

# Tayside Contracts

2024/25 Annual Audit Report



Prepared for Tayside Contracts Joint Committee and the Controller of Audit  
November 2025

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# Key messages

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## Audit of the 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 Adjustments totalling £10.231 million were made in relation to the implementation of IFRS 16 for the accounting of non-commercial (peppercorn) leases.
- 3 An adjustment of £1.942 million was made due to the misclassification of long-term leases.
- 4 All audit adjustments required to correct the financial statements were processed by Tayside Contracts.

## Wider scope and Best Value audit

- 5 Tayside Contracts has appropriate arrangements in place for Financial Management; Financial Sustainability, Vision, Leadership and Governance; and Use of Resources to Improve Outcomes but improvements could be made.
- 6 The body has effective and appropriate arrangements in place for securing Best Value.
- 7 Tayside Contracts has a three-year financial plan covering 2024/25 to 2026/27. This projects a cumulative surplus of £0.751 million based on mid-range assumptions on cost variables.
- 8 Borrowing levels have increased in 2024/25 but remain in line with capital investment plans.
- 9 Tayside Contracts has appropriate governance arrangements for delivery of its plans but to achieve these, maintaining reporting cycles is key.
- 10 The performance of Tayside Contracts has shown improvements since 2023/24.

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# Introduction

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## Purpose of the Annual Audit Report

1. The purpose of this Annual Audit Report is to report the significant matters identified from the 2024/25 audit of Tayside Contracts' annual accounts and the wider scope areas specified in the Code of Audit Practice (2021).
2. The Annual Audit Report is addressed to Tayside Contracts Joint Committee, hereafter referred to as 'the body' and the Controller of Audit, and will be published on Audit Scotland's website in due course.

## Appointed auditor and independence

3. Peter Lindsay, of Audit Scotland, has been appointed as external auditor of the body for the period from 2024/25 until 2026/27. As reported in the Annual Audit Plan, Peter Lindsay as engagement lead and the audit team are independent of the body in accordance with relevant ethical requirements, including the Financial Reporting Council's Ethical Standard. There have been no developments since the issue of the Annual Audit Plan that impact on the continued independence of the engagement lead or the rest of the audit team from the body, including no provision of non-audit services.

## Acknowledgements

4. We would like to thank the body and its staff, particularly those involved in preparation of the annual accounts, for their cooperation and assistance during the audit. We look forward to working together constructively over the remainder of the five-year audit appointment.

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# Audit scope and responsibilities

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## Scope of the audit

**5.** The audit is performed in accordance with the Code of Audit Practice, including supplementary guidance, International Standards on Auditing (ISA) (UK), and relevant legislation. These set out the requirements for the scope of the audit which includes:

- An audit of the financial statements and an opinion on whether they give a true and fair view and are free from material misstatement.
- An opinion on statutory other information published with the financial statements in the annual accounts, namely the Management Commentary and Annual Governance Statement.
- An opinion on the audited part of the Remuneration Report.
- Conclusions on the body's arrangements in relation to the wider scope areas: Financial Management; Financial Sustainability; Vision, Leadership and Governance; and Use of Resources to Improve Outcomes.
- Reporting on the body's arrangements for securing Best Value.
- Provision of this Annual Audit Report.

## Responsibilities and reporting

**6.** The Code of Audit Practice sets out the respective responsibilities of the body and the auditor. A summary of the key responsibilities is outlined below.

### Auditor's responsibilities

**7.** The responsibilities of auditors in the public sector are established in the Local Government (Scotland) Act 1973. These include providing an independent opinion on the financial statements and other information reported within the annual accounts and concluding on the body's arrangements in place for the wider scope areas and Best Value.

**8.** The matters reported in the Annual Audit Report are only those that have been identified by the audit team during normal audit work and may not be all that exist. Communicating these does not absolve the body from its responsibilities outlined below.

**9.** The Annual Audit Report includes an agreed action plan at [Appendix 1](#) setting out specific recommendations to address matters identified and includes details of the responsible officer and dates for implementation.

### **The body's responsibilities**

**10.** The body has primary responsibility for ensuring proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety, and regularity that enables it to successfully deliver its objectives. The features of proper financial stewardship include:

- Establishing arrangements to ensure the proper conduct of its affairs.
- Preparation of annual accounts, comprising financial statements for the body that gives a true and fair view and other specified information.
- Establishing arrangements for the prevention and detection of fraud, error and irregularities, and bribery and corruption.
- Implementing arrangements to ensure its financial position is soundly based.
- Making arrangements to secure Best Value.
- Establishing an internal audit function.

### **National performance audit reporting**

**11.** The Auditor General for Scotland and the Accounts Commission regularly publish performance audit reports. These cover a range of matters, many of which may be of interest to the body and the Joint Committee. Details of national and performance audit reports published over the last year can be seen in [Appendix 2](#).

# Audit of the annual accounts

## Main judgements

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

Adjustments were made to the accounting treatment and disclosure of the £10.231 million IFRS 16 impact within the Movement in Reserves Statement.

A classification adjustment of £1.942 million was made between short term creditors and other long-term liabilities within the Balance Sheet.

The unaudited accounts and their publication did not fully comply with regulations.

## Audit opinions on the annual accounts

**12.** Tayside Contracts' annual accounts were approved by the Joint Committee on 17 November 2025 and certified by the appointed auditor on the same day. The Independent Auditor's Report is included in the body's annual accounts, and this reports that, in the appointed auditor's opinion, these were free from material misstatement.



## Audit timetable

**13.** The unaudited annual accounts and all working papers were received on 25 June 2025 in accordance with the agreed audit timetable. However, they did not fully comply with regulations.

**14.** 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.

## Audit Fee

**15.** The audit fee for the 2024/25 audit was reported in the Annual Audit Plan and was set at £50,040. There have been no developments that

impact on planned audit work required, therefore the audit fee reported in the Annual Audit Plan remains unchanged.

## Materiality

**16.** The concept of materiality is applied by auditors in planning and performing an audit, and in evaluating the effect of any uncorrected misstatements on the financial statements or other information reported in the annual accounts.

**17.** Broadly, the concept of materiality is to determine whether misstatements identified during the audit could reasonably be expected to influence the decisions of users of the annual accounts. Auditors set a monetary threshold when determining materiality, although some issues may be considered material by their nature. Therefore, materiality is ultimately a matter of the auditor's professional judgement.

**18.** Materiality levels for the audit of the body were determined at the risk assessment phase of the audit and were reported in the Annual Audit Plan, which also reported the judgements made in determining materiality levels. These were reassessed on receipt of the unaudited annual accounts. Materiality levels were updated and these can be seen in [Exhibit 1](#).

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### Exhibit 1 2024/25 Materiality levels for the body

| Materiality  | The body       |
|--|----------------|
| <b>Materiality</b> – set at 2% of gross expenditure  | £1.950 million |
| <b>Performance materiality</b> – set at 60% of materiality.<br>As outlined in the Annual Audit Plan, this acts as a trigger point. If the aggregate of misstatements identified during the audit exceeds performance materiality, this could indicate further audit procedures are required. | £1.170 million |
| <b>Reporting threshold</b> – set at 5% of materiality.   | £97 thousand   |

Source: Audit Scotland

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## Significant findings and key audit matters

**19.** ISA (UK) 260 requires auditors to communicate significant findings from the audit to those charged as governance, which for the body is the Joint Committee.



**20.** The Code of Audit Practice also requires public sector auditors to communicate key audit matters. These are the matters that, in the auditor’s professional judgement, are of most significance to the audit of the financial statements and require most attention when performing the audit.

**21.** In determining key audit matters, auditors consider:

- Areas of higher or significant risk of material misstatement.
- Areas where significant judgement is required, including accounting estimates that are subject to a high degree of estimation uncertainty.
- Significant events or transactions that occurred during the year.

**22.** The significant findings and key audit matters to report are outlined in [Exhibit 2](#).

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**Exhibit 2**  
**Significant findings and key audit matters**

| Significant findings and key audit matters  | Outcome   |
|---|---|
| <p><b>Adherence to IFRS16 accounting requirements for leases</b></p> <p>Our review of lease right of use assets and liabilities with associated journal entries found several errors.</p> <p>A material adjustment of £10.231 million was made to the General Fund and Capital Adjustment Account opening balances for the introduction of non-commercial (peppercorn) right of use assets. See <a href="#">Exhibit 3</a>, adjustment 1.</p> <p>Our review of the calculation and accounting treatment of the liabilities for commercial leases also led to an adjustment of £165 thousand. Although not material, this adjustment breached our reporting threshold. See <a href="#">Exhibit 3</a>, adjustment 2.</p> | <p>Management corrected the audited 2024/25 annual accounts to reflect the correct accounting treatment for the recognition of peppercorn lease right of use assets and commercial lease liabilities.</p> |

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| Significant findings and key audit matters  | Outcome   |
|---|---|
| <p><b>Misclassification of Liabilities</b></p> <p>Long term lease liabilities were erroneously included in the short term creditors line within the Balance Sheet. Although this did not impact the bottom line due to it being a classification adjustment, the value was £1.942 million, which is above our performance materiality threshold. See <a href="#">Exhibit 3</a>, adjustment 3.</p>   | <p>Management corrected the audited 2024/25 annual accounts to reflect the correct accounting treatment for the classification of lease liabilities.</p>  |
| <p><b>Template used to produce the annual accounts</b></p> <p>The 2024/25 accounts were produced based on the prior year unaudited accounts rather than the audited version. As a result, adjustments made during the 2023/24 audit were not carried forward, leading to prior year audit adjustments being repeated in 2024/25.</p> <p>In producing future unaudited accounts, management should use the prior year audited accounts as the base template.</p> | <p>The matter was discussed with management, who advised that this was done in error.</p> <p>The status of brought forward recommendation 1 in <a href="#">Appendix 1</a> has been updated as 'Partially Implemented' to acknowledge the progress made in relation to the quality of working papers, while recognising the need to retain prior year audit adjustments to help management improve the quality of future unaudited accounts.</p> |

Source: Audit Scotland

## Qualitative aspects of accounting practices

**23.** ISA (UK) 260 also requires auditors to communicate their view about qualitative aspects of the body's accounting practices, including accounting policies, accounting estimates, and disclosures in the financial statements.

### Accounting policies

**24.** The appropriateness of accounting policies adopted by the body was assessed as part of the audit. Some adjustments were made to incorporate IFRS 16 changes but these were considered to be appropriate to the circumstances of the body, and there were no significant departures from the accounting policies set out in the Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

### Accounting estimates

**25.** Accounting estimates are used in the valuation of the pension liability. Audit work considered the process management of the body has in place around making accounting estimates, including the assumptions and data used in making the estimates, and the use of any management experts. Audit work concluded:

- There were no issues with the selection or application of methods, assumptions, and data used to make the accounting estimates, and these were considered to be reasonable.
- There was no evidence of management bias in making the accounting estimates.

**26.** Details of the audit work performed and the outcome of the work on accounting estimates used in the valuation of the pension liability that gave rise to the significant risk of material misstatement outlined in [Exhibit 4](#).

### **Disclosures in the financial statements**

**27.** The adequacy of disclosures in the financial statements was assessed as part of the audit. The quality of disclosures was adequate, with additional levels of detail provided for disclosures around areas of greater sensitivity, such as valuation of the pension liability.

### **Significant matters discussed with management**

**28.** All significant matters identified during the audit and discussed with the body's management have been reported in the Annual Audit Report.

### **Audit adjustments**

**29.** Audit adjustments were required to the financial statements to correct misstatements that were identified from the audit. Details of all audit adjustments greater than the reporting threshold of £97 thousand are outlined in [Exhibit 3](#).

### Exhibit 3

#### Audit adjustments

| Details                                   | Financial statements lines impacted | Comprehensive Income and Expenditure Statement (CIES) |      | Balance Sheet |      |
|---|-------------------------------------|---|------|---------------|------|
|   |                                     | Dr  | Cr   | Dr            | Cr   |
| Audit adjustments to financial statements |                                     | £000  | £000 | £000          | £000 |

#### 1. Adjustment to Reserves Opening Balances

In recognising right of use assets for non-commercial (peppercorn) leases under IFRS 16, an adjustment was made to the Capital Adjustment Account in year. The £10.231 million adjustment should have been applied to the opening balance so as not to impact the CIES. The 2023/24 comparator in the Balance Sheet has been adjusted accordingly but there is no impact on 2024/25 totals.

#### 2. Lease Liability Accounting

Audit adjustments were posted to amend accounting errors identified within journals posted to account for lease liability movements.

The incorrect amount had been debited for the repayment of commercial lease liabilities. The error in year was not material in value but as this affected all commercial lease liabilities (including future repayments), the methodology for calculation was amended and the resulting amounts were adjusted.

|                           |     |       |
|---------------------------|-----|-------|
| Short Term Creditors      |     | 17    |
| I&E – Depreciation Charge | 141 |       |
| I&E – Rent Costs          |     | (165) |
| I&E – Finance Costs       | 7   |       |

| Details  | Financial statements lines impacted | Comprehensive Income and Expenditure Statement (CIES) | Balance Sheet        |
|--|-------------------------------------|---|----------------------|
| <b>3. Misclassification of Long-term Lease Liabilities</b>   |                                     |   |                      |
| Lease liabilities due in over 5 years were erroneously included within the short term creditors line within the Balance Sheet. |                                     |   |                      |
|  | Short Term Creditors                |   | 1,942                |
|  | Other Long Term Liabilities         |   | (1,942)              |
| <b>Net impact on financial statements</b>  |                                     | <b>148 (165)</b>                                      | <b>1,959 (1,942)</b> |

Source: Audit Scotland

**30.** Management of the body processed audit adjustments for all misstatements identified greater than the reporting threshold. As a result, there are no uncorrected misstatement to report.

## Significant risks of material misstatement identified in the Annual Audit Plan

**31.** Audit work has been performed in response to the significant risks of material misstatement identified in the Annual Audit Plan. The outcome of audit work performed is summarised in [Exhibit 4](#).

### Exhibit 4

#### Significant risks of material misstatement to the financial statements

| Risk of material misstatement  | Planned audit response  | Outcome of audit work  |
|--|---|--|
| <b>Fraud caused by management override of controls</b><br>Management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively. | The audit team will: <ul style="list-style-type: none"> <li>• Evaluate the design and implementation of controls over journal entry processing.</li> <li>• Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to</li> </ul> | Audit work performed found: <ul style="list-style-type: none"> <li>• The design and implementation of controls over journal processing were inadequate. See <a href="#">Appendix 1</a>.</li> <li>• No inappropriate or unusual activity relating to the processing of journal entries was identified from discussions with individuals involved in financial reporting.</li> </ul> |

| Risk of material misstatement   | Planned audit response   | Outcome of audit work  |
|---|--|--|
|   | <p>the processing of journal entries.</p> <ul style="list-style-type: none"> <li>• Test journals entries, focusing on those that are assessed as higher risk, such as those affecting revenue and expenditure recognition around the year-end.</li> <li>• Evaluate significant transactions outside the normal course of business.</li> <li>• Assess the adequacy of controls in place for identifying and disclosing related party relationships and transactions in the financial statements.</li> <li>• Assess changes to the methods and underlying assumptions used to prepare accounting estimates and assess these for evidence of management bias.</li> <li>• Perform substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year.</li> <li>• Carry out focussed testing of accounting accruals and prepayments.</li> </ul> | <ul style="list-style-type: none"> <li>• No significant issues were identified from testing of journal entries.</li> <li>• No significant issues were identified from transactions outside the normal course of business.</li> <li>• The controls in place for identifying and disclosing related party relationships and transactions were adequate.</li> <li>• No significant issues were identified with changes to methods and underlying assumptions used to prepare accounting estimates and there was no evidence of management bias.</li> <li>• No significant issues were identified from testing of income and expenditure transactions around the year end.</li> <li>• No significant issues were identified from testing of accruals and prepayments.</li> </ul> <p><b>Conclusion:</b> no evidence of fraud caused by management override of controls.</p> |
| <p><b>Estimation of the pension liability</b></p> <p>Tayside Contracts had a pension liability of £2.287 million at 31 March 2024.</p> <p>Tayside Contracts is a member of Tayside Pension Fund, which is a</p> | <p>The audit team will:</p> <ul style="list-style-type: none"> <li>• Evaluate the design and implementation of controls over the pension liability estimation process.</li> <li>• Review the information provided to the actuary and assess this for</li> </ul>  | <p>Audit work performed found:</p> <ul style="list-style-type: none"> <li>• The design and implementation of controls over the pension liability estimation process were appropriate.</li> <li>• The information provided to the actuary was accurate and complete.</li> </ul>   |

| Risk of material misstatement  | Planned audit response  | Outcome of audit work  |
|--|---|--|
| <p>defined benefit pension scheme. Tayside Pension Fund is subject to formal valuation every three years, and this sets out each member's share of the scheme's overall pension liability and contributions for the next three years. The last formal valuation was carried out at 31 March 2024.</p> <p>An estimation of Tayside Contracts' share of the overall pension liability is required in each intervening year between formal valuations, and these are carried out by Barnett Waddingham. There is a significant degree of subjectivity in the estimation of the pension liability as the estimation is based on specialist assumptions, and changes in the assumptions can result in material changes to the estimation.</p> | <p>completeness and accuracy.</p> <ul style="list-style-type: none"> <li>• Evaluate the competence, capabilities, and objectivity of the actuary.</li> <li>• Obtain an understanding of the management's involvement in the estimation process to assess if appropriate oversight has occurred.</li> <li>• Review the appropriateness of the key data and assumptions used by management for the estimation of the pension liability, and challenge these where required.</li> <li>• Audit Scotland uses PwC as an auditor's expert to inform the planned audit procedures outlined above. Therefore, the audit team will also review the information provided by PwC and reflect this in the planned audit procedures where required.</li> </ul> | <ul style="list-style-type: none"> <li>• The actuary had sufficient competence, capability, and objectivity to perform their work.</li> <li>• Management are involved in the estimation process and have an appropriate level of oversight.</li> <li>• The data and assumptions used in the estimation process were appropriate.</li> <li>• The information provided by PwC was reviewed and this reflected in the planned audit procedures, where required.</li> </ul> <p><b>Conclusion:</b> the estimation of the pension liability is not materially misstated.</p> |

Source: Audit Scotland

## Prior year recommendations

**32.** The body has made moderate progress in implementing the agreed prior year audit recommendations. For actions not yet implemented, revised responses and timescales have been agreed with the body and are outlined in [Appendix 1](#).

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# Wider scope and Best Value audit

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## Conclusion

The body has appropriate arrangements in place for Financial Management; Financial Sustainability, Vision, Leadership and Governance; and Use of Resources to Improve Outcomes but improvements could be made.

The body has effective and appropriate arrangements in place for securing Best Value.

Tayside Contracts achieved a distributable surplus of £0.813 million.

Tayside Contracts has a three-year financial plan covering 2024/25 to 2026/27. This projects a cumulative surplus of £0.751 million based on mid-range assumptions on cost variables.

Borrowing levels have increased in 2024/25 but remain in line with capital investment plans.

Tayside Contracts has appropriate governance arrangements for delivery of its plans but to achieve these, maintaining reporting cycles is key.

The performance of Tayside Contracts has shown improvements since 2023/24.

## Audit approach to wider scope and Best Value

### Wider scope

**33.** As reported in the Annual Audit Plan, the wider scope audit areas are:

- Financial Management.
- Financial Sustainability.
- Vision, Leadership and Governance.
- Use of Resources to Improve Outcomes.



**34.** Audit work is performed on these four areas and a conclusion on the effectiveness and appropriateness of arrangements the body has in place for each of these is reported in this chapter.

## Conclusions on wider scope audit

### Financial Management

#### Tayside Contracts achieved a distributable surplus of £0.813 million

**35.** 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.

**36.** The Joint Committee approved its budget for 2024/25 in March 2024. It included anticipated income of £94.302 million and expenditure of £93.629 million for the year ending 31 March 2025. The investment plan included planned capital expenditure of £4.063 million for the year. A surplus of £0.813 million was achieved. The breakdown of this surplus can be found in [Exhibit 5](#).

## Exhibit 5

### Summary of significant under/overspends against budget

| Area                         | Budgeted Surplus<br>£m | Actual Surplus<br>£m | Performance against budget<br>£m |
|------------------------------|------------------------|----------------------|----------------------------------|
| Construction Division        | £0.415                 | £0.608               | +£0.193                          |
| Facilities Services Division | £0.254                 | £0.205               | -£0.049                          |
| Tayside Contract             | £0.669                 | £0.813               | +£0.144                          |

Source: Tayside Contracts 2024/25 Annual Accounts

### Appropriate budget processes continued to operate in 2024/25

**37.** Tayside Contracts has appropriate budget setting and monitoring arrangements. We observed that senior management and members receive regular and accurate financial information on Tayside Contracts' performance against budgets. The format of the reports presented to the Joint Committee changed in 2024/25. Information is well presented in the new format, with narrative providing context. The financial position, including aged debt, is also taken to the central leadership team on a monthly basis.

**38.** The audit work performed on the arrangements the body has in place for financial management found that these were effective and appropriate, except for three matters. The limited review or supervision of journal entries, the lack of service reports providing assurance over IT controls for the general ledger system and insufficient training and learning opportunities within the finance function were identified as issues through our audit work. Details on these issues are outlined from [paragraph 39](#). This judgement is evidenced by the body:

- having a system of internal control in place that is operating effectively.
- having clear and up-to-date policies and procedures, for example, financial regulations and scheme of delegation, in place that ensure effective financial management.
- having clear and up-to-date policies in place for preventing and detecting fraud and other irregularities, and participation in fraud prevention and detection activities such as the National Fraud Initiative (NFI).
- having a well-resourced Internal Audit service who undertake a wide range of reviews, the results of which allowed the Chief Internal Auditor to conclude that Tayside Contracts had adequate and effective arrangements for risk management, control and governance in place for the year to 31 March 2025.
- having effective arrangements in place for the scrutiny of arrangements that support sound financial management, and effective scrutiny and challenge provided by the Joint Committee.

### **Journal entry controls could be more robust**

**39.** We identified that there was limited review or supervision of journal entries. Budget monitoring controls would pick up larger variances but Tayside Contracts control environment would benefit from a periodic review of journals by a senior officer.

## **Recommendation 1**

### **Improvement of journal entry controls**

There are no formal approval controls within the general ledger system to prevent or detect material misstatements. Although extensive budget monitoring is an effective detective control, journals should be reviewed on a sample basis by a senior officer to strengthen general ledger controls.

### **No service auditor reports are provided to Tayside Contracts in respect of its cloud hosted general ledger system**

**40.** Tayside Contracts' general ledger is externally cloud hosted by a third-party provider. The body does not receive service auditor reports to obtain assurance over IT controls for these systems. Although an assurance gap exists, there have been no issues around service performance or availability of information to support the preparation of their financial statements. While the payroll system is also externally cloud hosted, the system is administered by Dundee City Council. Tayside Contracts have use of the system as part of a longstanding service level agreement.

### **There is insufficient training and learning opportunities within the finance function**

**41.** Discussions with management regarding the misstatements associated with the implementation of IFRS 16 highlighted that finance staff may not have access to the same level of training and development opportunities as their counterparts in local authorities. As a result, the following recommendation has been made, with further details outlined in [Appendix 1](#).

## **Recommendation 2**

### **Comprehensive training and learning opportunities within the finance function would improve the quality of financial statements**

Tayside Contracts should look to provide ongoing training and learning opportunities akin to those provided to local authority staff to ensure that members of the finance function have a detailed understanding of changes to the Code and their impact on financial reporting.

### **Borrowing levels have increased in 2024/25 but remain in line with capital investment plans**

**42.** 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. £3.094 million of the total £3.768 million of capital expenditure during the year was funded through borrowing.

**43.** After new borrowing, and in-year repayments, outstanding loans at 31 March 2025 totalled £12.325 million, an increase of £1.426 million on the 2024 level of £10.899 million.

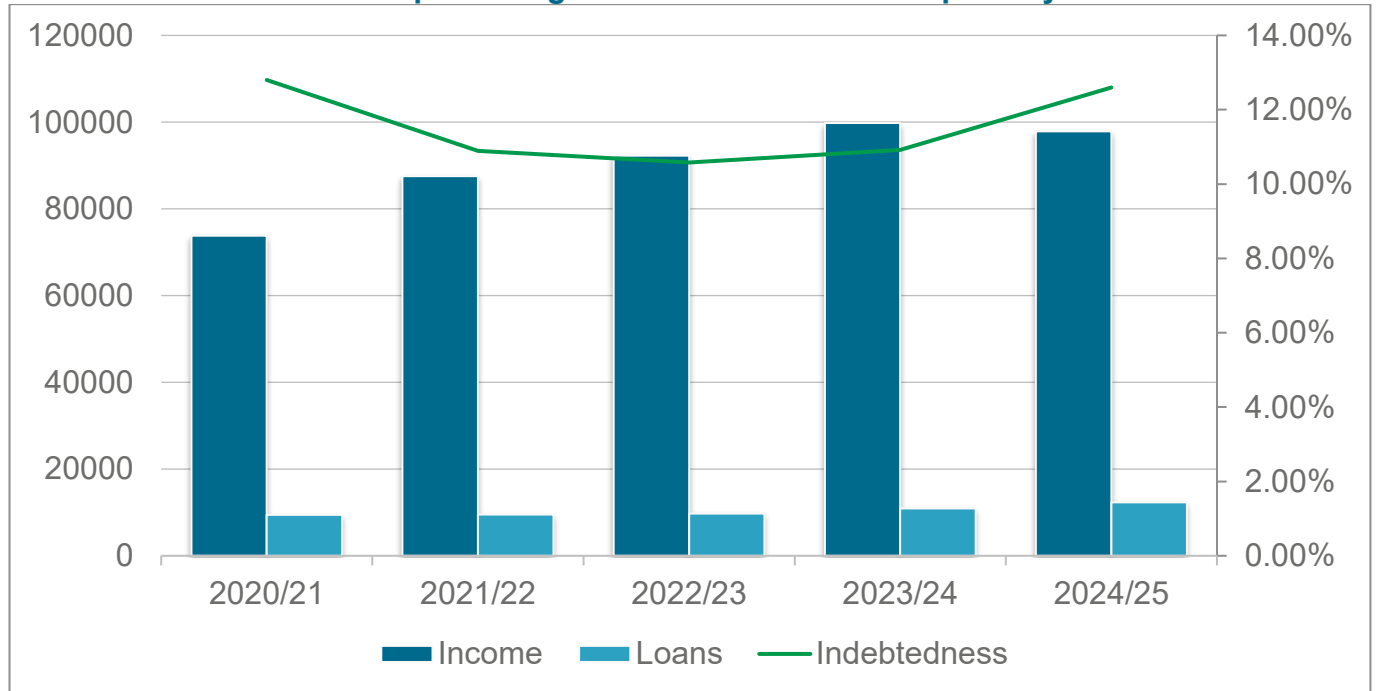
**44.** Long term borrowing stood at £10.439 million, an increase of £1.210 million on the 2024 level of £9.229 million. During the same period, short-term borrowing increased from £1.670 million to £1.886 million.

**45.** [Exhibit 6](#) shows Tayside Contracts' overall indebtedness as a percentage of its annual income over the last 4 years. Indebtedness has increased in 2024/25, nearing 2020/21 levels. Although the level of

indebtedness has increased to 12.6 per cent, this aligns with the planned capital investment that supports Tayside Contracts objective to generate additional income.

## Exhibit 6

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



Source: Tayside Contract annual accounts 2021/22 to 2024/25

## Financial Sustainability

**46.** The audit work performed on the arrangements the body has in place for securing financial sustainability found that these were effective and appropriate. This judgement is evidenced by the body:

- making appropriate arrangement to develop medium-term financial plans and linking these to its Corporate Plan and priorities.
- having effective arrangements in place for identifying risks to financial sustainability over the medium and longer-term, and understanding medium and longer-term demand pressures that could impact on available resources.
- having savings plans in place to manage forecast budget deficits, and a reserves strategy in place to manage the use of reserves if the required level of savings cannot be met.

**47.** Tayside Contracts has a medium-term financial plan (MTFP) that covers the three-year period from 2024/25 to 2026/27. This projects a cumulative surplus of £0.751 million based on mid-range assumptions on

cost variables. As noted in the prior year, there are various uncertainties involved in the forecasts within the MTFP.

**48.** 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. External income increased by £1.5 million in 2024/25.

**49.** 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. When taking account of IAS19 pension costs, the Construction trading operation achieved a surplus, whereas the Facilities trading operation failed to breakeven over the three-year period to 2024/25.

## Vision, Leadership and Governance

**50.** The audit work performed on the arrangements the body has in place around its Vision, Leadership and Governance found that these were effective and appropriate, except for the lapse in the planned reporting cycle. See [paragraph 52](#). This judgement is evidenced by Tayside Contracts:

- having a Business Plan in place that clearly links to annual budgets and the Corporate Risk Register. It clearly set out its vision, strategy, and priorities and reflect the pace and depth of improvement required to realise these in a sustainable manner.
- involving service users, delivery partners, and other stakeholders in the development of its vision, strategy, and priorities to ensure these align to their needs.
- having clear quarterly financial and performance reporting in place and effective scrutiny and challenge of performance provided by the Joint Committee.
- having effective governance arrangements in place in general, as reflected in the Governance Statement included in the accounts.

**51.** The Business Plan for the period 2024-2027 was approved by the Joint Committee on 26 August 2024. It includes 36 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.

**52.** A progress update was expected to be presented to the Joint Committee in June 2025 but this target date was not met. Although

financial and performance reporting to the Joint Committee has been consistent, a more strategic outlook should be presented to ensure appropriate governance and scrutiny over the direction and progress of the organisation. As a result, the following recommendation has been made, with further details outlined in [Appendix 1](#).

### Recommendation 3

#### **Reporting schedules should be retained to allow the Joint Committee to fulfil its governance and scrutiny role**

Tayside Contracts should report against its Business Plan to the Joint Committee on at least an annual basis to provide members with a complete understanding of its performance and progress.

**53.** The main risks associated with the delivery of the Business Plan are 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.

**54.** Annual revenue and capital investment budgets continue to be approved by the Joint Committee annually.

**55.** Papers and minutes for Joint Committee meetings, including financial and performance information and details of decisions made are available on Tayside Contracts' website. In 2023/24, we noted that there was scope to strengthen the accessibility of information by making core documents of the Joint Committee available on the 'Publications' section of the website.

**56.** This recommendation has been partially implemented as Tayside Contracts has made more key documents available through its website. However, some key publications such as the Medium-Term Financial Plan are only accessible through Committee minutes. See [Follow-up of prior year recommendations 4](#).

### Use of Resources to Improve Outcomes

**57.** The audit work performed on the arrangements the body has in place around its Use of Resources to Improve Outcomes found that these were effective and appropriate. This judgement is evidenced by the body:

- being able to demonstrate a clear link between the use of resources and delivery of its priorities.
- having arrangements in place to benchmark its performance to identify areas of improvement.
- being able to demonstrate improvements in performance against benchmarks.

**58.** 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. However, as noted in [paragraph 52.](#), a progress update was expected to be presented to the Joint Committee in June 2025 but this target date was not met.

**59.** Tayside Contracts also produces an Annual Performance Report (APR), 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. We have also reviewed the draft APR for 2024/25, which is expected to be presented at the November 2025 Committee meeting.

### **The performance of Tayside Contracts has shown improvements since 2023/24**

**60.** Key performance indicators (KPIs) were refreshed as part of the 2024-27 Business Plan. Of the 17 key performance indicators, four were not met. Three of which missed targets by negligible margins. Significant improvements include income from external sources, which was approximately 25 per cent above the targeted level of £5.5 million and the £0.813 million distributable surplus, which was 21 per cent higher than targeted.

**61.** In our prior years, we noted that the presentation of the KPIs in the annual accounts could be enhanced as the use of prior year comparators would provide a clear picture of the trajectory of KPIs, whether they are improving or deteriorating over time. The inclusion of prior year actuals as well as targets, allows for a clearer understanding of the trend of each indicator.

**62.** In October 2024, Tayside Contracts amended its structure, which resulted in the loss of posts. Updates on the restructure and associated costs have been presented to the Joint Committee in 2024/25. Associated severance costs, net of savings, amounted to £0.170 million. However, these costs are expected to be recouped through savings in 2025/26, with recurring savings thereafter. As part of our work, we reviewed the approval process and settlement amounts. We concluded that all severance costs were processed appropriately.

### **Although Cyber Essentials certification has now been achieved, Disaster Recovery and Business Continuity plans were not followed in 2024/25**

**63.** In 2024, Tayside Contracts introduced a new 2024-2027 Disaster Recovery & Business Continuity Plan to align with its Business Plan. The Plan contains a 'Testing Log' to ensure that the environment is tested periodically to provide assurance that the organisation is able to recover from various disaster scenarios. In reviewing the Testing Log, we identified that no 2024/25 testing



had been carried out. As a result, the following recommendation has been made, with further details outlined in [Appendix 1](#).

## **Recommendation 4**

### **Planned actions from the Business Continuity and Disaster Recovery Plan should be adhered to**

Tayside Contracts should periodically test the actions laid out in the Testing Log within its Business Continuity and Disaster Recovery Plan and document the outcomes.

**64.** Tayside Contracts achieved Cyber Essentials certification in March 2024, which provides some assurance that the IT environment is somewhat robust.

## **Conclusions on Best Value**

**65.** The audit work performed on the arrangements the body has in place for securing Best Value found these were effective and appropriate. This judgement is evidenced by:

- the body having well established and effective governance arrangements in place, with the Best Value being a key aspect of the governance arrangements.
- the arrangements the body has in place around the four wider scope audit areas, which are effective and appropriate, contribute to it being able to secure Best Value.
- progress the body is making to embed sustainability into corporate and operational plans and enhance reporting arrangements around sustainability.

**66.** Tayside Contracts has demonstrated its duty to secure best value by pursuing continuous improvement in performance, evidenced by the 2024 restructure.

**67.** Tayside Contracts contributes to the achievement of sustainable development through the development of its Climate Change Plan. Resulting actions taken by Tayside Contracts are:

- The refresh of its fleet to prepare for a zero-carbon future. The percentage of the fleet classed as low-carbon is up 12.1 per cent to 85.7 per cent.
- Targeting vehicle idling to reduce CO2 emissions. This saw a reduction of 28 per cent in 2024/25, which was 8 per cent greater than targeted.



- Opting to use materials in production that can reduce CO2 output. Replacing liquefied petroleum gas with heat aggregate for asphalt production in the Collace Quarry is estimated to save 18,000 tonnes each year.

# Appendix 1

## Action plan 2024/25

### 2024/25 recommendations

| Matter giving rise to recommendation  | Recommendation  | Agreed action, officer and timing  |
|---|---|--|
| <p><b>1. Journal entry control weakness</b></p> <p>There are no formal approval controls within the general ledger system to prevent or detect material misstatements. Although extensive budget monitoring is an effective detective control, detailed periodic checks by senior officers would strengthen the controls around the general ledger.</p> <p><b>Risk</b> – Without effective controls around journals, there could be a greater likelihood of misstatement.</p> | <p>Journals should be reviewed on a sample basis by a senior officer and assessed for reasonableness and accuracy.</p> <p>This review should be documented.</p> | <p>Accepted.</p> <p>Following the interim audit, an automated workflow for journal entry review and approval was implemented within the CENTROS financial system in June 2025.</p> <p>Under the new process, all journals are now routed through an automated approval stage which requires review and authorisation by a Principal Accountant prior to posting. This enhancement ensures that all journal entries are subject to appropriate oversight and formal approval within the system, thereby addressing the control weakness identified.</p> <p>Strategic Lead – Finance &amp; Governance</p> <p>Completed</p> |

| Matter giving rise to recommendation  | Recommendation   | Agreed action, officer and timing   |
|---|--|---|
| <p><b>2. Comprehensive training and learning opportunities within the finance function would improve the quality of financial statements</b></p> <p>The incorrect accounting treatment was applied to assets and liabilities impacted by the IFRS 16 standard.</p> <p><b>Risk</b> – Without improvements to the training available to the finance function, the likelihood of recurring errors would be greater.</p>  | <p>Tayside Contracts should look to provide ongoing training and learning opportunities akin to those provided to local authority staff to ensure that members of the finance function have a detailed understanding of changes to the Code and their impact on financial reporting.</p> | <p>Accepted.</p> <p>Tayside Contracts recognises the importance of ongoing professional development within the finance function to ensure continued compliance with the Code and the accurate application of accounting standards such as IFRS 16. To strengthen this area, the organisation will seek to enhance access to technical learning and development opportunities.</p> <p>We will explore membership of the CIPFA Finance Advisory Network and work collaboratively with constituent councils to identify and, where possible, align with their training and support packages.</p> <p>Strategic Lead – Finance &amp; Governance</p> <p>January 2026</p>  |
| <p><b>3. Periodic reporting schedules to the Joint Committee should be retained</b></p> <p>Tayside Contracts aimed to report progress against its Business Plan to the Joint Committee on a bi-annual (6-monthly) basis. However, no updates have been taken to Committee since the Plan was introduced in August 2024.</p> <p><b>Risk</b> – In the absence of strategic updates, the Joint Committee may not be able to fulfil its governance and scrutiny role effectively.</p> | <p>Tayside Contracts should report against its Business Plan to the Joint Committee on at least an annual basis to provide members with a complete understanding of the body's performance and progress.</p>   | <p>Accepted.</p> <p>Tayside Contracts acknowledges that an update on progress against the Business Plan has not yet been presented to the Joint Committee. As outlined in report JC21/2024, the Joint Committee approved the Business Plan on the basis that an annual progress update would be provided. The 2025 update, originally scheduled for the August 2025 meeting, was delayed due to the retirement of the previous Managing Director in May 2025, which temporarily affected the reporting schedule. The Business Plan progress update is now scheduled for presentation to the Joint Committee on 17 November 2025, after which the regular annual reporting cycle will be reinstated.</p> <p>Managing Director</p> <p>November 2025</p> |

| Matter giving rise to recommendation  | Recommendation   | Agreed action, officer and timing  |
|---|--|--|
| <p><b>4. Planned actions from the Business Continuity and Disaster Recovery Plan should be adhered to</b></p> <p>The Testing Log included within the Business Continuity and Disaster Recovery Plan had not been completed in 2024/25. Per the log, testing should be carried out each year.</p> <p><b>Risk</b> – With no formal testing carried out, backups may not be fit for purpose in the event of a cyber incident, which could result in data loss.</p> | <p>Tayside Contracts should periodically test the actions laid out in the Testing Log within its Business Continuity and Disaster Recovery Plan and document the outcomes.</p> | <p>Accepted</p> <p>Tayside Contracts acknowledges the need for regular testing of the Business Continuity and Disaster Recovery Plan to ensure the effectiveness of backup and recovery arrangements. The Corporate Leadership Team approved the updated Business Continuity and Resilience Plan 2025–2029 at its meeting on 25 September 2025.</p> <p>As part of this plan, periodic testing of business continuity and disaster recovery arrangements will be implemented and documented to ensure that systems and processes remain robust and responsive in the event of an incident.</p> <p>Managing Director<br/>July 2026</p> |

## Follow-up of prior year recommendations

| Matter giving rise to recommendation   | Recommendation, agreed action, officer and timing  | Update   |
|--|--|--|
| <p><b>1. Quality and timeliness of unaudited accounts and working papers</b></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><b>Risk</b> – 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><b>Responsible officer:</b> Strategic Lead – Finance &amp; Governance</p> <p><b>Agreed Date:</b> 31 May 2025</p> | <p><b>Partially Implemented</b></p> <p>Although there was a marked improvement in the quality and timeliness of the papers provided, the publication of the accounts did not fully comply with regulations. See <a href="#">paragraph 14.</a></p> <p>In addition, we found that amendments and narrative changes to the Management Commentary, Annual Governance Statement and Remuneration Report made in the prior year had not been retained in the 2024/25 accounts.</p> <p>In producing future unaudited accounts, management should use the prior year audited accounts as the base template and adhere to a checklist for compliance with regulatory requirements.</p> <p>Tayside Contracts acknowledges the issues identified in the preparation of the 2024/25 unaudited accounts. The errors arose due to the incorrect version of the accounts template being rolled forward, along with problems in retaining and updating linked documents within the consolidated file.</p> <p>Work has already commenced with the Communications section to identify the most effective way to ensure document links are correctly maintained and rolled forward in future years. In addition, the finance team will strengthen quality assurance processes by introducing enhanced review procedures and a comprehensive year-end checklist to ensure consistency, accuracy, and compliance with regulatory requirements.</p> <p>Strategic Lead – Finance &amp; Governance<br/>31 May 2026</p> |

| Matter giving rise to recommendation   | Recommendation, agreed action, officer and timing  | Update   |
|--|--|--|
| <p><b>2. Regular reporting of efficiency targets</b></p> <p>Although performance against efficiency targets is monitored, this information is not regularly presented to the Joint Committee.</p> <p><b>Risk</b> – 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><b>Responsible officer:</b> Strategic Lead – Finance &amp; Governance</p> <p><b>Agreed Date:</b> 30 June 2025</p>       | <p><b>In progress</b></p> <p>Tayside Contracts currently reports on efficiency targets within the Annual Performance Report, which is presented to the Joint Committee on an annual basis. The 2024/25 Annual Performance Report, presented to the Joint Committee on 17 November 2025, now distinguishes between recurring and non-recurring efficiencies in line with audit recommendations.</p> <p>Management will consider introducing a six-monthly update to the Joint Committee, in addition to the annual report, to further strengthen oversight and transparency around efficiency performance.</p> <p>Strategic Lead – Finance &amp; Governance</p> <p>March 2026</p> |
| <p><b>3. Monitoring of key contracts and service arrangements</b></p> <p>In 2023/24, Tayside Contracts were without an internal audit function after an agreement with a constituent council fell through.</p> <p><b>Risk</b> – 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><b>Responsible officer:</b> Strategic Lead – Finance &amp; Governance</p> <p><b>Agreed Date:</b> 31 March 2025</p> | <p><b>Implemented</b></p> <p>We are satisfied with the processes in place for the monitoring of key contracts and service arrangements.</p> <p>We acknowledge that the prior year issue was isolated in nature.</p>  |

| Matter giving rise to recommendation   | Recommendation, agreed action, officer and timing   | Update   |
|--|---|--|
| <p><b>4. Accessibility of core governance documents</b></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><b>Risk</b> – the organisation is not perceived by stakeholders to be open and transparent.</p>           | <p>Tayside Contracts should improve the accessibility of core documents by making them available within the 'Publications' section on its website.</p> <p><b>Responsible officer:</b> Managing Director</p> <p><b>Agreed Date:</b> 31 March 2025</p>  | <p><b>Partially Implemented</b></p> <p>Tayside Contracts has made more key documents available through its website. However, some key publications such as the Medium-Term Financial Plan are only accessible through Committee minutes.</p> <p>Tayside Contracts recognises the importance of openness and transparency and agrees that core governance documents should be easily accessible to all stakeholders. A further review will be completed to ensure that all key governance documents are appropriately published and accessible to stakeholders.</p> <p>Managing Director<br/>March 2026</p> |
| <p><b>5. Reporting of key performance Indicators</b></p> <p>Key performance indicators are presented in the annual accounts and annual performance report in isolation, without prior year equivalent figures.</p> <p><b>Risk</b> – 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><b>Responsible officer:</b> Managing Director</p> <p><b>Agreed Date:</b> 30 June 2025</p> | <p><b>Implemented</b></p> <p>Prior year comparators have been included in the Key Performance Indicator table alongside the 2024/25 values in the table within the Management Commentary.</p>  |

# Appendix 2

## Supporting national and performance audit reports

| Report name   | Date published    |
|---|-------------------|
| <a href="#">Local government budgets 2024/25</a>  | 15 May 2024       |
| <a href="#">Scotland's colleges 2024</a>  | 19 September 2024 |
| <a href="#">Integration Joint Boards: Finance and performance 2024</a>                        | 25 July 2024      |
| <a href="#">The National Fraud Initiative in Scotland 2024</a>                                | 15 August 2024    |
| <a href="#">Transformation in councils</a>  | 1 October 2024    |
| <a href="#">Alcohol and drug services</a>   | 31 October 2024   |
| <a href="#">Fiscal sustainability and reform in Scotland</a>                                  | 21 November 2024  |
| <a href="#">Public service reform in Scotland: how do we turn rhetoric into reality?</a>      | 26 November 2024  |
| <a href="#">NHS in Scotland 2024: Finance and performance</a>                                 | 3 December 2024   |
| <a href="#">Auditing climate change</a>   | 7 January 2025    |
| <a href="#">Local government in Scotland: Financial bulletin 2023/24</a>                      | 28 January 2025   |
| <a href="#">Transparency, transformation and the sustainability of council services</a>       | 28 January 2025   |
| <a href="#">Sustainable transport</a>   | 30 January 2025   |
| <a href="#">A review of Housing Benefit overpayments 2018/19 to 2021/22: A thematic study</a> | 20 February 2025  |
| <a href="#">Additional support for learning</a>   | 27 February 2025  |
| <a href="#">Integration Joint Boards: Finance bulletin 2023/24</a>                            | 6 March 2025      |
| <a href="#">Integration Joint Boards finances continue to be precarious</a>                   | 6 March 2025      |
| <a href="#">General practise: Progress since the 2018 General Medical Services contract</a>   | 27 March 2025     |
| <a href="#">Council Tax rises in Scotland</a>   | 28 March 2025     |



# Tayside Contracts

## 2024/25 Annual Audit Report



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