a commercial organisation compared to a local authority body, members' training is principally viewed by Tayside Contracts as the responsibility of the constituent councils.</p> <p><i>Risk: members may not understand their role or may not have the necessary skills to make informed decisions and provide effective scrutiny.</i></p>	<p>Tayside Contracts should ensure that members are offered regular and appropriate training and development to allow them to carry out their roles effectively.</p>	<p>Management have provided members with a presentation setting out what Tayside Contracts does as well as the types of services it provides. This was beneficial for the new members of the Joint Committee who were appointed following the 2017 Local Government Elections.</p> <p>Point actioned and closed.</p>
b/f E	<p>Equality Act 2010</p> <p>The Equality Act 2010 introduced a public sector general duty that encourages public bodies to mainstream equality, that is, ensure it is part of their core work. The Act requires that by no later</p>	<p>Tayside Contracts should ensure that its statutory duties under the Equality Act 2010 are addressed timeously.</p>	<p>An external consultant has undertaken an Equal Pay audit and a gender pay gap analysis. This information will be incorporated into the Equalities Report which will be published in August 2018.</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
	<p>than 30 April 2015 and every two years thereafter, public bodies must publish a report on the progress made to achieve the quality of outcomes it has set. Tayside Contracts has yet to address this statutory duty.</p> <p><i>Risk: Tayside Contracts is failing to meet a statutory duty in relation to equalities.</i></p>		Point actioned and closed.
b/f F	<p>Audit Scotland's national performance reports</p> <p>There is currently no process in place to ensure relevant national reports are considered by the Joint Committee.</p> <p><i>Risk: Risks or areas of good practice identified through national reports may not be appropriately considered and addressed.</i></p>	A process should be introduced to ensure all relevant Audit Scotland reports are considered by the Joint Committee.	<p>Management considers Audit Scotland reports and these will be reported to members if applicable to Tayside Contracts.</p> <p>Point actioned and closed.</p>

Appendix 2

Significant audit risks identified during planning

The table below sets out the audit risks we identified during our planning of the audit and how we addressed each risk in arriving at our conclusion. The risks are categorised between those where there is a risk of material misstatement in the annual accounts and those relating our wider responsibility under the [Code of Audit Practice 2016](#).

Audit risk	Assurance procedure	Results and conclusions
Risks of material misstatement in the financial statements		
<p>1 Risk of management override of controls</p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.</p>	<p>Detailed testing of journal entries.</p> <p>Review of accounting estimates.</p> <p>Focused testing of accruals and prepayments.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p>	<p>Journal adjustments were tested and no indications of management override of controls were found.</p> <p>Judgements and estimations applied were tested to confirm they were appropriate and reasonable. No issues were highlighted with the judgements and estimates applied.</p> <p>We tested accruals and prepayments and confirmed that income and expenditure was properly accounted for in the financial year.</p> <p>We reviewed transactions during the year – no issues highlighted of significant transactions outside the normal course of business.</p>
<p>2 Risk of fraud over income</p> <p>Tayside Contracts receives a significant amount of income from different income streams. The extent and complexity of income means that, in accordance with ISA240, there is an inherent risk of fraud.</p>	<p>Analytical procedures on income streams.</p> <p>Detailed testing of income transactions focusing on the areas of greatest risk.</p>	<p>We obtained satisfactory explanations for any significant increases or decreases in income.</p> <p>Satisfactory results obtained from our testing of transactions</p>
<p>3 Risk of fraud over expenditure</p> <p>Most public sector bodies are net expenditure bodies and therefore the risk of fraud is more likely to occur in expenditure.</p>	<p>Analytical procedures on expenditure streams.</p> <p>Detailed testing of expenditure transactions focusing on the areas of greatest risk.</p>	<p>We obtained satisfactory explanations for any significant increases or decreases in expenditure.</p> <p>Satisfactory results obtained from our testing of transactions</p>

Audit risk	Assurance procedure	Results and conclusions
<p>4 Estimation and judgements</p> <p>There is a significant degree of subjectivity in the measurement and valuation of the following material account areas:</p> <ul style="list-style-type: none"> • provisions • pension liabilities <p>This subjectivity represents an increased risk of misstatement in the financial statements.</p>	<p>Completion of 'review of the work of an expert' for the actuary.</p> <p>Review of accounting estimates and disclosures.</p> <p>Additional assurances obtained from legal and HR officers in relation to provisions.</p> <p>Focussed substantive testing accruals and provisions.</p>	<p>We assessed the reliability of the actuary and reviewed their work. No issues were noted.</p> <p>Pension disclosures agreed in full to information from actuaries, or to financial records where applicable.</p> <p>We concluded that estimations and judgements included in the accounts are supported by appropriate audit evidence.</p> <p>We obtained assurances from HR and legal in relation to provisions. These supported the information included in the financial statements.</p> <p>We tested samples of accruals and provisions and confirmed them to appropriate back up evidence.</p>

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

<p>5 Financial planning</p> <p>The Joint Committee does not consider medium to longer term financial planning as part of its business planning or budget setting process.</p> <p>Without a financial strategy to support the organisation's business plan there is a risk that the Joint Committee does not have a complete picture of its financial position and the challenges it faces in meeting its objectives in the medium to longer term.</p>	<p>Review of the internal audit report on budgetary and financial controls.</p>	<p>We reviewed the internal audit report and noted their "substantial assurance" provided over the budgetary process in place at Tayside Contracts.</p> <p>We note that Tayside Contracts is yet to develop medium to longer term financial plans.</p> <p>See Appendix 1 Action Point 2</p>
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Appendix 3

Summary of national performance reports 2017/18

		 2017/18 Reports	
		Apr	
		May	
Common Agricultural Policy Futures programme: further update		Jun	 Scotland's colleges 2017
		Jul	 NHS workforce planning
Self-directed support: 2017 progress report		Aug	
Equal pay in Scottish councils		Sept	
Transport Scotland's ferry services		Oct	 NHS in Scotland 2017
Local government in Scotland: Financial overview 2016/17		Nov	
		Dec	
		Jan	
Early learning and childcare		Feb	
Managing the implementation of the Scotland Acts		Mar	

Local government relevant reports

[Principles for a digital future](#) – May 2017

[Self-directed support: 2017 progress report](#) – August 2017

[Equal pay in Scottish councils](#) – September 2017

[Local government in Scotland: Financial overview 2016/17](#) – November 2017

Tayside Contracts Joint Committee

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