

Scotland Excel

Annual report on the 2011/12 audit



Prepared for Members of Scotland Excel Joint Committee and the Controller of Audit
November 2012

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Key messages

2011/12 audit findings

We have given an unqualified opinion on the financial statements of Scotland Excel for 2011/12, concluding that the financial statements give a true and fair view of the financial position of Scotland Excel as at 31 March 2012 and its income and expenditure for the year.

The budget for 2011/12 was for a £519,025 deficit, to be funded from reserves, and the final outturn was £385,496 deficit. The difference was mainly due to a computer project being postponed and over-recovery of income due to increased levels of associate member payments being secured.

The balance sheet at 31 March 2012 shows net liabilities of £691,818 (2010/11 £34,940), a significant deterioration over the previous year but this is mainly due to the movement in the pension liability during 2011/12, attributable to lower than expected investment performance and a decrease in the discount rate.

When Scotland Excel was created it received a Scottish Government grant for the purpose of funding the set-up costs. As at 31 March 2012, £1.2m of the initial £4.5m remained (31 March 2011: £1.6m), which will be spend on procurement reform activities. Reporting of costs on reform activity however, could be improved and officers will review 2012/13 budget monitoring reports to better present the split in costs between operational and reform activity.

Outlook

Scotland Excel's financial plans show that requisition income from partner authorities is expected to decrease over the 2012/13 and 2013/14 years. In addition, at current spending rates the reserves used for reform activity will be utilised over three to four years. Scotland Excel is reviewing possible options to fund the reform activity e.g. secondments, central government funding, charging regime. Managing the cost base and the changing funding pattern will be a challenge during the continuing difficult economic conditions.

Introduction

1. This report is the summary of our findings arising from the 2011/12 audit of Scotland Excel Joint Committee (Scotland Excel). The nature and scope of the audit were outlined in the Audit Plan issued to the Treasurer in June 2012 and follow the requirements of the Code of Audit Practice prepared by Audit Scotland in May 2011. The purpose of the annual audit report is to summarise the auditor's opinions (i.e. on the financial statements) and conclusions, and to report any significant issues arising. The report is divided into sections, which reflect the public sector audit model.
2. Appendix A is an action plan setting out the high level risks we have identified from the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "planned management action". We do not expect all risks to be eliminated or even minimised. What we expect is that Scotland Excel understands its risks and has arrangements in place to manage these risks. Members should ensure that they are satisfied with the proposed management action and have a mechanism in place to assess progress.
3. This report is addressed to the members of Scotland Excel and the Controller of Audit and should form a key part of discussions, either prior to, or as soon as possible after, the formal completion of the audit of the financial statements. This report should be available to the Scottish Parliament, other stakeholders and the public, where appropriate. Audit is an essential element of accountability and the process of public reporting.
4. This report will be published on our website after consideration by Scotland Excel. The information in this report may be used for the Accounts Commission's annual overview report on local authority audits. The overview report is published and presented to the Local Government and Regeneration Committee of the Scottish Parliament.
5. The Treasurer is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems. The auditor is responsible for auditing and expressing an opinion on the financial statements. Weaknesses or risks identified by auditors are only those that have come to their attention during their normal audit work and may not be all that exist. Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

Financial statements

6. Audited bodies' financial statements are an essential part of accounting for their stewardship of the resources made available to them and their performance in the use of those resources.
7. Auditors are required to audit financial statements in accordance with the timescales set by Audit Scotland, which may be shorter than statutory requirements, and give an opinion on:
 - whether they give a true and fair view of the financial position of audited bodies and their expenditure and income
 - whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements.
8. The accounts of Scotland Excel are to be prepared in accordance with the Code of Practice on Local Authority Accounting 2011/12 (the 2011/12 Code).
9. Auditors review and report on, as appropriate, other information published with the financial statements, including the statement on internal financial control and the remuneration report.

Audit opinion

10. We have given an unqualified opinion on the financial statements of Scotland Excel for 2011/12, concluding that the financial statements:
 - give a true and fair view, in accordance with relevant legal and regulatory requirements and the 2011/12 Code, of the financial position of Scotland Excel as at 31 March 2012 and its income and expenditure for the year then ended
 - have been properly prepared in accordance with the Local Government (Scotland) Act 1973.

Legality

11. Through our planned audit work we consider the legality of Scotland Excel's financial transactions. In addition the Treasurer has confirmed that, to the best of her knowledge and belief the financial transactions of Scotland Excel were in accordance with relevant legislation and regulations. There are no legality issues arising from our audit which require to be brought to members' attention.

Going concern

12. The net liability of Scotland Excel has increased from £34,940 as at 31 March 2011 to £691,818 as at 31 March 2012. The increase is predominantly due to the changing pension position: the opening pension asset of £19,000 changed to a closing pension liability of £638,000. A material net liability can highlight a potential going concern issue, however we recognise that the appointed actuary is of the view that the asset holdings of the Strathclyde Pension Scheme and the contributions from employees and employers together with planned

increases in contributions provide sufficient security over future liabilities. In light of these factors, it is reasonable that the accounts are prepared on a going concern basis.

Statement on the system of internal financial control

13. We reviewed the statement on the system of internal financial control (SSIFC) and confirm that it complies with the 2011/12 Code. The statement reports that Scotland Excel has in place a sound system of internal financial control which is in line with findings from our tests of controls and also with the findings of internal audit.
14. However, we consider the process put in place by Scotland Excel to obtain the necessary assurances for the SSIFC could be improved. The statement is supported by Renfrewshire Council directors' certificates of assurance, since Scotland Excel use these systems, but the Director of Scotland Excel does not provide a certificate of assurance. We consider this should be reviewed to ensure that any financial systems, which are local to Scotland Excel, are included in certificates of assurance.

Refer Action Plan no. 1

Remuneration report

15. We are satisfied that the remuneration report has been prepared in accordance with the Local Authority Accounts (Scotland) Act 1985 and Scottish Government finance circular 8/2011. The disclosures within the 2011/12 financial statements include all eligible remuneration for the relevant Scotland Excel officers.

Accounting issues

16. Scotland Excel is required to follow the 2011/12 Code. We are satisfied that Scotland Excel prepared the 2011/12 financial statements in accordance with the 2011/12 Code.

Accounts submission

17. Scotland Excel's financial statements were submitted to the Controller of Audit by the deadline of 30 June 2012. Final accounts preparation procedures and working papers were of a good standard and officers were helpful in dealing with queries during the audit.
18. We issued our report on the audit of the financial statements (in compliance with the International Auditing Standard 260) on 26 September, which indicated our intention to give an unqualified opinion on the financial statements for Scotland Excel. The audit certificate was duly signed off on 28 September 2012.

Presentational and monetary adjustments to the unaudited accounts

19. As a result of the audit, the in-year deficit increased by £214,000. A number of changes were made to the presentation and disclosures in the financial statements, the main ones being inclusion of information on exit packages, adding comparative 2010/11 figures for the Movement in Reserves Statement and including further information on contingent liabilities.

Financial position

20. Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based.
21. Auditors consider whether audited bodies have established adequate arrangements and examine:
 - financial performance in the period under audit
 - compliance with any statutory financial requirements and financial targets
 - ability to meet known or contingent, statutory and other financial obligations
 - responses to developments which may have an impact on the financial position
 - financial plans for future periods.
22. These are key areas in the current economic circumstances. This section summarises the financial position and outlook for the organisation.

Financial results

23. In 2011/12 Scotland Excel incurred an accounting deficit on the provision of services of £255,274 as shown in the Comprehensive Income and Expenditure Statement. The deficit as presented in the treasurer's foreword in the financial statements of £385,496 is different because it is prior to items such as pension adjustments and employee leave accrual. As the budget is prepared without these adjustments it is appropriate for the analysis in the foreword to be presented in this way.
24. The budget for 2011/12 was £519,025 deficit, to be funded from reserves, and the final outturn was £385,496 deficit. This was primarily due to a computer project being postponed and over-recovery of income from increased levels of associate member payments.

Financial position

25. Scotland Excel's balance sheet at 31 March 2012 shows net liabilities of £691,818 (2010/11 £34,940), a significant deterioration over the previous year but this is mainly due to the movement in the pension liability during 2011/12. The significant change in the council's pension position to a liability of £213,000 from as an asset of £19,000, is attributable to lower than expected investment performance and a decrease in the discount rate. The liability is based on actuarial valuations and reflects on the triennial valuation results as at 31 March 2011.
26. When Scotland Excel was created it received a Scottish Government grant for the purpose of funding the set-up costs. As at 31 March 2012 £1.2m of the initial £4.5m remained (31 March 2011 £1.6m), which will not be spent on operational activities, but only on procurement reform activities. This is included on the balance sheet but there was no additional disclosure in the accounts or budget monitoring reports during the year that clearly demonstrated that £385,000

was spent on reform activities. At current spending levels only three or four years of development funding remains and close monitoring of costs is important. Officers will review 2012/13 budget monitoring reports to better present the split in costs between operational and reform activity.

Refer Action Plan no. 2

2012/13 budget

27. Scotland Excel's 2012/13 budget is set at a deficit of £455,815, which is £478,000 costs for reform development work and office relocation, and £22,815 surplus from operational activity. In setting this budget it is assumed that both employee and other costs remain unchanged (zero inflation) and there is 1.7% reduction in level of requisitions from constituent authorities.

Financial forecasts beyond 2012/13

28. There continues to be pressure on financial position at requisition authorities and requisition levels for 2013/14 will be further decreased by 1.7% with no change planned for 2014/15. Scotland Excel members and management recognise that the funding model for all their work needs to be reviewed to ensure their development work can be self-funding once the Scottish Government initial grant is fully utilised.
29. To support financial stability Scotland Excel has reorganised its internal structures and plan to move into Renfrewshire House (Renfrewshire Council headquarters) in January 2013, to save on property costs.
30. Also, Scotland Excel has been considering different proposals for a more sustainable model for reform activities. In June 2012 members were updated on possible development options, including:
 - secondments from local authorities and other public bodies to deliver reform activities
 - seeking funding from other sources including the Scottish Government for the role that Scotland Excel plays in development, implementation and roll-out of national systems and tools
 - developing a charging regime for reform services.
31. Funding the reform activity from central government sources, or public bodies participating in a charging regime, will be a challenge during the on-going difficult economic climate. We will monitor progress as part of our 2012/13 audit.

Governance and accountability

32. The three fundamental principles of corporate governance – openness, integrity and accountability – apply to all audited bodies, whether their members are elected or appointed, or whether they comprise groups of people or an individual accountable officer.
33. Through its chief executive or equivalent, each body is responsible for establishing arrangements for ensuring the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies usually involve those charged with governance (including audit committees or similar groups) in monitoring these arrangements.
34. Consistent with the wider scope of public audit, auditors have a responsibility to review and report on audited bodies' corporate governance arrangements as they relate to:
 - corporate governance and systems of internal control
 - the prevention and detection of fraud and irregularity
 - standards of conduct and arrangements for the prevention and detection of corruption
35. In this part of the report we comment on key areas of governance.

Corporate governance

Processes and committees

36. In 2011, some meetings had not been quorate, which can delay decision-making or weaken monitoring and therefore, in February 2012, members agreed to amend the standing orders so that the quorum of the joint committee shall be at least one-quarter of the total members.
37. Following the May 2012 elections new members were appointed to Scotland Excel Joint Committee and the executive sub committee (which decides upon the award of contracts). At the first meeting in June, members were provided with an overview of the national reform programme, the role of Scotland Excel and progress against the three-year plan.

Internal control

38. While auditors concentrate on significant systems and key controls in support of the opinion on the financial statements, their wider responsibilities require them to consider the financial systems and controls of audited bodies as a whole. However, the extent of this work should also be informed by their assessment of risk and the activities of internal audit.
39. With Renfrewshire Council being the host for Scotland Excel, all financial transactions of Scotland Excel are processed through the financial systems of the council and are subject to the same controls and scrutiny of the council including regular reviews of internal audit. We

assess the work of internal audit and where possible place reliance on their work. For 2011/12 we placed reliance on their testing e.g. testing on council payroll and treasury management systems.

40. In the Internal Audit Annual Report 2011/12, the Chief Auditor concluded that Scotland Excel's system on internal control was operating in a satisfactory manner. Internal Audit reported the key controls for the receipt and evaluation of tenders was operating satisfactorily but recommended that risk registers should be maintained. Overall the Statement on the System on Internal Financial Control reports that there were no identified material weaknesses in 2011/12 and we concur with this conclusion.

Prevention and detection of fraud and irregularities

41. Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity. No frauds were reported in Internal Audit's Annual Report for 2011/12 and we have no fraud issues identified from our audit work.

Standards of conduct and arrangements for the prevention/detection of bribery and corruption

42. Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and have proper arrangements in place for implementing and monitoring compliance with standards and codes of conduct, standing orders and financial instructions. Auditors consider whether bodies have adequate arrangements in place. The personnel policies of Renfrewshire Council continue to be applied. We have concluded that the arrangements at Scotland Excel are satisfactory and we are not aware of any specific issues that we need to identify in this report.

Best Value, use of resources and performance

43. Audited bodies have a specific responsibility to ensure that arrangements have been made to secure Best Value.
44. Auditors of local government bodies also have a responsibility to review and report on the arrangements that specified audited bodies have made to prepare and publish performance information in accordance with directions issued by the Accounts Commission.
45. As part of their statutory responsibilities, the Auditor General and the Accounts Commission may procure, through Audit Scotland, examinations of the use of resources by audited bodies and publish reports or guidance. Auditors may be requested from time to time to participate in:
 - a performance audit which may result in the publication of a national report
 - an examination of the implications of a particular topic or performance audit for an audited body at local level
 - a review of a body's response to national recommendations.
46. Auditors may also consider the use of resources in services or functions, where the need for this is identified through local audit risk assessments
47. During the course of their audit appointment auditors should also consider and report on progress made by audited bodies in implementing the recommendations arising from reviews in earlier years.
48. This section includes a commentary on the performance management arrangements within Scotland Excel and note any headline performance outcomes/ measures used by Scotland Excel.

Management arrangements

49. The 2011/12 work of Scotland Excel was underpinned by strategic aims and key objectives agreed with members in February 2011 which were split into procurement reform activity and contract delivery. Progress reports were provided to meetings of the Joint Committee and to the Chief Executive Officers' Management Group.
50. In previous annual audit reports we commented that there had been a delay in the development of a three-year strategic plan. In February 2012, members approved a three-year business plan which covers the period 2012-2015. For each year the business plan has 19 objectives under five strategic aims:
 - Best value contracts
 - Procurement capability

- Stakeholder engagement
- Corporate social responsibility
- Organisational development

51. The 2010/11 Annual Audit Report commented that specific performance measures for areas other than contract spend and savings were not in place. The new three-year plan includes specific performance measures covering a range of areas under the above five strategic aims.

Stakeholder engagement

52. Due to the nature of Scotland Excel's work there is much consultation with stakeholders, for example when arranging social care contracts, or undertaking procurement capability assessments and the work with the Chief Officers' Management Group. The 2011/12 contract delivery plan was developed through consultation with Heads of Procurement functions.
53. The 2012-2015 business plan has specific objectives for stakeholder engagement and in 2012 Scotland Excel plans to develop a stakeholder engagement model and carry out a customer satisfaction survey.

Overview of performance in 2011/12

Operational activity

54. In February 2011 the Chief Executive Officers' Management Group (CEOMG) was advised of planned contract activity for 2011/12 which included 10 contract extensions, 20 new contracts to be developed including 5 new contracts covering social care services. The plans show original planned date, revised date and forecast savings range.
55. The February 2012 progress report to the Joint Committee and March 2012 progress report to the CEOMG showed mixed progress. For the social care contracts two were delivered in 2011/12 with the remaining three still in development. Of the nine new strategic activity contracts, one was delivered in March 2012, three were withdrawn following more detailed consultation and the remaining had delivery dates mostly postponed to October 2012. Explanations for delays were provided, which include extensions on stakeholder consultation and delays due to resource constraints.
56. To streamline the process for delivering operational contracts, a pilot project was carried out to try and shorten the cycle time to deliver the framework agreement for when requirements and estimated volumes are more clearly defined. Cycle times reduced by one third and the pilot approach is being reviewed to assess if it can be applied in other areas.
57. Other developments to improve performance include Scotland Excel:
- preparing a new contract and supplier management strategy
 - implementing the new public sector e-sourcing tool, which will be used to manage the tender process and

- working with Zero Waste Scotland to develop technical specifications for priority areas on food waste and waste electrical and electronic equipment.
58. Progress was recognised recently at the 2012/13 Government Opportunity awards (GO Awards) when Scotland Excel won the 'Collaborative Procurement Initiative of the Year Award' for work by the social care team on the secure care contract.
59. The first target of the new three-year plan is to deliver the contract programme on time. We have noted slippage in meeting the targets on the contract delivery plan in previous years. Scotland Excel continues to provide progress updates to the Joint Committee and CEOMG and we will continue to monitor progress as part of the 2012/13 audit.

Procurement reform activity

60. A key reform activity over the past few years has been to deliver the procurement capability assessments (PCA), which have shown improved results at councils. Objectives for 2011/12 was to develop post PCA support model and continue to develop learning and development programme linked to PCA results and national procurement reform initiatives. In February 2012, members were updated with examples of reform projects carried out.
- Post PCA support has includes intensive support at two councils and Scotland Excel considers that the detailed procurement improvement plan which followed can be used by other councils to develop their procurement practices.
 - Scotland Excel is working with the Scottish Qualifications Authority on a professional development qualification, 'Commissioning, Procurement and Contracting', with the aim to better resource those working in procurement and commissioning.
 - Scotland Excel Learning and Development programme was publicly commended, receiving a 'highly commended' award at the 2011 GO awards.
61. The reform activity is funded from the reserves funds and as previously noted this funding is likely to be fully utilised over the next three to four years. The extent of work will be restricted unless new funding models can be developed and Scotland Excel is currently working through options and we will continue to monitor progress.

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	14	<p>SSIFC assurances</p> <p>There is no separate assurance statement obtained from the park manager covering systems specific to Scotland Excel.</p> <p>Risk – insufficient arrangements around obtaining assurances for SSFIC.</p>	<p>Internal Audit will review arrangements with the Director in time for preparing the 2012/13 annual accounts.</p>	Chief Auditor and Director	30 May 2013
2	26	<p>Reform activities</p> <p>£1.2m of the initial £4.5m Scottish Government remains, which will be spent on procurement reform activities. There is no additional disclosure in the accounts, or budget monitoring reports during the year which clearly show the separate spend activities.</p> <p>Risk – the costs of reform activities are not being sufficiently monitored and understood to ensure early and appropriate action is taken.</p>	<p>The balances will be reviewed and discussed with finance officers to agree plans to utilise funds.</p> <p>During 2012/13 Scotland Excel and finance officers will review budget monitoring reports to improve presentation of the split in operational and reform activity.</p>	Director and Treasurer	31 Dec 2012