

# Scotland Excel

2021/22 Annual Audit Report



 AUDIT SCOTLAND

Prepared for Scotland Excel Executive Sub-Committee and the Controller of Audit  
November 2022

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# Contents

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Key messages	3
Introduction	4
Part 1. Audit of 2021/22 annual accounts	7
Part 2. Financial sustainability and Annual Governance Statement	12
Appendix 1. Action plan 2021/22	15
Appendix 2. Summary of 2021/22 national performance reports and briefing papers	16

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# Key messages

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## 2021/22 annual accounts

- 1 Scotland Excel's financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework.
- 2 The Management Commentary, the Annual Governance Statement, and the audited part of the Remuneration Report were all consistent with the financial statements and properly prepared in accordance with the applicable requirements.

## Financial sustainability and Annual Governance Statement

- 3 A surplus of £0.340 million for the financial year 2021/22 was achieved, compared to a budgeted breakeven position.
- 4 The audited Annual Accounts confirm a useable reserves balance of £1.359 million as at 31 March 2022. Reserves of £1.113 million are ring-fenced for continuing 2022/23 project delivery and £0.246 million are uncommitted.
- 5 The financial planning arrangements in place have allowed management to plan for future pressures and take action where required.
- 6 Disclosures in the Annual Governance Statement are consistent with the financial statements and the statement has been prepared in accordance with the relevant statutory guidance.

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# Introduction

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1. This report summarises the findings from our 2021/22 audit of Scotland Excel.
2. The scope of our audit was set out in our [Annual Audit Plan](#) presented to the 22 April 2022 meeting of the Executive Sub-committee. This report comprises the findings from:
  - an audit of the Scotland Excel's annual accounts
  - our consideration of financial sustainability and the Annual Governance Statement.

## Adding value through the audit

3. We add value to Scotland Excel through the audit by:
  - identifying and providing insight on significant risks, and making clear and relevant recommendations
  - sharing intelligence from our wider work programme with management and facilitating discussions with Audit Scotland colleagues in areas where Scotland Excel operates
  - sharing learning from our experiences of working with other bodies and agreed a clear, no surprises, approach for the remote audit of the 2021/22 accounts
  - providing clear conclusions on financial sustainability and disclosures in the Annual Governance Statement.
4. In so doing, we aim to help Scotland Excel promote improved standards of governance, better management and decision making and more effective use of resources.

## Responsibilities and reporting

5. Scotland Excel 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. Scotland Excel is also responsible for compliance with legislation putting arrangements in place for governance, propriety and regularity that enable it to successfully deliver its objectives.
6. 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. Also, local government bodies have a responsibility to have arrangements in place to demonstrate Best Value in how they conduct their activities. Our audit work on Scotland Excel's Best Value arrangements is focussed on their use of resources to secure financial sustainability.

**7.** As public sector auditors we give independent opinions on the annual accounts. Additionally, we conclude on the appropriateness of disclosures in the Annual Governance Statement and the appropriateness and effectiveness of the arrangements in place for securing financial sustainability. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#) and supplementary guidance.

**8.** The [Code of Audit Practice 2016](#) includes provisions relating to the audit of small bodies. Where the application of the full wider audit scope is judged by auditors not to be appropriate to an audited body then the annual audit work can focus on the appropriateness of the disclosures in the Annual Governance Statement and the financial sustainability of the body and its services. As highlighted in our 2021/22 Annual Audit Plan, due to the low volume and lack of complexity of the financial transactions, we applied the small body provisions of the [Code of Audit Practice 2016](#) to the 2021/22 audit.

**9.** This report raises matters from our audit. The 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.

**10.** Our annual audit report contains an agreed action plan at [Appendix 1](#) setting out specific recommendations, responsible officers, and dates for implementation.

## Auditor Independence

**11.** Auditors appointed by the Accounts Commission or Auditor General must comply with the [Code of Audit Practice 2016](#) and relevant supporting guidance. When auditing the financial statements auditors must comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies.

**12.** We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We have not undertaken any non-audit related services and therefore the 2021/22 audit fee of £6,320 as set out in our 2021/22 Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

**13.** This report is addressed to both Scotland Excel 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) in due course.

## Audit appointment from 2022/23

**14.** External auditors are usually appointed for a five-year term either from Audit Scotland's Audit Services Group or a private firm of accountants. The current appointment round was due to end in 2020/21 but this was extended for a year so that 2021/22 is the last year of the current appointment round.

**15.** The procurement process for the new round of audit appointments was completed in May 2022. From financial year 2022/23 Azets will be the appointed

auditor for Scotland Excel. We are working closely with the new auditors to ensure a well-managed transition.

**16.** A new [Code of Audit Practice](#) applies to public sector audits for financial years starting on or after 1 April 2022. It replaces the [Code of Audit Practice 2016](#) issued in May 2016.

**17.** We would like to thank Board members, the Chief Executive, the Treasurer and other staff, particularly those in finance for their co-operation and assistance over the last six years.

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# Part 1. Audit of 2021/22 annual accounts

The principal means of accounting for the stewardship of resources and performance

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## Main judgements

Scotland Excel's financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework.

The Management Commentary, the Annual Governance Statement, and the audited part of the Remuneration Report were all consistent with the financial statements and properly prepared in accordance with the applicable requirements.

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## Our audit opinions on the annual accounts are unmodified

**18.** The Annual Accounts for the year ended 31 March 2022 were approved by the Executive sub-committee on 18 November 2022. As reported in the independent auditor's report:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework
- the Management Commentary, the Annual Governance Statement and the audited part of the Remuneration Report were all consistent with the financial statements and properly prepared in accordance with the applicable requirements
- we have nothing to report in respect of those matters which we are required by the Accounts Commission to report by exception.

## The annual accounts were signed off in line with the agreed timetable

**19.** The unaudited annual accounts were received in line with our agreed audit timetable on 18 June 2022. There has been limited impact of Covid-19 on the audit process during the continued period of remote / hybrid working.

**20.** The unaudited annual accounts provided for audit were complete and of a good standard and finance staff provided good support to the audit team which helped ensure the final accounts audit process ran smoothly.

## Overall materiality is £127,000

**21.** Our initial assessment of materiality was carried out during the planning phase of the audit. This was reviewed on receipt of the unaudited annual

accounts, and it was concluded no changes were required to our planned levels. Materiality is summarised in [Exhibit 1](#).

## Exhibit 1 Materiality values

Materiality level	Amount
Overall materiality	£127,000
Performance materiality	£95,000
Reporting threshold	£6,000

Source: Audit Scotland

## We have one significant finding to report on the accounts

**22.** 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. We have one significant finding to report from the audit.

## Exhibit 2 Significant findings from the audit of the financial statements

Issue	Resolution
<p><b>1. Guaranteed Minimum Pensions</b></p> <p>A contingent liability of £95,000 was originally disclosed in the unaudited financial statements in relation to Guaranteed Minimum Pensions (GMP). This should have been recognised within the overall pension liability. This adjustment also required to be amended in the prior year.</p>	<p>Management amended the 2021/22 financial statements to reflect the GMP liability and removed the contingent liability. The 2020/21 accounts were restated to reflect the prior year adjustment.</p>

Source: Audit Scotland

**23.** There was one other audit finding in relation to related parties. Scotland Excel's related parties note was reviewed against the requirements of IAS 24 and Audit Scotland's [Good Practice Note](#). Scotland Excel's process for identifying related parties could be further improved by management:

- conducting a review of the register of interest of each Joint Committee member against a year-end transaction listing to identify any related party disclosures;
- consideration of the interests of close persons or family members of those related to Scotland Excel in the identification of related parties; and

- adding a link in the note to signpost to Joint Committee members Register of Interests.

**24.** We have obtained audit assurances over the identified significant risks of material misstatement to the financial statements. [Exhibit 3](#) sets out the significant risks of material misstatement to the financial statements we identified in our 2021/22 Annual Audit Plan. It summarises the further audit procedures we performed during the year to obtain assurances over these risks and the conclusions from the work completed.

### Exhibit 3

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

Audit risk	Assurance procedure	Results and conclusions
<p><b>Risk of material misstatement due to fraud caused by the management override of controls</b></p> <p>As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p>	<ul style="list-style-type: none"> <li>• Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments.</li> <li>• Test appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.</li> <li>• Evaluate significant transactions outside the normal course of business.</li> <li>• We will assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year.</li> <li>• Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year.</li> </ul> <p>Focussed testing of accounting accruals and prepayments.</p>	<p><b>Results &amp; Significant Judgements:</b></p> <p>No unusual or inappropriate transactions were identified as part of our detailed journal testing.</p> <p>A review of accounting estimates did not show any evidence of bias.</p> <p>Focused testing of accruals and prepayments identified error as detailed at paragraph 27 below.</p> <p>Focused testing on a sample of transactions outside the normal course of business did not show any evidence of management override of controls.</p> <p><b>Conclusion:</b> No evidence of management override of controls.</p>

#### Other areas of audit focus

**25.** We identified in our 2021/22 Annual Audit Plan one area where we considered there to be other risks of material misstatement to the financial statements. Based on our assessment of the likelihood and magnitude of the risk,

we did not consider these to represent significant risks. The area of specific audit focus was:

- **Measurement and judgements applied to the valuation of pension liabilities:** As at 31 March 2021, Scotland Excel recognised a net liability of £4.673 million relating to its share of the Strathclyde Pension Fund liability. There is a significant degree of subjectivity in the measurement and valuation of the pension fund liability. The valuation is based on specialist assumptions and estimates.

26. We have kept this area under review throughout our audit and one issue has been raised in [Exhibit 2](#).

## All identified misstatements have been corrected in the audited accounts

27. The cumulative total of misstatements identified was £218,941 made up as follows:

- £95,000 in relation to the GMP issue highlighted in [Exhibit 2](#).
- Total debtors disclosed in the accounts were understated by £32,357.
- Total creditors disclosed in the accounts were understated by £32,357.
- Income/debtors in relation to a new build rebate was overstated by £21,294 due to the actual invoice received post year-end differing to the estimate calculated on preparation of accounts.
- Income/debtors in relation to a groceries and provisions rebate was understated by £10,068 due to the actual invoice received post year-end differing to the estimate calculated on preparation of accounts.
- Income in relation to consultancy services was understated by £27,865 due to the total invoice being incorrectly recognised in the 2022/23 financial year.

28. We have reviewed the nature and causes of these misstatements and tested all material items within the population. We have concluded that there is no risk of material misstatement within the remaining population. Adjustments made in the audited accounts were as follows:

- A decrease in the pension asset by £95,000 and a decrease in unusable reserves by £95,000.
- An increase in total creditors and debtors of £32,357 (before subsequent adjustment below) resulting in a nil impact on the overall year-end position.
- An increase in income and debtors of £16,639, increasing the net surplus as at 31 March 2022.

29. It is our responsibility to request that all misstatements, other than those below the reporting threshold, are corrected, although the final decision on making the correction lies with those charged with governance considering advice from senior officers and materiality. Management have adjusted all

identified misstatements above our reporting threshold; there are no unadjusted errors to report.

# Part 2. Financial sustainability and Annual Governance Statement

Financial sustainability looks forward to the medium and longer term to consider whether the body is planning effectively to continue to deliver its services

## Main judgements

A surplus of £0.340 million for the financial year 2021/22 was achieved, compared to a budgeted breakeven position.

The audited annual accounts for 2021/22 confirm a useable reserves balance of £1.359 million as at 31 March 2022.

## Audit work has addressed the wider scope risks identified in our Annual Audit Plan

30. [Exhibit 4](#) sets out the significant risks of material misstatement we identified in our 2021/22 audit, our assurance procedures and the results and conclusions from our work. These risks influenced our overall audit strategy, the allocation of staff resources to the audit and informed where the efforts of the team were directed.

## Exhibit 4

### Risks identified from the auditor's wider responsibility under the [Code of Audit Practice 2016](#)

Audit risk	Assurance procedure	Results and conclusions
<p><b>Financial Sustainability</b></p> <p>As part of the budget setting process, revenue estimates are prepared for a three-year period. This allows management and members to identify pressures and take early actions to mitigate against these pressures.</p> <p>The audited annual accounts for 2020/21 confirm a useable</p>	<p>Review of Scotland Excel's annual budget setting arrangements.</p> <p>Review and assessment of budget monitoring arrangements on financial position.</p> <p>On-going review of the Scotland Excel's financial position and delivery of planned savings.</p>	<p><b>Results &amp; Significant Judgements:</b></p> <p>A review of budget monitoring reports and the financial statements highlight reserves have increased by £0.340 million in year resulting in a year-end balance of £1.359 million.</p> <p>Uncommitted reserves amount to £0.246 million</p>

Audit risk	Assurance procedure	Results and conclusions
<p>reserve balance of £1.019 million. Forecasts up to 2023/24 were included within the 2021/22 budget. The forecasts estimate a breakeven position in 2021/22 through to 2023/24. This position is based on a three per cent increase in requisition income for 2021/22 and two per cent in subsequent years. This position also assumes a project deficit of £0.152 million in 2021/22, with use of project reserves of £0.404 million.</p> <p>It is important that Scotland Excel updates its medium-term financial plan as soon as more clarity on the financial impacts of Covid-19 is obtained.</p>		<p>which is in line with the minimum level of uncommitted reserves balance set by the Treasurer of 5%.</p> <p>In December 2021 the Board approved revenue estimates for 2022/23 and noted indicative budgets for 2023/24 and 2024/25. A balanced budget is predicted across the three years.</p> <p><b>Conclusion:</b> Scotland Excel continues to operate in a challenging financial climate, with uncertainty surrounding Covid-19 pandemic, Brexit, and inflation. Management should continue to review options and resources for the delivery of future services.</p>

## Financial performance in 2021/22

**31.** The Joint Committee approved the 2021/22 budget in December 2020. Budgeted income and expenditure for Core services was £4.460 million, resulting in a breakeven position. Budgeted income for Projects includes £0.404 million use of reserves and net expenditure of £0.152 million (i.e., the budgeted deficit from projects). Budgeted income from projects was £1.227 million and budgeted expenditure was £1.379 million, resulting in the project deficit of £0.152 million, with £0.252 million budgeted to be applied to core services.

**32.** Actual outturn for both core services and projects was expenditure of £6.189 million and income of £6.529 million, resulting in a surplus of £0.340 million. The main factors regarding variances are set out in the Management Commentary in the Annual Accounts.

**33.** The overall surplus of £0.340 million resulted in useable reserves increasing from £1.019 million in 2020/21 to £1.359 million as at 31 March 2022. Reserves of £1.113 million are ring-fenced for continuing 2022/23 project delivery and £0.246 million are uncommitted.

## Short term financial planning

**34.** The Joint Committee approved the 2022/23 budget in December 2021. Budgeted income and expenditure for Core services is £4.932 million, resulting in a breakeven position. Budgeted income for Projects is £2.111 million with expenditure of £1.936 million, resulting in a surplus of £0.175

million. A total of £0.286 million is budgeted to be transferred to core services, of which £0.111 million will be from use of project reserves.

**35.** Delivery of plans over the year is forecast to allow Scotland Excel to achieve a breakeven position in 2022/23. However, ongoing uncertainties including Covid-19, Brexit and inflation could have a significant impact on Scotland Excel's ability to achieve planned income and surpluses from projects.

### Medium to long term financial planning

**36.** We reviewed the financial planning systems and assessed how effective they are in identifying and addressing risks to financial sustainability across the medium and long term.

**37.** As part of the budget setting process, revenue estimates are prepared for a three-year period. This allows management and members to identify pressures and take early actions to mitigate against these pressures.

**38.** Forecasts up to 2024/25 were included within the 2022/23 budget. The forecasts estimate a breakeven position in 2022/23 through to 2024/25. This position is based on a three per cent increase in requisition income for 2022/23 and three per cent in subsequent years. This position also assumes a project deficit of £0.175 million in 2022/23.

**39.** From the work carried out, we have concluded that Scotland Excel has adequate financial planning arrangements in place. Cost pressures are expected to arise in the medium term. However, the financial planning arrangements in place have allowed management to plan for these pressures and ensure necessary actions are taken when required.

### Annual Governance Statement

**40.** Our review of the Annual Governance Statement assessed the assurances which are provided to the Executive sub-committee and management regarding the adequacy and effectiveness of the system of internal control which operated in the financial year. The statement also summarises internal audit findings with the Chief Internal Auditor's assurance statement concluding that a 'reasonable level of assurance' can be placed upon the adequacy and effectiveness of Scotland Excel's internal control, risk management and governance arrangements.

**41.** We concluded that the information in the Annual Governance Statement is consistent with the financial statements and complies with the guidance issued by the Scottish Ministers.

### National performance audit reports

**42.** Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. [Appendix 2](#) highlights a number of the reports published in 2021/22.

# Appendix 1. Action plan 2021/22

## 2021/22 recommendations

Issue/risk	Recommendation	Agreed management action / responsible officer / timing
<p><b>1. Related Parties</b></p> <p>Scotland Excel's related parties note was reviewed against the requirements of IAS 24 and Audit Scotland's Good Practice Note. Scotland Excel's process for identifying related parties could be improved by management.</p> <p><b>Risk</b> – not all related party transactions are identified and reflected within the financial statements.</p>	<p>The process could be further improved by management:</p> <ul style="list-style-type: none"> <li>conducting a review of the register of interest of each Joint Committee member against a year-end transaction listing to identify any related party disclosures</li> <li>consideration of the interests of close persons or family members of those related to Scotland Excel in the identification of related parties</li> <li>adding a link in the note to signpost to Joint Committee members Register of Interests</li> </ul> <p><a href="#">Paragraph 22</a></p>	<p>A full review of the Related Parties disclosure will be undertaken in light of good practice note and these recommendations.</p> <p>Responsibility: Treasurer</p> <p>Agreed date: 31 March 2023</p>

# Appendix 2. Summary of 2021/22 national performance reports and briefing papers

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## May

[Local government in Scotland Overview 2021](#)

## June

[Covid 19: Personal protective equipment](#)

## July

[Community justice: Sustainable alternatives to custody](#)

## September

[Covid 19: Vaccination programme](#)

## January

[Planning for skills](#)

[Social care briefing](#)

## February

[NHS in Scotland 2021](#)

## March

[Local government in Scotland: Financial Overview 20/21](#)

[Drug and alcohol: An update](#)

[Scotland's economy: Supporting businesses through the Covid 19 pandemic](#)

# Scotland Excel

## 2021/22 Annual Audit Report

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[www.audit-scotland.gov.uk/accessibility](http://www.audit-scotland.gov.uk/accessibility)



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