

Tayside Contracts

2023/24 Annual Audit Report



 AUDIT SCOTLAND

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

January 2025

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Key messages

2023/24 annual accounts

- 1 The audit opinion on the annual accounts of Tayside Contracts is unmodified, i.e. the financial statements and related reports are free from material misstatement.
- 2 Material adjustments have been made to the income and expenditure totals in the annual accounts as a result of the audit process.
- 3 The unaudited accounts and their publication did not fully comply with regulations. A number of issues were identified with the quality of supporting papers.

Financial management

- 4 Tayside Contracts has appropriate and effective financial management arrangements in place. Performance against budget led to a distributable surplus that was £314k greater than budgeted.
- 5 Controls within the main financial systems were operating effectively while standards for the prevention and detection of fraud remain appropriate.
- 6 Borrowing levels have increased by £1.137m in 2023/24, which has in-turn increased overall indebtedness.

Financial sustainability

- 7 Tayside Contracts approved a revenue budget of £93.629 million and a capital budget of £4.063 million for 2024/25 in March 2024.
- 8 Tayside Contracts has developed a three-year financial plan covering 2024/25 to 2026/27. This projects a cumulative surplus of £751k based on mid-range assumptions on cost variables.
- 9 Tayside Contracts has effective and appropriate arrangements in place to plan the use of its resources to sustain delivery of continue to deliver services into the medium term.

Vision, leadership and governance

- 10 Tayside Contracts has laid out a clear vision, strategy, and priorities in their 2024-2027 Business Plan.

- 11** Tayside Contracts has effective and appropriate governance arrangements for delivery of its plans.

Use of resources to improve outcomes

- 12** Tayside Contracts has appropriate arrangements in place to ensure that resources are deployed to improve strategic outcomes, that meet the needs of service users.
- 13** Tayside Contracts is improving but further improvement is needed to meet all its KPI targets.
- 14** Reporting on key performance indicators in the annual accounts could be improved to reflect whether indicators have improved or deteriorated over time.

Introduction

1. This report summarises the findings from the 2023/24 annual audit of Tayside Contracts. The scope of the audit was set out in an Annual Audit Plan presented to the 11 March 2024 meeting of the Joint Committee. This Annual Audit Report comprises:

- significant matters arising from an audit of Tayside Contracts' annual accounts
- conclusions on Tayside Contracts' 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 members of Tayside Contracts Joint Committee and the Controller of Audit and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.

3. We would like to thank Joint Committee members, management, and staff, particularly those in finance, for their cooperation and assistance during the audit.

Responsibilities and reporting

4. Tayside Contracts 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 Contracts is also responsible for compliance with legislation and putting arrangements in place for governance and propriety that enable it to successfully deliver its objectives.

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

6. This report contains an agreed action plan at [Appendix 1](#). It sets out specific recommendations, the responsible officers, and dates for implementation. Weaknesses or risks identified in this report are only those which have come to our attention during audit work and may not be all that exist. Communicating

these does not absolve management of Tayside Contracts from its responsibility to address the issues raised and to maintain adequate systems of control.

Auditor Independence

7. 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 2023/24 audit fee of £49,100 as set out in our 2023/24 Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

1. Audit of 2023/24 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 Contracts is unmodified.

Material adjustments have been made to the income and expenditure totals in the annual accounts as a result of the audit process.

The unaudited accounts and their publication did not fully comply with regulations. A number of issues were identified with the quality of supporting papers.

Audit opinions on the annual accounts are unmodified

8. The Joint Committee approved the annual accounts for Tayside Contracts for the year ended 31 March 2024 on 27 January 2025. The independent auditor's report included the following opinions on the annual accounts:

- 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 Local Authority Accounts (Scotland) Regulations 2014
- the management commentary and annual governance statement were consistent with the financial statements and properly prepared in accordance with the applicable requirements.

The unaudited annual accounts were prepared in line with the agreed audit timetable, however they did not fully comply with regulations. We identified a number of issues with the quality of supporting papers.

9. Regulation 8(6) of the 2014 Regulations states the proper officer must certify and date the statement of responsibilities and balance sheet of the unaudited accounts and submit to the appointed external auditor no later than 30 June.

10. Auditors were not presented with unaudited accounts but were directed to the accounts published within Joint Committee papers. However, the required signatures on the statement of responsibilities and balance sheet had not been included. We did not identify any issues during our audit with the narrative on the statement of responsibilities.

11. Regulation 9(3)(a) of the Local Authority Accounts (Scotland) Regulations 2014 requires local government bodies to publish a public notice on their website that includes details of the period for inspecting and objecting to the accounts by 17 June. The public notice was published late, on 21 June 2024.

12. The content of the public notice did not comply with all aspects of regulation 9(4) of the 2014 regulations

- it did not state that no charge would be made for inspection or copying of the documents
- it did not include the full mailing address for the external auditors.

13. A number of issues were identified with the quality of the accounts presented and supporting papers. These are documented in further detail at issue 2 in [Exhibit 3](#).

Recommendation 1

Tayside Contracts should implement a more robust oversight process for checking and secondary review of the accounts and supporting working papers, including a checklist for compliance with regulatory requirements.

Overall materiality was assessed on receipt of the unaudited annual accounts as £2.168 million

14. 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.

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

Exhibit 1

Materiality values

Materiality level	Amount
Overall materiality	£2.168 million
Performance materiality	£1.300 million
Reporting threshold	£108 thousand

Source: Audit Scotland

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

17. 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 errors identified in the prior year accounts.

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

18. [Exhibit 2](#) sets out the significant and non-significant risks of material misstatement to the financial statements identified in our 2023/24 Annual Audit Plan. It also summarises the further audit procedures performed during the year to obtain assurances over these risks and the conclusions from the work completed.

Exhibit 2

Risks of material misstatement in the annual accounts

Audit risk	Assurance procedure	Results and conclusions
Significant risks of material misstatement		
<p>1. Risk of material misstatement due to fraud caused by management override of controls</p> <p>As stated in ISA (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls</p>	<p>Assess the design and implementation of controls over journal entry processing.</p> <p>Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the</p>	<p>We found that there were limited controls around the processing of journal entries although this was mitigated to some extent by the budget monitoring controls.</p> <p>Our testing of journals at the year end and throughout the year identified one material misstatement relating to elimination of internal charges (see Exhibit 3) caused by error</p>

Audit risk	Assurance procedure	Results and conclusions
<p>that otherwise appear to be operating effectively.</p>	<p>processing of journal entries and other adjustments.</p> <p>Test journals at the year-end and post-closing entries and focus on significant risk areas.</p> <p>Consider the need to test journal entries and other adjustments throughout the year.</p> <p>Evaluate significant transactions outside the normal course of business.</p> <p>Assess the adequacy of controls in place for identifying and disclosing related party relationship and transactions in the financial statements.</p> <p>Assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year.</p> <p>Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year.</p> <p>Focused testing of accounting accruals and prepayments.</p>	<p>rather than fraud. Having looked at the entire population of internal charges journals, we were satisfied that this was isolated.</p> <p>In our work carried out in relation to income, expenditure, debtors, creditors and journals, we did not identify any significant transactions outside the normal course of business.</p> <p>We found that the controls in place for identifying and disclosing related parties of Tayside Contracts in the financial statements were adequate.</p> <p>From our review of the methods and underlying assumptions used to prepare accounting estimates, we found no deviations from the prior year approach.</p> <p>Our substantive testing of income and expenditure transactions around the year-end found no instances of transactions being accounted for in the incorrect financial year.</p> <p>No errors were identified through our focused testing of accruals and prepayments.</p> <p>Conclusion: Our testing did not identify any instances of management override of controls.</p>
<p>2. Risk of material misstatement caused by fraud in expenditure.</p> <p>Practice Note 10 expands the consideration of fraud under ISA 240 to include the risk of fraud over expenditure. There is a risk that expenditure may be</p>	<p>Detailed testing of expenditure transactions focusing on the areas of greatest risk.</p> <p>Review of budget monitoring reports focusing on significant variances</p>	<p>Our detailed testing of expenditure transactions found no instances of misstatement caused by fraud in expenditure.</p> <p>Our review of budget monitoring reports and significant variances did not identify any instances of</p>

Audit risk	Assurance procedure	Results and conclusions
<p>materially misstated in the 2023/24 financial statements due to the following significant non-pay expenditure streams:</p> <ul style="list-style-type: none"> • Construction division (£27 million in 2022/23) • Facilities division (£7.4 million in 2022/23) 	<p>Review of Tayside Contracts' participation in the National Fraud Initiative</p> <p>Review and testing of the design and operation of controls in relation to non-pay expenditure.</p>	<p>misstatement caused by fraud in expenditure.</p> <p>Tayside Contracts participated in the National Fraud Initiative and followed up on matches.</p> <p>No issues were identified in our review and testing of the design and operation of controls in relation to non-pay expenditure.</p> <p>Conclusion: Our testing of specific non-pay expenditure streams did not identify any instances of material misstatement caused by fraud in expenditure.</p>

Other non-significant risks of material misstatement

3. Estimation in the valuation of the pension assets and liabilities.

Tayside Contracts recognised a net liability of £1.866 million relating to its share of Tayside Pension Fund as at 31 March 2023.

There is a large degree of subjectivity in the measurement and valuation of the pension fund liability.

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. The last valuation was as at 31 March 2023.

The valuation is based on specialist assumptions and estimates and changes can result in material changes to the valuation.

Assess the competence, capabilities, and objectivity of the actuary in line with ISA 500.

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.

In assessing the competence, capabilities, and objectivity of the actuary in line with ISA 500, we found no issues.

Our local review and our auditors' expert review of the assumptions used by the actuary to reach the valuation of future retirement benefits found that assumptions were appropriate and within reasonable ranges.

No issues were identified relating to professional estimations or the accuracy of information provided to the actuary by Tayside Contracts.

Conclusion: We did not identify any issues with the valuation of pension assets and liabilities included in the accounts.

4. Significant Trading Operations (STOs)

Assess and test a sample of income and expenditure.

Our audit work across income, expenditure, accruals,

Audit risk	Assurance procedure	Results and conclusions
<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>	<p>Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year.</p> <p>Focussed testing of accounting accruals and prepayments.</p> <p>Assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year.</p> <p>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.</p> <p>Confirm prior year results agree to audited financial statements.</p> <p>Assess the disclosure and presentation of the financial performance.</p>	<p>prepayments and other journals did not identify any misstatements that would impact on the net position of STOs.</p> <p>From our review of the financial statements and supporting notes, we are satisfied that STO disclosures are appropriate and in line with requirements.</p> <p>Conclusion: When taking account of IAS19 pension costs, the significant trading operations for Tayside Contracts failed to breakeven over the three-year period to 2023/24.</p> <p>Refer to issue 4 in Exhibit 3</p>

Source: Audit Scotland

Significant findings and key audit matters

19. Under ISA (UK) 260, we communicate significant findings from the audit to Tayside Contracts, including our view about the qualitative aspects of Tayside Contracts' accounting practices.

20. The Code of Audit Practice also requires me to highlight key audit matters, which are defined in ISA (UK) 701 as those matters judged to be of most significance.

21. The significant findings including key audit matters, are summarised in [Exhibit 3](#).

Exhibit 3

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

Issue	Resolution
<p>1. Elimination of internal charges</p> <p>As part of year end processes, internal sales should be eliminated from the amounts disclosed in the Comprehensive Income and Expenditure Statement in the accounts. This journal was posted incorrectly, causing both income and expenditure to be overstated by £20.746m in the unaudited accounts.</p> <p>In reviewing this, it was found that internal sales had not been eliminated in 2021/22 or 2022/23, resulting in material adjustments to the prior year figures. As above, this impacted both income and expenditure so had no impact on the year-end position.</p>	<p>The journal was reversed and processed correctly, resulting in a £20.746m reduction to the gross income and expenditure figures in the unaudited accounts. The net impact of the adjustment is nil.</p> <p>Gross income has reduced from £110.183m to £89.437m, while gross expenditure changed from £108.407m to £87.661m.</p> <p>Income and expenditure for both 2022/23 and 2021/22 have been restated. These have been reduced by £9.042m and £9.030m, respectively.</p>
<p>2. Unaudited accounts and working papers</p> <p>A number of issues were identified with the working paper and accounts package was provided at the end of June 2024.</p> <p>The unaudited accounts contained various typos, inconsistencies and incomplete disclosures.</p> <p>Examples include:</p> <ul style="list-style-type: none"> the Note 25 Creditors total did not agree to the corresponding Balance Sheet figure, some other figures were inconsistent throughout the accounts, narrative within the accounts template was not updated for 2023/24, and several incorrect cross references were included throughout the accounts. <p>In addition to this, several of the initial working papers provided to support the accounts did not agree to the corresponding notes.</p>	<p>Revised accounts and supporting working papers were provided by officers, however, this impacted on the resourcing and efficiency of the audit of the accounts.</p> <p>Tayside Contracts should implement a more robust oversight process for checking and secondary review of the accounts and supporting working papers.</p> <p>With dependency on some senior finance staff, Tayside Contracts should review the division of responsibilities to ensure year end processes are completed effectively and efficiently.</p> <p>Recommendation 1</p> <p>See Appendix 1</p>
<p>3. Non-current asset disclosures were not supported by underlying working papers</p> <p>Non-current assets in the financial statements should be split into asset categories and presented to show additions, disposals and transfers between categories.</p>	<p>Revisions were made to the accounts to correct the identified errors.</p> <p>A total of £1.552m from L&B and VPE additions and AUC disposals were reclassified in the audited accounts and disclosed as transfers in and out of AUC.</p>

Issue	Resolution
<p>Several classification errors were identified within Note 17b, affecting the Land & Buildings, Vehicles, Plant & Equipment and Assets Under Construction categories. Transfers from AUC were misclassified within additions and disposals lines.</p>	<p>As the errors were relating to the classification of these assets, the bottom line net book value as at 31 March 2024 was unaffected.</p> <p>Recommendation 1</p> <p>See Appendix 1</p>
<p>4. 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 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 2021/22 to 2023/24. The deficits include IAS 19 costs, for the divisions over the 3 years to 31 March 2024 are:</p> <ul style="list-style-type: none"> • Construction: £2.145 million • Facilities Services: £9.852 million 	<p>We will continue to monitor this over the course of the audit, and Tayside Contracts should strive to achieve breakeven.</p>
<p>5. Classification of debtors</p> <p>Note 22 provides an analysis of short-term debtors, splitting them out between those owed by the constituent councils and those owed by other customers.</p> <p>In the unaudited accounts, £2.521m of accrued income, which should have been included in the constituent councils line was misclassified as Trade Debtors.</p>	<p>The Note 22 analysis was revised in the certified accounts. The overall impact on short term debtors is nil.</p> <p>Constituent council debtors increased from £11.838m to £14.359m. Conversely, Trade Debtors decreased by the same amount, from £4.817m to £2.296m.</p>
<p>6. Exit packages omissions</p> <p>The disclosure of information relating to exit packages did not agree to the supporting calculations provided to audit.</p> <p>The exit packages table within the unaudited accounts showed the correct number of voluntary and compulsory exits but the incorrect total. £18k of costs were also omitted from the 2023/24 costs column.</p>	<p>This was revised in the certified accounts.</p> <p>The compulsory exit package disclosure was updated to include the omitted departures as well as the corresponding costs.</p>

Non-material misstatements within the financial statements

22. Other than the corrected material misstatement detailed as a significant finding in [Exhibit 3](#), the audit identified no misstatements above the reporting threshold.

Good progress was made on prior year recommendations

23. Tayside Contracts has made good progress in implementing the agreed prior year audit recommendations. More detail can be found in [Appendix 1](#).

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

Tayside Contracts had appropriate and effective financial management arrangements in place with regular budget monitoring reports provided to the Joint Committee. A distributable surplus of £1.064m was achieved in 2023/24.

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

Borrowing levels have increased by £1.137m in 2023/24, which has in-turn increased overall indebtedness.

Tayside Contracts achieved a distributable surplus of £1.064m after additional contributions from constituent councils

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 2023/24 in March 2023. It included anticipated income of £82.310 million and expenditure of £81.560 million for the year ending 31 March 2024. The investment plan included planned capital expenditure of £2.978 million for the year.

26. A surplus of £1.064m was achieved after the cost of the 2023/24 pay award was met in accordance with the cost sharing agreement with constituent councils. The breakdown of this surplus can be found in [Exhibit 4](#).

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

Area	Budgeted Surplus £m	Actual Surplus £m	Performance against budget £m
Construction Division	£0.490	£0.759	+£0.269
Facilities Services Division	£0.260	£0.305	+£0.045
Tayside Contract	£0.750	£1.064	+£0.314

Source: Tayside Contracts 2023/24 Annual Accounts

Appropriate budget processes continued to operate in 2023/24

27. We observed that senior management and members receive regular and accurate financial information on Tayside Contracts' performance against budgets. Tayside Contracts has appropriate budget setting and monitoring arrangements. The financial position, including aged debt, is also taken to the central leadership team monthly.

Efficiencies achieved were in excess of those planned but it is not clear how much of this relates to those planned for 2023/24

28. The 2023/24 budget included planned efficiency savings of £0.516 million. However, Tayside Contracts achieved actual savings of £1.671 million through actions laid out in their Change Plan.

29. The most significant savings in 2023/24 were due to a review of staffing numbers required in Facilities Services Division to align with school meal numbers and the change to less expensive rock salt for roads usage within the Construction Division.

30. From Tayside Contracts' reporting, it is not clear what proportion of savings are recurring and whether the savings achieved aligned with those planned for 2023/24.

31. Budget reports and subsequent updates presented to the Joint Committee would benefit from more detail on Tayside Contracts' efficiency savings.

Recommendation 2

Tayside Contracts should present performance against its planned efficiency savings regularly to the Joint Committee, while clearly distinguishing between recurring and non-recurring savings.

Borrowing levels have increased in 2023/24 but remain in line with capital investment plans

32. The total debt of Tayside Contracts relates to loans from Dundee City Council to finance capital expenditure. This is related to the investment plan for upgrading the fleet and will be repaid over the life of the associated assets. Some £2.628 million of the total £3.962 million of capital expenditure during the year was funded through borrowing.

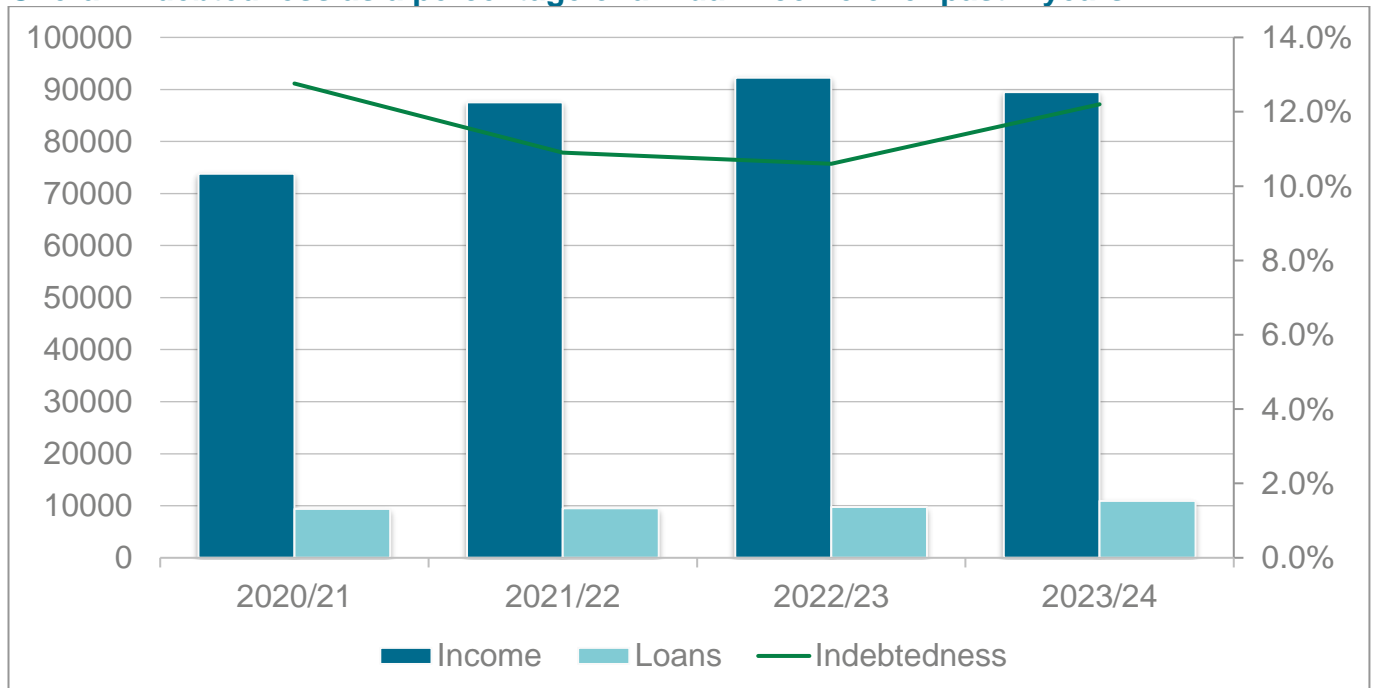
33. After new borrowing, and in-year repayments, outstanding loans at 31 March 2024 totalled £10.899 million, an increase of £1.137 million on the 2023 level of £9.762 million.

34. Long term borrowing stood at £9.229 million, an increase of £0.958 million on the 2023 level of £8.271 million. During the same period, short term borrowing increased from £1.491 million to £1.670 million.

35. [Exhibit 5](#) shows Tayside Contracts' overall indebtedness as a percentage of its annual income over the last 4 years. Indebtedness has increased in 2023/24 but has not returned to 2020/21 levels. Although the level of indebtedness has increased to 12.2%, this aligns with the planned capital investment that supports Tayside Contracts objective to generate additional income.

Exhibit 5

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



Source: Tayside Contract annual accounts 2020/21 to 2023/24

Tayside Contracts has appropriate financial control arrangements in place

36. From a review of the design and implementation of systems of internal control in place relevant to our audit approach and testing of the operating effectiveness of specific key controls, no control weaknesses which could affect Tayside Contracts' ability to record, process, summarise, and report financial and other relevant data and result in a material misstatement in the financial statements.

37. We identified that Tayside Contracts' cyber security arrangements in 2023/24 were less robust than in prior years. Tayside Contracts did not attain Cyber Essentials certification in 2023/24 and no external penetration testing was carried out as had been in 2022/23. However, Cyber Essentials certification has been achieved in the 2024/25 financial year.

38. Tayside Contracts utilise the payroll function of Dundee City Council (DCC) for the processing and payment of payroll transactions. From our own review of the reconciliation process between Tayside Contracts and DCC and assurances provided by the DCC audit team, we are satisfied that no significant internal control weaknesses were identified.

Internal audit

39. Up until 31 March 2023, Tayside Contracts' internal audit function was undertaken by Wylie and Bisset. The agreement with Wylie and Bisset ended at the conclusion of the 2022/23 financial year. Tayside Contracts intended for the internal audit role to be taken on by the internal audit function at one of their constituent councils. However, due to lack of capacity, this did not take place. During 2023/24, Tayside Contracts started the tender process and Henderson Loggie were appointed in January 2024.

40. Forward planning well in advance of the expiry of the existing agreement may have meant a less significant gap in service provision.

Recommendation 3

Tayside Contracts should review key contracts and agreements and their expiry on an annual basis in order to prevent gaps in service provision as has been seen with the internal audit function.

41. One significant matter was raised in the 2023/24 Internal Audit Annual report by Henderson Loggie relating to the physical security controls not operating as expected. Follow up action is being taken.

42. Henderson Loggie noted that in addition to the above, some areas for improvement were identified and consequently, action plans have been agreed with management. They concluded that Tayside Contracts has adequate and effective arrangements for risk management, control and governance.

National Fraud Initiative

43. The National Fraud Initiative (NFI) is a counter-fraud exercise across the UK public sector which aims to prevent and detect fraud. Tayside Contracts participates in this biennial exercise. The 2022/23 exercise concluded during the 2023/24 financial year and the final report was published in Summer 2024.

44. No instances of fraud were identified but the NFI exercise two duplicate payments with a total value of £7,000.

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

Tayside Contracts approved a revenue budget of £93.629 million and a capital budget of £4.063 million for 2024/25 in March 2024.

Tayside Contracts has developed a three-year financial plan covering 2024/25 to 2026/27. This projects a cumulative surplus of £751k based on mid-range assumptions on cost variables.

Tayside Contracts has effective and appropriate arrangements in place to plan the use of its resources to sustain delivery of continue to deliver services into the medium term.

Tayside Contracts approved a revenue budget of £93.629 million and a capital budget of £4.063 million for 2024/25 in March 2024

45. Tayside Contracts' 2024/25 revenue budget was approved at the March 2024 meeting of the Joint Committee. The budget for the year is based on income of £94.302 million and expenditure of £93.629 million. This would generate a distributable surplus of £0.673 million, with the Construction division contributing £0.417 million and the Facilities Services division contributing £0.256 million.

46. The budget includes efficiency savings and the redistribution of these gains to the councils in the form of reduced charges. The budget also includes significant increases in expenditure largely attributable to inflationary increases and pay-related pressures.

47. Tayside Contracts has agreed a change to the method of charging for nursery and school meals with the constituent councils. Tayside Contracts anticipate that the change should improve cash flow and help the Catering Unit to achieve a breakeven position in 2024/25.

48. The 2024/25 capital investment plan was approved at the same meeting and set out £4.063 million of capital expenditure. This includes £2.283 million for the replacement of operational fleet and £1.030 million for the winter maintenance fleet. A total of £0.278 million of capital expenditure budgeted for

in 2022/23 has been carried forward into 2024/25. This is due to delivery dates for a number of vehicles in 2023/24 being delayed.

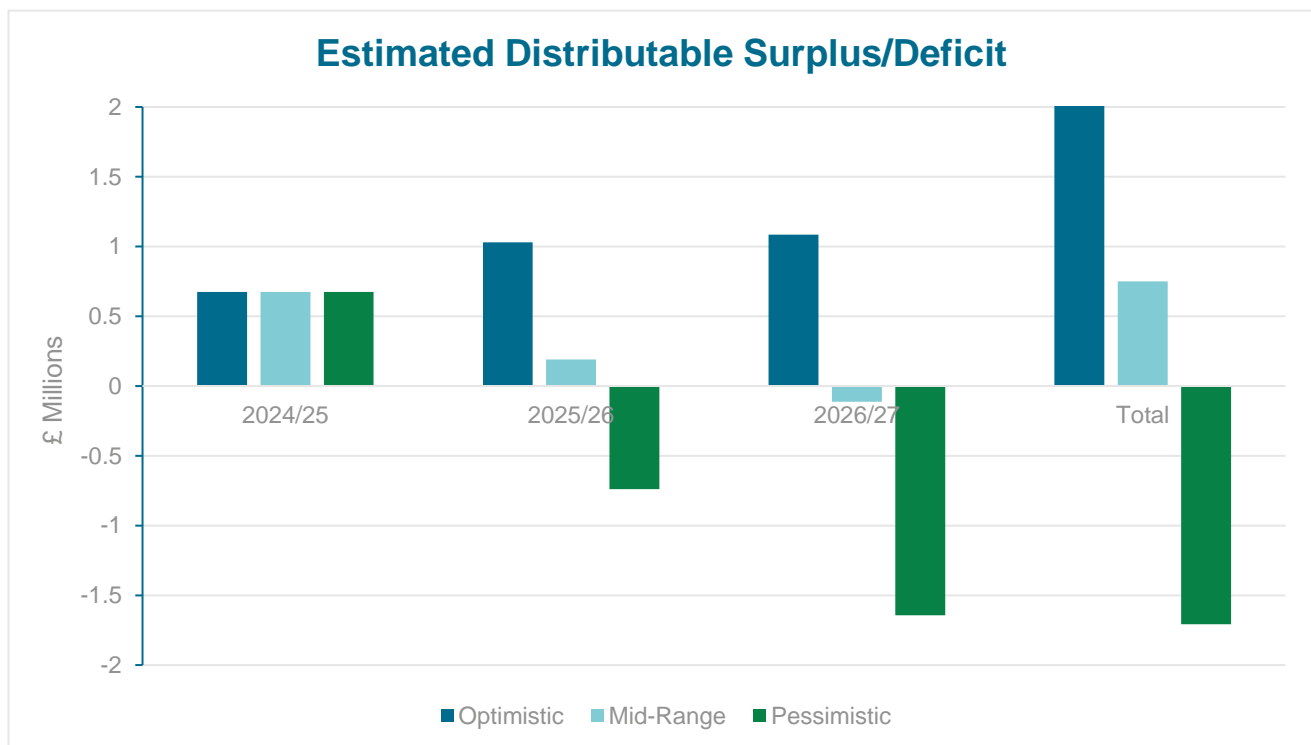
Medium-term financial planning is now in place

49. In response to our prior year audit recommendation, Tayside Contracts produced a medium-term financial plan, which was approved by the Joint Committee at the August 2024 meeting. The medium-term financial plan contains optimistic, mid-range and pessimistic financial projections for Tayside Contracts in the period to 31 March 2027, as set out in [Exhibit 6](#). The mid-range estimates are the most likely. The factor causing the greatest variance between the projections is pay inflation.

50. Due to its makeup, Tayside Contracts have a high proportion of staff at lower ends of the pay scale. An approximate 73% of Tayside Contracts' employees are on the lowest local authority hourly rate. As pay awards are generally weighted towards increases for staff at the lower ends of the pay scale, Tayside Contracts are disproportionately affected by this.

51. These projections interlink with the 2024-2027 Business Plan. Tayside Contracts are aiming to combat the uncertainty by focusing on generating additional income from collaborative services with the constituent councils as well as increasing income from external sources by a third.

Exhibit 6 Estimated Financial Position 2024/25 – 2026/27



Source: Tayside Contracts Medium Term Financial Plan

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 laid out a clear vision, strategy, and priorities in their 2024-2027 Business Plan.

Tayside Contracts has effective and appropriate governance arrangements for delivery of its plans.

Tayside Contracts vision and priorities have been outlined within the Business Plan 2024-2027

52. The new Tayside Contracts' Business Plan was created through engagement with a wide range of stakeholders including:

- engagement sessions with members of the Joint Committee.
- engagement session with the Governance and Strategy Group (GSG), which consists of a senior officer of each of the constituent councils and the members of the Tayside Contracts Corporate Leadership Team.
- engagement session with affiliated Trade Unions.
- development sessions with employees and managers across all areas of Tayside Contracts.

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

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

- Communities, Councils and Customers

54. The refresh of the Business Plan retains the priorities laid out in the previous plan. Good progress was made against the 2021-2024 Plan despite significant challenges. Tayside Contracts has refreshed the accompanying action plan for 2024-2027, detailing 36 new planned actions, 21 of which are linked to one of the five strategic priorities. The remaining 15 actions are linked to Tayside Contracts' 'Enablers', the areas within the organisation who will help deliver the vision described in the Business Plan.

55. 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. Progress against each of these actions is reported annually to the Joint Committee.

56. The main risks associated with the delivery of the Business Plan are also captured by Tayside Contracts within their Corporate Risk Register. This is monitored quarterly by the Corporate Leadership Team and reported annually to the Joint Committee. This should highlight any areas of concern and any reviews that may be needed. The Business Plan will be reviewed and refreshed at the start of each calendar year or more frequently, if necessary.

57. As the plan was approved in August 2024, no updates have yet been taken to the Joint Committee. Tayside Contracts consistently reported on progress against the previous plan through regular agenda items at Joint Committee meetings. This is expected to continue in 2024/25.

Governance arrangements are effective and appropriate

58. 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.

59. Papers and minutes for Joint Committee meetings, including financial and performance information and details of decisions made are available on Tayside Contracts' website. However, there is scope to strengthen the accessibility of information by making core documents of the Joint Committee available on the 'Publications' section of the website. Examples being key strategies and annual reports as well as the new Medium Term Financial Plan.

Recommendation 4

Tayside Contracts should improve the accessibility of core documents by making them available within the 'Publications' section on its website.

60. Scrutiny arrangements are working well in Tayside Contracts with regular and varied member contributions at Joint Committee meetings.

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

Tayside Contracts has appropriate arrangements in place to ensure that resources are deployed to improve strategic outcomes, that meet the needs of service users.

Tayside Contracts is improving but further improvement is needed to meet all its KPI targets.

Reporting on key performance indicators could be improved to reflect whether indicators have improved or deteriorated over time.

Tayside Contracts has satisfactory arrangements for the preparation and publication of performance information

61. Tayside Contracts gathers performance data, which is presented to the Joint Committee 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 (although no updates have been provided post year end due to the new Business Plan being approved in August 2024).

62. 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 2023/24 and was considered by the Joint Committee in November 2024. This is the first report that aligns with the new 2024-2027 Business Plan.

63. The revised Business Plan lays out the priorities of Tayside Contracts and the actions that will help achieve them. Examples of stakeholder engagement and collaboration with constituent councils are included throughout the action

plan. These actions align with Tayside Contracts' aim to provide excellent services to communities within Tayside.

The performance of Tayside Contracts has improved since 2022/23 but further improvement is needed to meet KPI targets

64. Of the 12 key performance indicators, three were not met. Although this is unchanged from the prior year, some indicators show improvements over and above targeted levels.

65. Stakeholder satisfaction surveys were reintroduced in 2023/24 and responses collated to identify satisfaction levels in service delivery. Sufficient data was attained for two of the three service areas. No data was available to reflect stakeholder satisfaction for the Community Meals service. Facilities Management services achieved levels significantly higher than targeted, whereas School Meals was impacted by unexpected school closures and fell 3% short of the targeted level. As this is an area of focus for Tayside Contracts, we would expect improvements in the coming years.

66. The target for number of days lost due to sickness absence was changed for 2023/24 from <6.2% to <5%. Although this was not achieved, there was improvement on 2022/23 levels.

67. In our 2022/23 report, we noted that the presentation of the KPIs in the annual accounts could be enhanced. The use of prior year comparators would provide a clear picture of the trajectory of KPIs, whether they are improving or deteriorating over time. Reporting would also benefit from the use of clear infographics, which show whether targets assigned to priorities have been met. This could align with the development of shared online dashboards for key performance information planned for January 2025.

Recommendation 5

Reporting on key performance indicators in the annual accounts could be improved by including prior year comparators to highlight trends and easily identify where targets have not been met repeatedly.

Appendix 1. Action plan 2023/24

2023/24 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>1. Quality and timeliness of unaudited accounts and working papers</p> <p>The unaudited accounts contained various typos, inconsistencies and incomplete disclosures. Examples include the inconsistent figures throughout the accounts, narrative within the accounts template not updated for 2023/24 and incorrect cross references.</p> <p>In addition to this, several of the initial working papers provided to support the accounts did not agree to the corresponding notes.</p> <p>Although revised accounts and supporting working papers were provided, this caused unforeseen delays in the audit of the accounts.</p> <p>Risk – a lack of quality control measures will increase the likelihood of material misstatements in the annual accounts. Such instances can create knock on impacts to the audit process.</p>	<p>Tayside Contracts should implement a more robust process for checking and secondary review of the accounts and supporting working papers, including a checklist for compliance with regulatory requirements.</p> <p>With dependency on some senior finance staff, Tayside Contracts should also review the division of responsibilities to ensure year end processes are completed effectively and efficiently.</p> <p>See paragraph 13. and issues 2 and 3 in Exhibit 3</p>	<p>Accepted</p> <p>We recognise the importance of ensuring accuracy and regulatory compliance in financial reporting. We will implement a structured, comprehensive checklist that aligns with regulatory requirements to guide the preparation and review of accounts and supporting working papers. We will also establish a formalised secondary review process to be conducted by a designated senior finance team member, ensuring all documentation undergoes thorough scrutiny before final submission.</p> <p>We acknowledge the dependency on senior finance staff during critical periods. As such, we will conduct a review of current responsibilities within the finance team to identify and address over-reliance on specific individuals.</p> <p>Responsible officer: Strategic Lead – Finance & Governance</p> <p>Date: 31 May 2025</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>2. Regular reporting of efficiency targets</p> <p>Although performance against efficiency targets is monitored, this information is not regularly presented to the Joint Committee.</p> <p>Risk – without regular updates on performance against efficiency targets, members may not be able to fully exercise their scrutiny role.</p>	<p>Tayside Contracts should present performance against its efficiency targets regularly to the Joint Committee, while clearly distinguishing between recurring and non-recurring efficiencies.</p> <p>See paragraph 31.</p>	<p>Accepted</p> <p>We reported our annual efficiency statement to the Joint Committee in November 2024 as part of the Annual Performance Report. We will implement a schedule for more regularly presenting efficiency performance updates at Joint Committee meetings. We will pilot the first update at the June 2025 Joint Committee meeting.</p> <p>Responsible officer: Strategic Lead – Finance & Governance</p> <p>Date: 30 June 2025</p>
<p>3. Monitoring of key contracts and service arrangements</p> <p>In 2023/24, Tayside Contracts were without an internal audit function after an agreement with a constituent council fell through.</p> <p>Risk – gaps in key service arrangements such as internal audit could have wider impacts on Tayside Contracts’ governance and control.</p>	<p>Tayside Contracts should review key contracts and agreements and their expiry on an annual basis in order to prevent gaps in service provision as has been seen with the internal audit function.</p> <p>See paragraph 40.</p>	<p>Partially accepted</p> <p>As noted, this was an exceptional circumstance. Tayside Contracts has a well-established process for reviewing all key contracts and agreements, supported by a comprehensive contracts register. We remain committed to adhering to these processes moving forward.</p> <p>Responsible officer: Strategic Lead – Finance & Governance</p> <p>Date: 31 March 2025</p>
<p>4. Accessibility of core governance documents</p> <p>Some core governance documents such as the Medium-Term Financial Plan not easily accessible to stakeholders and are only publicly available via Tayside Contracts’ Joint Committee papers.</p>	<p>Tayside Contracts should improve the accessibility of core documents by making them available within the ‘Publications’ section on its website.</p> <p>See paragraph 59.</p>	<p>Accepted</p> <p>A review of core documents will be conducted and made accessible in the publications section of the website.</p> <p>Responsible officer: Managing Director</p> <p>Date: 31 March 2025</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>Risk – the organisation is not perceived by stakeholders to be open and transparent.</p>		
<p>5. Reporting of key performance Indicators</p> <p>Key performance indicators are presented in the annual accounts and annual performance report in isolation, without prior year equivalent figures.</p> <p>Risk – recurring failures to meet targets may not be recognised and any ongoing issues preventing targets being met may not be addressed.</p>	<p>Tayside Contracts should include prior year comparators in reporting its key performance indicators to highlight trends and easily identify where targets have not been met repeatedly.</p> <p>See paragraph 67.</p>	<p>Accepted</p> <p>Tayside Contracts is currently reviewing its performance management reporting framework, with updates to be reflected in next year's annual report.</p> <p>Responsible officer: Managing Director</p> <p>Date: 30 June 2025</p>

Follow-up of prior year recommendations

Issue/risk	Recommendation and Agreed Action	Progress
<p>b/f 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</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>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>Complete</p> <p>Tayside Contracts have reserved a separate code for leased assets within the fixed asset register, which has simplified the process of identifying classes of assets for inclusion in the financial statements.</p>

Issue/risk	Recommendation and Agreed Action	Progress
<p>coded within the fixed asset register (FAR).</p>		
<p>b/f 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 assets could be erroneously created.</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>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>	<p>Complete</p> <p>Tayside Contracts have undertaken a review of assets and included a shared identifier between the fixed asset register and the Fleetwave system, where applicable.</p>
<p>b/f 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>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>	<p>Complete</p> <p>Although the Medium Term Financial Plan was not implemented by the agreed date, it was approved by the Joint Committee, shortly after in August 2024.</p>
<p>b/f 4. Accounting for fully depreciated assets</p>	<p>Management should review the procedures for accounting for non-current assets. The</p>	<p>Complete</p> <p>An exercise to remove fully depreciated assets was</p>

Issue/risk	Recommendation and Agreed Action	Progress
<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 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>useful life of all assets should be reviewed annually to assess whether a change in estimate is required.</p>	<p>carried out in 2023/24. Tayside Contracts should continue to monitor this year on year.</p>

Tayside Contracts

2023/24 Annual Audit Report

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