



Scotland Excel Joint Committee

2015/16 Annual audit
report to Members and
the Controller of Audit

22 September 2016

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The Accounts Commission is a statutory body which appoints external auditors to Scottish local government bodies (www.audit-scotland.gov.uk/about/ac/). Audit Scotland is a statutory body which provides audit services to the Accounts Commission and the Auditor General (www.audit-scotland.gov.uk/about/).

The Accounts Commission has appointed Anne McGregor as the external auditor of Scotland Excel for the period 2011/12 to 2015/16.

This report has been prepared for the use of Scotland Excel and no responsibility to any member or officer in their individual capacity or any third party is accepted.

The information in this report may be used for the Accounts Commission's annual overview report on local authority audits published on its website and presented to the Local Government and Regeneration Committee of the Scottish Parliament.

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Key messages

Audit of financial statements

- Unqualified auditor's report on the 2015/16 financial statements

Financial management and sustainability

- Scotland Excel incurred a deficit of £0.25m against a budgeted deficit of £0.5m.
- Scottish Government set-up funding now utilised and requisition budget for 2016/17 increased by 9.4% to fund improvement activity. Reserves are sufficient to deal with unforeseen costs in the short-term.
- Scotland Excel is financially sustainable in the short term but uncertain in the medium to long-term. Scenario planning over the medium to long-term would support financial planning and management.

Governance and transparency

- Governance arrangements were reviewed in 2016 and there is now a clearer and expanded role for chief officers' management group.
- Internal audit concluded reasonable assurance over systems of internal control.
- Registers of interest now in place for all staff

Outlook

- Long-term financial sustainability is dependent on developing a sustainable funding model.
- The changed remit of the chief officers' management group to support delivery of the operating plan, which includes the goal to deliver and implement a clear and transparent sustainable funding and delivery model for Scotland Excel, aims to help with this challenge.

Introduction

1. This report is a summary of our findings arising from the 2015/16 audit of Scotland Excel. The report is divided into sections which reflect our public sector audit model.
2. The management of Scotland Excel is responsible for:
 - preparing financial statements which give a true and fair view
 - implementing appropriate internal control systems
 - putting in place proper arrangements for the conduct of its affairs
 - ensuring that the financial position is soundly based.
3. Our responsibility, as the external auditor of Scotland Excel, is to undertake our audit in accordance with International Standards on Auditing, the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011 and the ethical standards issued by the Auditing Practices Board.
4. An audit of financial statements is not designed to identify all matters that may be relevant to those charged with governance. It is the auditor's responsibility to form and express an opinion on the financial statements; this does not relieve management of their responsibility for the preparation of financial statements which give a true and fair view.
5. A number of reports, both local and national, have been issued by Audit Scotland during the course of the year. These reports, summarised at [appendix II](#) and [appendix III](#), include recommendations for improvements.
6. [Appendix IV](#) is an action plan setting out our recommendations to address the high level risks we have identified during the course of the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "Management action/response". We recognise that not all risks can be eliminated or even minimised. What is important is that Scotland Excel understands its risks and has arrangements in place to manage these risks. Members should ensure that they are satisfied with proposed action and have a mechanism in place to assess progress and monitor outcomes.
7. We have included in this report only those matters that have come to our attention as a result of our normal audit procedures; consequently, our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.
8. The cooperation and assistance afforded to the audit team during the course of the audit is gratefully acknowledged.
9. 2015/16 is the final year of the current five-year audit appointment. From 2016/17 the auditor of Scotland Excel will be a new Audit Scotland team. In accordance with agreed protocols and International Standards on Auditing we will be liaising with the incoming auditors as part of this transition.

Audit of the 2015/16 financial statements

Audit opinion	<ul style="list-style-type: none"> We have completed our audit of Scotland Excel and issued an unqualified independent auditor's report.
Going concern	<ul style="list-style-type: none"> The financial statements of Scotland Excel have been prepared on the going concern basis. We are unaware of any events or conditions that may cast significant doubt on Scotland Excel's ability to continue as a going concern.
Other information	<ul style="list-style-type: none"> We review and report on other information published with the financial statements, including the management commentary, annual governance statement and the remuneration report. We have nothing to report in respect of these statements.

Submission of financial statements for audit

10. We received the unaudited financial statements on 6 June 2016, in accordance with the agreed timetable. The working papers were of a good standard and finance staff provided good support to the audit team which assisted the delivery of the audit to deadline.

Overview of the scope of the audit of the financial statements

11. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined

in our Annual Audit Plan presented to the Audit Committee on 17 June 2016.

12. As part of the requirement to provide full and fair disclosure of matters relating to our independence, we can confirm that we have not undertaken non-audit related services. The 2015/16 agreed fee for the audit was set out in the Annual Audit Plan and, as we did not carry out any work additional to our planned audit activity, the fee remains unchanged.

13. The concept of audit risk is of central importance to our audit approach. During the planning stage of our audit we identified a number of key audit risks which involved the highest level of judgement and impact on the financial statements and consequently

had the greatest effect on the audit strategy, resources and effort. We set out in our Annual Audit Plan the audit work we proposed to undertake to secure appropriate levels of assurance. [Appendix I](#) sets out the significant audit risks identified during the course of the audit and how we addressed each risk in arriving at our opinion on the financial statements.

14. Our audit involved obtaining evidence about the amounts and disclosures in the financial statements. This was sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.

Materiality

15. 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 decisions of users of financial statements. A misstatement or omission, which would not normally be regarded as material by amount, may be important for other reasons (for example, an item contrary to law).
16. We consider materiality and its relationship with audit risk when planning the nature, timing and extent of our audit and conducting our audit programme. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.
17. We summarised our approach to materiality in our Annual Audit Plan. Based on our knowledge and understanding of Scotland Excel we set our planning materiality for 2015/16 at £32,000 (1% of

gross expenditure). Performance materiality was calculated at £24,000, to reduce to an acceptable level the probability of uncorrected and undetected audit differences exceeding our planning materiality level.

18. On receipt of the financial statements we reviewed our materiality levels. Materiality remained at 1% but all pension costs were now included in the calculation. Therefore materiality increased to £39,619 and performance materiality to £29,714. We report all misstatements greater than £1,000.

Evaluation of misstatements

19. A number of presentational adjustments were identified within the financial statements during the course of our audit. These were discussed with relevant officers who agreed to amend the unaudited financial statements. There were no monetary errors.

Significant findings from the audit

20. International Standard on Auditing 260 requires us to communicate to you significant findings from the audit, including:
 - The auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures.
 - Significant difficulties encountered during the audit.
 - Significant matters arising from the audit that were discussed, or subject to correspondence with management.

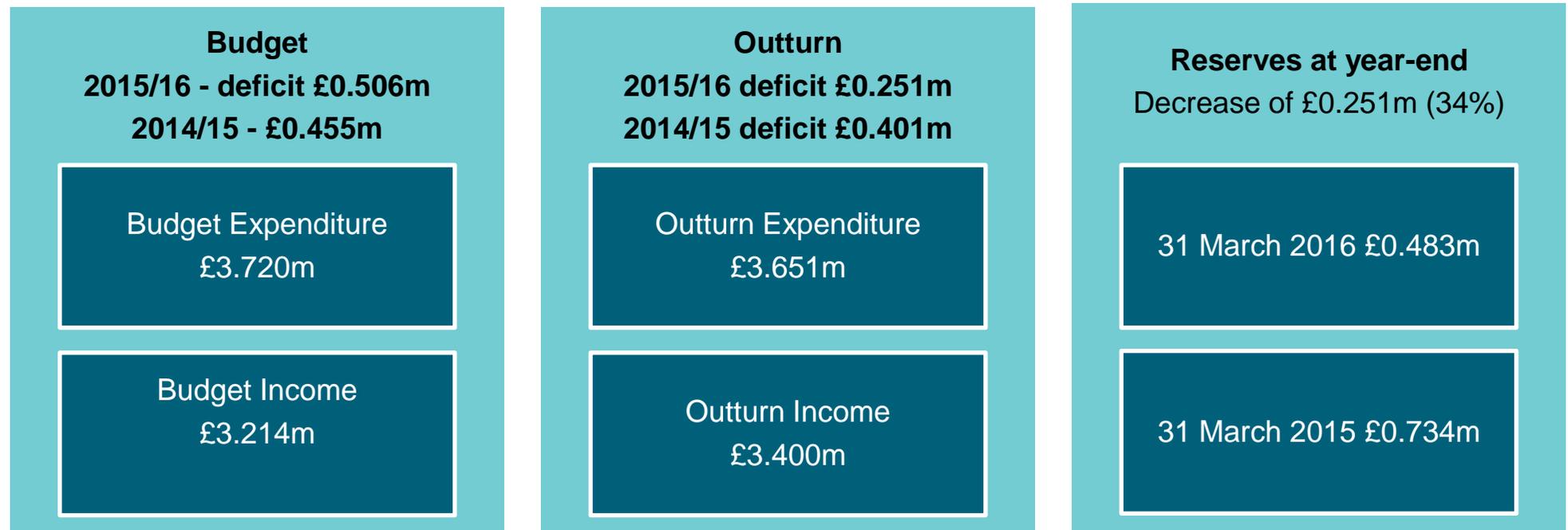
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- Written representations requested by the auditor.
 - Other matters which in the auditor's professional judgment, are significant to the oversight of the financial reporting process.
21. There are no matters, other than those set out elsewhere in this report, to which we wish to draw to your attention.

Future accounting and auditing developments

Code of Audit Practice

22. A new Code of Audit Practice will apply to all audits from financial year 2016/17. There will be a focus on four areas:
- Governance and transparency.
 - Value for money.
 - Financial management.
 - Financial sustainability.
23. In addition, as well as the annual audit report, other significant outputs, such as the annual audit plan, will be published on Audit Scotland's website.

Financial management and sustainability



Financial management

24. In this section we comment on Scotland Excel's financial outcomes and assess the council's financial management arrangements.
25. Scotland Excel sets an annual budget to meet its service and other commitments for the forthcoming financial year. Regular monitoring

of expenditure and income against agreed budgets is central to effective financial management.

Financial outcomes

26. Scotland Excel incurred an accounting deficit on the provision of services of £0.562m, as shown in the Comprehensive Income and Expenditure Statement (CIES). The main decrease from 2014/15 is

on contractor costs, due to a planned move away from relying on contractors.

27. The deficit as presented in the management commentary (and in the table above), of £0.251m is different because it is prior to items such as pension adjustments and employee leave accrual. As the budget is prepared and monitored against in this way, it is appropriate for the management commentary details to be presented as such.
28. Scotland Excel planned for a deficit of £0.506m; the final deficit was £0.251m and is lower due to lower supplies and services costs and lower contractor costs.

Financial management arrangements

29. As auditors, we need to consider whether councils have established adequate financial management arrangements. We do this by considering a number of factors, including whether:
 - the proper officer has sufficient status within Scotland Excel to be able to deliver good financial management
 - financial regulations are comprehensive, current and promoted within Scotland Excel
 - reports monitoring performance against budgets are accurate and provided regularly to budget holders
 - monitoring reports do not just contain financial data but are linked to information about performance.

- members provide a good level of challenge and question budget holders on significant variances.

30. We assessed the role and status of the proper officer against CIPFA's "Statement on the role of the Chief Financial Officer in Local Government" and concluded that Scotland Excel complies with the statement's five principles.
31. Revenue budget monitoring reports are regularly submitted to the executive sub-committee. As well as providing comments on income and expenditure to date, the reports forecast the year-end outturn. The accounts include details of final outturn to budget.
32. We have noted that over the past four years the budget for *Other income* has always been set at £30,000 but the final amount received is consistently higher than £215,000. Often the income is due to recovery of costs. We recommend Scotland Excel review the budget setting process for *Other Income* to see if they can find a process which would bring the budget figure more in line with the expected activity and recovery of costs. For 2016/17, we can see there is now a separate budget for National Care Home Contract.

Appendix IV – action plan point 1

Financial sustainability

33. Financial sustainability means that Scotland Excel has the capacity to meet the current and future plans.
34. In assessing financial sustainability we are concerned with whether:
 - there is an adequate level of reserves

- spending is being balanced with income in the short term
 - long- term financial pressures are understood and planned for
 - investment in services and assets is effective.
35. Effective long-term financial planning, asset management and workforce planning are crucial to sustainability.

Pension liability

36. The net liability on Scotland Excel's balance sheet decreased from £3.46m in 2014/15 to £2.195m in 2015/16, a reduction of £1.265m.
37. The pension liability represents the difference between expected future pension payments and the underlying value of pension fund assets available to meet this cost.
38. A material net liability can highlight a potential going concern issue however we recognise that the appointed actuary is of the view that the asset holdings and contributions from employees and employers together with increases in contributions provide security over future liabilities. In light of these factors, it is reasonable that the accounts are prepared on a going concern basis.

Reserves

39. Like all joint committees, Scotland Excel has no specific powers to retain reserves to meet future requirements and technically the amounts are due to local authorities. These balances are used to support medium-term financial planning and address any unforeseen costs.

40. Scotland Excel's reserve opening position was split into the balance remaining on Scottish Government set-up costs and amounts due to local authorities. As planned, the Scottish Government balance was utilised during the year. The closing balance of £0.483m is now being used for medium term financial planning; to fund ICT developments (£0.2m) and as unallocated amount of £0.265m for unforeseen costs.

Financial planning

41. Scotland Excel approved its 2016/17 budget in November 2015 with budgeted expenditure £3.879m. This is funded through requisition income of £3.514m, use of reserves of £0.2m and additional income for national care home contract. The main changes from the previous year are procurement reform being funded from a 9.4% increase in requisition income plus the significant decrease in contractor costs.
42. In June 2014, Audit Scotland reported on [Scotland's public finances](#) and identified that public bodies "face increasingly difficult choices in reducing spending while maintaining service standards and meeting rising demand". The report identified that financial planning improvements were required by public bodies.



43. In the [local government overview](#) report in March 2016, Audit Scotland set out some key questions, which can apply across the Scottish public sector. These include the following:

-
- Do we have a long-term financial strategy covering at least five years that accounts for future pressures?
 - Is our five-year strategy supported by detailed financial plans covering a minimum period of three years?
 - How well do our financial plans set out the implications of different levels of income spending and activity?
 - How does our financial strategy link to our vision for the future?
44. Local Government bodies continue to have their overall budgets reduced each year which may have a consequential impact on the level of requisition funding available to the Joint Committee over the medium term. At present only the local government grant settlement position for 2016/17 has been announced by the Scottish Government meaning that Scotland Excel has published a budget for financial year 2016/17 only.
45. There is currently no 2017/18 budget in place due to the level of uncertainty over a range of financial risks including pay awards and budget settlements. We recommend that in the absence of longer term financial settlements, scenario planning is carried out to support Scotland Excel's strategy.

Appendix IV – action plan point 2

Conclusion on financial sustainability

46. Overall we conclude that the financial position is sustainable in the short term but long-term financial sustainability is a key risk, as recognised by Scotland Excel in its risk register. While the 9.4%

increase was agreed for 2016/17 there will continue to be pressures on funding. Amongst different measures, the changed remit of the Chief Officers Management Group to support delivery of the operating plan, which includes the goal to deliver and implement a clear and transparent sustainable funding and delivery model for Scotland Excel, aims to help with this process.

Governance and transparency



- 47. Members and management of Scotland Excel are responsible for establishing arrangements to ensure that its business is conducted in accordance with the law and proper standards, that public money is safeguarded and for monitoring the adequacy and effectiveness of these arrangements.
- 48. Scotland Excel has demonstrated a strong commitment to setting in place clear governance arrangements during a time of financial challenge and uncertainty.
- 49. Citizens should be able to hold Scotland Excel to account about the services it provides. Transparency means that citizens have access

to understandable, relevant and timely information about how the joint committee is taking decisions and how it is using its resources. Overall we concluded that Scotland Excel is open and transparent.

Corporate Governance

- 50. In our annual audit plan we reported that the Chief Officers' group had not convened since 23 March 2015 with monitoring having been carried out by the Executive sub-committee. The Director was reviewing Scotland Excel's governance model as part of the operating plan 2015/16.
- 51. Following the review, in June 2016 members approved a new scheme of delegation. The Chief Executive officers Management Group will now have a greater role in supporting delivery of Scotland Excel's overall business plan objectives and in providing strategic direction for Scotland Excel.

Internal control

- 52. While auditors concentrate on significant systems and key controls in support of the opinion on the financial statements, their wider responsibilities require them to consider the financial systems and controls of audited bodies as a whole. However, the extent of this work should also be informed by their assessment of risk and the activities of internal audit.
- 53. With Renfrewshire Council (the council) being the host for Scotland Excel, all financial transactions of Scotland Excel are processed through the financial systems of the council and are subject to the

same controls and scrutiny of the council including regular reviews of internal audit.

54. Internal audit issued two reports for 2015/16. The *Review of the contract monitoring arrangements* was given satisfactory level of assurance. The Annual Report provided overall reasonable assurance on the adequacy and effectiveness of Scotland Excel's internal control, risk management and governance arrangements.

Internal audit

55. Internal audit provides members and management of Scotland Excel with independent assurance on risk management, internal control and corporate governance processes. We are required by international auditing standards to make an assessment of internal audit to determine the extent to which we can place reliance on its work. To avoid duplication, we place reliance on internal audit work where possible.
56. Our review of internal audit concluded that they operate in accordance with the Public Sector Internal Audit Standards and have sound documentation standards and reporting procedures in place. Per our audit plan, in respect of our wider governance and performance audit work we reviewed the findings of internal audit's annual report and Review of contract monitoring arrangements.

Arrangements for the prevention and detection of fraud

57. In our Annual Audit Plan we highlighted the responsibility audited bodies have for establishing arrangements to prevent and detect fraud and other irregularities. In our opinion the overall arrangements for the prevention of fraud within Scotland Excel are satisfactory, but could be improved by participating in the National Fraud Initiative (NFI). No system can eliminate the risk of fraud entirely.
58. Scotland Excel is not part of this year's NFI; a counter-fraud exercise led by Audit Scotland, overseen by the Cabinet Office for the UK as a whole. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify circumstances (matches) that might suggest the existence of fraud or error. These exercises are undertaken every two years. <http://www.audit-scotland.gov.uk/work/nfi.phpf>.
59. We recommend Scotland Excel liaise with Renfrewshire Council Internal Audit (who manage the process for Renfrewshire Council) and consider being involved in the next exercise in 2016/17.

Appendix II – action plan point 3

Arrangements for maintaining standards of conduct and the prevention and detection of corruption

60. The arrangements for the prevention and detection of corruption in Scotland Excel are satisfactory. During 2015/16 all members of staff completed a register of interest and these are available on request from Scotland Excel. We are not aware of any specific issues that we need to record in this report.

Transparency

61. When assessing transparency we consider questions such as:
- Are meetings held in public?
 - Are papers and corporate documents available online and there is only limited use of taking papers in private?
 - Are financial statements clearly presented and budget monitoring papers concise and clear?
 - Is a register of interests available on the website?
62. We concluded that the financial statements are clear and accounts income and expenditure clearly linked to budgeted figures, as described in the management commentary.
63. Meetings of Scotland Excel are held in public and papers available from the Renfrewshire Council website. The Scotland Excel website also publishes information on consultations and progress with the strategic development plan.

Best Value

64. Best value is a key factor to consider when planning policies, programmes and projects and when taking any spending decisions. Scotland Excel should have systems and processes to ensure that it can demonstrate that it is delivering best value by assessing and reporting on the economy, efficiency, effectiveness and equality in service provision.

Performance management arrangements

65. Overall we conclude that performance management arrangements are clear and plans linked through to the strategic plan.

66. In June 2015, members approved a three-year strategic plan which covers the period 2015-2018 and each year there is an annual operating plan to cascade objectives and activities throughout the organisation in order to deliver agreed goals.

67. In June 2016 the Director presented her year-end report on the 2015/16 Operating plan. The traffic light system was used to provide a quick guide to activity, alongside more detailed narrative. Of the 22 activities, 15 were assessed as green, four as amber and three as red. Examples of performance include:

- flexible workforce model now been developed to resource current contract delivery plan
- enhanced procurement and contract management provided for the National Care Home Contract

- new national procurement capability assessment programme now in place, with workshops being held for local authorities to help them prepare for the new assessments
- a sustainability procurement strategy was planned for 2015/16 but will now developed in 2016/17; the focus for 2015/16 was to develop statutory guidance on sustainable procurement

68. Scotland Excel estimates that savings of £15.5m were achieved through their work in 2015, representing a return of £5 for every £1 invested in the organisation.

69. The operating plan is reviewed and updated each year and the 2016/17 operating plan was also taken to the June 2016 meeting. A set of ten key performance indicators (KPIs) will be monitored during 2016-17, including number and value of contracts delivered v plan and number of PCIP assessments completed v schedule and number of Community Benefits realised

70. KPI figures will be updated quarterly and included within reports summarising the progress made against operating plan priorities. These reports will be produced at the end of each quarter and submitted to the Executive Sub-Committee at the next scheduled meeting. Half yearly and annual reports will also be submitted to Joint Committee meetings.

National performance audit reports

71. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2015/16, a number of reports were issued

specifically covering local government topics. These are outlined in appendix III.

72. While these reports might not directly cover the work of Scotland Excel there may be lessons learned or helpful information on wider issues. Last year we reported there were no formal processes in place to update members on these reports and disseminate the impact for Scotland Excel.
73. Scotland Excel has started quarterly horizon scanning review meetings for the senior management team, which cover the macro external factors that impact on the organisation and its members. Audit Scotland national reports, where relevant to customers and their environment, will be considered as part of the meetings.

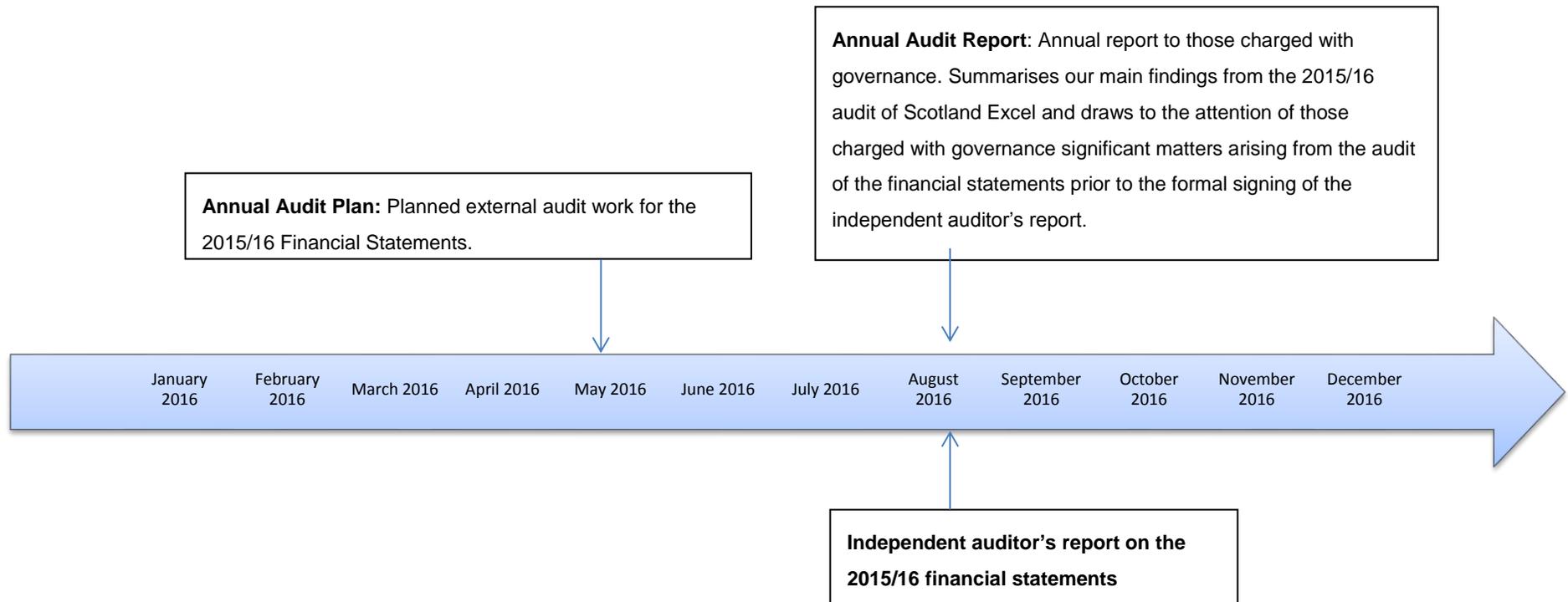
Appendix I: Significant audit risks

The table below sets out the financial statement audit risks we identified during the course of the audit and how we addressed each risk in arriving at our opinion on the financial statements.

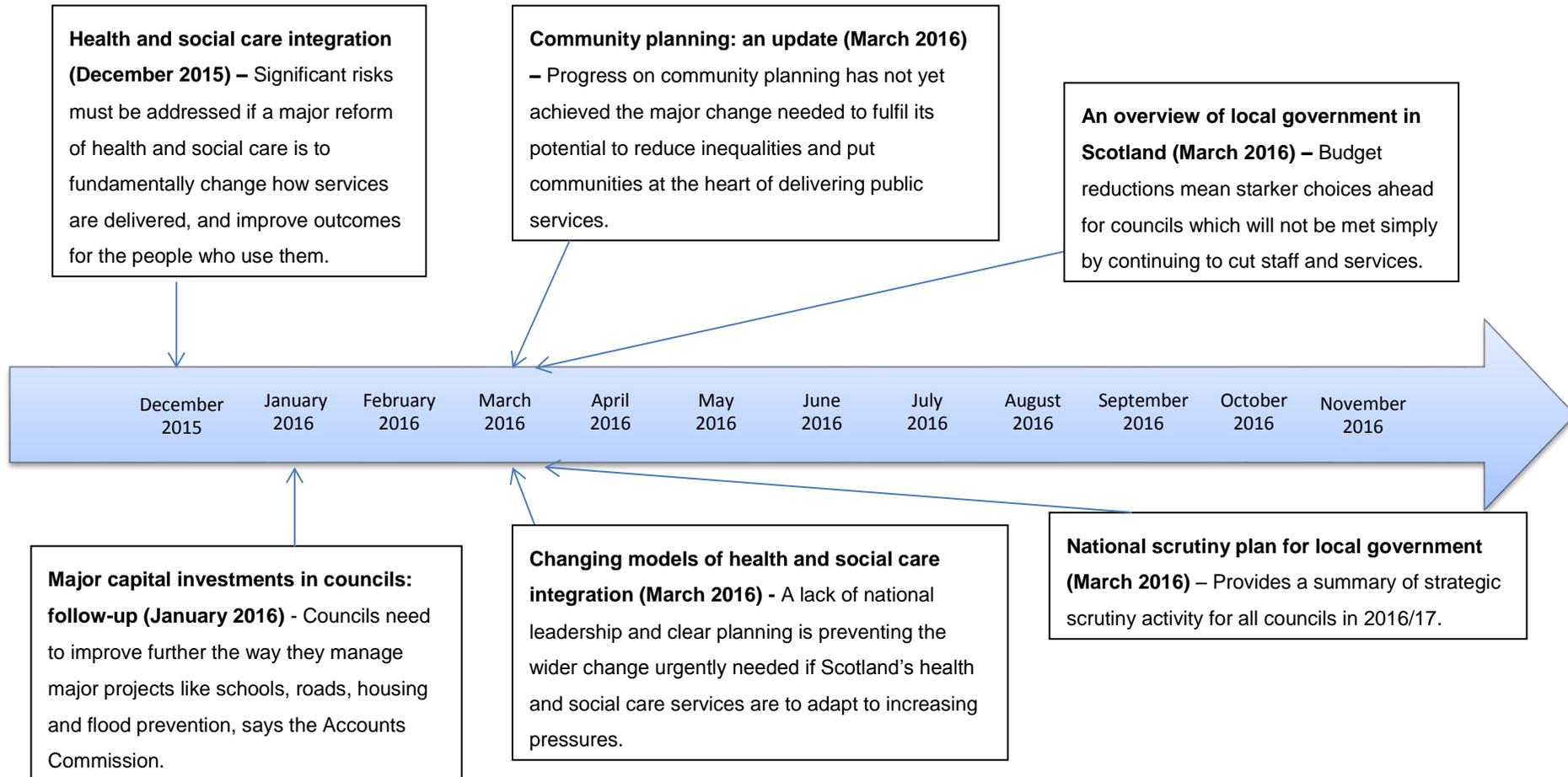
Audit Risk	Assurance procedure	Results and conclusions
Risk of material misstatement in financial statements		
<p>Risk of management override of control</p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit.</p> <p>Risk</p> <p>Management's ability to manipulate accounting records and prepare fraudulent or biased financial statements by overriding controls that otherwise appear to be operating effectively.</p>	<ul style="list-style-type: none"> • Detailed testing of journal entries • Review of accounting estimates for bias • Evaluating significant transactions that are outside the normal course of business. 	<ul style="list-style-type: none"> • No issues have arisen as part of our audit work that would indicate management override of controls affecting the outturn or year-end position.
Wider dimension issues and risks		
<p>Financial sustainability</p> <p>In previous years we reported that the funds available for procurement improvement activity were being gradually utilised and new models were needed to resource this type of work.</p> <p>The 2016/17 budget has been approved and</p>	<ul style="list-style-type: none"> • Review final outturn position against budget and assess reserves position • Enquire about, and consider arrangements for, financial planning for 2017/18 onwards and provide update in annual report on the audit 	<ul style="list-style-type: none"> • Set-up funding now utilised. • General revenue reserve is £0.465m, 13% of 2016/17 budget so sufficient to deal with unforeseen costs. • 2016/17 operating plan includes commitment to explore new approaches

Audit Risk	Assurance procedure	Results and conclusions
<p>included a 9.4% increase to fund the improvement/reform activity. However, the longer-term financial models and planning is to be developed and, as the tight financial climate continues, Scotland Excel risks not getting the long-term financial support from member authorities.</p>		<p>to funding and resourcing emerging procurement opportunities including chargeable services, partnership working and portfolio restructuring.</p>
<p>Governance arrangements: The Chief Officers' group is part of the governance arrangements for Scotland Excel but it has not convened since 23 March 2015; the monitoring role has been carried out by the Executive sub-committee. There is a risk there are unclear lines of accountability, and therefore a lack of proper oversight and chief officer input into Scotland Excel.</p>	<ul style="list-style-type: none"> • Director was reviewing arrangements in 2016 • Discuss plans with Director; assess and report update in annual report on the audit. 	<ul style="list-style-type: none"> • Review of governance arrangements report taken to members in June 2016. • Group will now have a greater role in supporting delivery of Scotland Excel's overall business plan objectives. Annual nominations for its membership shall be sought from Solace Scotland.

Appendix II: Summary of local audit reports 2015/16



Appendix III: Summary of Audit Scotland national reports 2015/16



Appendix IV: Action plan

No.	Para ref.	Issue/risk/Recommendation	Management action/response	Responsible officer / Target date
1.	32	<p>Budgets for Other income</p> <p>In recent years Other income (i.e. non-requisition income) has been significantly different from that budgeted.</p> <p>There is a risk that the budgets are not reflecting all the different work and level of activity at Scotland Excel and budgets not being clear to members.</p> <p>Recommendation</p> <p>We recommend the budget process is reviewed to better identify all anticipated third party funding for projects.</p>	<p>Budget monitoring reports are taken to meetings of the executive sub-committee and contain updates on non-requisition income.</p> <p>Process has already started with National Care Home contract separately shown.</p> <p>Budget and reporting process for 2017/18 will review process for identifying and estimating non-requisition income and potentially put in place in-year budget adjustments.</p>	<p>Treasurer and Director</p> <p>31 December 2016</p>

No.	Para ref.	Issue/risk/Recommendation	Management action/response	Responsible officer / Target date
2.	45	<p>Medium-term financial planning</p> <p>Only budget details for 2016/17 have been published. No medium or long term plans have been provided to members with options or scenarios on savings.</p> <p>There is a risk there is insufficient information to inform decision-making.</p> <p>Recommendation</p> <p>We recommend that scenario planning is carried out and key messages from that planning presented to members.</p>	<p>We considered there was too much uncertainty for future funding to set indicative budgets for 2017/18 onwards.</p> <p>Implications of funding changes are discussed between senior officers and finance team.</p> <p>Financial plans and risks will continue to be closely monitored and updated, with financial issues being included as appropriate and reported to members regularly.</p>	<p>Treasurer</p> <p>31 December 2016</p>
3.	59	<p>National Fraud Initiative</p> <p>Scotland Excel has not been included in the NFI counter fraud exercise in recent years and there is a risk that fraud cases are being missed.</p> <p>Recommendation</p> <p>We recommend that senior officers liaise with Renfrewshire Council internal audit to put in place arrangements to be part of the next exercise.</p>	<p>The Director will liaise with internal audit to plan for Scotland Excel to be included in the next NFI exercise.</p>	<p>Director</p> <p>Treasurer</p> <p>Chief Internal Auditor</p> <p>31 October 2016</p>