

Tayside Contracts Joint Committee

2022/23 Annual Audit Report



 AUDIT SCOTLAND

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

November 2023

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Key messages

2022/23 annual accounts

- 1 Audit opinions on the annual accounts of Tayside Contracts are unmodified, i.e. the financial statements and related reports are free from material misstatement.

Financial management and sustainability

- 2 Financial performance for 2022/23 resulted in a trading surplus of £0.977 million which is £0.656 million below expectations.
- 3 Borrowing levels have remained static in 2022/23 and overall indebtedness had reduced.
- 4 Controls within the main financial systems were operating effectively while standards for the prevention and detection of fraud remain appropriate.
- 5 The finance function has improved in year with new accountants being appointed.
- 6 The budget for 2023/24 projects a surplus of £0.75 million despite challenging pay and inflation pressures.
- 7 Tayside Contracts does not yet have a medium to longer term financial plan in place.

Vision, leadership and governance

- 8 Tayside Contracts has a clear vision, strategy and priorities.
- 9 Tayside Contracts has effective and appropriate governance arrangements in place that support scrutiny of decisions made by the Joint Committee.

Use of resources to improve outcomes.

- 10 There is scope to improve how the organisation reports and presents its key performance indicators in the accounts.
- 11 The performance of Tayside Contracts has deteriorated since 2021/22.

Introduction

1. This report summarises the findings from the 2022/23 annual audit of Tayside Contacts Joint Committee (Tayside Contacts). The scope of the audit was set out in an annual audit plan presented to the 19 June 2023 meeting of the Joint Committee. This Annual Audit Report comprises:

- significant matters arising from an audit of Tayside Contacts annual accounts
- conclusions on Tayside Contacts performance in meeting its Best Value duties
- conclusions on the following wider scope areas that frame public audit as set out in the [Code of Audit Practice 2021](#):
 - Financial Management
 - Financial Sustainability
 - Vision, Leadership, and Governance
 - Use of Resources to Improve Outcomes.

2. This report is addressed to the Joint Committee and the Controller of Audit and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.

Audit appointment from 2022/23

3. I, Fiona Owens, have been appointed by the Accounts Commission as auditor of Tayside Contacts for the period from 2022/23 until 2026/27. The 2022/23 financial year was the first of my five-year appointment. My appointment coincides with the new [Code of Audit Practice](#) which was introduced for financial years commencing on or after 1 April 2022.

4. My team and I would like to thank senior management, and other staff, particularly those in finance, for their cooperation and assistance in this year and we look forward to working together constructively over the course of the five-year appointment.

Responsibilities and reporting

5. Tayside Contacts has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual accounts that are in accordance with proper accounting practices. Tayside Contacts is also

responsible for compliance with legislation, and putting arrangements in place for governance and propriety that enable it to successfully deliver its objectives.

6. The responsibilities of the independent auditor are established by the Local Government (Scotland) Act 1973 and the [Code of Audit Practice 2021](#), and supplementary guidance and International Standards on Auditing in the UK.

7. Weaknesses or risks identified are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management of Tayside Contacts from its responsibility to address the issues we raise and to maintain adequate systems of control.

8. This report contains an agreed action plan at [Appendix 1](#). It sets out specific recommendations, the responsible officers, and dates for implementation.

Auditor Independence

9. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2022/23 audit fee of £46,320 as set out in our 2022/23 Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

10. We add value to Tayside Contacts by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations
- providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, arrangements to ensure the best use of resources and financial sustainability.
- sharing intelligence and good practice identified.

1. Audit of 2022/23 annual accounts

Public bodies are required to prepare annual accounts comprising financial statements and other related reports. These are principal means of accounting for the stewardship public funds.

Main judgements

The audit opinion on the annual accounts of Tayside Contract is unmodified.

There were no material adjustments to the annual accounts as a result of the audit process.

Audit opinions on the annual accounts are unmodified

11. The Joint Committee approved the annual accounts for Tayside Contracts for the year ended 31 March 2023 on 9 June 2023. As reported in the independent auditor's report, in my opinion as the appointed auditor:

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

Overall materiality was assessed as £1.9 million

12. Broadly, the concept of materiality is applied by auditors to determine whether misstatements identified during the audit could reasonably be expected to influence the economic decisions of users of the financial statements, and hence impact their opinion set out in the independent auditor's report. Auditors set a monetary threshold when considering materiality, although some issues may be considered material by their nature. It is ultimately a matter of the auditor's professional judgement.

13. Our initial assessment of materiality was carried out during the risk assessment and planning phase of the audit. This remained unchanged on receipt of the unaudited annual accounts and is summarised in [Exhibit 1](#).

Exhibit 1

Materiality values

Materiality level	Amount
Overall materiality	£1.9 million
Performance materiality	£1.1 million
Reporting threshold	£95 thousand

Source: Audit Scotland

14. The overall materiality threshold for the audit of the annual accounts of Tayside Contacts was set with reference to gross expenditure, which we judged as the figure most relevant to the users of the financial statements.

15. Performance materiality is used by auditors when undertaking work on individual areas of the financial statements. It is a lower materiality threshold, set to reduce the probability of aggregated misstatements exceeding overall materiality. Performance materiality was set at 60% of overall materiality, reflecting a number of errors within the prior year accounts, and it being the first year of the audit rotation.

16. It is our responsibility to request that all misstatements, other than those below our reporting threshold, are corrected, although the final decision on making the correction lies with those charged with governance.

Significant findings and key audit matters

17. Under International Standard on Auditing (UK) 260 we communicate significant findings from the audit to Tayside Contracts, including our view about the qualitative aspects of the body's accounting practices.

18. The Code of Audit Practice also requires all audits to communicate key audit matters within the annual audit report under International Standard on Auditing (UK) 701. These are matters that we judged to be of most significance in our audit of the financial statements.

19. The significant findings from the audit are summarised in [Exhibit 2](#).

Exhibit 2

Significant findings and key audit matters from the audit of the annual accounts

Issue	Resolution
<p>1. Valuation of pension asset</p> <p>The 2022/23 unaudited annual accounts included a pension asset of £55 million.</p> <p>The pension accounting standard (IAS 19) limits any pension asset to the lower of the surplus and what is described as an asset ceiling. The asset ceiling is defined as the present value of any economic benefits available in the form of refunds from the pension fund or reductions in future contributions to the fund.</p> <p>Further guidance on calculating the asset ceiling is provided in IFRIC 14. It refers to the impact of a 'minimum funding requirement' which stipulates a minimum amount of contributions that must be paid over a given period. The existence of a minimum funding requirement limits the ability of a body to reduce future contributions.</p> <p>Where there is a minimum funding requirement for contributions relating to future service, IFRIC 14 explains that the asset ceiling is the present value of the future service cost less the present value of the minimum funding requirement contributions.</p> <p>Where the present value of the minimum funding requirement contributions exceeds the future service cost, IFRIC 14 advises that no asset should be recognised.</p> <p>Our review of the methodology used by Tayside Contracts actuary identified that the calculation of asset ceiling had only considered future service cost and the minimum funding requirement contributions up to the date of the next triennial valuation, rather than all future service costs and contributions. As a result, the pension asset was overstated in the unaudited annual accounts.</p>	<p>The actuary provided a revised IFRIC14 calculation that reflected a pension asset ceiling calculation based on an assessment of all future service costs and contributions.</p> <p>The audited financial statements have been adjusted to reflect the revised pension valuation.</p> <p>The annual accounts now reflect a pension asset of zero for Tayside Contracts funded obligations, and a pension liability of £1.9 million for its unfunded obligations, for which the IFRIC 14 calculation does not apply.</p>
<p>2. Significant trading operation</p> <p>Tayside Contracts has a duty under section 10 of the Local Government in Scotland Act 2003 to conduct each of its significant trading operations so</p>	<p>We will continue to monitor this over the course of the audit, and Tayside Contracts should strive to achieve breakeven.</p>

Issue	Resolution
<p>that income is not less than expenditure over each three-year period. The two trading divisions, Construction and Facilities Services, failed to achieve this prescribed financial objective of attaining a breakeven position over the three-year period 2020/21 to 2022/23. The deficits include IAS 19 costs, for the divisions over the 3 years to 31 March 2023 are:</p> <ul style="list-style-type: none"> • Construction: £3.695 million • Facilities Services: £14.013 million 	
<p>3. Implementation of IFRS 16</p> <p>Tayside Contracts have implemented the early adoption of IFRS 16 in 2022/23.</p> <p>In reviewing Tayside Contracts' adoption of the IFRS16 standard, we identified misclassification between right of use assets and other PPE. £1.607m of right of use assets were incorrectly classified as PPE and one PPE asset with a value of £140,000 was incorrectly classified as right of use. There was no impact on the bottom line.</p>	<p>The classification issues were amended within the revised accounts, however there should be a review on the coding of leases undertaken.</p> <p>Recommendation 1 (Refer Appendix 1, action plan)</p>
<p>4. Asset Identification</p> <p>In reviewing the fixed asset register, many asset entries do not include the unique identifiers included within the corresponding entry on the Fleetwave system.</p>	<p>The sample items selected from the fixed asset register were agreed to the Fleetwave records using various other details. Where Fleetwave codes were present, this was a simpler process.</p> <p>Unique identifiers should be shared across both the fixed asset register and the Fleetwave system to allow easy identification of assets.</p> <p>Recommendation 2 (Refer Appendix 1, action plan)</p>
<p>5. Misclassification of Creditors</p> <p>In reviewing the short-term creditors balances that make up Note 25 to the accounts, it was found that £1.114m was misclassified. This amount was incorrectly included within the Accrued Salaries and Wages line rather than Trade Creditors.</p>	<p>This classification issue was amended within the revised accounts and is considered to be isolated in nature.</p>

Our audit work responded to the risks of material misstatement we identified in the annual accounts

20. We have obtained audit assurances over the identified significant risks of material misstatement in the annual accounts. [Exhibit 3](#) sets out the significant risks of material misstatement to the financial statements we identified in our 2022/23 Annual Audit Plan. It also summarises the further audit procedures we performed during the year to obtain assurances over these risks and the conclusions from the work completed.

Exhibit 3

Significant risks of material misstatement in the annual accounts

Audit risk	Assurance procedure	Results and conclusions
<p>1. Risk of material misstatement due to fraud caused by management override of controls</p> <p>As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p>	<ul style="list-style-type: none"> • Assess the design and implementation of controls over journal entry processing. • Test journals at the year-end and post-closing entries and focus on significant risk areas. • Consider the need to test journal entries and other adjustments during the period. • Evaluate significant transactions outside the normal course of business. • Assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year. • Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year. • Focussed testing of accounting accruals and prepayments. 	<p>Results: We found no instances of material misstatement due to fraud caused by management override of controls.</p>
<p>2. Estimation in the valuation of the pension assets and liabilities.</p>	<ul style="list-style-type: none"> • Assess the competence, capabilities, and objectivity of the actuary in line with ISA 500. 	<p>Results: A review of actuarial reports identified that Tayside Pension Fund had an unusually high assessment of</p>

Audit risk	Assurance procedure	Results and conclusions
<p>Tayside Contracts recognised a net liability of £8.924 million relating to its share of Tayside Pension Fund as at 31 March 2022.</p> <p>There is a large degree of subjectivity in the measurement and valuation of the pension fund liability.</p> <p>Assets are based on an individual employer body's share of assets at the last triennial valuation. Roll forward adjustments are provided to members data and to asset valuations.</p> <p>The valuation is based on specialist assumptions and estimates and changes can result in material changes to the valuation.</p>	<ul style="list-style-type: none"> Review the appropriateness of assumptions used by the actuary to reach the valuation of future retirement benefits including comparison with other bodies and the pension fund as a whole. Establish officers' arrangements for ensuring the reasonableness of professional estimations and the accuracy of information provided to the actuary by Tayside Contracts. 	<p>pension assets under IFRIC14.</p> <p>The method used to determine this value was considered and we identified that the valuation of costs and contributions were assessed over very different timeframes.</p> <p>A revised IAS19 actuarial report was obtained, and the annual accounts were amended to reflect the revised valuation.</p> <p>Refer to issue 1 in Exhibit 2.</p>
<p>3. Significant Trading Operations</p> <p>Tayside Contracts has a duty under section 10 of the Local Government in Scotland Act 2003 to conduct each of its significant trading operations so that income is not less than expenditure over each three-year period.</p> <p>IAS19 pension costs can have a significant impact on this financial objective.</p>	<ul style="list-style-type: none"> Assess and test a sample of income and expenditure. Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year. Focussed testing of accounting accruals and prepayments. Assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year. Review the appropriateness of assumptions used by the actuary to reach the valuation of future retirement benefits including comparison with 	<p>Results: The significant trading operations for Tayside Contracts failed to breakeven over the three-year period to 2022/23.</p> <p>Refer to issue 2 in Exhibit 2.</p>

Audit risk	Assurance procedure	Results and conclusions
	<p>other bodies and the pension fund as a whole.</p> <ul style="list-style-type: none"> • Confirm prior year results agree to audited financial statements. • Assess the disclosure and presentation of the financial performance. 	

Source: Audit Scotland

One non-material misstatement was identified within the financial statements

21. It is our responsibility to request that all misstatements above the reporting threshold are corrected. There were two monetary errors identified during the audit exceeding our threshold of £0.095 million. These errors were the classification error within the IFRS 16 and a mis-classification of creditors. As management corrected these errors in the audited annual accounts, we have no material unadjusted errors to report.

The unaudited annual accounts were received in line with the agreed audit timetable

22. The unaudited annual accounts were received in line with our agreed audit timetable on 30 June 2023.

23. The Local Authority Accounts (Scotland) Regulations 2014 require 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. As part of the audit, we confirmed that the 2022/23 annual accounts inspection notice was placed on the Tayside Contracts website in accordance with the regulations. We did note that the link to the accounts advert was not working at the point we reviewed it, however this was subsequently fixed by Tayside Contracts and the link was corrected.

2. Financial management

Financial management means having sound budgetary processes, and the ability to understand the financial environment and whether internal controls are operating effectively.

Conclusion

Financial performance for 2022/23 resulted in a trading surplus of £0.977 million which is £0.656 million below expectations.

Borrowing levels have remained static in 2022/23 and overall indebtedness had reduced.

Controls within the main financial systems were operating effectively while standards for the prevention and detection of fraud remain appropriate.

The finance function has improved in year with new accountants being appointed.

Tayside Contracts operated within budget in 2022/23 however the surplus was lower than anticipated

24. Tayside Contracts is a commercial trading organisation constituted under a Minute of Agreement entered into by the three constituent councils (Angus, Dundee City and Perth & Kinross) in 1996. Its core financial aim is to fund its activities and return surpluses to the constituent councils to reinvest in public services.

25. The joint committee approved its budget for 2022/23 in March 2022. It showed anticipated income of £85.017 million and expenditure of £81.384 million for the year ending 31 March 2023. The investment plan showed planned capital expenditure of £3 million for the year.

26. The trading account surpluses, before IAS 19 adjustments, were budgeted to be £1.398 million for the Construction division and £0.235 million for the Facilities Services division, which would have resulted in a total distributable surplus of £1.634 million to be returned to the constituent councils. As outlined within Exhibit 4, the actual surplus for the year was £0.656 million below the budgeted surplus for the year. This is outlined within [Exhibit 4](#).

Exhibit 4**Summary of significant under/overspends against budget**

Area	Budgeted surplus £m	Actual surplus £m	Above/(below) budget surplus £m
Construction division	1.4	0.611	(0.789)
Facilities division	0.234	0.376	0.133
Tayside Contracts	1.634	0.977	(0.656)

Source: Tayside Contracts 2022/23 Annual accounts

The joint committee has appropriate budget-setting and monitoring arrangements

27. The financial updates provided to the joint committee in August, November and March include an update on the anticipated distributable surplus, deficits per operational area and profit per operational area. The financial position, including aged debt, is also taken to the central leadership team monthly.

Borrowing levels have remained static in 2022/23 and overall indebtedness had reduced

28. At 31 March 2023, long term borrowing stood at £8.2 million an increase of £0.2 million on the 2022 level of £8 million. During the same period, short term borrowing increased from £1.466 million to £1.491 million.

29. The total debt of Tayside Contracts relates to loans with Dundee City Council to finance capital expenditure. This related to the investment plan for upgrading the joint committee's fleet and will be repaid over the life of the associated assets. After new borrowing, and in-year repayments, outstanding loans at 31 March 2023 totalled £9.762 million.

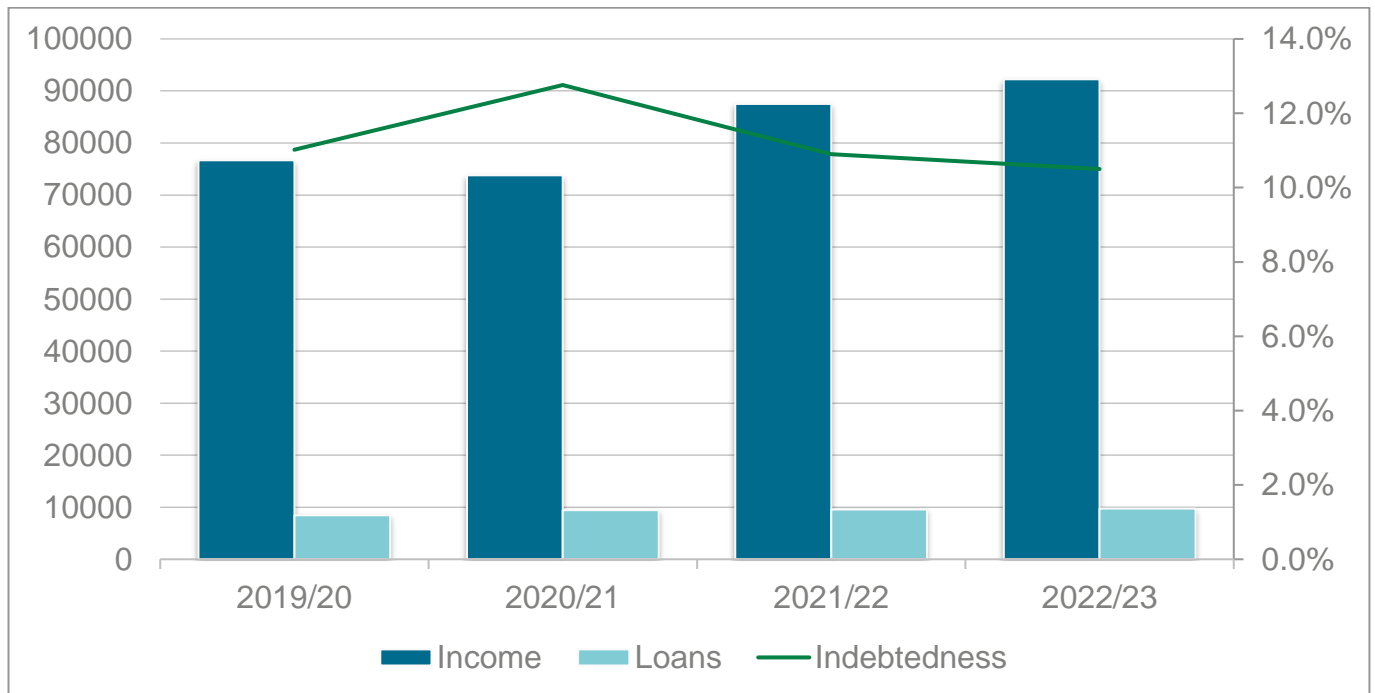
30. As a result, Tayside Contracts overall indebtedness as a percentage of annual income as at 31 March 2023 was 10.5%, a decrease of 0.4% percentage points at the end of the prior year (10.9%).

31. While borrowing levels have increased in recent years, we still deem these to be affordable and sustainable. We would also expect the overall level of indebtedness as a percentage of annual income to continue to reduce in future years as additional income is generated through the CPU and the associated loans are repaid.

32. Exhibit 5 shows Tayside Contracts overall indebtedness as a percentage of its annual income over the last 4 years.

Exhibit 5

Overall indebtedness as a percentage of annual income over past 4 years



Source: Tayside Contract annual accounts 2019/20 to 2022/23

The finance function has improved in year with new accountants being appointed

33. In our 2021/22 annual audit report, we recommended that the capacity of the finance function should be reviewed. This should include ensuring there is sufficient management review in the structure and that staff in new roles have adequate support and training to operate effectively.

34. During 2022/23, an accountant was appointed to provide extra capacity within the finance function of Tayside Contracts. This has provided continuity and support throughout the year, and has meant that the finance function is no longer under strain.

Tayside Contracts has appropriate financial control arrangements in place

35. From our review of the design and implementation of systems of internal control (including those relating to IT) relevant to our audit approach and the testing the operating effectiveness of specific controls, we did not identify any internal control weaknesses which could affect Tayside Contracts ability to

record, process, summarise and report financial and other relevant data to result in a material misstatement in the financial statements.

Standards of conduct and arrangements for the prevention and detection of fraud and error were appropriate

36. In the public sector there are specific fraud risks, including those relating to tax receipts, welfare benefits, grants and other claims made by individuals and organisations. Public sector bodies are responsible for implementing effective systems of internal control, including internal audit, which safeguard public assets and prevent and detect fraud, error and irregularities, bribery and corruption.

37. Tayside Contracts has adequate arrangements in place to prevent and detect fraud or other irregularities.

3. Financial sustainability

Financial Sustainability means being able to meet the needs of the present without compromising the ability of future generations to meet their own needs.

Conclusion

The budget for 2023/24 projects a surplus of £0.75 million despite challenging pay and inflation pressures.

Tayside Contracts does not yet have a medium to longer term financial plan in place.

Tayside Contracts approved a revenue budget of £81.560 million and a capital budget of £3.759 million for 2023/24 in March 2023

38. Tayside Contracts' 2023/24 revenue budget was approved at the March 2023 meeting of the Joint Committee. The budget for the year is based on income of £82.310 million and expenditure of £81.560 million. This would generate a distributable surplus of £0.75 million, with the Construction division contributing £0.49 million and the Facilities Services division contributing £0.26 million.

39. The budget included efficiency savings and the redistribution of these gains to the councils in the form of reduced charges. The budget also included significant increases in expenditure largely attributable to inflationary increases, particularly relating to energy and food, and pay-related pressures.

40. The 2023/24 investment plan (capital budget) was approved at the same meeting and set out £3.759 million of capital expenditure. This includes £1.415 million for the replacement of operational fleet and £0.781 million for the winter maintenance fleet. £0.689 million of capital expenditure for 2022/23 has been carried forward into 2023/24. This is due to delivery dates for a number of vehicles in 2022/23 being delayed. The delivery has been affected by the global disruption to the vehicle supply chain.

Medium and longer term financial plans are currently not in place with plan a plan still to be developed as part of the 2024/24 budget

41. Tayside Contracts does not currently have a medium and longer term financial plan in place. Due to staff shortages, there has not been the capacity for it to be progressed. Tayside contracts are planning to have a plan in place as

part of the 2024/25 budget process following an external review also highlighting the need for a medium and longer term plan. Reporting on this will take place at the November Joint Committee meeting.

Recommendation 3

Tayside Contracts should complete a medium to long term financial plan to allow them to have a complete picture of its longer term financial position and the challenges it faces in meeting its objectives in the medium to long term.

4. Vision, leadership and governance

Public sector bodies must have a clear vision and strategy and set priorities for improvement within this vision and strategy. They work together with partners and communities to improve outcomes and foster a culture of innovation.

Conclusion

Tayside Contracts has a clear vision, strategy and priorities.

Tayside Contracts has effective and appropriate governance arrangements in place that support scrutiny of decisions made by the Joint Committee.

Tayside Contracts vision and priorities have been outlined within the Business Plan 2021-24

42. The Business Plan 2021-24 for Tayside Contracts has been created through extensive engagement with a wide range of stakeholders including:

- (Development sessions with members of the Joint Committee
- Development session with the Governance and Strategy Group which consists of a senior officer of each of the 3 constituent Councils and members of the Tayside Contracts Executive Officer Team
- Engagement session with affiliated Trade Unions
- Multiple development sessions with managers across all areas of Tayside Contracts and engagement sessions with members of staff

43. The vision for Tayside Contracts is to be “*A high performing and expanding shared service; proud of what we do and chosen for how we do it*”, and it is built on five strategic priorities:

- Confidence, Trust and Relationships
- Commercial Approach
- Collaboration and Sharing
- Continuous Improvement and Performance
- Communities, Councils and Customers

44. Management reviews action plans and targets contained within the business plan on a regular basis. In addition, the Governance and Strategy Group, consisting of Tayside Contracts' Managing Director and a senior representative from each of the constituent Councils, is involved in monitoring progress against key business plan targets. The business plan incorporates a detailed action plan that sets out the activities required for each strategic theme, along with the lead officer responsible for their delivery, and the target completion date.

45. In June 2023, the joint committee considered the business plan's six-monthly review. A progress tracker shows that of actions scheduled to the end of April, 36 were marked as on-track or complete, with four assessed as having minor issues. Some of the completed actions included developing a new marketing strategy and developing a training programme to deliver on collaborative opportunities.

Governance arrangements are appropriate and operated effectively

46. Tayside Contracts governance arrangements have been set out in the annual governance statement in the annual accounts. We have reviewed these arrangements and concluded that they are appropriate and effective.

47. Our review of the governance arrangements of an organisation includes consideration of:

- Board and committee structure and conduct.
- Overall arrangements and standards of conduct including those for the prevention and detection of fraud, error, bribery, and corruption.
- Openness of Tayside Contracts.
- Reporting of performance and whether this is fair, balanced, and understandable.

48. Papers and minutes for the Joint Committee meetings, including financial and performance information and details decisions made of are available on Tayside Contracts website.

49. Scrutiny arrangements are working well in Tayside Contracts with all committee members being given the chance to participate and provide effective scrutiny.

Climate change arrangements

50. The Scottish Parliament has set a legally binding target of becoming net zero by 2045 and has interim targets including a 75% reduction in greenhouse gas emissions by 2030. The public sector in Scotland has a key role to play in ensuring these targets are met and in adapting to the impacts of climate change.

51. Tayside Contracts has a net zero target for 2045, and they have developed a climate change plan, which was published in November 2021. The climate change plan outlines how Tayside contracts will mitigate their emissions, how they adapt to the impacts of climate change, how they will communicate and engage on climate change and how they will monitor and report their progress.

52. Progress is monitored via the annual performance report, that is published around November each year.

53. The Auditor General and Accounts Commission are developing a programme of work on climate change. This involves a blend of climate change-specific outputs that focus on key issues and challenges as well as moving towards integrating climate change considerations into all aspects of audit work.

5. Use of resources to improve outcomes

Public sector bodies need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities.

Conclusions

There is scope to improve how the organisation reports and presents its key performance indicators in the accounts

The performance of Tayside Contracts has deteriorated since 2021/22

There is scope to improve how the organisation reports and presents its key performance indicators in the accounts

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

- Workload reports at each meeting covering the work in each division over the last quarter, which highlights any areas of concern, and an assessment for the next quarter.
- A six-monthly update on the business plan (most recently reported in June 2023)

55. Tayside Contracts also produces an annual Performance Report which is presented to the Joint Committee and is available on the organisation's website. The most recent report published covered 2021/22 and was considered by the Joint Committee in November 2022. This is the first report that relates to the 2021-24 business plan.

56. We recognise that the implementation of the new business plan, has impacted on the reporting of key performance indicators. The presentation of the KPIs in the annual accounts could be enhanced through clear infographics which show whether targets assigned to priorities have been met, and some comparative information on performance to show whether it is improving or deteriorating over time.

The performance of Tayside Contracts has deteriorated since 2021/22

57. The management commentary included in the 2022/23 annual accounts includes a high-level summary of performance against key performance indicators and targets over the past year. Of the 12 indicators, four were not met. This is a deterioration on the prior year, where three indicators were not met/not assessed.

Appendix 1. Action plan 2022/23

2022/23 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>1. Implementation of IFRS 16</p> <p>Tayside Contracts have implemented the early adoption of IFRS 16 in 2022/23.</p> <p>In reviewing Tayside Contracts' adoption of the IFRS16 standard, we identified misclassification between right of use assets and other PPE. £1.607m of right of use assets were incorrectly classified as PPE and one PPE asset with a value of £140,000 was incorrectly classified as right of use. There was no impact on the bottom line.</p> <p>Risk – There is a risk that all leases are not correctly coded within the fixed asset register (FAR). Risk –</p>	<p>Tayside Contracts should review the coding of leases in the FAR to simplify the process of identifying classes of assets for inclusion in the financial statements.</p> <p>Exhibit 2</p>	<p>Agreed - Tayside Contracts will review the coding of leases in FAR and simplify the processes of identifying classes of assets for inclusion in the 2023-24 financial statements.</p> <p>Service Leader – Finance & Governance 31 March 2024</p>
<p>2. Asset Identification</p> <p>In some instances, assets in the fixed asset register cannot be easily matched to the corresponding entry on the Fleetwave system.</p> <p>Risk – without a clear correlation between the fixed asset register and the Fleetwave system, duplicate</p>	<p>Where possible, Tayside Contracts should include shared unique identifiers across both the fixed asset register and the Fleetwave system to allow easy identification of assets.</p> <p>Exhibit 2</p>	<p>Agreed.- Tayside Contracts will assess the possibility of including a unique identifier in both FAR and Fleetwave, where possible this will be implemented.</p> <p>Service Leader – Finance & Governance</p>

Issue/risk	Recommendation	Agreed management action/timing
assets could be erroneously created.		31 March 2024
<p>3. Medium to Long Term planning</p> <p>Tayside Contracts does not currently have a medium and longer term financial plan in place. Due to staff shortages, there has not been the capacity for it to be progressed. Tayside contracts are planning to have a plan in place as part of the 2024/25 budget process following an external review also highlighting the need for a medium and longer term plan. Reporting on this will take place at the November Joint Committee meeting.</p> <p>Risk – There is a risk that Tayside Contracts do not have a complete picture of the longer-term financial position and challenges.</p>	<p>Tayside Contracts should complete a medium to long term financial plan to allow them to have a complete picture of its longer-term financial position and the challenges it faces in meeting its objectives in the medium to long term.</p> <p>Paragraph 41</p>	<p>Agreed - Tayside Contracts has commenced the development of a medium term financial plan as part of the 2024-25 budget process.</p> <p>Service Leader – Finance & Governance</p> <p>31 March 2024</p>

Follow-up of prior year recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>B/f 1. Accounting for fully depreciated assets</p> <p>Our audit work found a number of non-current assets were recorded in the fixed asset register which had a net book value of zero, or</p>	<p>Management should review the procedures for accounting for non-current assets. The useful life of all assets should be reviewed annually to assess whether a change in estimate is required.</p>	<p>Outstanding</p> <p>Due to system limitations and the resulting impact on year-end processes, this remains outstanding. A review of the fixed asset register is due to be undertaken in 2023/24. The intended outcome of the</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>nearly zero, yet were still in use.</p> <p>Risk: The figures in the unaudited accounts do not accurately reflect the underlying financial records or source documentation.</p>		<p>review is for fully depreciated assets to be removed from the fixed asset register.</p> <p>Service Lead – Finance</p> <p>31 March 2024</p>
<p>b/f 2. Unaudited accounts and working papers</p> <p>The accounts and working papers presented to audit required a number of revisions as a result of our findings. Some working papers were provided late, which led to a delay to our audit work being completed.</p> <p>Risk: The figures in the unaudited accounts do not accurately reflect the underlying financial records or source documentation</p>	<p>To ensure that the extent of issues with the annual accounts presented for audit is minimised in future years, management should introduce additional quality controls and supervisory checks as part of the accounts preparation process.</p>	<p>Complete</p> <p>The working papers that were presented to audit were of a good quality, and checks were completed ahead of them being submitted to audit.</p>
<p>b/f 3. Finance capacity</p> <p>A number of staff departures continues to place the finance section under significant pressure. This high turnover of staff, and reduction in overall capacity, has placed additional demands on the remaining staff responsible for completing the key finance functions during the year.</p> <p>Risk: The financial management and operation of the organisation is undermined by key finance functions not being completed when required.</p>	<p>The finance function should be reviewed to ensure there is sufficient capacity to carry out their duties. This should include identifying improvements for processes and operations, and that staff have adequate support and training to operate effectively.</p>	<p>Complete</p> <p>The staffing complement in Tayside Contracts has increased throughout the 2022/23 audit, and key functions have been operating well since the appointment of an accountant.</p> <p>Paragraph 33-34</p>

Tayside Contracts Joint Committee

2022/23 Annual Audit Report

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