

# Scotland Excel Joint Committee

## Annual report on the 2010/11 audit



Prepared for Members of Scotland Excel Joint Committee and the Controller of Audit  
October 2011

**Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.**

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# Key messages

## 2010/11

In 2010/11, we audited the financial statements and looked at aspects of governance within Scotland Excel Joint Committee (SE). This report sets out our main findings.

Overall, we found the financial stewardship of SE 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 2010/11.
- Final accounts preparation procedures and working papers were of a good standard and this enabled the audit to progress smoothly.
- SE has a sound corporate governance framework.

Renfrewshire Council provide internal audit services to SE. The Statement on the System of Internal Financial Control for the year 2010/11, signed by the Treasurer and the Director, concluded that SE 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.

## Outlook

Looking ahead, it is clear that the outlook for public spending for the period 2012/13 to 2014/15 remains very challenging. The high level figures for Scotland that were announced in the UK Comprehensive Spending Review indicate that significant budget reductions will be required in these years.

In addition the Audit Scotland Report "Scotland's public finances: responding to challenges" contained a number of key messages for councils and other local government bodies to consider given the financial constraints being faced.

Local authorities in Scotland have a continuing need to demonstrate efficient procurement practices in order to achieve cost savings. The role of Scotland Excel is key to ensure that savings are attained through use of competitive contracts and improved procurement practice.

# Introduction

1. The members and officers of SE 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.
  - SE'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.
  - SE 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 misstatement, error, fraud or corruption.
  - SE 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 2010/11.

# Financial statements

3. Audited bodies' financial statements are an essential part of accounting for their stewardship of the resources made available to them and their performance in the use of those resources.
4. Auditors are required to audit financial statements in accordance with the timescales set by Audit Scotland, which may be shorter than statutory requirements, and give an opinion on:
  - whether they give a true and fair view of the financial position of audited bodies and their expenditure and income
  - whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements.
5. Auditors review and report on, as appropriate, other information published with the financial statements, including the explanatory foreword, statement on the systems of internal financial control and the remuneration report. This section summarises the results of our audit of the financial statements.

## Audit opinion

6. We have given an unqualified opinion on the financial statements of SE for 2010/11, concluding that the financial statements:
  - give a true and fair view, in accordance with relevant legal and regulatory requirements and the 2010 Code, of the financial position of the joint committee as at 31 March 2011 and its income and expenditure for the year then ended
  - have been properly prepared in accordance with the Local Government (Scotland) Act 1973.

## Legality

7. Through our planned audit work we consider the legality of the joint committee's financial transactions. In addition the Treasurer has confirmed that, to the best of her knowledge and belief the financial transactions of the joint committee were in accordance with relevant legislation and regulations. There are no legality issues arising from our audit which require to be brought to members' attention.

## Statement of the System of Internal Financial Control

8. We are satisfied with the disclosures made in the Statement of the System of Internal Financial Control and the adequacy of the process put in place by the joint committee to obtain the necessary assurances. The statement reports that the joint committee has in place a sound system of internal financial control which is in line with findings from our tests of controls and also with the findings of internal audit. In addition, this finding is in line with our findings from the audit of the host authority, Renfrewshire Council, where we found no significant weaknesses in the systems which are used by the joint committee.

## Remuneration report

9. We are satisfied that the remuneration report has been prepared in accordance with the Local Authority Accounts (Scotland) Act 1985 and Scottish Government finance circular 8/2011. The disclosures within the 2010/11 financial statements include all eligible remuneration for the relevant joint committee officers and elected members. . From review of the remuneration report we noted that the salary for the post of Director has not been subject to review since 2002. We would recommend that a review is carried out in the near future.

## Accounting issues

10. Local authorities in Scotland are required to follow the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 (the 2010 Code). We are satisfied that the joint committee prepared the 2010/11 financial statements in accordance with the 2010 Code.

## Accounts preparation & submission

11. SE's financial statements were submitted to the Controller of Audit by the deadline of 30 June.
12. The 2010 Code saw the full implementation of Internal Financial Reporting Standards (IFRS) for the first time. The main impact this had on the accounts was to introduce new primary statements. The first of these is the Movement in Reserves Statement (MIRS). This new statement includes some of the items from the previous Statement of Movement on the Revenue Reserve as well as introducing some items concerning the other reserves held. The Comprehensive Income & Expenditure Account combines the features of the former Income & Expenditure Account and Statement of Recognised Gains & Losses. The other primary statements (the Balance Sheet and the Cash Flow Statement) remain relatively similar to as before with the latter now containing some information (at the bottom) which was previously included within a separate note.
13. Final accounts preparation procedures and working papers were generally of a good standard. The audit resulted in mainly presentational and other minor changes. The most significant of these were in relation to the presentation of the Movement in Reserves Statement and the Comprehensive Income & Expenditure Account where a format was agreed upon that best fit the requirements of the Code. This did not result in a change to the value of reserves held by the joint committee.
14. One other significant new feature from the implementation of IFRS is the introduction of an accrual regarding untaken staff annual leave at year-end. The work carried out here involved comparing the amount of time taken off at 31 March 2011 for all staff members and comparing this to the amount of time due for the period elapsed, i.e. an officers total annual leave requirements for the year pro-rata for the amount of the leave year completed at the financial year-end. The method employed by finance officers at the host authority was reviewed and found to be satisfactory. Statutory guidance was issued by the Scottish Government for the creation of a new reserve balance (the Employee Statutory Adjustment Account) in order to ensure that this new accrual has no impact on the level of revenue reserves held.

15. We issued our report on the audit of the financial statements (in compliance with the International Auditing Standard 260) on 15 September 2011 which indicated our intention to give an unqualified opinion on the financial statements for the joint committee. The audit certificate was duly signed off on 28 September 2011.

### Prior year adjustments

16. The 2010/11 financial statements have been prepared in accordance with the 2010 Code which is based on International Financial Reporting Standards (IFRS) instead of the previous practice of preparing financial statements under UK Generally Accepted Accounting Practice (GAAP). This transition required a prior year adjustment to the 2009/10 audited financial statements and the restatement of the 1 April 2009 opening balance sheet position. The only item requiring an adjustment was the inclusion of the accrual for untaken employee benefits such as annual and flexi leave at 31 March 2011. This change has resulted in the net liability position of the joint board as at 31 March 2010 changing from £2,042,000 to £2,120,265. However the new Employee Statutory Adjustment Account referred to previously ensures that this results in no change to the revenue reserves held by the joint committee.

### Pension costs

17. SE is a member of Strathclyde Pension Fund, a multi employer defined benefit scheme. The council's share of net assets within the scheme as at 31 March totalled £19,000 which represents a movement of £2,062,000 from the liability position of £2,042,000 from the previous year. The improvement in the joint committee's asset/liability is attributable to pay freeze agreements and the change from retail price indexation to consumer price indexation in measuring future pension increases. It is important to note that pension scheme valuations are sensitive to stock market movements and as such represent a snapshot picture as at 31 March 2011.

## Outlook

### Audit appointment for 2011/12

18. Audit appointments are made by the Accounts Commission, either to Audit Scotland staff or to private firms of accountants for a five year term. 2010/11 is the last year of the current audit appointment and we would like to thank officers and members for their assistance during the last five years. The procurement process for the next five years was completed in May 2011. From next year (2011/12) Audit Scotland will again be the appointed auditor for SE but a different audit team will be in place. We look forward to continuing the good working relationships that exist.



# Financial position

19. Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based.
20. Auditors consider whether audited bodies have established adequate arrangements and examine:
  - financial performance in the period under audit
  - compliance with any statutory financial requirements and financial targets
  - ability to meet known or contingent, statutory and other financial obligations
  - responses to developments which may have an impact on the financial position
  - financial plans for future periods.
21. These are key areas in the current economic circumstances. This section summarises the financial position and outlook for the organisation.

## Financial results

### Budgetary control

22. In 2010/11 SE generated a deficit on the provision of services of £80,962. The deficit as presented in the Foreword in the financial statements on page 4 of £784,287 is different because this is net of pension adjustments and movements in the untaken annual leave accrual. As the budget is prepared without these adjustments it is appropriate for the analysis in the foreword to be presented in this way. The outturn analysis in the foreword records a smaller deficit than budgeted for due mainly to a lower than anticipated pay award and steps taken to re-structure the organisation in order to ensure that in future costs will be fully met from member requisitions. Another factor was additional requisition income in the year than budgeted for as a consequence of the last remaining four councils in Scotland electing to join SE.

### Financial position

23. SE's balance sheet as at 31 March 2011 reflected net liabilities of £34,940, an improvement of £2,085,325 over the previous year mainly due to movement in the pension asset/liability during 2010/11. This has been partially off-set by the movement of the accrual in respect of employees' untaken annual and flexi leave at year-end. As stated above a new adjustment account has been set up which ensures this accrual has no impact on the level of revenue reserves held. In addition, advice received via the host council (Renfrewshire) from the appointed actuaries stated that asset holdings and planned increases in employers' contributions provide sufficient security and income to meet future pension liabilities. In light of these factors, it is reasonable that the accounts are prepared on a going concern basis.

24. The 2010/11 budget forecast that the level of reserves for SE would be around £1,483,000 at 31 March 2011. However the lower than anticipated deficit for the year (as discussed in paragraph 22) has resulted in a higher level of reserves held at year end of £1,623,683. This balance represents the remainder of the grant from the Scottish Government for initial set-up costs for the organisation. Future planned drawdowns from the reserves are discussed in the following paragraph.

## Outlook

### 2011/12 budget

25. In the covering report to the 2011/12 revenue estimates in September 2010, the Treasurer forecast draw-downs on resources of over £519,025 in 2011/12, with £127,815 in 2012/13 and £159,769 in 2013/14. The Treasurer also outlined the intention for future budgets to be set at a level consistent with the requisition income available, although a timescale for the achievement of this was not provided. In addition, the level of requisitions are set to reduce also over the coming years with a 2.6% reduction in 2011/12 and further 1.7% reductions in 2012/13 and 2013/14. The most recent budget monitoring report (submitted in September 2011) reported an under-spend of £43,000 for the period to 19 August 2011.
26. From previous work, we are aware of the workforce restructure which SE has implemented over the recent period which has involved reducing the overall staffing establishment from 61 down to 54. From the progress report issued to the joint committee in June, we are informed that 6 officers left through the voluntary release scheme and that a number of staff (47 FTE) have been matched into the new structure.
27. The June progress report also highlighted that recruitment of 5 additional procurement staff was underway which will result in the total staffing number being 6 higher than the establishment of 54. Since June, one of the additional members of staff has resigned to take up another post and a further 2 are currently on secondment to other local authorities. The remaining 3 staff continue to work on temporary roles whilst longer term options are actively pursued. The report also states that financial implications are being monitored and discussions with Renfrewshire Council's corporate finance and HR departments are on-going in order to ensure that resources are aligned to the organisational structure. We are also aware of ongoing discussions with both employees and trade unions.

# Governance and accountability

28. 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.
29. The joint committee meets twice a year and the executive sub-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. Previously we have been advised of a number of measures have been taken in response to this, such as joint committee update newsletters, the corporate brochure and attendance at COSLA conferences and events and at individual council meetings.
30. From our work carried out during the risk assessment stage of our audit we are aware that SE 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.

## Internal control

31. Internal audit plays a key role in SE'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 2010/11 internal audit carried out two reviews. The first of these was a review of the contract monitoring arrangements which concluded that adequate controls and processes are in place. The second report (covering Governance and Performance Management Arrangements) however concluded that specific performance measures are required to enable SE to clearly demonstrate its performance for areas other than contract spend and savings.

**Refer Action Plan no. 1**

32. The annual report from internal audit contained the annual assurance statement. This confirmed that there were no material weaknesses in the financial controls for SE.
33. Internal audit also reviewed Renfrewshire Council's payroll, business continuity, financial management and cash and banking (which are all used by or have an impact for SE) and found these to be satisfactory. The annual assurance statement is largely based upon this work.
34. 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 2011. We have also undertaken an overview of internal audit (as reported in a management letter in January 2011) 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.
35. In 2009/10 we found the employee termination forms were not in place at that time. We reported this matter in our 2009/10 annual audit report. From our testing we are aware that a new pro-forma has been developed and has been issued. From the review of work carried out by internal audit we are satisfied that employee terminations have been appropriately supported by new documentation.

### Relationship with host authority

36. Renfrewshire Council is the host authority for the joint committee, and as such 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. We have been provided with a more recent SLA which has been signed by both the SE Director and the Renfrewshire Council Director of Finance and Corporate Services. This SLA covers all aspects of service provided and will run from 1 April 2011 to 31 March 2014. In light of this we are satisfied that this issue has been satisfactorily addressed.

# Performance

37. In our annual audit report in 2009/10 we reported that there had been a delay in the development of a 3 year strategic plan. In January this year a report on the business plan and the proposed organisation structure was submitted to the joint committee. This report reaffirmed the strategic aims for SE and outlined the business plan and key objectives for 2011/12 in terms of contract development and procurement reform activities.
38. The first progress report submitted to the joint committee (in June) highlighted that there was slippage in the contract delivery schedule, with 3 new contracts failing to meet their planned effective dates. Explanations offered included specification clarifications and temporary resource issues. In 2009/10 we also outlined the importance of ensuring the achievement of the contract delivery schedule.
39. From review of the more recent report submitted to the chief executive officers management group in September 2011 it was noted that 2 of the 3 contracts highlighted previously have had their delivery date revised to 2012. It is also noted that a further 2 contracts (originally due for delivery in 2011) are now not expected until 2012. These relate to school and community bus transport and coach hire. Further review of this report also found 6 instances of contracts which were delivered later than originally planned in 2011 with a further 1 where the planned delivery date has been delayed from July to December 2011.
40. It is recognised that achievement of contracts with the greatest potential for savings in line with the delivery schedule may not always be possible. The progress to date appears reasonable given the explanations offered, however this should be continually monitored to ensure that any slippage is minimised. In addition, efforts should be made to ensure that contracts which have slipped do not impact on those scheduled for the future. We recognise developments such as the streamlining of the contract delivery process which should improve timescales for some of the operational contracts. We also recognise that savings of around 5% are anticipated for the contracts in 2011 so far delivered.

## Refer Action Plan no. 2

41. The progress report also referred to a separate paper (at the same meeting) which identified all 32 councils' position regarding the 2010 Procurement Capability Assessment (PCA). This highlighted that 75% of councils (24) were now in the conformance category or better compared to just 9 (28%) in 2009. The average score was 32% which indicates that there is still significant improvement to be made to ensure that an overall improved (50-74%) or superior (75+%) performance is achieved.
42. The internal audit report on governance and performance arrangements recommended that future performance targets are set in relation to the PCA process, which should be agreed with the Public Procurement Reform Board (PPRB). In the PCA results report to the joint committee in June, national targets were reported which had been agreed by the PPRB. These targets are that no councils should be below compliance by March 2012 with 60% reaching improved performance by the same timescale and all 32 councils reaching this level

by March 2013. We are aware of initiatives such as the Procurement Improvement Programme (PIP) however considerable commitment and effort will be required by both SE and local authorities in order to meet these challenging targets.

43. Internal audit also referred to the development of a PCA for centres of expertise (such as SE) and recommended that any such assessment should be undertaken as soon as possible after it is made available with any weaknesses identified and addressed. We have been advised that the capability assessment framework has now been finalised with the Scottish Government and SE have agreed to be the first Centre of Expertise to undertake the new assessment in early 2012.
44. In our annual audit report for 2009/10 we highlighted the importance of SMART success measures in order to report the progress of the ten key objectives for SE. From a review of papers submitted to the joint committee (and the other forums) we are not aware of the development of these measures. A similar point was also raised by internal audit (also in the report on governance and performance arrangements) who recommended that, as a matter of urgency, SE should develop specific performance targets and measurements and that progress should be monitored against these.

**Refer Action Plan no. 1**

45. Benefits tracking arrangements allows for SE to demonstrate the savings which have been achieved through the use of their contracts. The internal audit report on governance and performance arrangements also referred to the report from the previous year concerning benefits tracking arrangements. This involved providing a general statement to the effect that progress has been made in a number of areas without specifying which these were. A separate recommendation was however included to continue to progress and implement the recommendations from this earlier report. We highlighted the previous internal audit report in 2009/10 and we would again recommend that action is taken promptly to ensure the points raised in the previous benefits tracking report are adequately addressed.
46. One of the components of the benefits tracking system are contracts where there is a reporting mechanism in place with the supplier(s). In 2009/10 we reported that such a mechanism only applied for 21 out of the 47 contracts available at that time. From a report submitted to the joint committee in June we are aware that 37 out of 44 available contracts had such a mechanism by the end of 2010/11. This represents good progress from the previous year and is brought about through the replacement of older contracts and the issue of new ones. The report also highlighted 86% take up of available SE contracts by local authorities. The expected saving through use of such contracts in 2010/11 is reported to be £7.8 million.

# Appendix A: Action plan

## Key Risk Areas and Planned Management Action

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1	41 & 44	<p><b>Specific Performance Measures</b></p> <p>Internal audit identified that specific performance measures for areas other than contract spend and savings are not in place. This was also an area previously reported by ourselves.</p> <p><b>Risk - Performance in areas other than contract spend and savings is not at planned level.</b></p>	<p>The existing targets and objectives will be expanded to include specific performance targets and measurements in the business plan that is presented to the Joint Committee for approval at their meeting in December 2011.</p>	Dorothy Cowie	9 Dec 2011
2	40	<p><b>Contract Delivery Schedule</b></p> <p>There has been slippage in the contract delivery schedule.</p> <p><b>Risk - Councils continue to use less efficient contracts, thus effecting SE savings targets.</b></p>	<p>The contract delivery plan will continue to be reviewed at the Chief Executive Officer Management Group and at the regular Business Review meetings held by the SE Regional Managers with the Heads of Procurement. Following completion of the current recruitment campaign, resources will be re-aligned by the Head of Strategic Procurement to minimise any impact on future contract delivery.</p>	Hugh Carr	End Dec 2011