

# Scotland Excel Joint Committee

2016/17 Annual Audit Report



 AUDIT SCOTLAND

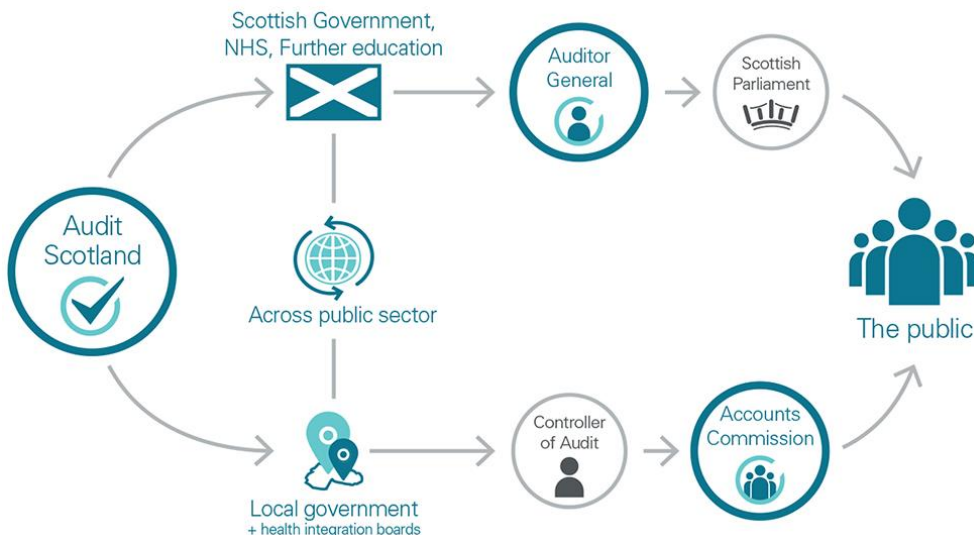
To Members of Scotland Excel Joint Committee and the Controller of Audit

15 September 2017

# 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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## Audit of the 2016/17 annual accounts

- 1 Our audit opinions were all unqualified. These covered the financial statements, management commentary, remuneration report and the annual governance statement.

## Financial management

- 2 A deficit of £0.098 million was delivered during the year. This was less than forecast in the 2016/17 budget.
- 3 The cost of service delivery has been met through requisition income and continued use of reserves.

## Financial sustainability

- 4 The Joint Committee's financial position has been managed through planned use of reserves. Declining reserves and increasing costs will continue to place a strain on the Joint Committee's capacity to deliver the current level of service.
- 5 The level of useable reserves is forecast to fall to £0.215 million by the end of 2017/18.

## Governance and transparency

- 6 The Joint Committee has appropriate governance arrangements in place to support the scrutiny of decision making.
- 7 The Joint Committee is open and transparent in the way it conducts its business.
- 8 Internal audit reports are only reviewed by management and are not shared with members of the Joint Committee.

## Value for money

- 9 Performance against the Operational Plan is reported quarterly to the Joint Committee or Executive Sub-Committee.
- 10 Overall performance was positive but there were areas for improvement.

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# Introduction

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1. This report is a summary of the findings arising from the 2016/17 audit of Scotland Excel Joint Committee (Scotland Excel).

2. The scope of the audit was set out in our Annual Audit Plan presented to the February 2017 meeting of the Scotland Excel Executive Sub-Committee. This report comprises:

- an audit of the annual report and accounts
- consideration of the four dimensions that frame the wider scope of public sector audit requirements as shown in [Exhibit 1 \(page 5\)](#).

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## Exhibit 1

### Audit dimensions



Source: Code of Audit Practice 2016

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3. The main elements of our audit work in 2016/17 have been:

- an interim audit of Renfrewshire Council's main financial systems and governance arrangements which are used by Scotland Excel
- an audit of Scotland Excel's 2016/17 annual report and accounts including the issue of an independent auditor's report setting out our opinions.

4. Scotland Excel is responsible for preparing the annual report and accounts that show a true and fair view in accordance with the Local Authority Accounts (Scotland) Regulations 2014. It is also responsible for establishing effective governance arrangements and ensuring financial management is effective.

- 5.** Our responsibilities as independent auditor are established by the Local Government in Scotland Act 1973 and the [Code of Audit Practice 2016](#) guided by the auditing profession's ethical guidance.
- 6.** As public sector auditors we provide an independent auditor's report on the annual report and accounts. We also review and report on the arrangements within Scotland Excel to manage its performance and use of resources such as money, staff and assets. Additionally, we consider Scotland Excel's best value arrangements. In doing this, we aim to support improvement and accountability.
- 7.** Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#).
- 8.** This report raises matters from the audit of the annual report and accounts, risks or control weaknesses. Communicating these does not absolve management from its responsibility to address the issues we raise, and to maintain adequate systems of control.
- 9.** Our Annual Audit Report contains an action plan at [Appendix 1 \(page 21\)](#). It sets out specific recommendations, responsible officers and dates for implementation.
- 10.** As part of the requirement to provide fair and full disclosure of matters relating to our independence, we can confirm that we have not undertaken non-audit related services. The 2016/17 audit fee for the audit was set out in our Annual Audit Plan and as we did not carry out any work additional to our planned audit activity, the fee remains unchanged.
- 11.** This report is addressed to both the 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).
- 12.** We would like to thank all management and staff who have been involved in our work for their co-operational and assistance during the audit.

# Part 1

## Audit of 2016/17 annual report and accounts



### Main judgements

#### Unqualified audit opinions on Scotland Excel's annual report and accounts.

#### Unqualified audit opinions

**13.** The annual report and accounts for the year ended 31 March 2017 were approved by the Scotland Excel Executive Sub-Committee on 15 September 2017. We reported, within our independent auditor's report:

- an unqualified opinion on the financial statements
- unqualified opinions on the management commentary, remuneration report and annual governance statement.

**14.** Additionally, we have nothing to report in respect of those matters which we are required by the Accounts Commission to report by exception.

#### Submission of Scotland Excel's annual report and accounts for audit

**15.** We received the unaudited annual report and accounts on 30 June, in line with the audit timetable set out in our 2016/17 Annual Audit Plan.

**16.** The working papers provided with the unaudited report and accounts were of a good standard and finance staff provided good support to the audit team during the audit. This helped ensure that the final accounts process ran smoothly.

#### Risk of material misstatement

**17.** [Appendix 2 \(page 22\)](#) provides a description of those assessed risks of material misstatement that were identified during the planning process which had the greatest effect on the overall audit strategy, the allocation of resources to the audit and directing the efforts of the audit team. Also, included within the appendix are wider audit dimension risks, how we addressed these and our conclusions.

#### Materiality

**18.** Materiality defines the maximum error that we are prepared to accept and still conclude that our audit objective has been achieved (i.e. true and fair view). The assessment of what is material is a matter of professional judgement. It involves considering both the amount and nature of the misstatement.

**19.** Our initial assessment of materiality for the annual report and accounts was undertaken during the planning phase of the audit and is summarised in [Exhibit 2](#)

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The Joint Committee's annual report and accounts are the principal means of accounting for the stewardship of its resources and its performance in the use of its resources.

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(page 8). Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.

20. On receipt of the annual report and accounts and following completion of audit testing we reviewed our original materiality calculations and concluded that they remained appropriate.

## 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 was set at 1 per cent of gross expenditure for the year ended 31 March 2017.	£41,100
<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 75 per cent of overall materiality.	£30,800
<b>Reporting threshold (i.e. clearly trivial)</b> – We are required to report to those charged with governance on all unadjusted misstatements in excess of the 'reporting threshold' amount.	£1,000

Source: Audit Scotland

### How we evaluate misstatements

21. It is our responsibility to request that all errors are corrected although the final decision on this lies with those charged with governance taking into account advice from senior officers and materiality. No errors were identified during the course of the audit.

### Significant findings

22. International Standard on Auditing 260 (UK & Ireland) requires us to communicate to you significant findings from the audit. We have no matters to report in respect of this requirement.

### Going concern

23. The financial statements of Scotland Excel have been prepared on the going concern basis. No issues were identified with the assessment on going concern.

### Other findings

24. Our audit identified a number of presentational and disclosure issues which were discussed with management. These were adjusted and reflected in the audited annual report and accounts.

### Objections

25. The Local Authority Accounts (Scotland) Regulations 2014 require a local government bodies to publish a public notice on its website that includes details of



the period for inspecting and objecting to the accounts. This must remain on the website throughout the inspection period. Scotland Excel complied with the regulations.

# Part 2

## Financial management



### Main judgements

**A deficit of £0.098 million was delivered during the year. This was less than forecast in the 2016/17 budget.**

**The cost of service delivery has been met through requisition income and continued use of reserves.**

### Financial performance in 2016/17

**26.** In November 2015 the Joint Committee approved its budget for 2016/17. Total budget expenditure was £3.880 million and total budget income was £3.680 million. This resulted in a forecast deficit of £0.200 million which management planned to meet through the use of reserves.

**27.** Actual outturn for the year was total expenditure of £3.911 million and total income of £3.813 million. This resulted in a deficit of £0.098 million for the year which was £0.102 million lower than the budgeted figure.

**28.** The largest source of income was requisitions from members of the Joint Committees. This was £3.484 million in 2016/17, an increase of £0.300 million from 2015/16 (£3.184 million). The increase in requisition income was to allow delivery of services which had previously been funded through reserves. The budget was aligned to Scotland Excel's statutory objectives to ensure services were delivered.

**29.** Details of significant variances are summarised in [Exhibit 3 \(page 11\)](#). Scotland Excel has incurred a deficit in each of the last 4 financial years. The deficits have been managed through the drawdown of reserves from a grant provided by the Scottish Government. This reserve was fully utilised in 2015/16 and general reserves have been used to manage the deficit. While deficits have been delivered over the last 4 years, actual outturn against budget has been favourable each year ([Exhibit 4 \(page 12\)](#)).

**30.** The deficit of £0.098 million reported in the Management Commentary is different to the deficit of £0.310 million reported in the Comprehensive Income and Expenditure Statement (CIES). This is due to accounting adjustments required for pension costs and the employee leave accrual. As the budget is prepared and monitored in this way, it is appropriate for it to be detailed in the Management Commentary in this way.

**Exhibit 3**

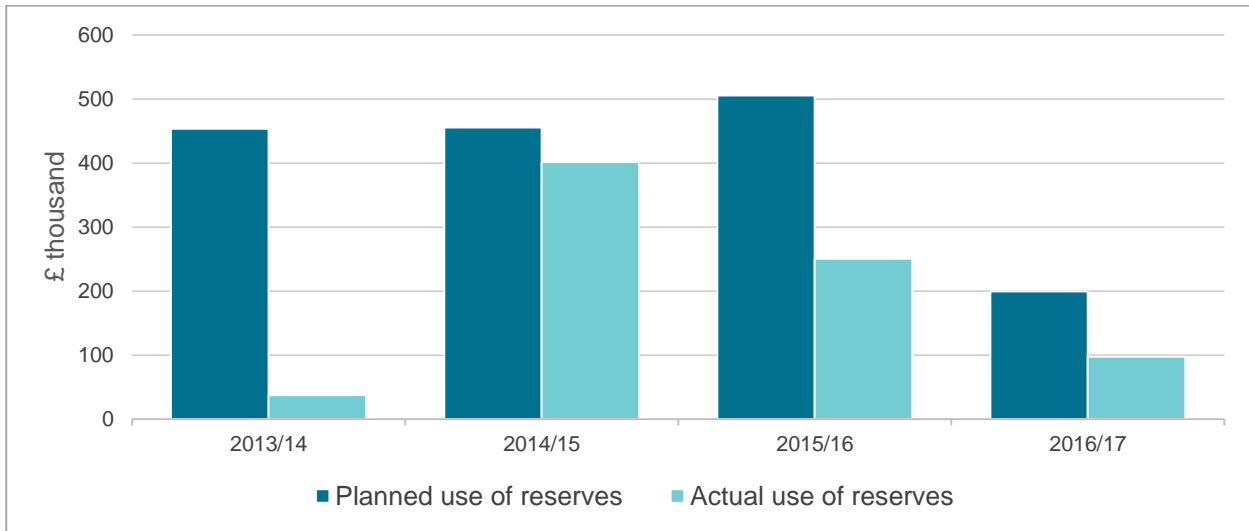
## Summary of significant over and under spends/recovery against budget

Area	Under/over spend/recovery (£)	Reason(s) for variance
<b>Underspends/over recovery</b>		
Supplies and Services	£91,105	Due to IT budget revision. The planned migration plan was revised during the year and the costs associated with migration will likely be incurred in 2017/18.
Other Income	£298,943	Due to training costs which are recovered by Scotland Excel, additional full year Associate Member Fees and income received in relation to the National Care Home Contract.
<b>Overspends/under recovery</b>		
Employee Costs	£126,556	Due to costs associated with the delivery of the National Care Home Contract. However, these costs are fully offset by additional income outlined above.
Contractors and Others	£67,835	Due to overspend in consultancy costs in relation to the National Care Home Contract. However, these costs are fully offset by additional income outlined above.
Administrative Costs	£47,941	Due to legal costs associated with a challenge to a framework award. The majority of these costs are expected to be recovered through a settlement.
Payments to Other Bodies	£45,159	Due to costs associated with delivering training. However, these costs are recharged to delegates and included as other income.

Source: Scotland Excel annual report and accounts 2016/17

## Exhibit 4

### Analysis of planned use of reserves against actual use of reserves



Source: Scotland Excel annual report and accounts 2013/14 – 2016/17

## Budgetary monitoring and control

**31.** The [Local Government in Scotland: Financial overview 2015/16](#) (November 2016) highlighted that the need for budgets and forecasts to reflect actual spending becomes increasingly important for local government bodies with decreasing (or low levels) of usable reserves to rely on. An analysis of reserves can be seen in Part 3 of the report.

**32.** We noted that Scotland Excel's budget is aligned to its statutory objectives. Budgets are approved by the Joint Committee and budget monitoring updates are provided quarterly to the Scotland Excel Executive Sub-Committee. The budget monitoring updates provide details on variances against the budget and forecast year-end positions. This allows members and officers to take actions to address variances and address forecast over and under spends.

## Internal controls

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

**34.** The systems in place at Scotland Excel are hosted by Renfrewshire Council and were assessed as part of the Renfrewshire Council audit. As part of the Renfrewshire Council audit we concluded that the key controls were operating effectively, although there were areas where improvements could be made. Overall, no significant control weaknesses were identified which could affect the council's, and by extension Scotland Excel's, ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.

## Prevention and detection of fraud

**35.** We have responsibility for reviewing the arrangements put in place by management for the prevention and detection of fraud. We reviewed Scotland

Excel's arrangements including policies and codes of conduct for staff and elected members, whistleblowing, and fraud prevention.

**36.** Based on the evidence reviewed by us, we concluded that the Scotland Excel has adequate arrangements in place for the prevention and detection of fraud.

### **National Fraud Initiative**

**37.** The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise co-ordinated by Audit Scotland. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify 'matches' that might suggest the existence of fraud or error.

**38.** Scotland Excel does not participate in the NFI exercise. This was reported within the Action Plan in the 2015/16 Annual Audit Report. Due to the nature of operations the majority of expenditure incurred relates to staff costs and the majority of income received is from requisitions. These are low risk areas as requisition income is agreed by the members of the Joint Committee and the payroll system is hosted and operated by Renfrewshire Council. This separates and minimises control and opportunities for fraud.

**39.** Renfrewshire Council participates in the NFI exercise and if any frauds are identified the improvements to systems would also impact on Scotland Excel due to the use of Renfrewshire Council's financial systems.

**40.** While we recognise the reasons why Scotland Excel does not currently participate in the NFI exercise, we would recommend Scotland Excel and Renfrewshire Council discuss the possibility to participate in the NFI exercise in future.

# Part 3

## Financial sustainability



### Main judgements

**The Joint Committee's financial position has been managed through planned use of reserves. However, declining reserves and increasing costs will continue to place a strain on the Joint Committee's capacity to deliver the current level of service.**

**The level of useable reserves is forecast to fall to £0.215 million by the end of 2017/18. Management monitor the reserves position and it is recommended this continues to be reviewed to ensure there are sufficient funds to address ongoing demand on services.**

### Financial planning

- 41.** It is important that long-term financial strategies (typically covering five to ten years) are in place which link spending to Scotland Excel's strategies. Although members only approve the budget for a single year, this should be supported by indicative future spending plans (covering three years at least) that forecast the impact of relevant pressures on Scotland Excel.
- 42.** Scotland Excel's budgets are prepared on an annual basis and do not include longer term strategies. The Accounts Commission recommended that when future Scottish Government funding is not known, bodies should plan for a range of scenarios so they are prepared for different levels of funding and income.
- 43.** This was recommended in the 2015/16 Annual Audit Report. Management indicated there was too much uncertainty in future funding to prepare medium term budgets. As a result, budgets continue to be prepared on a yearly basis.
- 44.** Management has advised that medium term financial planning is carried out and assesses expected levels of income and expenditure in the medium term and forecasts the reserves position based on this assessment.
- 45.** The medium term planning is reviewed by management and the Treasurer but is not shared with members. It is recommended that the medium term planning is shared with members and scenario planning is incorporated into the budget setting process to allow members and management to understand the impact of possible developments.

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

Appendix 1, Action Plan, point 1

### Funding position

- 46.** The Joint Committee approved its 2017/18 budget in December 2016 with proposed total expenditure of £3.941 million and total income of £3.875 million. The resulting budget gap of £0.066 million will be met through the use of reserves. Requisition income has remained at the same level as 2016/17 at £3.484 million.

## Savings plans

**47.** A review of Scotland Excel's budget information and financial projections for 2017/18 to 2019/20 highlight that the funding settlement for 2018/19 and beyond is uncertain. It is recognised that over the medium term the funding position of local government across Scotland is likely to involve a further period of contraction. The Joint Committee recognises these pressures and will continue to seek operational savings where possible. The Joint Committee will also look to develop alternative services which generate income in order to try and diversify its funding base.

## Reserves

**48.** Like all joint Committees, Scotland Excel has no specific powers to retain reserves to meet future requirements. These balances are used to support medium-term financial planning and address any unforeseen costs.

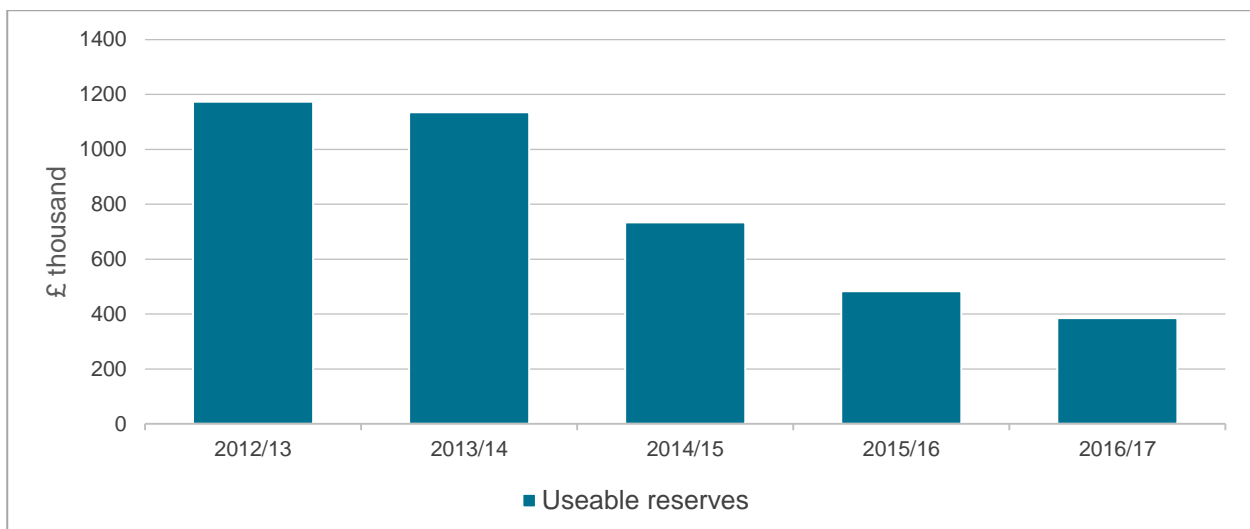
**49.** In 2016/17 the overall level of useable reserves held by Scotland Excel decreased by £0.098 million (20 per cent). The closing balance of £0.385 million is 10 per cent of 2016/17 budgeted expenditure. Officers have assessed this as being a prudent level to protect against unforeseen costs.

**50.** [Exhibit 5 \(page 15\)](#) provides an analysis of useable reserves over the last five years. The usable reserves / balances due to member authorities' have reduced significantly since 2012/13. The Scottish Government provided a grant of £4.5 million to fund start up costs. As highlighted in paragraph 29, this reserve has been used to deliver services, resulting in the annual reduction in the level of reserves. The reserve was fully drawn down during 2015/16 and general reserves have been used to deliver services.

**51.** Budget monitoring reports up to July 2017 forecast the level of usable reserves at the end of the 2017/18 financial year will be £0.215 million. This equates to 5 per cent of budgeted total expenditure in 2017/18 and is a significant decrease from 2016/17. The level of reserves is reviewed as part of the budget monitoring reported to the Executive Sub-Committee. It is recommended that the balance held in reserves continues to be reviewed to ensure there are sufficient funds to address ongoing demand on services.

## Exhibit 5

### Analysis of useable reserves over last five years



Source: Scotland Excel annual report and accounts 2012/13 – 2016/17

# Part 4

## Governance and transparency



### Main Judgements

**The Joint Committee has appropriate governance arrangements in place to support the scrutiny of decision making.**

**The Joint Committee is open and transparent in the way it conducts its business; the public can attend meetings and access agendas and meeting papers.**

**Internal audit reports are only reviewed by management and are not shared with members of the Joint Committee. There is a risk that members are not fully aware of weaknesses identified in systems and processes.**

### Governance arrangements

**52.** 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. We concluded that Scotland Excel has effective governance arrangements which provide an appropriate framework for organisational decision-making.

**53.** 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 Scotland Excel is taking decisions and how it is using its resources. Overall we concluded that Scotland Excel is open and transparent.

### Management commentary, annual governance statement and remuneration report

**54.** The Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 requires Joint Committees to prepare and publish, along with their financial statements, a management commentary, an annual governance statement and a remuneration report that are consistent with the disclosures made in the financial statements. The management commentary should be fair, balanced and understandable and also clearly address the longer-term financial sustainability of the body.

**55.** Based on our knowledge and work performed, we concluded that the management commentary, annual governance statement and remuneration report are consistent with the financial statements.

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.



## Internal audit

**56.** Internal audit provides senior management and elected members with independent assurance on Scotland Excel's overall risk management, internal control and corporate governance processes.

**57.** The internal audit function is carried out by Renfrewshire Council's internal audit team. We carried out a review of the adequacy of Renfrewshire Council's internal audit function and concluded that it operates in accordance with the Public Sector Internal Audit Standards (PSIAS). However, there were areas where we identified recommendations for improvement.

**58.** To avoid duplication, we place reliance on the work of internal audit wherever possible. In 2016/17 we did not place any formal reliance on internal audit reviews for the purpose of obtaining direct assurance for our financial statements work. However, we did review audit reports that were relevant to our work to help with our understanding of the systems and processes in place.

**59.** From a review of committee minutes it was identified that internal audit reports are not provided to members of the Joint Committee. During the year internal audit carried out work on the governance arrangements and the findings were only shared with management. The only information members receive on the work of internal audit is in the Internal Audit Annual Report. As a result members were considering the opinions given in the Internal Audit Annual Report without being aware of the work that was used to form the conclusions.

### Appendix 1, Action Plan, point 2

## ICT risks

**60.** Since moving in to Renfrewshire House, Scotland Excel's business continuity arrangements have been encompassed within Renfrewshire Council's arrangements. During the year management assessed the position and felt the involvement and role of Scotland Excel was insufficient and should be reviewed. As a result, work is being done to develop Scotland Excel's business continuity arrangements. Scotland Excel has been working with Renfrewshire Council's civil contingencies team and it has been agreed that Scotland Excel will develop its own business continuity plan and this will be included within the larger Renfrewshire Council business continuity plan.

## Transparency

**61.** Transparency means that the public, in particular local residents have access to understandable, relevant and timely information about how Scotland Excel is taking decisions and how it is using resources such as money, people and assets.

**62.** There is evidence from a number of sources which demonstrate Scotland Excel's commitment to transparency. Members of the public can attend Joint Committee meetings and minutes of the meetings and supporting papers are readily available through Scotland Excel's website.

**63.** The Joint Committee's website allows the public to access a wide range of information on corporate policies, targets and performance.

**64.** The Joint Committee makes its annual accounts available on its website. These include a management commentary which provides details of performance against budget, information on the use of reserves and risks and uncertainties facing the Joint Committee.

**65.** Overall, we concluded that the Joint Committee conducts its business in an open and transparent manner.

## Equalities

**66.** The Equality Act 2010 introduced a public sector general duty that encourages public bodies to mainstream equality, that is, ensure it is part of their core work. The Act requires that by no later than 30 April 2015 and every two years thereafter, public bodies must publish a report on the progress made to achieve the quality of outcomes it has set.

**67.** Under the terms of the Act and supporting legislation, Scotland Excel does not have a requirement to fulfil this duty. However, Renfrewshire Council, as lead authority for Scotland Excel, is required to fulfil this duty. Therefore, the work done and reports published by Renfrewshire Council will include Scotland Excel as Scotland Excel is covered by Renfrewshire Council's policies.

# Part 5

## Value for money



### Main judgements

**Performance against the Operational Plan is reported quarterly to the Joint Committee or Executive Sub-Committee.**

**Overall performance was positive but there were areas for improvement.**

### Best Value

**68.** 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.

### Following the public pound

**69.** Local government bodies have a statutory responsibility to comply with the Accounts Commission / COSLA Code of Guidance on funding external bodies and following the public pound.

**70.** The Joint Committee's financial regulations state that it will continuously strive to secure best value for money and economy, efficiency and effectiveness in their use of resources.

### Performance management

**71.** In June 2015 the Joint Committee approved its 3 year strategy and rolling Operational Plan. The Operational Plan is reviewed and updated each year to ensure that it remains closely aligned with the strategy and to respond to any external developments which have occurred.

**72.** Quarterly progress reports on performance against the Operational Plan are reported to the Joint Committee or Executive Sub-Committee throughout the year. A traffic light system has been used to provide a high level overview of how Scotland Excel is performing against objectives and activities. More detailed information is also provided to support the traffic light system.

**73.** The 2016/17 Operational Plan year end progress report was presented to the Joint Committee in June 2017. There are 22 activities in the Operational Plan and in the year end progress report outlined:

- 18 were green which indicates these were completed or progressing in line with plan,
- 3 were amber which indicates progress was slower than expected or results were weaker than planned, and

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

- 1 was red which indicates activity has stalled or is significantly behind plan.

**74.** The activity classified as red related to developing and implementing a stakeholder engagement strategy. This strategy was expected to be completed during 2016/17 but has been postponed to 2017/18 due to resource constraints. This has had an impact on other aspects of this activity as the implementation of a cross functional customer care forum was also delayed due to the late implementation of the strategy.

### **National performance audit reports**




**75.** Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2016/17, a number of reports were issued which may be of interest to the Joint Committee. These are outlined in [Appendix 3 \(page 25\)](#).

**76.** Scotland Excel has quarterly horizon scanning review meetings for the senior management team. These include external factors that impact on Scotland Excel and its members. Audit Scotland national performance reports will be considered as part of the meetings if they are relevant to customers and their environment.

# Appendix 1

## Action plan 2016/17

### 2016/17 recommendations for improvement

Page no.	 <b>Issue/risk</b>	 <b>Recommendation</b>	 <b>Agreed management action/responsible officer/timing</b>
14 – para 45	<b>1. Medium term financial planning</b> Budgets are prepared on an annual basis and do not include any scenario planning. Medium term financial planning is carried out by management but this is not shared with members. As a result there is a risk members have insufficient information to make informed decisions.	It is recommended medium term financial planning is shared with members and scenario planning is incorporated into the budget setting process.	Scenario planning will be built into the estimates process. Head of Finance 31 March 2018
17 – para 59	<b>2. Internal Audit reporting</b> A review of committee papers and minutes identified that internal audit reports are not provided to members of the Joint Committee. As a result there is a risk that members are not aware of any weaknesses that have been identified and may not be able to make informed decisions.	It is recommended that management take internal audit reports to Joint Committee or Executive Sub-Committee meetings to allow members to understand the findings of the work carried out.	Internal audit reports will be taken to Joint Committee/Executive Sub-Committee meetings. Director of Scotland Excel 31 March 2018

# 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 opinion on the financial statements.

Audit risk	Assurance procedure	Results and conclusions
<b>Risks of material misstatement in the financial statements</b>		
<p><b>1 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 in order to change the position disclosed in the financial statements.</p>	<p>Detailed testing of journal entries.</p> <p>Review of significant management estimates and evaluation of the impact of any variability in key assumptions.</p> <p>Focused testing of accruals and prepayments.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p> <p>Substantive testing of transactions after the year end to confirm expenditure and income has been accounted for in the correct financial year.</p>	<p>Our audit procedures did not uncover evidence of management override of controls.</p>
<p><b>2 Risk of fraud over income/expenditure</b></p> <p>ISA 240 presumes a risk of fraud over income, which is expanded to include fraud over expenditure in the public sector by the Code of Audit Practice.</p> <p>The majority of Scotland Excel's income is in the form of annual funding from member authorities. Due to the predictable nature of this, the risk of fraud over income has been rebutted.</p> <p>The presumed risk of fraud over expenditure remains relevant and therefore requires an audit response.</p>	<p>Analytical procedures over areas of expenditure.</p> <p>Detailed testing of expenditure transactions focusing on the areas of greatest risk.</p>	<p>Our audit procedures did not uncover any evidence of fraud over expenditure.</p>
<p><b>3 Revised format of financial statements</b></p> <p>The 2016/17 Code of Practice on Local Authority Accounting (the</p>	<p>Review of structure of CIES and MIRS.</p> <p>Detailed analysis of account code mapping for CIES.</p>	<p>Our audit procedures did not identify any errors in the structure of the CIES or MIRS and all account codes had</p>

Audit risk	Assurance procedure	Results and conclusions
<p>Code) makes changes to the structure of the Comprehensive Income and Expenditure Statement (CIES) and the Movement in Reserves Statement (MIRS). This will require the restatement of prior year comparatives and presents a risk of misstatement in the financial statements.</p>	<p>Review of prior year comparatives and restatements.</p>	<p>been mapped across correctly.</p>
<p><b>4 New expenditure and funding analysis</b></p> <p>The Code sets out a new requirement for an expenditure and funding analysis. This will provide a reconciliation of the statutory adjustments between Scotland Excel's financial performance on a funding basis and the surplus or deficit on the provision of services in the CIES. This presents an increased risk of misstatement as the analysis may not be in line with the requirements of the Code. There is also an increased risk of inconsistencies between the analysis and the financial statements.</p>	<p>Detailed testing of expenditure and funding analysis.</p> <p>Review of prior year comparatives and restatements.</p> <p>Review of consistency between expenditure and funding analysis and information contained elsewhere within the annual accounts.</p>	<p>Our audit procedures did not identify any errors within the Expenditure Funding Analysis statement and all information was consistent with information contained elsewhere within the annual accounts.</p>
<p><b>5 Changes to governance disclosures</b></p> <p>The Code makes changes to the requirements of the governance statement. This will require additional information to be disclosed to ensure all requirements of the Code are met. This presents a risk that the governance disclosures may not be complete.</p>	<p>Review of governance statement content.</p> <p>Testing of governance disclosures.</p>	<p>Our audit procedures did not identify any errors with the governance statement and all disclosures required had been included.</p>
<p><b>Risks identified from the auditor's wider responsibility under the Code of Audit Practice</b></p>		
<p><b>6 Financial sustainability</b></p> <p>In prior financial years Scotland Excel has used reserves to fund improvement projects. Due to the low level of reserves this practice is no longer sustainable. This puts additional pressure on Scotland Excel to meet budget targets. There is a risk that the governance and funding structure may impact on the long term financial sustainability of Scotland Excel.</p>	<p>Review of budget monitoring reports during the year and comment on the financial position within the Annual Audit Report.</p>	<p>A review of budget monitoring reports and the financial statements highlight that reserve usage was less than planned in 2016/17. Reserves as at 31 March 2017 were £0.385 million but £0.166 million is expected to be used in 2017/18. The Treasurer has assessed the level of reserves and is satisfied levels are sufficient. Scotland Excel recognises there may be a need to achieve cost savings</p>

Audit risk	Assurance procedure	Results and conclusions
		or develop alternative services which generate income in future to be financially sustainable.





















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# Appendix 3

## Summary of national performance reports 2016/17



Apr			
May	 Common Agricultural Policy Futures programme: an update		
Jun	 South Ayrshire Council: Best Value audit report	 The National Fraud Initiative in Scotland	
Jul	 Audit of higher education in Scottish universities	 Supporting Scotland's economic growth	
Aug	 Maintaining Scotland's roads: a follow-up report	 Superfast broadband for Scotland: a progress update	 Scotland's colleges 2016
Sept	 Social work in Scotland	 Scotland's new financial powers	
Oct	 Angus Council: Best Value audit report	 NHS in Scotland 2016	
Nov	 How councils work – Roles and working relationships in councils	 Local government in Scotland: Financial overview 2015/16	
Dec	 Falkirk Council: Best Value audit report	 East Dunbartonshire Council: Best Value audit report	
Jan			
Feb	 Scotland's NHS workforce		
Mar	 Local government in Scotland: Performance and challenges 2017	 i6: a review	 Managing new financial powers: an update

### Local government relevant reports

[The National Fraud Initiative in Scotland - June 2016](#)

[How councils work - Roles and working relationships in councils - November 2016](#)

[Local government in Scotland: Financial overview 2015/16 - November 2017](#)

[Local government in Scotland: Performance and challenges 2017 - March 2017](#)

# Scotland Excel Joint Committee

## 2016/17 Annual Audit Report

If you require this publication in an alternative format and/or language, please contact us to discuss your needs: 0131 625 1500 or [info@audit-scotland.gov.uk](mailto:info@audit-scotland.gov.uk)

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