

# Tayside Contracts Joint Committee

2018/19 Annual Audit Report



 AUDIT SCOTLAND

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

26 August 2019

## 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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# Contents

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|  |    |
|--|----|
| Key messages   | 4  |
| Introduction   | 5  |
| Part 1<br>Audit of 2018/19 annual accounts                       | 7  |
| Part 2<br>Financial management                                   | 11 |
| Part 3<br>Financial sustainability                               | 14 |
| Part 4<br>Governance and transparency                            | 17 |
| Part 5<br>Value for money  | 20 |
| Appendix 1<br>Action plan 2018/19                                | 22 |
| Appendix 2<br>Significant audit risks identified during planning | 23 |
| Appendix 3<br>Summary of national performance reports 2018/19    | 26 |

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# Key messages

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## 2018/19 annual accounts

- 1** The financial statements of Tayside Contracts give a true and fair view of its financial position for the year ended 31 March 2019.
- 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 relevant regulations and guidance.
- 3** The construction and facilities services divisions failed to achieve a break-even position over the three-year period from 2016/17 to 2018/19. 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 achieving higher than budgeted operating surpluses which has enabled it to return surpluses totalling £4.6 million to the constituent councils over the last 3 years.
- 6** Systems of internal control operated appropriately and effectively in 2018/19 with scope for improvements in some areas.

## Financial sustainability

- 7** Tayside Contracts' financial position is sustainable in the short term and the approved budget has been built in liaison with the three constituent councils. However, the continuing budget pressures on each of the constituent councils presents a longer-term risk to the organisation in its aim of maintaining a sustainable financial position in the future.
- 8** The UK's withdrawal from the European Union presents a number of risks to the operation of Tayside Contracts but the organisation has taken reasonable action to prepare for the potential impact.

## Governance and transparency

- 9** Tayside Contracts has appropriate governance arrangements in place that support the scrutiny of decisions made by members.
- 10** 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 also available on the Tayside Contracts website for public inspection.

## Value for money

- 11** The performance management framework continues to provide assurance to members of improving performance, with most business plan key performance indicators being achieved in 2018/19.

# Introduction

1. This report summarises the findings from our 2018/19 audit of Tayside Contracts Joint Committee (Tayside Contracts).

2. We aim to add value to Tayside Contracts through the audit by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations for improvements that have been accepted by management
- reporting our findings and conclusions in public
- sharing intelligence and good practice through our national reports ([Appendix 3](#)) and good practice guides, and
- providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

## Scope of our audit

3. The scope of our audit was set out in our [Annual Audit Plan](#) presented to the meeting of the Joint Committee on 18 March 2019. This report comprises the findings from:

- the audit of Tayside Contracts 2018/19 annual report and accounts, including the issue of an independent auditor's report setting out our opinions
- a review of the Tayside Contracts key financial systems
- our consideration of the wider audit dimensions of public sector audit, [exhibit 1](#) as set out in the [Code of Audit Practice 2016](#).

## Exhibit 1 Audit dimensions



## Ethical considerations

4. 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 2018/19 audit fee of £38,400 as set out in our Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

## Responsibilities and reporting

5. 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.

6. 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.

7. 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.

8. 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, and best value arrangements.

9. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#).

10. 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 our 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.

11. An agreed action plan is included at [Appendix 1](#) setting out specific recommendations, responsible officers and dates for implementation.

12. This report is addressed to both Tayside Contracts Joint Committee and the Controller of Audit and will be published on Audit Scotland's website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)

## Acknowledgement

13. We would like to thank all management and staff for their cooperation and assistance during the audit.

# Part 1

## Audit of 2018/19 annual accounts



### Main judgements

The financial statements of Tayside Contracts give a true and fair view of its financial position for the year ended 31 March 2019.

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 relevant regulations and guidance.

The construction and facilities services divisions failed to achieve a break-even position over the three-year period from 2016/17 to 2018/19. This has been highlighted in a 'failure to achieve a prescribed financial objective' paragraph in our independent auditor's report.

### Audit opinions on the annual accounts

14. The annual accounts for Tayside Contracts for the year ended 31 March 2019 were approved by the Joint Committee on 26 August 2019. We reported, within our independent auditor's report our opinion that:

- the financial statements give a true and fair view and were properly prepared, and
- 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 relevant regulations and guidance.

15. We have nothing to report in respect of misstatements in the information accompanying the financial statements, the adequacy of accounting records, or the information and explanations we received during the audit.

16. 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 services divisions failed to achieve this prescribed financial objective. This has been highlighted in a 'failure to achieve a prescribed financial objective' paragraph in our independent auditor's report.

### Submission of Tayside Contracts annual accounts for audit

17. We received the unaudited annual report and accounts on 17 June 2019 in line with our agreed audit timetable.

18. The unaudited annual report and accounts provided for audit were complete and finance staff provided good support to the audit team which helped ensure the final accounts audit process ran smoothly. Supporting working papers were

**Tayside Contracts annual accounts are the principal means by which it accounts for the stewardship of resources and its performance in the use of those resources.**

generally of a good standard although this could be improved in some areas to ensure there is a clearer link to the figures presented in the accounts.

## Risk of material misstatement

**19.** [Appendix 2](#) provides a description of those assessed risks of material misstatement in the annual accounts and any wider audit dimension risks that were identified during the audit planning process. It also summarises the work we have done to gain assurance over the outcome of these risks.

**20.** We have no issues to report from our work on the risks of material misstatement highlighted in our 2018/19 Annual Audit Plan.

## Materiality

**21.** Materiality can be defined as the maximum amount by which auditors believe the financial statements could be misstated and still not be expected to affect the perceptions and decisions of users of the financial statements. The assessment of what is material is a matter of professional judgement. A misstatement or omission, which would not normally be regarded as material by value, may be important for other reasons (for example, an item contrary to law). In forming our opinion on the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.

**22.** Our initial assessment of materiality for the financial statements was undertaken during the planning phase of the audit and was based on the gross expenditure reported in the 2017/18 audited Annual Accounts. These levels were reported in our Annual Audit Plan presented to the Joint Committee on 18 March 2019.

**23.** On receipt of the unaudited annual accounts we recalculated our materiality levels based on the actual gross expenditure for the year ended 31 March 2019. Our final materiality levels are summarised in [exhibit 2](#).

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## Exhibit 2 Materiality levels

| Materiality level  | Amount         |
|--|----------------|
| <b>Overall materiality</b> - This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It has been set at 1.5% of gross expenditure for the year ended 31 March 2019.   | £1.186 million |
| <b>Performance materiality</b> - 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. | £0.711 million |
| <b>Reporting threshold</b> - 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 3% of overall materiality.  | £0.035 million |

Source: Audit Scotland

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## Significant findings from the audit in accordance with ISA 260

**24.** International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of the body's accounting practices covering accounting policies, accounting estimates and financial statements disclosures.

**25.** The significant findings 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.

### Exhibit 3 Significant findings from the audit of the financial statements

| Issue  | Resolution  |
|--|---|
| <p><b>1. Significant trading operations</b></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 2019 are as follows:</p> <ul style="list-style-type: none"> <li>• Construction: £3.066 million</li> <li>• Facilities services: £6.251 million</li> </ul> | <p>This has been highlighted in a 'failure to achieve a prescribed financial objective' paragraph in the audit opinion.</p>   |
| <p><b>2. Exit package overpayment</b></p> <p>Our testing of exit packages, disclosed in the remuneration report, identified that a former employee had been paid their payment in lieu of holiday (PILOH) twice. This resulted in an overpayment of £1,413.</p>  | <p>Management has advised that this was an isolated payroll error. No adjustment was required to the accounts in respect of this as the figure reported correctly reflected the actual value of the redundancy payment.</p> <p> <a href="#">Recommendation 1 (Appendix 1 - Action Plan)</a></p>  |
| <p><b>3. Deferred income netted off against debtors</b></p> <p>During our debtors testing it was identified that there was a credit balance of £0.409 million that had been incorrectly netted off against the year-end short term debtors figure.</p>   | <p>Management agreed to remove this from short term debtors and instead correctly presented it within the short term creditors balance. This resulted in the current assets and current liabilities figures in the balance sheet both increasing by £0.409 million and therefore had a nil impact on the net liabilities figure as at 31 March 2019.</p>  |
| <p><b>4. Revised pension liability</b></p> <p>On 27 June 2019 the Supreme Court ruled, in support of a previous Court of Appeal ruling, that the government had discriminated against judges and firefighters on the grounds of age, race and equal pay in relation to 2015 changes to their pensions. Under the 2015 changes, older workers were protected from a downgrade in their retirement benefits.</p> <p>The ruling is likely to result in a requirement to compensate certain members for any discrimination suffered as a result of the transitional protections. The implications for the other pension schemes,</p>       | <p>As this ruling had a material impact on the pension liability at 31 March 2019, management obtained a revised actuarial report and made an adjustment to the audited accounts to reflect the revised pension liability figure. This resulted in the pension liability figure in the balance sheet, and the deficit on provision of services figure in the comprehensive income and expenditure statement, both increasing by £1.363 million.</p> |

| Issue  | Resolution |
|--|------------|
| including the Tayside Pension Fund (a Local Government Pension Scheme) is unclear but given that the transitional protection arrangements are very similar it is possible the implications will also be similar. |            |

Source: Audit Scotland

## How we evaluate misstatements

**26.** The £1.363 million revision to the pension liability (issue 4 in [exhibit 3](#)) and the classification misstatement of £0.409 million (issue 3 in [exhibit 3](#)) were the only adjustments arising from our audit which exceeded our reporting threshold of £0.035 million. It is our responsibility to request that all misstatements above the reporting threshold are corrected and management has amended these in the audited financial statements.

## Other issues

### Minor audit changes

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

### Trade union facility time

**28.** The Trade Union (Facility Time Publication Requirements) Regulations 2017 require 'relevant public sector employers' to publish a range of information in relation to their usage and spend of trade union facility time, and to disclose this in the Remuneration Report.

**29.** Tayside Contracts is not one of the employers covered by the regulations but management has advised that they are still keen to report this information. Arrangements are being made to compile the relevant trade union facility time information.



[Recommendation 2 \(Appendix 1 - Action Plan\)](#)

## Objections

**30.** The 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. There were no objections to the accounts.

# Part 2

## Financial management



### Main judgements

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

Tayside Contracts has a good track record of achieving higher than budgeted operating surpluses which has enabled it to return surpluses totalling £4.6 million to the constituent councils over the last 3 years.

Systems of internal control operated appropriately and effectively in 2018/19 with scope for improvements in some areas.

### Financial performance in 2018/19

**31.** 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 £73.614 million for 2018/19 with a targeted surplus of £0.797 million prior to IAS 19 pension adjustments.

**32.** Tayside Contracts has a good track record of achieving a surplus against budget. In 2018/19 Tayside Contracts achieved a trading surplus, before IAS 19 pension adjustments, of £1.525 million (£0.728 million more than budget) and since 2016/17 has returned surpluses totalling £4.555 million to contributing authorities.

**33.** Tayside Contracts achievement of an above budget trading surplus for the year reflects the additional surpluses reported by the two trading divisions, construction and facilities services. The main reasons contributing to the delivery of these surpluses 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

#### Achievement of above budget trading surplus

| Area                  | Above budget surplus (£m) | Reason for variance  |
|-----------------------|---------------------------|--|
| Construction division | £0.174 million            | A relatively mild winter in 2018 resulted in winter hours being the third lowest recorded over the last ten years. This time input still enabled a full programme of works to be completed as there was minimal weather disruption. Results were also improved through additional investment in the Street Lighting LED conversion programmes. |

| Area                         | Above budget surplus (£m) | Reason for variance  |
|------------------------------|---------------------------|--|
| Facilities services division | £0.554 million            | Catering results were in line with budget but the Facilities Management Unit generated additional income and achieved savings on labour costs. |

Source: Tayside Contracts 2018/19 Annual Accounts

## Capital expenditure

**34.** Total capital expenditure in 2018/19 was £1.939 million which was broadly in line with the budget of £1.937 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 who have commented positively on Tayside Contracts use of electric vehicles, and purchase of second-hand vehicles, where appropriate.

**36.** The capital budget for 2019/20 was agreed in March 2019 and anticipates capital expenditure of £2.392 million with an associated increase in the capital financing requirement of £1.719 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 2018/19

**37.** Tayside Contracts' outstanding loans at 31 March 2019 were £6.710 million, a decrease of £0.132 million on the previous year. During 2018/19, £1.577 million of loan repayments were made, including interest costs of £0.273 million, with £1.172 million of new loans taken out during the year.

**38.** Tayside Contracts' overall indebtedness as a percentage of annual income of 8.84% at 31 March 2019 is in line with the previous years' levels of debt (9.07% at 31 March 2018 and 9.94% at 31 March 2019). 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 2017/18](#), published in November 2018, highlighted that the need for budgets and forecasts to reflect actual spending has become increasingly important given the current financial pressures faced by the sector. The budget setting and financial monitoring arrangements within Tayside Contracts are robust and are operating effectively.

**40.** Financial management is effective with a budget process focussed on the priorities of Tayside Contracts.

## Systems of internal control

**41.** As part of our audit we identify and inspect the key internal controls in those accounting systems which we regard as significant to produce the financial statements. Our objective is to gain assurance that Tayside Contracts has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements.

**42.** Our findings were included in our management letter that was presented to the Joint Committee on 24 June 2019. We concluded that the key controls were operating effectively. No significant internal control weaknesses were identified which could affect Tayside Contracts' ability to record, process, summarise and report financial and other relevant data to result in a material misstatement in the financial statements.

### **Dependency on key suppliers**

**43.** The collapse of Carillion has had a significant impact across the public sector. This has brought into focus the risk of key supplier failure and underperformance of suppliers that are experiencing difficult trading conditions. As part of our 2018/19 audit we assessed the arrangements in place at Tayside Contracts to mitigate the financial and operational risks of the collapse of a key supplier.

**44.** Management advised that:

- Where appropriate, the financial health and past performance of suppliers is taken into consideration during the tendering process.
- For key operational contracts, alternative suppliers have been identified who could be used should the current holders of the contract fail.
- Any significant issues with the performance of a supplier are highlighted to members of the Joint Committee in addition to the monitoring of these suppliers through the risk register.

**45.** Based on our discussions with management, and our understanding of the key suppliers of Tayside Contracts, we are satisfied that appropriate risk management and business continuity arrangements are in place.

# Part 3

## Financial sustainability



### Main judgements

**Tayside Contracts' financial position is sustainable in the short term and the approved budget has been built in liaison with the three constituent councils. However, the continuing budget pressures on each of the constituent councils presents a longer-term risk to the organisation in its aim of maintaining a sustainable financial position in the future.**

**The UK's withdrawal from the European Union presents a number of risks to the operation of Tayside Contracts but the organisation has taken reasonable action to prepare for the potential impact.**

### Reserves

**46.** 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 increased by £0.100 million from £0.580 million at 31 March 2018 to £0.680 million at 31 March 2019. This increase has been earmarked for the costs associated with the setting up of the Tayside Meals Production Unit in 2019/20. The remaining £1.425 million of the operational surplus was returned to the constituent councils. The level of reserves held equates to 0.8% of the 2018/19 turnover.

**47.** We consider Tayside Contracts' financial position to be sustainable in the short term.

### 2019/20 budget

**48.** Tayside Contracts' budget for 2019/20 was approved in March 2019. The anticipated income for the year ending 31 March 2020 is £75.931 million with budgeted expenditure of £75.004 million. The trading account surpluses, before IAS 19 adjustments, are forecast as £0.495 million for the Construction division and £0.432 million for the Facilities Services division.

**49.** Tayside Contracts has a good track record of achieving a surplus against budget and the organisation has strong budgetary arrangements in place to monitor the progress of the budget throughout the year.

### Longer term financial planning

**50.** The Accounts Commission's April 2018 [Local government in Scotland: Challenges and performance](#) review highlighted the importance of medium to long term financial planning given the continuing pressures that councils face into the future. While it is acknowledged that councils face difficulties in predicting future financial settlements the Accounts Commission recommend that when future Scottish Government funding is not known, councils should plan for a range of possible scenarios so they are prepared for different levels of funding.

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

**51.** In March 2019, Audit Scotland published the [Local government in Scotland: Challenges and performance 2019](#) report. The report found that councils face an increasingly complex, changing and uncertain environment which places different demands and expectations on them. In addition to this, Scottish Government revenue funding to councils has reduced in real terms between 2013/14 and 2019/20, while national policy initiatives continue to make up an increasing proportion of council budgets. This reduces the flexibility councils have for deciding how they plan to use funding. At the same time, demands for council services are increasing from a changing population profile.

**52.** Tayside Contracts income is predominantly derived from services provided for the three constituent councils. The level of services required is determined, as far as possible, as part of the annual budget setting process each year and takes into account each council's construction and facilities services requirements for the coming year.

**53.** As Tayside Contracts funding, and forward work programme, is inextricably linked to the demand from the constituent councils each year, it is hard for it to produce meaningful financial plans for the medium to long-term. The organisation has produced a 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. This sets out the key strategic aims and objectives for the organisation and provides a clear framework of how these will be delivered. This is supported by corporate and service improvement plans. We have also noted that the organisation has well developed workforce planning arrangements that enable them to adjust its staffing profile to meet the annual demand for services.

**54.** Given the continuing budget pressures on the constituent councils it is unlikely they would be able to commit to a forward programme of work for more than the next financial year. However, this presents a risk to the organisation in its aim of maintaining a sustainable financial position in the future.

## EU Withdrawal

**55.** There remains significant uncertainty surrounding the terms of the UK's withdrawal from the European Union (EU). EU withdrawal will inevitably have implications for devolved government in Scotland and for audited bodies. In October 2018, Audit Scotland published the briefing paper: [Withdrawal from the European Union](#). The paper emphasised the importance of public sector bodies working to understand, assess and prepare for the impact on their business in three broad areas:

- Workforce – the extent to which potential changes to migration are likely to affect the availability of the people and skills needed to deliver services
- Funding – the extent to which potential changes to existing EU funding programmes are likely to affect the finances of public bodies and the activity that such funding supports
- Regulation – the extent to which potential changes to EU regulations are likely to affect the activities of some public bodies.

**56.** We performed a high-level review of Tayside Contracts preparedness for EU withdrawal focussing on these three key themes.

**57.** Tayside Contracts is aware of the number of non-UK EU national staff working for it and is communicating with staff regularly on the potential implications of EU withdrawal for the organisation, the services it delivers and people's roles.

**58.** In addition to this, Tayside Contracts has identified the products and services sourced from the EU that are vital for the operation of the organisation and service delivery.

**59.** The organisation has contingency plans for potential outcomes (e.g. the need to find alternative supplies of specific products and services). Tayside Contracts already makes use of a range of local suppliers, but EU withdrawal will present it with an opportunity to maximise its use of these.

**60.** As the three constituent councils receive EU funding, Tayside Contracts should continue to liaise with the councils to identify any possible risks relating to their funding. Any funding reduction for the councils as a result of EU withdrawal could result in a reduction in their demand, and funding, for construction and facilities services delivered by Tayside Contracts.

**61.** There clearly remains uncertainty as to the detail behind the UK's withdrawal from the EU. However, in our view, Tayside Contracts has taken reasonable action to prepare for the impact of the UK's withdrawal from the EU. As part of our 2019/20 audit, we will continue to monitor the body's preparations for, and response to, EU withdrawal.

# Part 4

## Governance and transparency



### Main Judgements

**Tayside Contracts has appropriate governance arrangements in place that support the scrutiny of decisions made by members.**

**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 also available on the Tayside Contracts website for public inspection.**

### Governance arrangements

**62.** A local code of corporate governance was adopted by Tayside Contracts in 2012. Annually, the Corporate Management Team reviews the governance framework in place within Tayside Contracts, assessing it against several key governance areas. In addition to this, areas that will further enhance the organisation's governance arrangements in the coming year are also identified. The results of this review, including any issues highlighted, are reflected in the Annual Governance Statement within the financial statements. The review was also considered by the Joint Committee in June 2019.

### Good Practice

Annually, a review of the effectiveness of the governance framework is undertaken by Tayside Contracts. This review helps to establish the extent to which the organisation complies with proper practices set out in the *Delivering good governance in local government: framework 2016* published by CIPFA and SOLACE.

### Openness and transparency

**63.** There is an increasing focus on how public money is used and what is achieved. In that regard, openness and transparency supports understanding and scrutiny. There are increasing public expectations for more openness and transparency as citizens want to understand how public money is used and, to support their participation in local service design and delivery.

**64.** A transparent organisation shows the basis for its decisions and shares information about performance and outcomes, including when targets have and have not been achieved as well as how it is using its resources such as money, people and assets

**65.** 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.

**66.** There is evidence from several sources which demonstrate Tayside Contracts' commitment to transparency. Members of the public can attend meetings. Minutes

**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.**

of these committee meetings and supporting papers are available on Tayside Contracts website.

**67.** 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.

**68.** Overall, we concluded that Tayside Contracts conducts its business in an open and transparent manner.

## Transparent reporting of financial performance

**69.** In addition to the opinion on the management commentary covered in Part 1 of this report, we also consider the qualitative aspects of the management commentary included in the annual report and accounts. The purpose of the management commentary is to provide information on Tayside Contracts, its main objectives and strategies, and the principal risks that it faces. It is required to provide a fair, balanced and reasonable analysis of a body's performance and is essential in helping stakeholders understand the financial statements.

**70.** Overall the management commentary provides a good summary of Tayside Contracts financial performance for 2018/19, including its outturn against budget for each trading division and how this is reconciled to the financial statements.

## Quality of budget and performance reporting

**71.** The quarterly financial performance is scrutinised by the Joint Committee. Financial reports include comparisons to budget and 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.

**72.** 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.

## Internal audit

**73.** Internal audit is provided by Wylie & Bisset. 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.

**74.** We concluded that overall the service operates in accordance with Public Sector Internal Audit Standards (PSIAS) and has sound documentation and reporting procedures in place.

## Standards of conduct for prevention and detection of fraud and error

**75.** 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.

**76.** 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.

## National Fraud Initiative

**77.** 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.

**78.** NFI activity is summarised in [exhibit 5](#). The current NFI exercise provided matches in January 2019 and for Tayside Contracts, identified 258 matches. No fraudulent activity was uncovered during the year. However, one supplier overpayment of £696 was identified. Management has confirmed that this has been repaid to Tayside Contracts.

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### Exhibit 5 NFI activity



258

Matches



258

Completed/closed investigations

Source: NFI secure website: [www.nfi.gov.uk](http://www.nfi.gov.uk)

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**79.** The findings from the exercise were reported to members in June 2019. This allows for proper scrutiny and aids transparency of the NFI exercise.

# Part 5

## Value for money



### Main judgements

The performance management framework continues to provide assurance to members of improving performance, with most business plan key performance indicators being achieved in 2018/19.

### Performance management

**80.** Tayside Contracts has an established performance management framework that members and managers clearly understand, and this provides a sound base for improvement.

**81.** 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.

**82.** 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.

**83.** 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 2017/18 and this was considered by the Joint Committee in November 2018. The 2018/19 Annual Performance Report is anticipated to be available in November 2019.

**84.** 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.

### Overview of performance targets

**85.** Tayside Contracts has generally performed well in 2018/19, as reported in the 2018/19 annual report. Financial performance for 2018/19 has been strong with surpluses generated exceeding the planned amount. However, income from partnerships as a percentage of total income (41.6%) was below the 2018/19 target of over 50%.

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

**86.** Of the remaining ten non-financial performance indicators, the results are relatively positive with six of the ten performance indicators that have associated targets being categorised as having been met or exceeded. The three targets that have not been met for 2018/19 are:

- Increase income as a proportion of costs: 102.10% (target 102.69%)
- Reduction in days lost due to sickness: 6% (target <5.6%)
- Local procurement spend: 39.4% (target > 45%)

**87.** The remaining performance indicator is in relation to stakeholder satisfaction. This has a target date of August 2019.

**88.** Tayside Contracts continue to monitor progress in these areas.

### **National performance audit reports**

**89.** Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2018/19, Audit Scotland published a number of reports were issued which are of direct interest to Tayside Contracts. These are outlined in [appendix 3](#).

**90.** 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 2018/19



### No. Issue/risk

### Recommendation

### Agreed management action/timing

|   |  |   |   |
|---|--|---|---|
| 1 | <p><b>Exit package overpayment</b></p> <p>Our testing of exit packages, disclosed in the remuneration report, identified that a former employee had been paid their payment in lieu of holiday (PILOH) twice. This resulted in an overpayment of £1,413.</p> <p><b>Risk: There is a risk of financial loss to Tayside Contracts.</b></p> | <p>Management should ensure that the calculation of all final salary payments for staff leaving the organisation are subject to second officer review.</p> <p><a href="#">Exhibit 3 – Issue 2</a></p> | <p>Agreed – this should have been happening in practice, however to improve this control the form will be amended to include a “checked by” box.</p> <p>Responsible officer:<br/>Business Support Manager</p> <p>Agreed date: July 2019</p>   |
| 2 | <p><b>Trade union facility time</b></p> <p>Management has committed to disclose trade union facility time information in the remuneration report in future years.</p> <p><b>Risk: This information may not be available for the whole of 2019/20.</b></p>  | <p>Management should investigate whether records are available to collate this information from 1 April 2019.</p> <p><a href="#">Paragraph 28/29</a></p>  | <p>As this process is not mandatory for Tayside Contracts then we will not capture this information prior to the discussions with the Unions and the policy going to the Corporate Management Team (which happened on 27 June 2019). Data will be captured from 1 July 2019.</p> <p>Responsible officer: HR Manager</p> <p>Agreed date: July 2019</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  |
|--|---|--|
| <b>Risks of material misstatement in the financial statements</b>  |   |  |
| <p><b>1 Risk of management override of controls</b></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.</p> | <ul style="list-style-type: none"> <li>• Detailed testing of journal entries.</li> <li>• Review of accounting estimates.</li> <li>• Focused testing of accruals and prepayments.</li> <li>• Evaluation of significant transactions that are outside the normal course of business.</li> </ul> | <ul style="list-style-type: none"> <li>• Journal adjustments were tested, and no indications of management override of controls were found.</li> <li>• Judgements and estimations applied were tested to confirm they were appropriate and reasonable. No issues were highlighted with the judgements and estimates applied.</li> <li>• We tested accruals and prepayments and confirmed that income and expenditure was properly accounted for in the financial year.</li> <li>• We reviewed transactions during the year – no issues highlighted of significant transactions outside the normal course of business.</li> </ul> |
| <p><b>2 Risk of fraud over income</b></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>                       | <ul style="list-style-type: none"> <li>• Analytical procedures on income streams.</li> <li>• Detailed testing of revenue transactions focusing on the areas of greatest risk.</li> </ul>  | <ul style="list-style-type: none"> <li>• We obtained satisfactory explanations for any significant increases or decreases in income.</li> <li>• Satisfactory results obtained from our testing of transactions.</li> </ul>   |
| <p><b>3 Risk of fraud over expenditure</b></p> <p>Most public-sector bodies are net expenditure bodies and therefore the risk of</p>   | <ul style="list-style-type: none"> <li>• Analytical procedures on expenditure streams.</li> <li>• Detailed testing of expenditure transactions focusing</li> </ul>  | <ul style="list-style-type: none"> <li>• We obtained satisfactory explanations for any significant increases or decreases in expenditure.</li> <li>• Satisfactory results obtained from our testing of transactions.</li> </ul>  |

| Audit risk   | Assurance procedure   | Results and conclusions  |
|--|---|--|
| <p>fraud is more likely to occur in expenditure.</p> <p>The Code of Audit Practice expands the consideration of fraud under ISA 240 to include the risk of fraud over expenditure. This applies to Tayside Contracts due to the variety and extent of expenditure incurred.</p>  | <p>on the areas of greatest risk.</p>   |  |
| <p><b>4 Estimation and judgments</b></p> <p>There is a significant degree of subjectivity in the measurement and valuation of the material account areas of pensions and provisions.</p> <p>Tayside Contracts net liability relating to the Tayside Pension Fund at 31 March 2018 was £19.116 million. This value is an estimate based on a number of assumptions from the pension fund actuary.</p> <p>At 31 March 2018, Tayside Contracts held provisions of £1.714 million. The provisions are based on judgments from management and legal advisers.</p> <p>This subjectivity represents an increased risk of material misstatement in the financial statements.</p> | <ul style="list-style-type: none"> <li>Review of the work of the pension actuary and the assumptions made in calculating the estimated pension liability.</li> <li>Review of Tayside Contracts' arrangements for assessing the impact of any movement in fund values between the IAS19 valuation date and the year end.</li> <li>Additional assurances from legal and HR officers in relation to provisions.</li> <li>For any other areas of estimation and judgement we will carry out focussed substantive testing of provisions and accruals.</li> </ul> | <ul style="list-style-type: none"> <li>We assessed the reliability of the actuary and reviewed their work. No issues were noted.</li> <li>Pension disclosures agreed in full to information from actuaries, or to financial records where applicable. This included verification of pension entries in audited accounts to revised IAS19 report reflecting impact of McCloud ruling.</li> <li>Management confirmed that there had been no significant changes to Tayside Contracts operations since 31 March 2019 that would require further information having to be provided to the actuary.</li> <li>We concluded that estimations and judgements included in the accounts are supported by appropriate audit evidence.</li> <li>We obtained assurances from HR and legal in relation to provisions. These supported the information included in the financial statements.</li> <li>We tested samples of accruals and provisions and confirmed them to appropriate back up evidence.</li> </ul> |
| <p><b>5 Finance capacity</b></p> <p>During 2018/19 there have been changes to the finance function with some key, experienced staff leaving the organisation.</p> <p>There is a risk that the timeliness and/or quality of the annual accounts is compromised.</p>   | <ul style="list-style-type: none"> <li>Discussions with management over the roles and responsibilities of those involved in the preparation of the annual report and accounts and subsequent audit.</li> <li>Review of the quality of 2018/19 annual accounts and working papers presented for audit.</li> </ul>  | <ul style="list-style-type: none"> <li>The unaudited annual report and accounts provided for audit were complete and finance staff provided good support to the audit team which helped ensure the final accounts audit process ran smoothly. Supporting working papers were generally of a good standard although this could be improved in some areas.</li> <li>Our audit identified several presentational and disclosure</li> </ul>  |

| Audit risk | Assurance procedure | Results and conclusions   |
|------------|---------------------|---|
|            |                     | <p>issues which were discussed with management. These were adjusted and reflected in the audited annual accounts.</p> <ul style="list-style-type: none"> <li>• Our controls testing during the year identified a number of control weaknesses over the payroll system related to staffing issues during the year. However, we did not identify any issues which presented a risk of material misstatement for the 2018/19 financial statements, and management have advised that action has been taken to address the weaknesses reported.</li> </ul> |

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

|  |  |  |
|--|--|--|
| <p><b>6 Financial planning</b></p> <p>Tayside Contracts does not currently have medium to long term financial plans.</p> <p>There is a risk that Tayside Contracts cannot respond to future budget changes and other cost pressures.</p> | <ul style="list-style-type: none"> <li>• Monitor progress of implementation and review plans.</li> </ul> | <ul style="list-style-type: none"> <li>• As Tayside Contracts funding, and forward work programme, is inextricably linked to the demand from the constituent councils each year, it is hard for it to produce meaningful financial plans for the medium to long-term.</li> <li>• However, the continuing budget pressures on each of the constituent councils presents a longer-term risk to the organisation in its aim of maintaining a sustainable financial position in the future.</li> </ul> |
|--|--|--|

# Appendix 3

## Summary of national performance reports 2018/19

|   |   |  <b>2018/19 Reports</b> |   |
|---|---|--|---|
| Local government in Scotland: Challenges and performance 2018 |    | <b>Apr</b>   |   |
| Councils' use of arm's-length organisations                   |    | <b>May</b>   |  Scottish Fire and Rescue Service: an update                     |
| Scotland's colleges 2018                                      |    | <b>Jun</b>   |   |
|   |   | <b>Jul</b>   |  The National Fraud Initiative in Scotland 2016/17               |
| Forth Replacement Crossing                                    |   | <b>Aug</b>   |  Major project and procurement lessons                          |
| Children and young people's mental health                     |  | <b>Sept</b>  |  Superfast broadband for Scotland: further progress update     |
| NHS in Scotland 2018  |  | <b>Oct</b>   |   |
| Health and social care integration: update on progress        |  | <b>Nov</b>   |  Local government in Scotland: Financial overview 2017/18      |
|   |   | Dec  |   |
|   |   | Jan  |   |
|   |   | Feb  |   |
|   |   | <b>Mar</b>   |  Local government in Scotland: Challenges and performance 2019 |

### Local government relevant reports

[Local government in Scotland: Challenges and performance 2018](#) – April 2018

[Councils' use of arm's-length organisations](#) – May 2018

[Health and social care integration: update on progress](#) – November 2018

[Local government in Scotland: Financial overview 2017/18](#) – November 2018

[Local government in Scotland: Challenges and performance 2019](#) – March 2019

# Tayside Contracts Joint Committee

## 2018/19 Annual Audit Report

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