

Scotland Excel

Report to Members and the Controller of Audit
on the 2008/09 Audit

October 2009



 AUDIT SCOTLAND



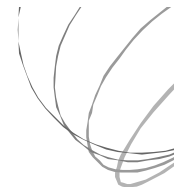
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Key Messages

In 2008/09, we audited the financial statements of Scotland Excel and examined various aspects of governance within the organisation as well as reviewing the progress made operationally in its first year. This report sets out our main findings.

The main conclusions and outcomes from the audit are highlighted below:

- An unqualified opinion has been issued on the financial statements for 2008/09.
- The Statement on the System of Internal financial Control included in the accounts complies with accounting requirements and is not inconsistent with audit findings.
- Final accounts preparation procedures and working papers were good and this enabled the audit to progress smoothly.
- Key aspects of a sound corporate governance framework were in place over 2008/09.

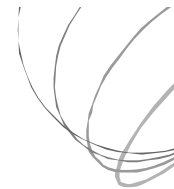
Renfrewshire Council provide internal audit services to Scotland Excel. The Statement on the System of Internal Financial Control for the year 2008/09, signed by the Treasurer and Director of Scotland Excel, concluded that Scotland Excel had in place a sound system of internal financial control with no identified material weaknesses. Our audit work resulted in findings consistent with that opinion.

During 2008/09, Scotland Excel made progress in the development and letting of 15 new collaborative contracts. Existing management information on the benefits of collaborative contracts is weak and challenges exist for Scotland Excel and member authorities to improve the quality of benefit tracking information. It is also important that improved communication links over the priorities for new contracts and contract specifications are developed. The future success of Scotland Excel will largely depend on the co-operation and commitment shown by member authorities.



Introduction

1. Scotland Excel was created on 1 April 2008 as a Centre of Procurement Expertise for the local government sector to help improve the efficiency and effectiveness of public sector procurement in Scotland.
2. The members and officers of Scotland Excel are responsible for the management and governance of the organisation. As external auditors, we review and report on the arrangements in place and seek to gain assurance that:
 - the financial statements have been prepared in accordance with statutory requirements and that proper accounting practices have been observed
 - Scotland Excel's system of recording and processing transactions provides an adequate basis for the preparation of the financial statements and the effective management of assets and interests
 - Scotland Excel has adequate corporate governance arrangements which reflect the three fundamental principles of openness, integrity and accountability
 - the systems of internal control provide an appropriate means of preventing or detecting material mis-statement, error, fraud or corruption
 - Scotland Excel has proper arrangements for securing best value in its use of resources.
3. This report summarises the most significant issues arising from our work during 2008/09.



Financial statements

4. In this section we summarise key outcomes from our audit of Scotland Excel's financial statements for 2008/09.

Auditor's report

5. We have given an unqualified opinion on the financial statements of Scotland Excel for 2008/09, concluding that the financial statements:
 - give a true and fair view, in accordance with relevant legal and regulatory requirements and the 2008 SORP, the financial position of the joint committee as at 31 March 2009 and its income and expenditure for the year then ended
 - have been properly prepared in accordance with the Local Government (Scotland) Act 1973.

Financial position

6. As at 31 March 2009, Scotland Excel's balance sheet had assets of £3.525 million represented primarily by the balance of the Government grant advanced to help fund Scotland Excel in its early years of operation. Liabilities, excluding the balance of grant held, totalled £0.220 million. During 2008/09, Scotland Excel planned a deficit on its operating activities of £0.775 million. Under spends on budgets totalling £0.656 million however were incurred, mainly due to recruitment and other staffing difficulties. The cost of supplies and administrative costs were also less than budgeted but income from local authorities was £0.231 million less than anticipated due to four councils not joining Scotland Excel as anticipated. These variances, after adjusting for FRS 17 pension costs, results in a reported deficit of £0.119 million on the operating activities of the joint committee for the year.
7. In summary, the current economic climate facing all public bodies is challenging but the on-going availability of the balance of the grant from the Scottish Government and the agreement of 2009-10 contributions from its 28 member authorities and allows Scotland Excel to plan ahead with some degree of certainty in the medium term.

Financial outlook

8. 2009/10 represents the second year of operation for Scotland Excel. Scotland Excel has been successful in securing the membership of 28 of the 32 Scottish local authorities and progress has been made in establishing the required systems of good corporate governance as well delivering on its main operational objectives. As at 31 March 2009, £3.305 million remains to be drawn down from



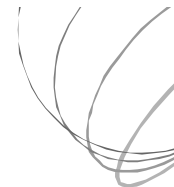
the original government grant of £4.5 million which was awarded to provide assistance with the set up costs over the first three years of Scotland Excel's existence (ie to 2010/11). These funds, coupled with member contributions, provide Scotland Excel with adequate funds for the developmental stage of Scotland Excel's existence. Budget assumptions for 2009/10 indicate a planned utilisation of grant reserve totalling £1.068 million; although latest estimates reflect a continued net under spend against budget of £097 million, principally due to continued difficulties in staff recruitment. Proactive budget monitoring linked to the achievement of operational objectives will be key to Scotland Excel's success.

Account preparation and submission

9. The Committee's financial statements were submitted to the Controller of Audit by the deadline of 30 June 2008. Final accounts preparation procedures and working papers were of a good standard and apart from minor adjustments required due to incorrect accruals, only presentational changes were required to the accounts submitted for audit. This enabled the audit to progress smoothly. Local authorities and joint committees in Scotland are required to follow the Code of Practice on Local Authority Accounting in the United Kingdom – A Statement of Recommended Practice (the 'SORP'). The financial statements of Scotland Excel comply with the provisions of the SORP as it applies to the nature of Scotland Excel's activities.
10. Audited accounts were certified on 21 September 2009 and are now available for presentation to the joint committee and for publication. The financial statements are an essential means by which the joint committee accounts for its stewardship of the resources made available to it and its financial performance in the use of those resources.

Legality

11. Each year we request written confirmation from the Treasurer that Scotland Excel's financial transactions accord with relevant legislation and regulations. Any significant legal requirements are also included in audit programmes and checklists. The Treasurer has confirmed that, to the best of her knowledge and belief and having made appropriate enquiries of members and officials of Scotland Excel, the financial transactions of the joint committee were in accordance with the relevant legislation and regulations governing its activities.
12. During the audit we noted that concerns were raised by members of the joint committee that some councils were not fully adhering to the terms and conditions of Scotland Excel membership. Administrative action has been taken to try and resolve the points of concern. We will monitor developments during our 2009/10 audit.

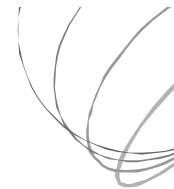


Corporate governance

13. In this section we comment on key aspects of the joint committee's governance arrangements during 2008/09.

Overview of arrangements and 2008/09 developments

14. As reported in our 2008 Position Statement on Scotland Excel, the joint committee has three main levels of management and scrutiny. The joint committee itself approves the annual budget, business plans, procurement strategy and overarching corporate governance arrangements. The joint committee is a strategic body which is planned to meet at least twice a year. It also fulfils the main functions of an audit committee. An Executive Sub - Committee and Chief Executive Officers Management Group meets more regularly and provides other tiers of management and scrutiny over such matters as the award of contracts; monitoring of financial performance; supervision of performance; use of contracts; consideration of internal audit reports; etc.
15. Good progress has been made in establishing the key components of a sound system of corporate governance with all key policies and processes established. We note however, that there continues to be delays in developing a 3 year strategic plan for the joint committee. The strategic plan is intended to be supported by schedules which will provide detailed targets for each main key objective. We understand that the joint committee intend agreeing a strategic plan by December 2009.
16. Ten key objectives were agreed by the joint committee in April 2008 and reporting to the joint committee of progress against these targets has taken place regularly during the year. In our opinion, the detail supporting reported progress could be improved (eg greater use of SMART success measures) although this should be addressed when the 3 year business plan is agreed –see paragraph 15 above.
17. Progress against Scotland Excel's original business plan has encountered a number of difficulties with recruitment, staff turnover and staff absences not following the expected patterns. These issues have had an adverse impact on contract development which has also suffered delays due to additional work that was required given the absence of basic procurement information from some local authorities. The contract delivery plan for 2009, published in December 2008, was slightly behind schedule with 15 out of a planned 17 new contracts let as at June 2009. Care is required to ensure that staffing issues do not continue to hinder the achievement of Scotland Excel's operational targets.
18. The absence of feedback information from councils on contract usage and other information from councils has inhibited the development of robust benefit tracking mechanisms. Scotland Excel is currently engaging with suppliers to local authorities to work around information difficulties in order to

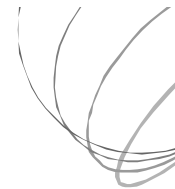


try and determine levels of expenditure. This information, together with baseline information on past expenditure levels, is a prerequisite in order to permit some attempt at benefits tracking and allow some meaningful comparison against the 3 year £35.7 million savings target set out in Scotland Excel's business plan. We understand that Scotland Excel has recently stressed to councils the importance of actively monitoring and reporting post award contract benefits.

19. Other key challenges face Scotland Excel. Risks still exist on the ability of councils to harmonise product descriptions and specifications while delays and non returns of information to Scotland Excel from councils on the choice of areas for future contracts will have an adverse impact on developing a 2010 Contract Delivery Plan. Concerns have also been expressed by the joint committee that some evidence exists that some members of the committee may be using Scotland Excel prices as a baseline for more detailed contract negotiations at a local level and that local contracts are being placed by councils without consulting Scotland Excel.
20. In its learning and development role, Scotland Excel delivered 680 training days against a target of 1000 days. We understand that the extent of training delivered is influenced significantly by the level of demand from member councils. Steps should be taken to encourage councils to take advantage of the training opportunities offered by Scotland Excel.
21. Scotland Excel also has a key role in the Scottish Government's capability assessment review which is designed to assess the progress made by councils and others towards delivering the McClelland review vision of advanced procurement. Scotland Excel has been working with the Heads of Procurement across local government to create and deliver a Procurement Improvement Programme, starting with a Procurement Capability Assessment of each local authority. We will monitor the results of this initiative with interest.

Systems of internal control

22. Internal audit plays a key role in Scotland Excel's governance arrangements, providing an independent appraisal service to management by reviewing and evaluating the effectiveness of the internal control system. Three audit reviews were undertaken during the year by internal audit with generally satisfactory results.
23. Scotland Excel utilise Renfrewshire Council's main financial systems for its operations. These systems have been reviewed as part of our audit of Renfrewshire Council and have been found to have no material weaknesses.



Prevention and detection of fraud and irregularities

24. Scotland Excel has appropriate arrangements for the prevention and detection of fraud and corruption. These arrangements include a strategy for the prevention and detection of fraud including clear lines of responsibility for investigation.