

# Tayside Contracts Joint Committee

2019/20 Annual Audit Report



 AUDIT SCOTLAND

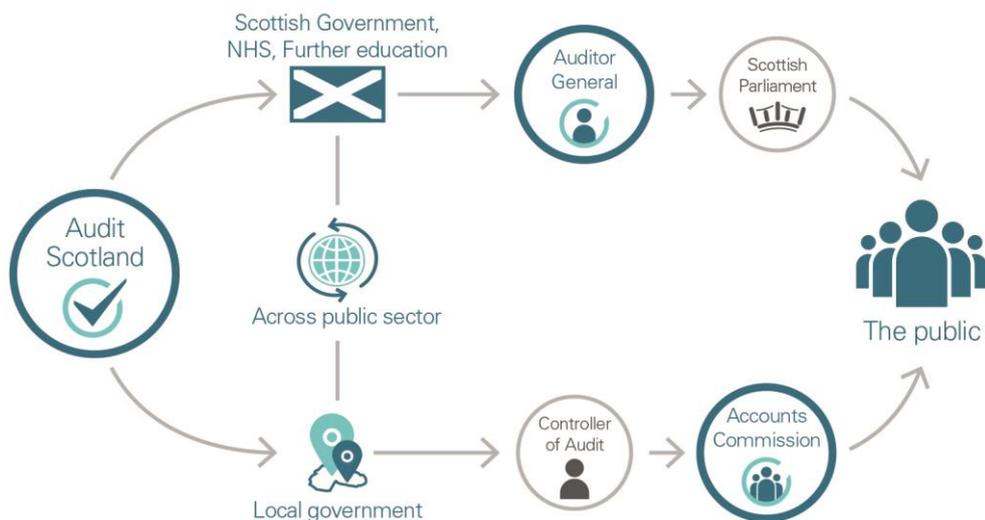
Prepared for the Members of Tayside Contracts Joint Committee and the Controller of Audit

24 August 2020

## Who we are

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

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



## About us

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

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

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

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# Key messages

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## 2019/20 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 2020.
- 2** The audited part of the remuneration report, management commentary and annual governance statement are 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 2017/18 to 2019/20. 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 £4.8 million to the constituent councils over the last 3 years.
- 6** Borrowing levels increased during 2019/20 but remain affordable and sustainable.

## Financial sustainability

- 7** Covid-19 has had a significant impact during 2020/21 and additional financial support from the constituent councils was required during the period April to August. The full extent of the longer-term financial implications remains uncertain.
- 8** The development of the revised 2020/21 budget, and short-term recovery plan, should be supported by scenario planning based on potential future restrictions around Covid-19.
- 9** The increased budget pressures on each of the constituent councils due to the impact of Covid-19 presents a risk to the organisation in its aim of maintaining a sustainable financial position in the future.

## Governance and transparency

- 10** Tayside Contracts had appropriate and effective governance arrangements in place to support scrutiny of decision-making during 2019/20. The Covid-19 pandemic has impacted on these arrangements but we have concluded that the revised arrangements are appropriate and continue to support good governance and transparency.
- 11** Tayside Contracts conducts its business in an open and transparent manner. Members of the public are able to attend Joint Committee meetings and the minutes and papers of all meetings, and other key documents, are also available on the organisation's website.

## Value for money

- 12** Tayside Contracts has delayed the approval of its new business plan until the full impact of Covid-19 has been established. A new Managing Director is currently being recruited and will have a key role in the development of the next business plan and future direction of travel for the organisation.
- 13** Tayside Contracts' performance reporting arrangements help to drive improvement and identify service delivery pressures. The organisation reported generally strong performance against its key performance indicators over the last 12 months.

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# Introduction

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1. This report summarises the findings from our 2019/20 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 2019/20 Annual Audit Plan and this report comprises the findings from:

- the audit of Tayside Contracts 2019/20 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, and
- our consideration of the wider audit dimensions of public sector audit, [exhibit 1](#) as set out in the [Code of Audit Practice 2016](#).

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## Exhibit 1 Audit dimensions



## Impact of Covid-19

4. Subsequent to the publication of our 2019/20 Annual Audit Plan, in common with all public bodies, Tayside Contracts has had to respond to the Covid-19 pandemic. This impacted on the final month of the financial year and continues to have a significant impact into 2020/21. This has had major implications for the operation of the organisation and the income generating activity of the Construction and Facilities Services divisions during the period March to August 2020. Our planned audit work has been adapted for the new emerging risks that relate to the audit of the financial statements and the wider dimensions of audit.

## Ethical considerations

5. 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 therefore the 2019/20 audit fee of £39,140 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

6. Tayside Contracts has responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual accounts that are in accordance with proper accounting practices.

7. 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.

8. 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.

9. 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.

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

11. 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.

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

13. 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

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

# Part 1

## Audit of 2019/20 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 2020.

The audited part of the remuneration report, management commentary and annual governance statement are 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 2017/18 to 2019/20. This has been highlighted in a 'failure to achieve a prescribed financial objective' paragraph in our independent auditor's report.

### The financial statements of Tayside Contracts give a true and fair view of its financial position for the year ended 31 March 2020

15. The accounts for Tayside Contracts for the year ended 31 March 2020 were approved by the Joint Committee on 24 August 2020. We reported, within our independent auditor's report our opinion that:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework, and
- the audited part of the remuneration report, management commentary and the annual governance statement were consistent with the financial statements and properly prepared in accordance with the relevant regulations and guidance.

16. 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.

### The Construction and Facilities services divisions failed to achieve a break-even position over the three-year period from 2017/18 to 2019/20

17. Tayside Contracts has a duty under section 10 of the Local Government in Scotland Act 2003 to conduct each of its significant trading operations so that income is not less than expenditure over each three-year period. Due to the inclusion of IAS 19 pension costs, the Construction and Facilities Services divisions failed to achieve this prescribed financial objective over the three-year period 2017/18 to 2019/20. This has been highlighted in a 'failure to achieve a prescribed financial objective' paragraph in our independent auditor's report.

**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.**

## Despite the impact of Covid-19 the accounts were produced and audited in line with the original timetable

**18.** We received the unaudited annual accounts on 15 June 2020 in line with the original timetable.

**19.** The unaudited annual accounts provided for audit were complete and finance staff provided good support to the audit team which helped ensure the final accounts process ran smoothly, despite the impact of Covid-19.

**20.** The supporting working papers were generally of a good standard. However, improvements could be made to ensure there is a clear audit trail between the figures in the accounts, the primary working papers provided and the underlying financial records or source documentation, for all account areas. This was discussed with officers during the course of the audit who agreed to review the format and layout of key working papers for the 2020/21 audit. To aid this process we will provide a working papers checklist for next year's audit setting out our specific requirements for each account area.

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

## There were no objections raised to the 2019/20 accounts

**21.** Regulation 9 of the *Local Authority Accounts (Scotland) Regulations 2014* requires a local authority to give public notice on its website by 17 June of the right to inspect its annual accounts. The specified date should be at least 14 days after the notice is published, but cannot be later than 1 July, and the inspection period should last for 15 working days from the date specified in the notice.

**22.** Tayside Contracts published the inspection notice on its website on 17 June 2020. However, as the annual accounts were made available for public inspection from 23 June the advert should have been placed by 11 June to meet the requirement for the notice to be placed at least 14 days before the public inspection period commences. Therefore, the advert was not placed in accordance with the requirements of the regulations. This was discussed with management during the audit who confirmed that they would ensure that the advert is placed on time in future years.

**23.** The regulations also require a local authority to give the right of interested persons to inspect and object to its accounts, as provided for by section 101 (rights of interested persons to inspect and copy documents and to object to accounts) (11) of the 1973 Act. No objections were raised to the 2019/20 accounts.

## Our audit testing reflected the calculated materiality levels

**24.** 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.

**25.** 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 2018/19 audited annual accounts. These levels were reported in our Annual Audit Plan presented to the Joint Committee on 22 June 2020.

**26.** On receipt of the unaudited 2019/20 annual accounts we recalculated our materiality levels based on the actual gross expenditure for the year ended 31 March 2020. We concluded that there was no significant impact on the audit

approach of the recalculated materiality levels. Our final materiality levels are summarised in [Exhibit 2](#).

## Exhibit 2 Materiality values

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 2020.	£1.194 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.	£0.716 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 4% of overall materiality.	£0.050 million

Source: Audit Scotland

## Our audit identified and addressed the risks of material misstatement

**27.** [Appendix 2](#) provides our assessment of risks of material misstatement in the annual accounts and any wider audit dimension risks. These risks influenced our overall audit strategy, the allocation of staff resources to the audit and indicate how the efforts of the team were directed. The appendix identifies the work we undertook to address these risks and our conclusions from this work.

## We reported the significant findings from the audit to those charged with governance

**28.** 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.

**29.** The significant findings are summarised in [Exhibit 3](#) on page [11](#). Our audit also identified some presentational and disclosure issues which were discussed with management. These were all adjusted and reflected in the audited accounts but none were significant enough to require to be separately reported under ISA 260.

## Exhibit 3

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

Issue	Resolution
<p><b>1. Significant Trading Operations</b></p> <p>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 two trading divisions, Construction and Facilities Services, failed to achieve this prescribed financial objective of attaining a breakeven position over the three-year period 2017/18 to 2019/20. The deficits for the divisions over the 3 years to 31 March 2020 are:</p> <ul style="list-style-type: none"> <li>• Construction: £4.605 million</li> <li>• Facilities Services: £8.512 million</li> </ul>	<p>This has been highlighted in a <i>'failure to achieve a prescribed financial objective'</i> paragraph in our audit opinion.</p>
<p><b>2. Basis of Going Concern assessment</b></p> <p>ISA (UK) 700 requires auditors to report in accordance with ISA (UK) 570 in respect of going concern. ISA (UK) 570 requires auditors to conclude:</p> <ul style="list-style-type: none"> <li>• on the appropriateness of the body's use of the going concern basis of accounting, and</li> <li>• whether a material uncertainty exists about the body's ability to continue to adopt the going concern basis of accounting.</li> </ul> <p>Due to the major impact of the Covid-19 pandemic on the operation of Tayside Contracts, we sought assurances of the arrangements in place to ensure that the organisation could continue to operate as a going concern.</p>	<p>To aid cashflow during the period of disruption, each of the constituent councils committed to fund the payment of fixed costs based on the 2020/21 revenue budget.</p> <p>Management has advised that from August 2020, it is anticipated that no further additional financial support will be required from the constituent councils, as Tayside Contracts will be in a position to generate sufficient income to cover its own costs.</p> <p>Based on the arrangements in place and the assurances provided we do not consider there to be a material uncertainty regarding the ability of Tayside Contracts to continue to operate for the next 12 months. We therefore believe that the use of the going concern basis of accounting remains appropriate for the 2019/20 annual accounts.</p>
<p><b>3. Holiday pay accrual</b></p> <p>During our testing of the holiday pay accrual we identified that the figure in the unaudited accounts had been understated by £0.263 million due to the exclusion of the year-end contractual leave entitlement for 'equated' staff (i.e. staff contracted to only work during school term times or other set periods, including janitorial and catering staff).</p>	<p>Management has adjusted the holiday pay accrual within short term creditors in the audited annual accounts. This increased the current liabilities figure in the balance sheet by £0.263 million, increasing the overall net liabilities position at 31 March 2020 to £24.713 million.</p>
<p><b>4. Year-end construction accruals</b></p> <p>Due to the move to home working in response to the Covid-19 outbreak in March and April, the year-end construction accruals in the unaudited accounts were based on the best estimates available at that time. Staff have now been able to access the invoices for this work and management has updated the year-end construction accruals in the audited accounts to reflect the actual costs of the work undertaken.</p>	<p>This post-audit adjustment increased the gross expenditure of the construction service in the comprehensive income and expenditure statement by £0.119 million. As this resulted in the trading surplus of the construction service for the year reducing by £0.119 million, the contributions to constituent councils also reduced by the same value. Therefore, the net impact on the total comprehensive income and expenditure reported in the comprehensive income and expenditure statement was nil.</p>

## **We have no material unadjusted errors to report**

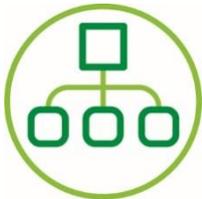
**30.** The £0.263 million holiday pay accrual adjustment (issue 3 in [Exhibit 3](#)) and £0.119 million year-end construction accruals adjustment (issue 4 in [Exhibit 3](#)) were the only errors identified during the audit that exceeded our reporting threshold of £0.050 million. It is our responsibility to request that all misstatements above the reporting threshold are corrected. As management corrected these errors in the audited annual accounts we have no material unadjusted errors to report.

## **Our prior year recommendations have been satisfactorily addressed during 2019/20**

**31.** Our 2018/19 Annual Audit Report contained two recommendations (relating to checks on exit package payments and trade union facility time disclosures) to be addressed during 2019/20. As part of our audit we confirmed that both issues were actioned in accordance with the agreed timescale.

# 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 £4.8 million to the constituent councils over the last 3 years.**

**Borrowing levels increased during 2019/20 but remain affordable and sustainable.**

### Financial management and budget setting processes are appropriate and focussed on the priorities of Tayside Contracts

**32.** Tayside Contracts is a commercial trading organisation constituted under a Minute of Agreement entered into by the three constituent councils (Angus, Dundee City and Perth & Kinross) in 1996.

**33.** In March 2019 the Joint Committee approved an annual revenue budget of £75.931 million for 2019/20 with a targeted surplus of £0.927 million, prior to IAS 19 pension adjustments. The revenue budget was developed in consultation with the constituent councils and reflected the relevant budgets and planned activity for each of the constituent councils for the coming year, along with anticipated work for other customers.

**34.** During the year, financial performance reports were taken to each meeting of the Joint Committee. These set out Tayside Contracts financial performance against budget and the projected outturn for 2019/20, and included clear explanations for any significant variances between budgeted and actual income and expenditure.

### In 2019/20 Tayside Contracts achieved a trading surplus of £1.523 million

**35.** Tayside Contracts has a good track record of achieving a surplus against budget. In 2019/20 Tayside Contracts achieved a trading surplus, before IAS 19 pensions adjustments, of £1.523 million (£0.596 million more than budget) and since 2017/18 has returned surpluses totalling £4.766 million to the contributing authorities.

**36.** Tayside Contracts achievement of an above budget trading surplus for 2019/20 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](#) on page [144](#).

**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	Budgeted surplus (£m)	Actual surplus (£m)	Above budget surplus (£m)	Reason for variance
<b>Construction division</b>	0.495	0.813	0.318	A mild winter ensured that full programmes of work were completed with minimal disruption. Results have been enhanced by a busy schedule of surface dressing works.
<b>Facilities Services division</b>	0.432	0.710	0.278	Catering units, where activity and performance are primarily influenced by school meal numbers, reported a reduction in the uptake of school meals in 2019/20. However, savings in labour, food and overheads helped mitigate against the impact of the reduced income.
<b>Tayside Contracts</b>	<b>0.927</b>	<b>1.523</b>	<b>0.596</b>	<b>As detailed above</b>

Source: Tayside Contracts 2019/20 Annual Accounts

### During the year Tayside Contracts invested £3.6 million in new fleet and fitting out the Central Production Unit

**37.** In March 2019 the Joint Committee approved an annual investment plan (capital budget) of £2.392 million. As in past years, the majority of the capital budget related to the planned purchase of new vehicles and machinery as part of the replacement programme for Tayside Contracts' operational and winter maintenance fleet.

**38.** Actual capital expenditure in 2019/20 was £3.562 million which was £1.170 million above the original investment plan approved. The additional capital investment during the year related to the costs associated with the refurbishment of the central production unit and the purchase of catering equipment required by Tay Cuisine for the new model for delivering school meals.

### Borrowing levels increased over the last 12 months but remain affordable and sustainable

**39.** Tayside Contracts outstanding loans at 31 March 2019 were £6.710 million. During 2019/20, new loans of £2.918 million were arranged with Dundee City Council to finance capital expenditure. £1.152 million of these loans related to expenditure on the Tay Cuisine Central Production Unit (discussed at paragraph [38](#) above). These new loans will be repaid over the life of the associated assets.

**40.** Loan repayments of £1.428 million (i.e. £1.184 million of capital payments and £0.244 interest payments) were made during 2019/20. This resulted in outstanding loans at 31 March 2020 totalling £8.444 million, an increase of £1.735 million on the previous year.

**41.** Tayside Contracts overall indebtedness as a percentage of annual income as at 31 March 2020 was 11.2%, a 2.4% increase from 8.8% at the end of the prior year. However, we still deem this to be prudent with current borrowing levels being affordable and sustainable.

## **Key controls within the main financial systems operated effectively during the year**

**42.** As part of our audit we identify and assess 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 the body has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements.

**43.** Our testing confirmed that key controls were operating effectively and no significant internal control weaknesses were identified that could affect Tayside Contract's ability to record, process, summarise and report financial and other relevant data to result in a material misstatement.

# Part 3

## Financial sustainability



### Main judgements

**Covid-19 has had a significant impact during 2020/21 and additional financial support from the constituent councils was required during the period April to August. The full extent of the longer-term financial implications remains uncertain.**

**The development of the revised 2020/21 budget, and short-term recovery plan, should be supported by scenario planning based on potential future restrictions around Covid-19.**

**The increased budget pressures on each of the constituent councils due to the impact of Covid-19 presents a risk to the organisation in its aim of maintaining a sustainable financial position in the future.**

**Covid-19 has had a significant impact during 2020/21 and additional financial support from the constituent councils was required during the period April to August. The full extent of the longer-term financial implications remains uncertain.**

44. Tayside Contracts developed its revenue budget and investment plan 2020/21 prior to the Covid-19 outbreak in the UK. The revenue budget showed anticipated income of £78.994 million and expenditure of £78.110 million for the year ending 31 March 2021, and the investment plan showed planned capital expenditure of £2.417 million for the year. The trading account surpluses, before IAS 19 adjustments, were budgeted to be £0.431 million for the Construction division and £0.453 million for the Facilities Services division, which would result in a total distributable surplus of £0.884 million to be returned to the constituent councils.

45. The 2020/21 budget was originally due to be approved by the Joint Committee at its meeting on 16 March 2020, however, this meeting had to be cancelled at short notice due to the Covid-19 outbreak. Therefore, the budget was approved at the Joint Committee meeting on 22 June. This was necessary to ensure the organisation had a financial plan for the year, and to progress the purchase of vehicles included within the investment plan, but the covering paper highlighted that a revised budget will need to be prepared once the full impact of Covid-19 is known.

46. Covid-19 has had major implications on the operation of the organisation and the income generating activity of the Construction and Facilities Services divisions during the first quarter of 2020/21. To aid cashflow during this period, each of the constituent councils committed to fund the payment of fixed costs based on the 2020/21 revenue budget. This equates to around £4.5 million a month but an element of these costs will be recoverable from other sources (for example, £1.5 million will be provided through the Coronavirus Job Retention Scheme towards the staff costs of workers furloughed between 1 March and 10 June 2020) and returned to the constituent councils.

**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.**

47. Management has advised that from August 2020, it is anticipated that no further additional financial support will be required from the constituent councils, as Tayside Contracts will be in a position to generate sufficient income to cover its own costs. However, it is acknowledged that the ongoing restrictions in relation to Covid-19 will continue to impact on the organisation throughout 2020/21 and beyond, although the full extent of the longer-term financial implications for the organisation remains uncertain.

### **The development of the revised 2020/21 budget, and short-term recovery plan, should be supported by scenario planning based on potential future restrictions around Covid-19**

48. Given the extent of the financial impact of Covid-19 on the organisation, it will be essential to revisit the 2020/21 budget and the longer-term plans and projections. Management has already indicated that a revised budget will be submitted to the Joint Committee once there is more certainty about the longer-term impact of Covid-19. A short-term recovery plan is also being developed which will include two key strands focusing on consideration of the Health and Wellbeing of Employees, and the Economic Wellbeing of the Organisation.

49. As Covid-19 remains a volatile and unpredictable situation it will be important to ensure that the development of both the revised 2020/21 budget, and short-term recovery plan, are supported by scenario planning based on potential future restrictions that could be imposed. These should also be supported by contingency plans to respond to such restrictions (for example, retraining staff to support alternative service delivery models) to ensure that the impact on the day-to-day operation of the organisation is minimised as far as possible.



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

### **In light of the ongoing Covid-19 situation, management should review the general fund reserve policy**

50. Tayside Contracts holds a general fund reserve, the main purpose of which is to provide a contingency fund to meet unexpected expenditure and as a working balance to help cushion the impact of uneven cash flows. The level of usable reserves held by Tayside Contracts at 31 March 2020 was £0.680 million. This equated to 0.9% of turnover for 2019/20.

51. Under normal circumstances we consider that Tayside Contracts' general fund reserve balance should be sufficient to respond to unexpected events. However, the Covid-19 outbreak has highlighted that where events occur that have a pervasive effect on the operation and income generating activity of the organisation, additional financial support will be required from the constituent authorities to assist with cashflow pressures.

52. In light of the ongoing Covid-19 situation, management should review the general fund reserve policy, with the constituent councils, to ensure there is agreement of an appropriate reserve level going forward and the specific circumstances where this should be used before seeking additional financial support from the constituent councils.



[Recommendation 3 \(Appendix 1 - Action Plan\)](#)

### **The increased budget pressures on each of the constituent councils due to the impact of Covid-19 presents a risk to the organisation in its aim of maintaining a sustainable financial position in the future**

53. The Accounts Commission's June 2020 [Local government in Scotland Overview 2020](#) report acknowledged that the economic impact of Covid-19 on

public services will be very significant. It also highlighted the continued importance of medium and long-term financial planning for making well-informed decisions and effectively managing the emerging financial challenges.

**54.** 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.

**55.** 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. Furthermore, given the increased budget pressures on local authorities due to the impact of Covid-19 it is unlikely any of the constituent councils would be able to commit to a forward programme of work for more than the next financial year at the current time. Management accept this presents a risk to the organisation in its aim of maintaining a sustainable financial position in the future, but highlighted that it is used to working with annual budgets.

# Part 4

## Governance and transparency



### Main Judgements

**Tayside Contracts had appropriate and effective governance arrangements in place to support scrutiny of decision-making during 2019/20. The Covid-19 pandemic has impacted on these arrangements but we have concluded that the revised arrangements are appropriate and continue to support good governance and transparency.**

**Tayside Contracts conducts its business in an open and transparent manner. Members of the public are able to attend Joint Committee meetings and the minutes and papers of all meetings, and other key documents, are also available on the organisation's website.**

### Tayside Contracts had appropriate and effective governance arrangements in place to support scrutiny of decision-making during 2019/20

**56.** A Local Code of Corporate Governance was adopted by Tayside contracts in 2012. The Corporate Governance Code is regularly reviewed on at least a five-year cycle and updated more frequently as required for changes in legislation, recommended good practice or operational necessity.

**57.** The Corporate Management Team review the Annual Governance Statement to ensure that all the evidence of Corporate Governance is up-to-date, and to identify any areas that require improvement. The results of this are reflected in the Annual Governance Statement within the annual accounts.

**58.** The governance framework in place is also assessed against several key governance areas with a scoring mechanism adopted to assess the extent of Tayside Contracts compliance with the guidelines. This review was considered by the Joint Committee in June 2020.

### The Covid-19 pandemic has impacted on governance arrangements but we have concluded that the revised arrangements are appropriate and continue to support good governance and transparency

**59.** The Joint Committee meeting planned for 16 March 2020 had to be cancelled at short notice due to the Covid-19 outbreak, with all papers requiring committee approval deferred for consideration at the June meeting.

**60.** During the period between March and June the Managing Director, in consultation with the Proper Officer, used his delegated powers to progress business critical decisions to ensure the organisation was able to respond to the rapidly changing circumstances surrounding Covid-19. Regular updates on developments were provided to the Convener and Vice Convener, and senior management from Tayside Contracts and the constituent councils worked closely together throughout this period. Virtual Governance and Strategy Group meetings

**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.**

were also been held during this period as part of the revised governance processes. These arrangements allowed Tayside Contracts to manage the unprecedented nature and scale of the impact of Covid-19 during that period.

**61.** Arrangements have now been put in place to hold Joint Committee meetings virtually and Microsoft Teams was used for the meeting on 22 June. The papers for this meeting included all the reports deferred from the cancelled meeting in March and a Covid-19 paper providing members with a detailed update on Tayside Contracts response to the pandemic.

**62.** The impact of Covid-19 on the organisation's governance arrangements since March 2020 was clearly set out in the Annual Governance Statement in Tayside Contracts 2019/20 annual accounts.

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### **Good Practice – Staff communication following Covid-19 outbreak**

The Managing Director has issued regular updates to all employees based on Government guidance since March 2020. This has been emailed to all employees and published on the Tayside Contracts website. Each copy was also translated into Polish and Latvian due to the large number of employees from these countries. The briefings have been prepared on a regular basis and have been well received by employees.

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### **Tayside Contracts conducts its business in an open and transparent manner**

**63.** 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.** 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.

**65.** There is evidence from several sources which demonstrate Tayside Contracts' commitment to openness and transparency. Members of the public are able to attend Joint Committee meetings and the minutes and papers of all meetings, and other key documents, are also available on the website.

**66.** 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 organisation's website.

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### **Good Practice – Website translation facility**

Tayside Contracts website provides a translation facility that enables visitors to select from a drop-down list of over 50 languages and dialects. This allows non-English speakers to easily access information on the operation of the organisation via the website.

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### **The management commentary in the 2019/20 annual accounts provided a fair, balanced and reasonable analysis of the organisation's financial performance for the year**

**67.** 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 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.

**68.** The management commentary within the 2019/20 annual accounts provided a good summary of Tayside Contracts financial performance for the year, including its outturn against budget for each trading division and how this reconciles to the financial statements.

### **Appropriate arrangements are in place for the prevention and detection of fraud and irregularity**

**69.** 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.

**70.** Tayside Contracts has appropriate arrangements in place for the prevention and detection of fraud and irregularity and we are not aware of any specific issues we require to bring to your attention.

# Part 5

## Value for money



### Main judgements

**Tayside Contracts has delayed the approval of its new business plan until the full impact of Covid-19 has been established. A new Managing Director is currently being recruited and will have a key role in the development of the next business plan and future direction of travel for the organisation.**

**Tayside Contracts' performance reporting arrangements help to drive improvement and identify service delivery pressures. The organisation reported generally strong performance against its key performance indicators over the last 12 months.**

#### **Tayside Contracts has delayed the approval of its new business plan until the full impact of Covid-19 has been established**

**71.** Tayside Contracts 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 set out the key strategic aims and objectives for the organisation and provided a clear framework of how these would be delivered. This was supported by corporate and service improvement plans.

**72.** Management were in the process of finalising the next business plan, covering the period 2020-2023, at the time of the Covid-19 outbreak in March. This had been developed with extensive input from the constituent councils to ensure the future Tayside Contracts operating model aligned with the councils' strategic priorities. However, the pervasive impact of Covid-19 on the operation of the organisation, and the constituent councils, means that this will require to be revisited once the full impact of Covid-19 has been established. As a result, the current business plan has been extended for an additional 12 months with a new business plan due to be presented to the Joint Committee in March 2021.

#### **A new Managing Director is currently being recruited and will have a key role in the development of the next business plan and future direction of travel for the organisation**

**73.** The current Managing Director, who was appointed when Tayside Contracts was formed in 1996, is due to retire at the end October 2020. The organisation are in the process of recruiting a new Managing Director and one of their first tasks will be to develop the next business plan. They will also require to consider the overall direction of travel for the organisation against the backdrop of Covid-19 and the resultant budget pressures on each of the constituent councils.

#### **Tayside Contracts' performance reporting arrangements help to drive improvement and identify service delivery pressures**

**74.** The Joint Committee receives regular performance reports throughout the year including:

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

- Workload reports at every meeting covering the work in each division over 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.

**75.** Tayside Contracts also produce an Annual Performance Report which is presented to the Joint Committee and is available on the organisation's website. The most recent report published covered 2018/19 and was considered by the Joint Committee in November 2019. The focus of this report was on the key values and themes which underpin Tayside Contract's business plan and which influence the outcomes of Tayside Contracts activities and performance, such as: People, Performance, Partnership and Perception.

**76.** The report provided details of Tayside Contracts performance, together with supporting trend, benchmarking and statistical measures which provide the most meaningful evidence of performance.

### **The organisation reported generally strong performance against its key performance indicators over the last 12 months**

**77.** Tayside Contracts has generally performed well over the last 12 months, as reported in the 2019/20 annual accounts. This reported good performance against its key performance indicators (KPIs) with the performance targets being met for eight of the eleven KPIs reported (reporting of performance against one indicator has been deferred due to the impact of Covid-19).

**78.** As detailed in Part 2 of this report, despite the impact of Covid-19 in March 2020, this included strong financial performance for 2019/20 with an operating surplus of £1.523 million generated, exceeding the budgeted surplus for the year of £0.596 million.

**79.** The three KPIs which were not met during 2019/20 were:

- **Reduce number of sick days lost due to absence:** 6.2 per cent against a target of less than 5.6 per cent.
- **Increase diversity of our business activities:** No new business streams against a target of 2 or more.
- **Increase income from partnerships as a percentage of total income:** 41.6 per cent against a target of over 50 per cent.

### **National performance audit reports**

**80.** Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2019/20, Audit Scotland published a number of reports which may be of interest to the body. These are outlined in [Appendix 3](#).

# Appendix 1

## Action plan 2019/20



No.	Issue/risk	Recommendation	Agreed management action/timing
1	<p><b>Annual accounts working Papers</b></p> <p>Improvements could be made to the annual accounts working papers to ensure there is a clear audit trail between the figures in the unaudited accounts, the primary working papers, and the underlying financial records or source documentation, for all account areas.</p> <p><b>Risk: There is a risk that the figures in the unaudited accounts do not accurately reflect the underlying financial records or source documentation.</b></p>	<p>Management should review the format and layout of key working papers for the 2020/21 audit to ensure they provide a clear audit trail for all account areas.</p> <p><a href="#">Paragraph 20</a></p>	<p>Agreed – this will be improved for 2020/21.</p> <p><b>Responsible officer:</b> Head of Financial Services</p> <p><b>Agreed date:</b> 31 March 2021</p>
2	<p><b>Revised 2020/21 budget</b></p> <p>Given the extent of the financial impact of Covid-19 on the organisation, it will be essential to revisit the 2020/21 budget.</p> <p><b>Risk: There is a risk that the 2020/21 budget does not accurately reflect anticipated income and expenditure for the year.</b></p>	<p>Management should develop a revised 2020/21 budget for approval by the Joint Committee. The development of the revised budget should be supported by scenario planning based on potential future restrictions that could be imposed.</p> <p><a href="#">Paragraphs 48 and 49</a></p>	<p>Agreed – we will work with the constituent Councils to find out what services are required for the remainder of 2020/21 and develop a revised budget with any appropriate scenarios.</p> <p><b>Responsible officer:</b> Head of Financial Services</p> <p><b>Agreed date:</b> 30 November 2020</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
3	<p><b>General fund reserve policy</b></p> <p>Additional financial support was required from the constituent authorities to assist with the cashflow pressures created by the Covid-19 pandemic.</p> <p><b>Risk: There is a risk that the current general fund reserve balance will be insufficient to cover the cashflow pressures of future events that have a pervasive effect on the operation of the organisation.</b></p>	<p>Management should review the general fund reserve policy, with the constituent councils, to ensure there is agreement of an appropriate reserve level going forward and the specific circumstances where this should be used before seeking additional financial support from the constituent councils.</p> <p><a href="#">Paragraphs 50-52</a></p>	<p>Agreed – we will check this with the constituent Councils to see if they wish the general fund reserve policy to be changed.</p> <p><b>Responsible officer:</b> Managing Director</p> <p><b>Agreed date:</b> 28 February 2021</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 material misstatement caused by 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 to change the position disclosed in the financial statements.</p>	<ul style="list-style-type: none"> <li>• Review of the Annual Governance Statement and the assurances obtained in support of the statement.</li> <li>• Detailed testing of journal entries.</li> <li>• Review of accounting estimates.</li> <li>• Focussed 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>• Reviewed the Annual Governance Statement and assurances in support of the statement. No issues identified.</li> <li>• Journal entries were tested, no indications of management override of controls.</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 course of business.</li> </ul>
<p><b>2 Risk of material misstatement caused by fraud in income recognition</b></p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud over income, which is presumed to be a risk in any audit with significant income streams.</p>	<ul style="list-style-type: none"> <li>• Analytical procedures on significant income streams.</li> <li>• Detailed testing of revenue transactions focussing on the areas of greatest risk.</li> <li>• Review of budget monitoring reports focussing on significant budget variances.</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 out testing of transactions.</li> <li>• Budget monitoring reports were reviewed throughout the year – no significant issues identified.</li> </ul>
<p><b>3 Risk of material misstatement caused by fraud in expenditure</b></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 the</p>	<ul style="list-style-type: none"> <li>• Analytical procedures on significant expenditure streams.</li> <li>• Detailed testing of expenditure transactions, including cut-off testing, focussing 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 expenditure.</li> <li>• Satisfactory results obtained from our testing of transactions.</li> </ul>

Audit risk	Assurance procedure	Results and conclusions
<p>Joint Committee due to the variety and extent of expenditure incurred.</p>	<ul style="list-style-type: none"> <li>Review of budget monitoring reports focussing on significant budget variances.</li> <li>Audit work on the National Fraud Initiative matches.</li> </ul>	<ul style="list-style-type: none"> <li>Budget monitoring reports were reviewed throughout the year – no significant issues identified.</li> <li>Our work on NFI matches found that all matches have been actioned, with no instances of fraud identified.</li> </ul>
<p><b>4 Estimation and judgements</b></p> <p>There is a significant degree of estimation and judgement in the measurement and valuation of some material account areas, including:</p> <p>The value of the pension liability (£25.395 million at 31 March 2019) is an estimate based on information provided by management and actuarial assumptions.</p> <p>The value of provisions (£1.174 million at 31 March 2019) is based on management's assessment of the value and probability of potential future outflows.</p> <p>This subjectivity represents an increased risk of misstatement in the financial statements.</p>	<ul style="list-style-type: none"> <li>Review of the work of the actuary, including consideration of the appropriateness of the actuarial assumptions used.</li> <li>Review of procedures for ensuring actuarial valuations provided are appropriate and include assumptions relating to relevant legal rulings.</li> <li>Confirm pension valuations in actuarial report are correctly reflected within the 2019/20 accounts.</li> <li>Review the basis for provisions recognised, including detailed testing to source documentation where required.</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>We assessed the actuarial valuations provided to ensure assumptions relating to relevant legal rulings were included.</li> <li>Pension disclosures agreed in full to information from actuaries, or to financial records where applicable.</li> <li>Reviewed provisions disclosed within the accounts to ensure appropriateness and confirmed to supporting evidence.</li> </ul>

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

<p><b>5 Business Plan</b></p> <p>The current three-year business plan, which sets out the key strategic aims and objectives for the organisation and provides a framework on how these will be delivered, covers the period 2017-2020.</p> <p>The new three-year business plan covering the period 2020-2023 has not yet been prepared and there is therefore a risk that the organisation does not have a clear strategic direction going forward.</p>	<ul style="list-style-type: none"> <li>Review the 2020-2023 Business Plan when available.</li> </ul>	<ul style="list-style-type: none"> <li>As outlined at paragraphs 71 and 72, the new business plan has been deferred due to the impact of Covid-19. As a result, the current business plan has been extended for an additional 12 months with a new business plan due to be presented to the Joint Committee in March 2021.</li> <li>The new business plan will be reviewed as part of our 2020/21 audit.</li> </ul>
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# Appendix 3

## Summary of national performance reports 2019/20



**2019/20  
Reports**

		Apr	
Social security: Implementing the devolved powers		<b>May</b>	
Scotland's colleges 2019		<b>Jun</b>	Enabling digital government
		Jul	
NHS workforce planning - part 2		<b>Aug</b>	
Finances of Scottish universities		<b>Sept</b>	
NHS in Scotland 2019		<b>Oct</b>	
		Nov	
Local government in Scotland: Financial overview 2018/19		<b>Dec</b>	
Scotland's City Region and Growth Deals		<b>Jan</b>	Privately financed infrastructure investment: The Non-Profit Distributing (NPD) and hub models
		Feb	
		<b>Mar</b>	Early learning and childcare: follow-up

# Tayside Contracts Joint Committee

## 2019/20 Annual Audit Report

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