

Tayside Contracts Joint Committee

**Report to Members and the Controller of Audit
on the 2009/10 Audit**

October 2010

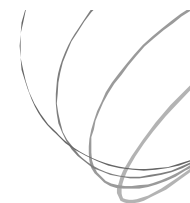


 **AUDIT SCOTLAND**



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Key Messages

In 2009/10 we have audited the financial statements and looked at aspects of governance within Tayside Contracts Joint Committee. This report sets out our main findings.

Overall, we found the financial stewardship of Tayside Contracts Joint Committee (the joint committee) during the year to be satisfactory. The main conclusions and outcomes from the audit are highlighted below:

- an unqualified opinion has been issued on the financial statements for 2009/10
- the statement on the system of internal financial control included in the accounts complies with accounting requirements and is not inconsistent with audit findings
- final accounts preparation procedures and working papers were good and this enabled the audit to progress smoothly
- many aspects of a sound corporate governance framework are in place
- a fraud strategy and written procedures for investigating suspected fraud are in place.

The financial challenges facing the public sector are well documented, with public sector bodies facing deep and prolonged cuts in funding. Whilst there remains uncertainty about the impact of these cuts on the joint committee it will not be immune from them and will need to identify ways of delivering services with decreasing levels of income.

The co-operation and assistance given to us by Tayside Contracts Joint Committee, officers and staff is gratefully acknowledged.

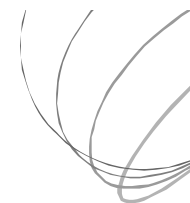


October 2010



Introduction

1. This report summarises our findings from our 2009/10 audit of the Tayside Contracts Committee. The scope of our audit was set out in our audit plan issued in March 2010.
2. The financial statements of the committee are the means by which it accounts for its stewardship of the resources available to it and its financial performance in the use of those resources. It is the responsibility of the committee to prepare financial statements that give a true and fair view of the financial position and expenditure and income of the board the year.
3. The members and officers of the joint committee are responsible for the management and governance of the organisation. As external auditors, we review and report on the arrangements in place and seek to gain assurance that:
 - the financial statements have been prepared in accordance with statutory requirements and that proper accounting practices have been observed,
 - the joint committee's system of recording and processing transactions provides an adequate basis for the preparation of the financial statements and the effective management of assets and interests,
 - the joint committee has adequate corporate governance arrangements which reflect the three fundamental principles of openness, integrity and accountability,
 - the systems of internal control provide an appropriate means of preventing or detecting material mis-statement, error, fraud or corruption, and
 - the joint committee has proper arrangements for securing best value in its use of resources.
4. This report summarises the most significant issues arising from our work during 2009/10..



Financial statements

Introduction

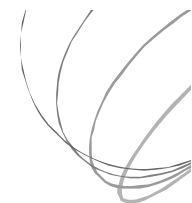
5. In this section we summarise key outcomes from our audit of the joint committee's financial statements for 2009/10, aspects of the joint committee's reported financial position and performance to 31 March 2010, and provide an outlook on future financial prospects and financial reporting issues.

Auditor's report

6. We have given an unqualified opinion on the financial statements of Tayside Contracts Joint Committee for 2009/10, concluding that the financial statements:
 - give a true and fair view, in accordance with relevant legal and regulatory requirements and the 2009 SORP, of the financial position of Tayside Contracts as at 31 March 2010 and its income and expenditure for the year then ended; and
 - have been properly prepared in accordance with the Local Government (Scotland) Act 1973.
7. The joint committee's balance sheet has an excess of liabilities over assets of £39.1 million due to the accrual of pension liabilities in accordance with accounting standards. Auditing standards require auditors to consider an organisation's ability to continue as a going concern when forming an opinion on financial statements. One of the indications that may give rise to going concern considerations is an excess of liabilities over assets.
8. The joint committee has considered it appropriate to adopt a going concern basis for the preparation of the financial statements as future actuarial valuations of the pension fund will consider the appropriate employer's contribution rate to meet the fund's commitments. The constituent authorities of the joint committee are also liable to fund the committee's liabilities as they fall due. We are satisfied that the process the joint committee has undertaken to consider going concern is reasonable.

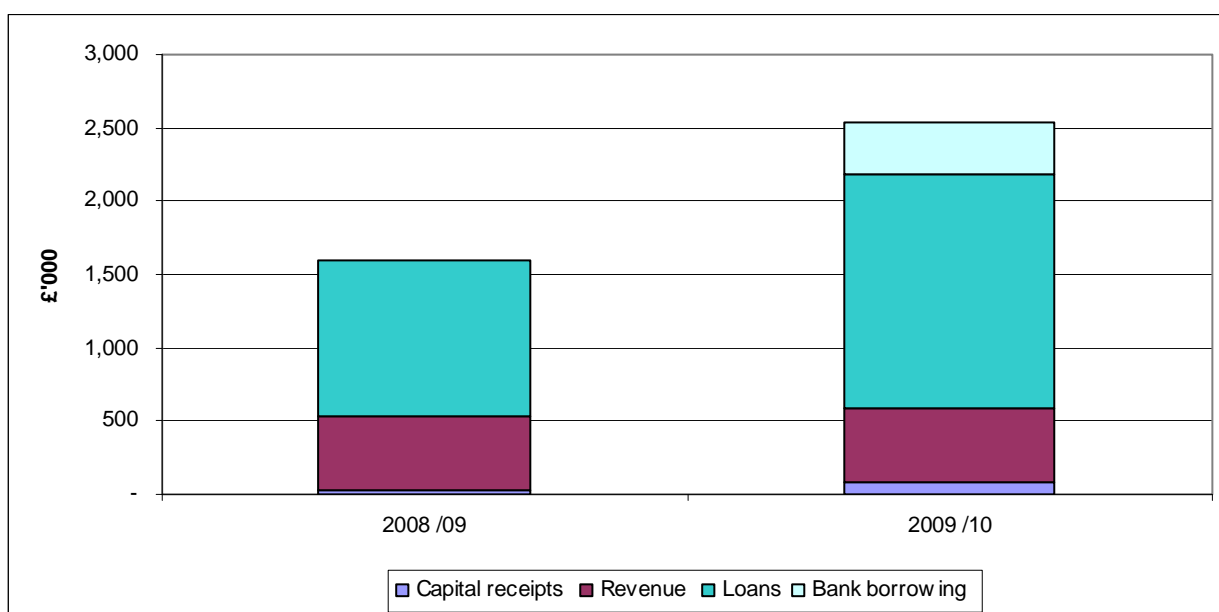
Financial position

9. The joint committee's Income & Expenditure account shows a net surplus of £264,000 for the year. The net surplus figure measures the committee's financial results in the year under Generally Accepted Accounting Principles. The movement on the general reserve balance is also an important figure when considering the committee's financial stewardship. Adjustments are made to the net surplus figure to take account of expenditure that statute and non-statutory proper practice require to be charged to the general reserve. Following these adjustments, the surplus for the year increased to £1.022 million, £800,000 of which is to be distributed to the constituent councils, in accordance with



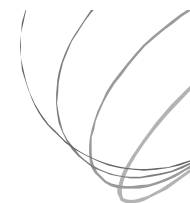
the profit sharing percentages approved by the joint committee on 11 May 2009. The amount distributed to constituent councils was £300,000 more than agreed by the constituent councils, reflecting strong financial performance during the year. The general reserve balance carried forward at the year end was £611,000.

10. The Local Government in Scotland Act 2003 replaced compulsory competitive tendering regulations with a duty to maintain and disclose trading accounts for significant trading operations, which are required to break even over a three year rolling period. In the three years to 31 March 2010 the Construction Division Statutory Trading Account achieved an aggregate surplus of £805,000 and the Facilities Services Statutory Trading Account made an aggregate surplus of £1,710,000. Both Statutory Trading Accounts, therefore, met the statutory target.
11. Capital expenditure in the year totalled £2.532 million. The majority of this expenditure related to the addition of items of plant and vehicles for the Construction Division. The level of capital expenditure was consistent to the previous year and was funded by borrowing, capital receipts and revenue as shown in the graph below. The relative increase in revenue funded capital is a consequence of a more profitable year for the joint committee in 2009/10 which also resulted in less borrowing being required:



Issues arising

12. The joint committee's unaudited financial statements were submitted to the Controller of Audit prior to the deadline of 30 June. Final accounts preparation procedures and working papers were again improved on prior years and this enabled the audit to progress smoothly.



13. Local authorities in Scotland are required to follow the Code of Practice on Local Authority Accounting in the United Kingdom – A Statement of Recommended Practice (the ‘SORP’). Overall, we were satisfied that Tayside Contracts Joint Committee had prepared the accounts in accordance with the SORP.
14. Audited accounts were finalised prior to the target date of 30 September 2010 and are now available for presentation to the joint committee and for publication.
15. Further matters arising from the audit of the financial statements which requires to be brought to the attention of members are summarised below.

Legality

16. Each year we request written confirmation from the Proper Officer that the Joint Committee’s financial transactions accord with relevant legislation and regulations. Significant legal requirements are also included in audit programmes and checklists. The Proper Officer has confirmed that, to the best of her knowledge and belief and having made appropriate enquiries of members and officials of Tayside Contracts Joint Committee, the financial transactions of the Joint Committee were in accordance with the relevant legislation and regulations governing its activities. There are no additional legality issues arising from our audit which require to be brought to members’ attention.

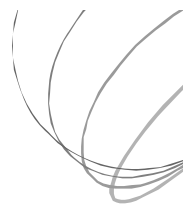
Statement on the system of internal financial control

17. The 2009/10 financial statements include a Statement on the System of Internal Financial Control which highlights the Proper Officer’s view that reasonable assurance can be placed upon the adequacy and effectiveness of the joint committee’s internal financial control system.
18. The statement complies with accounting requirements and is not inconsistent with the findings of our audit.

Future outlook

Financial planning

19. The financial challenges facing the Scottish public sector are well documented, with public bodies facing deep and prolonged cuts in funding. In June 2010 the new UK Government set out an Emergency Budget, planning for a period of significant fiscal consolidation. It immediately implemented £6 billion of UK budget reductions. The Scottish Government agreed that it would defer its share of these 2010/11 cuts (estimated at £332 million) until 2011/12, and will have to implement these alongside continuing reductions in the Scottish budget.

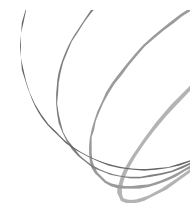


20. There remains uncertainty about what the financial implications for the Tayside Contracts Joint Committee will be. The UK Government published its comprehensive spending review on 20 October and the Scottish Government will publish the results of its own review in late November. A key issue will be the extent to which some priority services, particularly health, may be protected from budget reductions. The settlement for local government at individual local authority level is not expected to be finally known until December 2010.
21. The joint committee will not be immune from the financial pressures upon its constituent councils. It will need robust information about activity, costs and performance to identify ways of more effectively delivering services with decreasing levels of income. The joint committee may wish to consider developing a “recession impact action plan” to help address the future funding difficulties.

Action plan 1

Economic conditions

22. The current economic conditions have brought fresh challenges to the Joint Committee in achieving its statutory breakeven objective. We will monitor the actions planned or taken by the Joint Committee to address these challenges during the 2010/11 audit.



Corporate Governance

Financial results

23. In this section we comment on key aspects of the Joint Committee's governance arrangements during 2009/10.

Overview

24. Corporate governance is concerned with structures and processes for decision-making, accountability, control and behaviours at the upper levels of the organisation. In previous years we have concluded that the joint committee has many aspects of a sound corporate governance framework in place and have reached the same conclusion this year.

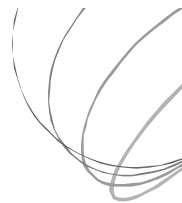
25. Internal audit plays a key role in the joint board's governance arrangements, providing an independent appraisal service to management by reviewing and evaluating the effectiveness of the internal control system. We noted in our 09/10 Annual Audit Plan that management were in the process of procuring a replacement internal audit service and that the absence of an effective internal audit function posed the risk that unidentified weaknesses may exist in the systems of internal control. We therefore welcomed the news that the joint committee had appointed Henderson Loggie as its internal auditors in January 2010.

26. As external auditors, we are required by auditing standards to work closely with internal auditors to make optimal use of available audit resources. We sought to rely on the work of internal audit wherever possible, and therefore revised our plan to include an assessment of the internal audit function in accordance with International Standard on Auditing 610. Based on our review of internal audit, we were able to place formal reliance on work undertaken by internal audit.

Risk Management

27. Whilst a corporate risk register is in place, senior officers recognise that this has yet to be fully developed. Progress has been slow in developing the risk register and leaves the Joint Committee exposed to the possibility that the key risks faced are not being adequately addressed and managed. We understand that strategic risks will be addressed in the 2011 to 2014 Business Plan which is being developed.

Action plan 2

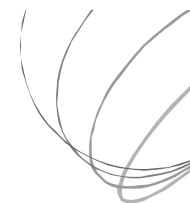


Anti-fraud and corruption arrangements

28. The Joint Committee has appropriate arrangements in place to prevent and detect fraud and corruption. These arrangements include the councillors' Code of Conduct, Fraud Guidelines and a whistle-blowing policy.

Systems of internal control

29. The Managing Director presented an annual report on the work carried out by the Internal Control & Audit function to the Joint Committee in May 2009 which concluded that "The work carried out during the year continues to give confidence that the necessary controls are in place and where weaknesses have been identified appropriate remedial action is taken so that the Joint Committee have confidence in the underlying systems of financial control and the financial service provided".



Performance management and improvement

30. In this section we comment on key aspects of the joint committee's reported performance during 2009/10.

Overview

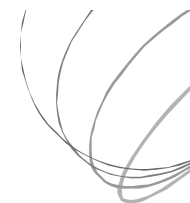
31. The delivery of high quality and cost effective public services is a cornerstone of current government policy. Performance management and improvement involves raising the standards and quality of performance, achieving greater efficiency in the use of public funds and becoming more responsive to the needs and aspirations of both individual service users and the communities served. Performance management systems will need to be robust to handle changing requirements.

Performance Management and Improvement

32. As part of our 2008/09 audit, we reviewed controls over performance arrangements and business improvement and efficiency initiatives. A number of areas for improvement were agreed with management. In 2009/10, we reviewed progress in this area. The joint committee has identified that efficiencies of some £0.5 million were achieved in 2009/10. The committee aims to increase this by a further £2 million by 2011/12. We note, however, the risk that some measures will result in reduced outputs and therefore may not strictly qualify as "efficiency" savings.

33. The 2006/11 Business Plan acknowledges the need to improve efficiency and productivity and to make best use of assets and people in order to minimise the impact of cost pressures in the next five years. The joint committee's progress in meeting the objectives of the Business Plan is subject to on-going review.

34. An income gap had been identified in the Business Plan. To date Tayside Contracts has been successful in bridging the annual income gap by generating sufficient additional income, making efficiency improvements and cost savings. However, the current economic climate will increase the risk that this is no longer achievable.



Appendix A: Action Plan

Key Risk Areas and Planned Management Action

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1	22.	<p>Financial planning</p> <p>The joint committee will not be immune from the financial pressures upon its constituent councils. It will need robust information about activity, costs and performance to identify ways of more effectively delivering services with decreasing levels of income.</p> <p><i>Risk: the joint committee is unable to meet expenditure commitments from available income.</i></p>	<p>We continue to work closely with senior officers of the constituent Councils to ascertain likely budget reductions and the potential impact on Tayside Contracts activities and income. Once Council budgets and spending plans are finalised Tayside Contracts will implement appropriate measures and actions to ensure that the cost base is managed to a level commensurate with expected income. These measures and actions will be incorporated into the Business Plan 2011 to 2014.</p>	Head of Finance	March 2011
2	28.	<p>Risk management</p> <p>The joint committee needs to further develop its risk management procedures to ensure that all risks, including key strategic risks are recognised.</p> <p><i>Risk: the joint committee is not fully aware of and able to manage key risks to its business.</i></p>	<p>A corporate risk register has been produced to identify key strategic risks and associated mitigating actions. Operational risks are managed as part of routine monitoring and client liaison. Strategic risk management is being further developed and refined, and key risks and opportunities will be incorporated into the Business Plan 2011 to 2014.</p>	Managing Director	March 2011