

Scotland Excel Joint Committee

Report to Members and the Controller of Audit
on the 2009/10 Audit

October 2010



 AUDIT SCOTLAND



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Key Messages

In 2009/10, we audited the financial statements and looked at aspects of governance within the Scotland Excel Joint Committee (Scotland Excel). This report sets out our main findings.

Overall, we found the financial stewardship of Scotland Excel during the year to be satisfactory. The main conclusions and outcomes from the audit are highlighted below:

- An unqualified opinion has been issued on the financial statements for 2009/10.
- Final accounts preparation procedures and working papers were of a good standard and this enabled the audit to progress smoothly.
- Scotland Excel has a sound corporate governance framework.

Renfrewshire Council provide internal audit services to Scotland Excel. The Statement on the System of Internal Financial Control for the year 2009/10, signed by the Treasurer and the Director of Scotland Excel, concluded that Scotland Excel has in place a sound system of internal financial control with no identified material weaknesses. Our audit work resulted in findings consistent with that opinion.

We also followed up some issues we reported in 2008/09 and found that progress has been achieved but that there remains a significant amount of further work to be progressed in the future.



October 2010



Introduction

1. 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.

2. This report summarises the most significant issues arising from our work during 2009/10.



Financial statements

3. In this section we summarise key outcomes from our audit of Scotland Excel's financial statements for 2009/10.

Auditor's report

4. We have given an unqualified opinion on the financial statements of Scotland Excel for 2009/10, concluding that the financial statements:
 - give a true and fair view, in accordance with relevant legal and regulatory requirements and the 2009 SORP, of the financial position of the joint committee as at 31 March 2010 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

5. Scotland Excel's balance sheet as at 31 March 2010 reflected net liabilities of £2,042,000, a decrease of £2,117,000 over the previous year wholly due to movement in the pension liability during 2009/10. This deterioration is principally due to a reduction in discount rates applied to future liabilities partially offset by a recovery of asset values in the stock market. As the Explanatory Foreword in the financial statements notes, this assessment is a snapshot of the position as at the year end. The host council (Renfrewshire) has received advice from the appointed actuaries that asset holdings and planned increases in employers' contributions provide sufficient security and income to meet future pension liabilities. Therefore in our opinion, it is reasonable that the accounts are prepared on a going concern basis.
6. Operationally, after adjusting for FRS 17 pension cost adjustments, Scotland Excel generated a deficit of £898,000 over the year compared to a budgeted deficit of £1,168,000. Contributing to this year-end variance to budget were significant under-spends in employee costs (due to the pattern of recruitment of new staff and lower uptake of pension scheme than forecast); supplies and services (due to underlying under-spends on computer development costs and publicity and catalogue presentation; and payments to other bodies (due to lower uptake of training courses than anticipated leading to reduced costs to provide this service). Off-setting this to some degree were reduced sales proceeds due to lower uptake of training courses, and lower than anticipated interest earnings.
7. The deficit for the year was covered by a planned draw-down from available funds. The year-end balance of these funds is £2,408,000. This balance represents the remainder of the initial grant



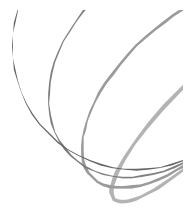
funding which was awarded by the Scottish Executive (now Scottish Government) in 2007 for the set up of Scotland Excel. These funds will be used to further the development of the organisation and support it delivers to the 32 local authorities in Scotland. We have received assurances from the Treasurer that this funding remains secure with Scotland Excel. As the organisation is not permitted to hold reserves, these funds are disclosed within the creditors' line on the face of the balance sheet

Accounts preparation and submission

8. Scotland Excel's financial statements were submitted to the Controller of Audit by the deadline of 30 June. Final accounts preparation procedures and working papers were generally of a good standard. Adjustments were required in relation to incorrect accounting for accruals, all of which were duly posted. Other issues highlighted included the presentation and disclosure of lease arrangements in the financial statements presented for audit and some other presentation issues. All errors were satisfactorily corrected following discussion with officers.
9. Local authorities and joint boards 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 the Scotland Excel's activities.
10. The audited accounts were certified on 23 September 2010 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.

Financial outlook

11. The 2010/11 budget was set based on the assumption that there would be no movement in the number of member authorities (namely 28 of the 32 Scottish councils) although all 32 have now joined. Requisitions from councils are based on a decision to increase these amounts by 2.5% in 2010/11, however at a meeting of the joint committee in January 2010 it was proposed that there would be no further upward movements in 2011/12 and 2012/13. As with previous years the budget for 2010/11 (as agreed in January 2010) involves a £925,000 draw-down from available funds which would reduce the overall balance to £1,483,000. Further draw-downs are forecast for 2011/12 and 2012/13 (£387,000 and £417,000) would further reduce the balance to around £679,000.
12. As indicated in paragraph 7, the Treasurer has provided assurances that this funding shall not require to be repaid to the Scottish Government. The Joint Committee approved a report at the June 2010 meeting which outlined several service and workforce planning measures to be implemented over the



course of 2010/11 which addresses the reliance on grant funding to support core operations. This area shall be subject to continued audit review over the next year.

13. As at 31 March 2010, a pension liability of £2,042,000 existed for Scotland Excel staff. The future extent of pension assets or liabilities will depend largely on the future investment performance of the Strathclyde Pension Fund which should be monitored by member authorities.

IFRS Preparation

14. In 2010/11 all local authority bodies in Scotland (including Scotland Excel) will be required to prepare annual financial statements in accordance with International Financial Reporting Standards (IFRS). In order to prepare for this change, in 2009/10 local authority bodies have been required to prepare restated balance sheets as at 1 April 2009 (in order to provide prior year comparatives to 2010/11 accounts). During 2009/10 we undertook a review of Scotland Excel's restated balance sheet as at 1 April 2009 which we found to be satisfactory following some minor amendments.

Legality

15. Each year we request written confirmation from the Treasurer that Scotland Excel's financial transactions accord with relevant legislation and regulations. 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.



Corporate governance

16. In this section we comment on key aspects of the joint committee's governance arrangements during 2009/10.

Overview of arrangements in 2009/10

17. Corporate governance is concerned with structures and processes for decision-making, accountability, control and behaviours at the upper levels of the organisation. Based on responses provided by officers to an annual corporate governance assessment, we understand that the role of the joint committee (made up of 40 elected members of the various councils) is to cover strategic issues, whilst the executive sub-committee (involving 10 of the 40 members of the joint committee) covers key activities which are more operational, with a supporting chief officers management group also.
18. The Joint Committee meets twice a year and the Executive Sub-Committee (comprising 10 representatives from the Joint Committee) meets at least six times a year. The financial and geographical restrictions for the Joint Committee which prohibits more frequent meetings has been recognised as having the potential for elected members feeling disengaged. We have been advised that in response a number of measures have been taken, such as joint committee update newsletters, the corporate brochure and attendance at COSLA conferences and events and at individual council meetings.
19. Responses to our governance checklist also indicate that Scotland Excel has in place a number of policies and procedures (such as the financial regulations, procedural standing orders, information security policy) which are placed on its intranet and some of these are also on Renfrewshire Council's website (as the host authority). We also understand that a risk management strategy was approved by the chief executive officers group in 2008 which involves an up to date risk register which is reviewed quarterly by this group. The top 10 risks, we understand, are reported with information regarding mitigating controls and planned actions. These policies and strategies in our opinion provide a sound governance framework.

Systems of internal control

20. 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. Internal audit's programme of work is based on a five year cyclical approach



based on an assessment of risk. In 2009/10 a number of reports were issued and these are detailed below:

- Best Value Audit: Benefits Tracking
- Contract Monitoring Arrangements
- Tender Evaluation Procedures
- Internal Audit Annual Report 2009/10.

21. A number of recommendations were raised through these reports and have been reflected in the annual report. The report on benefits tracking in particular concluded that significant work is still required in a number of areas to embed benefits tracking into all contract monitoring processes. Benefits tracking was also an area we identified in our annual report in 2008/09 and as such is covered in the follow-up section below.
22. Internal audit also reviewed Renfrewshire Council's payroll, creditors, main financial (ledger) and debt management systems (which are all used by the joint committee) and found these to be satisfactory. The annual assurance statement is largely based upon this work.
23. We have also reviewed Renfrewshire Council's main financial systems as part of our annual work and our findings are consistent with those of internal audit with only a small number of minor issues highlighted in a management letter issued to the Director of Finance and Corporate Services in June 2010. We have also undertaken an overview of internal audit (as reported in a management letter in January 2010) and found that the section has appropriate resources, documentation standards and reporting procedures to allow us to review and place reliance on aspects of their work during the year.
24. Scotland Excel still retains some financial systems controls despite the fact that it uses the systems of the host authority. As part of our work we tested some payroll transactions and found that employee termination forms were not in place during the year. We understand from correspondence with officers that this issue has been recognised and that a form has now been developed for both new starts (appointments) and terminations. In 2010/11 we will re-visit this area.

Relationship with host authority

25. In its role as host authority for the joint committee, Renfrewshire Council provides various support services (such as finance, personnel, legal and administration). The host authority in turn charges the joint committee for the provision of these services. In 2009/10 these costs amounted to £187,977. From discussion with officers we are aware that a formalised service level agreement (SLA) exists for some of these services (legal and administration) but not for others such as finance, although we understand there has been some work performed in this area. Scotland Excel aims to have one SLA



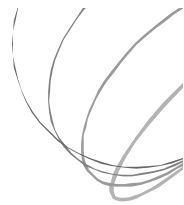
covering the contractual relationship with the host authority and a range of schedules covering the services to be provided by support departments. This is currently being developed by officers in both Scotland Excel and Renfrewshire Council.

Follow-up of issues raised in 2008/09 annual report

26. In our equivalent report from last year we raised several matters concerning the development of the organisation which we have followed up this year. The following paragraphs outline the current position regarding these issues and any outstanding concerns we still have.
27. Previously, we highlighted that some members of the joint committee had concerns that some councils were not fully adhering to the terms and conditions of Scotland Excel membership. We understand from discussions with officers that action has been taken to ensure that there are improved lines of communication to member councils in order to highlight areas where planned expenditure through available contracts (based on supplier records) is not being achieved.
28. The main vehicle in this process is the production of quarterly reports for each council which commenced in early 2010. Officers from Scotland Excel discuss the main issues arising from these reports (informed by the recently developed contracts information system) with officers from the respective councils. This process should ensure that instances of councils purchasing from non Scotland Excel contracts are appropriately flagged up. However it should also be noted that this process only exists for those projects where there is a reporting mechanism in place (currently 21 out of 47 contracts).
29. The contracts information system (referred to above in paragraph 28) produces spend reports which support the tracking of benefits. As reported previously in paragraph 21, Renfrewshire Council's internal audit section carried out a review of Scotland Excel's benefit tracking arrangements and concluded that 'there remains significant work in a number of areas to embed benefits tracking into all contract monitoring arrangements'. The report contained an action plan with 9 points highlighted (including 4 which were identified as significant system weaknesses). All points have been agreed by Scotland Excel and responsive actions are noted with timescales all falling within the 2010/11 financial year. As such we will monitor progress and report back on this issue in 2010/11.
30. We also noted in 2009/10 that there had been a delay in implementing a 3 year strategic plan for the joint committee. We understand that to date this issue remains ongoing, but that a proposed 3 year strategic plan will be submitted to the joint committee in December 2010. Incorporated into the plan will be developments in light of the up-coming public expenditure reductions and the impact that these will have on the manner in which Scotland Excel operates on an ongoing basis.



31. As highlighted previously (in paragraphs 7 and 11), Scotland Excel has drawn down (and plans to do so again in future years) from set up funding provided by the Scottish Government. The strategic plan should aim to address how Scotland Excel can be funded on an ongoing basis which does not allow for such draw downs in the future but is instead financed by core funding, principally the requisitions from the member authorities. We will review progress regarding the strategic plan during 2010/11.
32. We understand that various forums (such as the leadership group and commercial user intelligence groups) are involved in the production of SMART success measures. The use of such measures was recommended in our report in 2008/09 in order to improve the reporting of progress against the ten key objectives agreed by the joint committee in April 2008. It is intended that around a dozen of these measures will be reported to the joint committee in December 2010. We will monitor progress concerning the use of SMART success measures in 2010/11.
33. There are currently 47 contracts available for member councils with a further 14 pending. The current contract delivery plan for 2010 contained a total of 21 contracts, 7 of which are renewals/revisions with the remaining 14 representing new contracts. The 2011 contract delivery plan is due to be tabled to the Joint Committee at its meeting in December 2011 with contract renewals/revisions from this available from April 2011 and new contracts available from August 2011. It is important that the contract delivery plan is achieved and that there is a seamless transition from councils own contracts to Scotland Excel contracts as any delays may have financial implications.
34. In 2008/09 we highlighted that Scotland Excel did not meet the set number of training days due to lower than expected training demand from the local authority partners. From discussions with officers we understand that the current training programme has been developed to support the Procurement Improvement Programme (PIP) and emphasis is now on effective training, and the needs of local authorities. Scotland Excel has played a key role in the Procurement Capability Assessment (PCA) exercise in 2009 and the subsequent PIP which supports the progress made by councils towards delivering the McClelland review vision of advanced procurement.
35. The PIP consists of 6 work-streams: *supplier and contract management; benefits tracking; stakeholder management; sustainability; conformance; and alternative delivery mechanisms*. As well as playing a key role in delivering each of these work-streams, Scotland Excel has also been involved in the National Procurement improvement initiative work-streams. Procurement Improvement Updates have also been issued by Scotland Excel to member authorities (to date there have been 3) which report progress against all of the work-streams as well as other relevant information. This process should ensure that instances of good practice and/or innovation are shared amongst the local government procurement community. A second assessment is currently ongoing which is due to be reported in December 2010. Again we will monitor progress in 2010/11.



36. Overall it can be seen that progress has been achieved in the past twelve months which has also seen all 32 Scottish councils sign up. There remains, however, important areas for further development such as the delivery a strategic 3 year plan and the implementation of the agreed action plan for internal audits' reports, (principally in relation to benefits tracking). We will monitor developments and report our findings in our annual report in 2010/11.
37. The co-operation and assistance given to us by the joint committee members, officers and staff is gratefully acknowledged.