

# Tayside Contracts Joint Committee

2016/17 Annual Audit Report



 AUDIT SCOTLAND

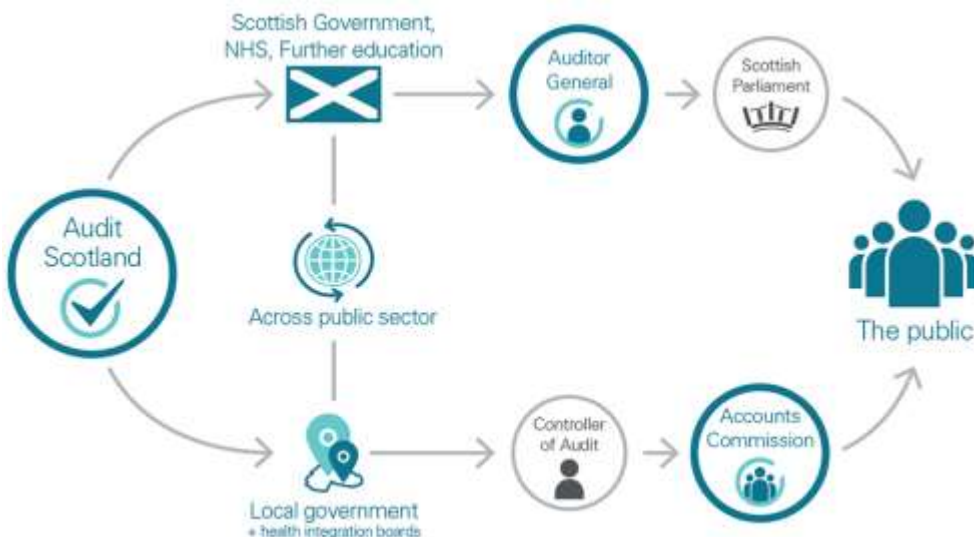
To Members of Tayside Contracts Joint Committee and the Controller of Audit

August 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.



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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 opinion was unqualified. This covered the financial statements, management commentary, remuneration report and the annual governance statement.
- 2 Construction and facilities divisions, failed to achieve the prescribed financial objective of attaining a breakeven position over a three year rolling period. This has been highlighted in a '*failure to achieve a prescribed financial objective*' paragraph in the audit opinion.
- 3 Significant presentational changes were required to the accounts in order that they complied with relevant guidance.

## Financial management

- 4 Financial management is effective with a budget process focussed on the priorities of Tayside Contracts Joint Committee (Tayside Contracts). Tayside Contracts has a good track record of delivering services within budgets over the last three years.
- 5 Controls relating to financial systems and procedures are designed appropriately and operating effectively.

## Financial sustainability

- 6 Tayside Contracts' financial position is sustainable in the short term. However without any medium/long term financial scenario planning it is difficult to assess whether future demand and reductions of funding to councils will place a strain on Tayside Contracts' capacity to deliver services at the current levels.

## Governance and transparency

- 7 Tayside Contracts has appropriate arrangements in place that support scrutiny of decisions however these arrangements should be the subject of regular review to ensure they remain effective and in line with recognised best practice.
- 8 Tayside Contracts is open and transparent in the way that it conducts its business, with the public able to attend meetings. Minutes of committee meetings and agenda papers and other key documents are available on Tayside Contracts' website for public inspection.

## Value for money

- 9 The performance management framework continues to provide assurance to the joint committee of improving performance with the Business Plan's targets being achieved in the majority of cases in 2016/17.

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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 Tayside Contracts Joint Committee (Tayside Contracts).

2. The scope of the audit was set out in our Annual Audit Plan presented to the March 2017 meeting of the Joint 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](#).

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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 the main financial systems and governance arrangements
- audit work covering arrangements for securing Best Value relating to financial management and financial sustainability
- an audit of the 2016/17 annual report and accounts including the issue of an independent auditor's report setting out our opinions.

4. Tayside Contracts is responsible for preparing 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 Tayside Contracts to manage its performance and use of resources such as money, staff and assets. Additionally, we report on Tayside Contracts' 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. 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 any 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 annual report and accounts.**

**The trading divisions failed to achieve this prescribed financial objective of attaining a breakeven position over a three year rolling period.**

**Significant changes to the unaudited accounts were required in order that the accounts complied with the requirements of the Code.**

### Audit opinions

**13.** The annual report and accounts for the year ended 31 March 2017 were approved by the Tayside Contracts Joint Committee on 28 August 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.** We have reported in respect of those matters which we are required by the Accounts Commission to report by exception that the trading divisions failed to achieve the prescribed financial objective of attaining a breakeven position over a three year rolling period.

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

### Submission of annual report and accounts for audit

**15.** We received the unaudited annual report and accounts on 29 June 2017, 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 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 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. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.

19. On receipt of the annual report and accounts we reviewed our materiality calculations. The materiality levels set for Tayside Contracts are summarised in Exhibit 2.

## Exhibit 2

### Materiality values

Materiality level	Amount
<b>Overall materiality</b> – This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It was set at 1% of gross expenditure for the year ended 31 March 2017.	£0.7 million
<b>Performance materiality</b> – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement we have calculated performance materiality at 75% of overall materiality.	£0.5 million
<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. This has been calculated at 5% of overall materiality.	£0.035 million

Source: Audit Scotland

## How we evaluate misstatements

20. All misstatements identified during the audit, which exceeded our reporting threshold, have been amended in the financial statements.

21. A number of presentational and monetary adjustments were identified within the financial statements during the course of our audit, none of which had an impact on the overall position. These were discussed with relevant officers who agreed to amend the unaudited financial statements. The effect of these adjustments is:

- a reclassification of the reduction in depot costs of £0.13 million to be included in the Deficit on the provision of services
- reclassification of insurance claims not yet settled of £0.28 million to provisions from creditors and expand the disclosures in relation to provisions.

## Significant findings

22. International Standard on Auditing 260 (UK & Ireland) requires us to communicate to you significant findings from the audit. These are summarised in [Exhibit 3](#) (where a finding has resulted in a recommendation to management, a cross reference to the Action Plan in [Appendix 1](#) has been included).



## Exhibit 3

### Significant findings from the audit

Issue	Resolution
<p><b>1. Significant trading operations</b></p> <p>The trading accounts of significant trading operations have a statutory objective to break even over three years. Due to the inclusion of IAS 19 pension costs, the two trading divisions, construction and facilities services, failed to achieve this prescribed financial objective of attaining a breakeven position over a three year rolling period. The deficits for the divisions over the three years to 31 March 2017 are as follows:</p> <ul style="list-style-type: none"> <li>• Construction - £2.46 million</li> <li>• Facilities Services - £4.95 million</li> </ul>	<p>This has been highlighted in a '<i>failure to achieve a prescribed financial objective</i>' paragraph in the audit opinion.</p> <p><a href="#">Action Plan (Appendix 1, point 1)</a></p>
<p><b>2. Non-compliance with Guidance and Regulations</b></p> <p>A number of disclosures required by extant guidance and Regulations had not been presented appropriately in the annual report. This required a number of amendments as follows:</p> <ul style="list-style-type: none"> <li>• introduction of an expenditure and funding analysis in line with the Code</li> <li>• introduction of a management commentary which is a requirement of the Local Authority Accounts (Scotland) Regulations 2014</li> <li>• amendment to the signatories to the accounts to reflect the requirements of the Local Authority Accounts (Scotland) Regulations 2014</li> <li>• amendment to the Statement of Responsibilities to reflect the Scottish Government Finance Circular 7/2014 guidance</li> <li>• update of the Annual Governance Statement to reflect compliance with CIPFA's Role of the Chief Financial Officer (2016) and to include other significant issues highlighted during the year by internal and external audit.</li> </ul>	<p>The annual report and accounts have been amended to include the disclosures.</p> <p><a href="#">Action Plan (Appendix 1, point 2)</a></p>

Source: Tayside Contracts Joint Committee Annual Report 2016/17

## Going concern

**23.** The financial statements of Tayside Contracts have been prepared on the going concern basis, as management considers that future charges to constituent councils under agreed contracts and commercial workload are sufficient to ensure that the Joint Committee is able to meet debts as they fall due. The financial statements show net liabilities of £48.7 million, incorporating the £51.6 million

retirement benefit obligation. As this obligation does not fall due within one year, it is not considered to impact on the going concern assumption. The 2017-18 budget forecasts a surplus of £0.92 million before IAS 19 adjustments.

## **Objections**

26. The Local Authority Accounts (Scotland) Regulations 2014 require a local authority to publish a public notice on its website that includes details of the period for inspecting and objecting to the accounts. This must remain on the website throughout the inspection period. Tayside Contracts complied with the regulations. No objections were received in relation to the Tayside Contracts accounts.

# Part 2

## Financial management



### Main judgements

**Tayside Contracts has a good track record of delivering services within its budgets and has consistently returned a surplus above that initially budgeted.**

**Tayside Contracts has appropriate internal controls in place within main financial systems and our testing confirmed that these were operating effectively. We did not identify any significant internal control weaknesses.**

### Financial performance in 2016/17

**24.** Tayside Contracts is a commercial trading organisation being constituted under a Minute of Agreement entered into in 1996 by the three constituent councils (Angus, Dundee City and Perth & Kinross Councils). Tayside Contracts approved a budget of £70.57 million for 2016/17 with a targeted surplus of £0.75 million prior to IAS 19 pension adjustments.

**25.** Tayside Contracts has a good track record in achieving a surplus in excess of the budget. In 2016/17 Tayside Contracts achieved a trading surplus, before IAS 19 pension adjustments, of £1.39 million (£0.64 million in excess of budget).

**26.** While Tayside Contracts' has achieved the budgeted surplus, there are variations in how different services have performed. The more significant variations are summarised in [Exhibit 4](#).

Financial management is about financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.

### Exhibit 4

#### Summary of significant variations against budget

Area	Exceeded surplus (£m)	Reason(s) for variance
Construction Division	£0.33	Reduction in council's budgets for reactive street lighting maintenance and lower levels of winter maintenance services combined with the associated reduction in costs.
Facilities Services Division	£0.31	Catering has provided an increased surplus through the increase in the uptake of meals, and lower-than-expected food unit costs. Cleaning achieved a surplus in excess of

Area	Exceeded surplus (£m)	Reason(s) for variance
		budget however this was offset by the restructuring costs recognised for transfer of Perth facility management services and Angus toilets/ offices facility management services.

Source: Tayside Contracts' Annual Report 2016/17

## Significant Trading Operations

**27.** The Local Government in Scotland Act 2003 prescribes that the Tayside Contract's trading operations should achieve a break-even position over a rolling three year period. The rolling three year deficit for the Construction division was £2.465 million and for the Facilities division it was £4.95 million. These results include IAS 19 pension adjustments made under accounting regulations without which the three year rolling surpluses would be £2.49 million and £1.38 million respectively. As a result of the failure to deliver a break-even position over the three year period to 31 March 2017, the audit opinion notes a '*failure to achieve a prescribed financial objective*'.

## Capital programme and borrowing

**28.** Capital expenditure in 2016/17 at £2.1 million was broadly in line with the budget (£2 million).

**29.** Tayside Contracts' outstanding loans at 31st March 2017 were £7 million. Loan repayments of £1.3 million were made in 2016/17 with new loans of £1.2 million taken to fund capital investment. Tayside Contract's overall indebtedness at 9.94% of annual income is consistent with previous years level of debt (2015/16: 9.84%; 2014/15 9.81%) and provides assurance that borrowing levels are affordable and sustainable.

**30.** The capital budget for 2017/18 was agreed in March 2017 and anticipates capital expenditure of £2 million with an associated increase in the capital financing requirement of £1.2 million. The budget considers the affordability of capital investment decisions through an assessment of capital financing costs in comparison with income. This has consistently been below 2.5% and provides further assurance that capital investment and borrowing decisions continue to be both affordable and sustainable.

**31.** Capital expenditure is mainly in relation to the ongoing replacement of the operational and winter maintenance fleet. Bodies are required to manage assets in an effective way to ensure the delivery of quality services. The fleet replacement programme is regularly monitored by members.

**32.** A recent internal audit report considered by members in June 2017 on Fleet Management highlighted that "*there has been a change of how the utilisation will be measured, with this going to be measured by using the GPS system. The Assistant Fleet Engineer has been tasked with developing the utilisation reports using GPS. The reports have been developed but as yet these have not been issued to anyone. This is only a recent development. These reports were used to determine whether the Organisation has sufficient fleet in place as part of the fleet replacement plan. Once the new Fleet Performance Manager is in post these reports will be issued monthly*". Once implemented this process should provide assurance that Tayside Contracts is effectively managing its fleet.

## Budgetary monitoring and control

**33.** The 2017/18 budget was approved by the Joint Committee in February 2017. Management continue to work closely with constituent authorities to anticipate the impact of future local government settlements.

**34.** The Joint Committee receives three revenue monitoring reports during the year with the papers considered in private (excluding press and public under Section 50(A)(4) of the Local Government (Scotland) Act 1973). From our review of these reports and attendance at committee we concluded that they provided an overall picture of the budget position at service level. Also, the reports forecast out-turn position for the year and include good narrative explanations for significant variances against budget. They allow both members and officers to carry out scrutiny of Tayside Contracts' finances.

## Financial capacity within Tayside Contracts

**35.** Dundee City Council's Executive Director of Corporate Services (Section 95 officer) has the role of Tayside Contracts' Proper Officer with responsibility for finance and has direct access to the managing director and the Joint Committee. We concluded that the Section 95 officer has appropriate status within Tayside Contracts and complies with the principles set out in CIPFA's *Role of the Chief Financial Officer (2016)*.

## Internal controls

**36.** 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 Tayside Contracts has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements.

**37.** We concluded, in our interim audit report presented to the Joint Committee in June 2017, that the systems of internal control are generally sound. No significant control weaknesses were identified which could affect Tayside Contracts' 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

**38.** We have responsibility for reviewing the arrangements put in place by management for the prevention and detection of fraud. We reviewed Tayside Contracts' arrangements including policies and codes of conduct for staff and elected members, whistleblowing and fraud prevention. The Annual Governance Statement highlights some of the ongoing work in this area including: revising anti-fraud guidelines; developing anti-money laundering policies and guidance; and ensuring procedures for investigating National Fraud Initiative matches are operating effectively.

**39.** Based on the evidence reviewed by us, we concluded that Tayside Contracts has adequate arrangements for the prevention and detection of fraud and is continuing to review and update these as appropriate.

## National Fraud Initiative

**40.** 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.

41. The latest position on NFI investigations by Tayside Contracts is summarised in [Exhibit 5](#).

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## Exhibit 5

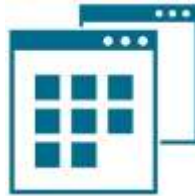
### National Fraud Initiative

**Total number of matches**



280

**Number recommended for investigation**



4

**Completed/closed investigations**



15

Source: NFI website

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42. We concluded in our interim audit report that:

- there is little formal reporting of the process or progress to members of the joint committee or senior management, albeit the number of matches is relatively low.
- the current NFI exercise provided matches in January 2017 and for the joint committee, identified 271 matches, of which 4 were recommended for investigation. A review of 6 of the 'non-recommended' matches has commenced but none of the recommended matches have yet been investigated.

43. Following our report Tayside Contracts have now investigated the recommended matches documenting the findings on the NFI system although the progress and results of the NFI activity have yet to be reported to the members.

44. Tayside Contracts has recognised in its Annual Governance Statement the need to ensure procedures for investigating NFI matches are working effectively and outcomes are reported timeously.

# Part 3

## Financial sustainability



### Main judgements

**Tayside Contracts' financial position is sustainable in the short term. However without any medium/long term financial scenario planning it is difficult to assess whether future demand and reductions to funding to councils will place a strain on Tayside Contracts' capacity to deliver services at the current levels.**

### Financial planning

45. It is important that longer-term financial strategies are in place which link spending to Tayside Contracts' 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 Tayside Contracts.

46. The *Local Government in Scotland: Financial overview 2015/16* (November 2016) highlighted that the need for budgets and forecasts to reflect actual spending and should be linked to the organisation's business objectives. A new business plan '*The Road to 2020*' was approved by the Joint Committee in June 2017 and it is key that Tayside's Contract's budget and savings plans are aligned to the priorities within this business plan.

47. Tayside Contracts continues to face a number of challenges in maintaining a sustainable financial position in future. These include the budget being prepared against a backdrop of increasing budget pressures in the councils and some degree of uncertainty around their funding and expenditure priorities.

48. The business plan currently does not contain financial projections over the period of the plan. Instead the budget is set annually. Tayside Contract's budget for 2017/18 was approved in March 2017. The budget anticipated income for year ending 31 March 2018 of £74.26 million and expenditure of £73.35 million. The trading account surpluses before IAS 19 adjustments are forecast as £0.57 million and £0.34 million for the Construction and Facilities division respectively.

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.

### Recommendation 3

**Tayside Contracts should develop medium/long term plans aligned to its recently approved business plan.**

49. Tayside Contracts hold a general fund reserve, the main purpose of which is to provide a contingency fund to meet unexpected expenditure and as a working balance to help cushion the impact of uneven cash flows. The level of usable reserves held by Tayside Contracts increased from £0.50 million in 2015/16 to £0.58 million in 2016/17, which equates to 0.8% of the 2016/17 turnover. The

increase relates to funds set aside for consultancy costs associated with restructuring and collaborative projects.

**50.** We consider Tayside Contracts' financial position to be sustainable in the short term, however further information, including scenario planning, would be required to conclude on long term financial sustainability.



# Part 4

## Governance and transparency



### Main Judgements

**Tayside Contracts has appropriate arrangements in place that support scrutiny of decisions however these arrangements should be the subject of regular review to ensure the arrangements remain effective and in line with recognised best practice.**

**Tayside Contracts is open and transparent in the way that it conducts its business, with the public able to attend meetings. Minutes of committee meetings and agenda papers and other key documents are available on Tayside Contracts' website for public inspection.**

### Governance arrangements

**51.** 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.

**52.** A local code of corporate governance was adopted by Tayside Contracts in 2012 and an annual review considers Tayside Contracts compliance with the guidance on an annual basis. The review was considered by the Joint Committee in June 2017 and the issues highlighted are reflected in the Annual Governance Statement within the financial statements.

**53.** We have also undertaken a review of Tayside Contracts' arrangements to assess: whether governance, decision-making and scrutiny arrangements are effective; the extent members demonstrate high standards of behaviour; and the extent members and staff receive sufficient training and development.

**54.** Tayside Contracts Joint Committee covers all aspects of governance in relation to the joint committee including decision making, scrutiny and audit. Our review concluded that the arrangements in place are appropriate and support good governance and accountability however the areas were also highlighted where improvements could be considered, including:

- there had been no recent review of the governance structure (particularly scrutiny and audit) to ensure the arrangements are effective and in line with recognised best practice. This was considered by the Joint Committee in June 2017 with the status quo being approved.
- the website is not maintained with up to date governance information. Following our review, the Joint Committee's agendas and minutes have now been added to the website

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.

- there are no formal complaints handling processes in place, although we have been advised that Tayside Contracts are to document and publicise formal processes in 2017/18.

**55.** We also reported that training for members is principally viewed as the responsibility of the constituent councils, although it is noted that induction training of members is planned following the August 2017 Joint Committee meeting. In our view ongoing training should be considered by Tayside Contracts, with training tailored to a commercial organisation.

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## Recommendation 4

**Tayside Contracts should ensure that members are offered regular and appropriate training and development to allow them to carry out their roles effectively.**

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## Management commentary, annual governance statement and remuneration report

**56.** The Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 requires local government bodies to prepare and publish, along with their financial statements, an annual governance statement, management commentary 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.

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

**58.** As noted at exhibit 3, significant amendments were required to the management commentary and annual governance statement to reflect extant guidance and Regulations. Tayside Contracts also continue to include a Foreword in the Annual Report, although the Code states that “statutory guidance on the Management Commentary in Scottish Government Circular 5/2015 “sets aside” the Code requirement for an Explanatory Foreword”, with appropriate detail included in the management commentary instead.

**59.** In our view there is still some scope for improvement in the management commentary to ensure it provides a more succinct review of the local authority’s business, the principal risks and uncertainties, key performance indicators, and explanation of amounts in the financial statements. Consideration should also be given to amalgamating appropriate Foreword information in the Management Commentary. This should be reviewed for 2017/18.

## Internal Audit

**60.** Internal audit provides senior management and elected members with independent assurance on Tayside Contracts’ overall risk management, internal control and corporate governance processes.

**61.** The internal audit function is carried out by Wylie & Bisset who were appointed internal auditors for 3 years commencing April 2016. We carried out a review of the adequacy of the internal audit function and concluded that it generally operates accordance with the Public Sector Internal Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place. The internal audit service is currently working towards obtaining PSIAS accreditation.

**62.** To avoid duplication effort we place reliance on the work of internal audit wherever possible. In 2016/17 we placed no formal reliance on internal audit for our financial statements work, however we considered internal audit report findings as part of our wider dimension work.

## Information and Communications Technology

**63.** Internal audit carried out a review of the overall IT controls to ensure that appropriate controls are in place and that these are operating as expected.

**64.** Internal audit provided a 'weak' level of assurance over the general IT controls in place. 15 recommendations for improvement were made, of which 3 of which are of a 'high' grade and covered: IT Business Continuity & Disaster Recovery Plan; Information Security Risk Assessment; Vulnerability Management Strategy (a formal strategy to be implemented to ensure critical security updates are installed).

**65.** An action plan was agreed and we will monitor progress with the plan in 2017/18.

## Transparency

**66.** Transparency means that the public has access to understandable, relevant and timely information about how Tayside Contracts is taking decisions and how it is using resources such as money, people and assets.

**67.** Tayside Contracts demonstrates a commitment to transparency with meetings of the Joint Committee open to members of the public, agendas and minutes of Joint Committee meetings available on the Tayside Contracts website and key documents including the annual accounts, business plans and annual performance reports also being available on the website.

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

## Equalities

**69.** The Equality Act 2010 introduced a public sector general duty that encourages public bodies to mainstream equality as 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.

**70.** Tayside Contracts has yet to meet its statutory duties in this area and is required to:

- publish information on progress made in mainstreaming equality
- report on progress made towards achieving equality outcomes
- publish annual employee information and details of the progress made in gathering and using information to better meet the duty
- publish updated gender pay gap information.

**71.** Tayside Contracts is currently setting objectives as required by the Act and has engaged an external consultant to assist with the process. An external consultant has also been appointed to undertake an Equal Pay audit and a gender pay gap analysis.

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**Recommendation 5**

**Tayside Contracts should ensure that its statutory duties under the Equality Act 2010 are addressed timeously.**

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# Part 5

## Value for money



### Main judgement

The performance management framework continues to provide assurance to the joint committee of improving performance with the Business Plan's targets being achieved in the majority of cases in 2016/17.

#### Performance management

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

**73.** Tayside Contracts has a Business Plan in place which sets out the key aims, objectives and targets of Tayside Contracts. The Business Plan was renewed for the period 2017-2020 and the broad framework of achieving these was approved at the Joint Committee in June 2017.

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

- workload reports at every meeting considering the work in each division in the last quarter and an assessment for the next quarter
- a six monthly update on the Business Plan which reports on key performance indicators and progress against the Corporate Improvement Plan and Corporate risk register.

**75.** Tayside Contracts also produces an Annual Performance Report which is presented to the joint committee and is available on the Tayside Contracts website. The most recent report available is for 2015/16 and this was considered by the joint committee in November 2016. The 2016/17 Annual Performance Report is anticipated to be available in November 2017.

**76.** The Annual Performance Report focusses on the key areas of Tayside Contracts' activities and performance, as determined in the business plan. Tayside Contracts uses a performance framework based on the European Foundation for Quality Management model to measure and monitor performance.

**77.** The performance management framework provides the joint committee with evidence of improved performance.

#### Overview of performance targets

**78.** Tayside Contracts has generally performed well in 2016/17, as reported in the 2016/17 annual report. Financial performance for 2016/17 has been good with

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

surpluses generated exceeding the planned amount. Income from partnerships as a percentage of total income continues to increase, although at 50% it remains below the 2016/17 target of over 65%.

**79.** Non-financial performance is relatively positive with 6 of the 8 performance indicators that have associated targets being categorised as having been met or exceeded. The two targets that have not been met for 2016/17 (although both are improved on the 2015/16 results) are:

- Employee turnover (10.8%; target 10%; 2015/16 actual 11.8%)
- Reportable accidents (18; target less than 15; 2015/16 actual 18)

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

### **National performance audit reports**

**81.** 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 are of direct interest to Tayside Contracts. These are outlined in Appendix 3.

**82.** There is currently no process in place to ensure that the joint committee considers relevant national reports.

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### **Recommendation 6**

**A process should be introduced to ensure all relevant Audit Scotland reports are considered by the Joint Committee.**

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# Appendix 1

## Action plan 2016/17

### 2016/17 recommendations for improvement

Page no.	Issue/risk	Recommendation	Agreed management action/timing
9	<p><b>1. Significant trading operations</b></p> <p>The audit opinion highlights annually the failure to achieve the prescribed financial objective of breaking-even over a three year rolling period.</p> <p><b>Risk: Tayside Contracts is failing to meet a statutory requirement.</b></p>	<p>Tayside Contracts should aim to achieve the statutory objective of breaking even over a three year rolling period.</p>	<p>The calculation of IAS19 costs is outwith Tayside Contracts' control.</p> <p>The only way Tayside Contracts could attempt to achieve the statutory objective would be to significantly increase our charges to constituent Councils by at least £3.5m per year. This is not consistent with our vision to provide cost-efficient frontline services.</p> <p>Responsible Officer: N/A</p> <p>Date by: N/A</p>
9	<p><b>2. Non-compliance with Guidance and Regulations</b></p> <p>A number of disclosures required by extant guidance and Regulations had not been presented appropriately in the annual report.</p> <p><b>Risk: The accounts may not comply with current guidance and Regulations.</b></p>	<p>Tayside Contracts should ensure that there is a process in place to ensure that the requirements of existing guidance and Regulations are met. The completion of the CIPFA Disclosure Checklist may assist with this process.</p>	<p>Agreed – As the CIPFA Disclosure Checklist is very expensive, our external auditors have offered to send us Technical Guidance to keep us informed of future changes to assist in this process.</p> <p>Responsible Officer: Head of Financial Services</p> <p>Date by: March 2018</p>
15	<p><b>3. Financial planning</b></p> <p>Tayside Contracts do not consider medium or long term financial planning as part of its business planning or budget setting process.</p> <p><b>Risk: Tayside Contracts may fail to set realistic targets in its business plans or is unable to achieve its objectives due</b></p>	<p>Tayside Contracts should develop medium/long term plans aligned to its recently approved business plan.</p>	<p>We are of the view that meaningful medium/ long term financial plans are not possible at the moment, due to the very high likelihood of significant structural and funding changes within local government over the medium /long term.</p> <p>If the likelihood, timing and impact of DCS and fleet transfers become clear in</p>



Page  
no.

Issue/risk

Recommendation

Agreed management  
action/timing

	<i>to lack of resources.</i>		time, and relevant financial information from the constituent Councils has been clarified in time, we will consider 2 year projections as part of our 18/19 budget-setting process.  Responsible Officer: Head of Financial Services  Date by: Ongoing review
18	<p><b>4. Members' training</b></p> <p>Although the skill sets may be different for a commercial organisation compared to a local authority body, members' training is principally viewed by Tayside Contracts as the responsibility of the constituent councils.</p> <p><b><i>Risk: members may not understand their role or may not have the necessary skills to make informed decisions and provide effective scrutiny.</i></b></p>	Tayside Contracts should ensure that members are offered regular and appropriate training and development to allow them to carry out their roles effectively.	<p>Constituent Councils are responsible for training councillors on Joint Boards and Tayside Contracts Joint Committee.</p> <p>Subsequent to the local government elections, Tayside Contracts will provide those new councillors that wish to attend with an overview of Tayside Contracts.</p> <p>Responsible Officer: Managing Director  Date by: August 2017</p>
20	<p><b>5. Equality Act 2010</b></p> <p>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.</p> <p>Tayside Contracts has yet to address this statutory duty.</p> <p><b><i>Risk: Tayside Contracts is failing to meet a statutory duty in relation to equalities.</i></b></p>	Tayside Contracts should ensure that its statutory duties under the Equality Act 2010 are addressed timeously.	<p>Agreed. This is actively being addressed and will be completed by 31 March 2018, and every 2 years thereafter as required.</p> <p>Responsible Officer: Head of Facilities Management and Human Resources  Date by: March 2018</p>
22	<b>6. Audit Scotland's national performance reports</b>	A process should be introduced to ensure all relevant Audit Scotland	Constituent Councils consider and report national performance reports to their





**Page  
no.**

**Issue/risk**

**Recommendation**

**Agreed management  
action/timing**

There is currently no process in place to ensure relevant national reports are considered by the Joint Committee.

***Risk: Risks or areas of good practice identified through national reports may not be appropriately considered and addressed.***

reports are considered by the Joint Committee.

committees. If, however, a specific report is applicable to Tayside Contracts, we will report it to our Joint Committee.

Responsible Officer:  
Managing Director

Date by: Ongoing review.

# 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 Risk of management override of controls</b></p> <p>Management has the ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p>	<ul style="list-style-type: none"> <li>detailed testing of journal entries.</li> <li>review of accounting estimates.</li> <li>focused testing of accruals and prepayments.</li> <li>evaluation of significant transactions that are outside the normal course of business.</li> </ul>	<p>Journal adjustments were tested and no indications of management override of controls were found.</p> <p>Judgements and estimations applied were tested to confirm they were appropriate and reasonable. No issues highlighted with the judgements and estimates applied.</p> <p>Confirmed that income and expenditure was properly accounted for in the financial year.</p> <p>Reviewed transactions during the year – no issues highlighted where significant transactions outside the normal course of business.</p>
<p><b>2 Risk of fraud over income and expenditure</b></p> <p>ISA 240 <i>The auditor's responsibilities relating to fraud in an audit of financial statements</i> include certain requirements relating to the auditor's consideration of fraud.</p> <p>ISA 240 requires auditors to presume a risk of fraud where income streams are significant. Additionally, the Code of Audit Practice requires consideration of the risk of fraud over expenditure.</p>	<ul style="list-style-type: none"> <li>analytical procedures on income and expenditure</li> <li>testing of key internal financial controls</li> <li>detailed testing of transactions focusing on the areas of greatest risk</li> <li>review the Joint Committee's involvement in the National Fraud Initiative.</li> </ul>	<p>Satisfactory explanations for variances between income and expenditure were provided by officers. No outstanding issues.</p> <p>No significant issues were found in relation to controls in place across the key financial systems.</p> <p>Reviewed income and expenditure transactions during the year – no issues highlighted in relation to the risk of fraud over income and expenditure.</p> <p>Reviewed the Joint Committee's involvement in the National Fraud Initiative highlighting improvements including:</p> <ul style="list-style-type: none"> <li>formal reporting of progress to the Joint Committee</li> <li>the timeous completion of recommended matches</li> </ul>

Audit risk	Assurance procedure	Results and conclusions
<p><b>3 Estimation and judgements</b></p> <p>There is a significant degree of subjectivity in the measurement and valuation of the material account areas such as non current assets, pensions and provisions. This subjectivity represents an increased risk of misstatement in the financial statements.</p>	<ul style="list-style-type: none"> <li>• review of the work of an expert for the actuary and the valuer</li> <li>• focussed testing of non current asset, pension and provisions.</li> </ul>	<p>Judgements and estimations applied were tested to confirm they were appropriate and reasonable. No issues highlighted with the judgements and estimates applied.</p>
<p><b>4 Revisions to the presentation of the financial statements</b></p> <p>The 2016/17 Code of Practice on Local Authority Accounting makes a number of changes in the presentation of the financial statements, including:</p> <ul style="list-style-type: none"> <li>• Changes to the structure of the Comprehensive Income and Expenditure Statement and the Movement in Reserves Statement, with associated restatement of prior year figures.</li> <li>• A new expenditure and funding analysis</li> <li>• Changes to the requirements of the annual governance statement to provide additional disclosures</li> </ul> <p>These changes present a risk of material misstatement in the financial statements if they are not properly actioned.</p>	<ul style="list-style-type: none"> <li>• focussed testing on the financial statements to ensure that the changes have been properly actioned.</li> </ul>	<p>Reviewed the unaudited accounts highlighting the following issues which have been amended in the audited version of the accounts:</p> <ul style="list-style-type: none"> <li>• allocation of Non Distributed Costs and Corporate &amp; Democratic Core across the trading divisions.</li> <li>• the introduction of an Expenditure &amp; Funding Analysis.</li> <li>• Update to the Annual Governance Statement to reflect current guidance.</li> </ul>
<p><b>Risks identified from the auditor's wider responsibility under the Code of Audit Practice</b></p>		
<p><b>5 Local government elections</b></p> <p>The 2017 local government elections will result in changes in the elected members. There is a risk that there is a loss of skills and experience amongst members. To ensure members understand their roles and have the necessary skills to make informed decisions and provide effective scrutiny, development and training will be required. The Audit Scotland publication How Councils Work on <a href="#">the role of councillors</a> provides guidance in this area:</p>	<ul style="list-style-type: none"> <li>• review the arrangements for the induction and training of new members.</li> </ul>	<p>Member's training undertaken mainly by the constituent councils. Action point raised in appendix 1.</p>

# 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](#)

[Maintaining Scotland's roads: a follow up report - August 2016](#)

[Local government in Scotland: Financial overview 2015/16 – November 2016](#)

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

# Tayside Contracts Joint Committee

## 2016/17 Annual Audit Report

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