

Scotland Excel

Annual report on the 2012/13 audit



Prepared for Members of Scotland Excel Joint Committee and the Controller of Audit
November 2013

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

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Key Messages

2012/13

We have given an unqualified opinion that the 2012/13 financial statements of the Scotland Excel Joint Committee (Scotland Excel) give a true and fair view of the state of the body's affairs and of its net expenditure for the year.

The budget for 2012/13 was for a £456,580 deficit, to be funded from reserves, and the final outturn was £65,422 deficit. The difference was mainly due to lower staff costs and higher income from training and recharges from other public sector bodies.

The balance sheet at 31 March 2013 shows net liabilities of £1,282,518 (£691,818 in 2011/12); a significant deterioration over the previous year but this is mainly due to the decrease in the pension liability during 2012/13 of £588,000, attributable to revised assumptions; higher pension and salary increase rates and lower expected return on pension assets.

The delivery of the contract programme was only partially achieved during 2012/13. There were a number of areas with slippage caused by extended periods of stakeholder consultation and resource pressures.

Outlook

Scotland Excel's financial plans show that requisition income from partner authorities is expected to decrease over the 2013/14 and remain at the same level in 2014/15. As noted in previous years the reserves used for reform activity will be utilised over three to four years, if spending continues as in recent years. Scotland Excel is reviewing possible options to fund the reform activity and for example members have now approved to introduce chargeable services for the provision of intensive, customised consultancy type activities.

The financial position continues to be challenging during the ongoing difficult economic condition with less requisition income, managing the cost base and potentially changing income pattern for reform activity.

On behalf of the Accounts Commission, Audit Scotland is carrying out an audit to assess how well councils in Scotland manage procurement and also how well Scotland Excel is helping councils to improve procurement. The report is due to be published in March 2014.

Introduction

1. This report is the summary of our findings arising from the 2012/13 audit of Scotland Excel Joint Committee (Scotland Excel). The purpose of the report is to set out concisely the scope, nature and extent of the audit. It summarises our opinions (i.e. on the financial statements) and conclusions on significant issues arising.
2. The report also reflects our overall responsibility to carry out an audit in accordance with the public sector audit model which is based on the Code of Audit Practice prepared by Audit Scotland (May 2011). This sets out the wider dimensions of public sector audit which involves not only the audit of the financial statements but also consideration of areas such as financial performance and corporate governance. An audit of the financial statements is not designed to identify all matters that may be relevant to those charged with governance. It is the auditor's responsibility to form and express an opinion on the financial statements prepared by management; however this does not relieve management of their responsibilities in this respect. This report has been prepared for the use of Scotland Excel and no responsibility to any third party is accepted.
3. [Appendix A](#) is an action plan setting out the high level risks we have identified from the audit. Management 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. Scotland Excel should ensure that they are satisfied with the proposed management action and have a mechanism in place to assess progress.
4. This report is also addressed to the Controller of Audit and will be published on our website after consideration by the authority. 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.

Matters to be reported

Conduct and scope of the audit

5. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined in our Annual Audit Plan issued to the Treasurer on 23 March 2013 and presented to Scotland Excel on 21 June 2013, and follow the requirements of the Code of Audit Practice prepared by Audit Scotland in May 2011.
6. As part of the requirement to provide full and fair disclosure of matters relating to our independence we can confirm that we have not undertaken non-audit related services. The 2012/13 agreed fee for the audit was disclosed in the Annual Audit Plan and as we did not carry out any additional work outwith our planned audit activity the fee remains unchanged.

Audit opinion & accounting issues

7. We have given an unqualified opinion that the financial statements of Scotland Excel for 2012/13 give a true and fair view of the state of the body's affairs and of its net expenditure for the year. The audit opinion was formally issued and signed on 26 September 2013.
8. We received the unaudited financial statements on 18 June 2013, in accordance with the agreed timetable. The working papers were of a high standard and the staff provided good support to the audit team which enabled us to complete our on-site fieldwork by the planned target date.
9. Scotland Excel is required to follow the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 (the 2012/13 Code) and we can confirm that the financial statements have been properly prepared in accordance with the 2012/13 Code.

Findings

10. The most significant changes required to the financial statements as a result of the audit process and under the accounting guidelines, were outlined in our International Standard on Auditing (ISA) 260 report, issued to the Treasurer on 18 September 2013.
11. A number of presentational and monetary adjustments were identified within the financial statements during the course of our audit. These were discussed with senior finance officers who agreed to amend the unaudited financial statements. The effect of these adjustments was to decrease expenditure by £11,000.

Financial results

2012/13 Outturn

12. In 2012/13 Scotland Excel incurred an accounting deficit on the provision of services of £20,122 as shown in the Comprehensive Income and Expenditure Statement (CIES). The

deficit as presented in the Treasurer's foreword in the financial statements of £65,422 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.

13. The final outturn for 2012/13 was a deficit of £65,422 compared to the budget deficit of £456,580 (to be funded from the reserves). The overall underspend was mainly attributable to:
 - a net underspend of £159,771 on the total of staff and contractor costs
 - other income higher by £213,453 mainly due to higher training income and consultancy recharges.
14. In the CIES 2012/13 total cost of services decreased by £286,177 (7.5%) from the previous year. This is primarily down to the decrease in employee costs and reflects that in 2011/12 there were voluntary severance costs while there were none in 2012/13.
15. On income, the requisition income level decreased by 1.7% in line with the approved budget. Other income increased by 57% due to higher value of associate member payments being secured and contributions from Scottish Government and COSLA towards consultant costs.

2012/13 financial position

16. The balance sheet at 31 March 2013 shows net liabilities of £1,282,518 (£691,818 as at 31 March 2012), a significant deterioration over the previous year but this is mainly due to the movement in the pension liability during 2012/13, which increased by £588,000. This is attributable to changes in the pension fund actuary's assumptions: higher pension and salary increase rates and lower expected return on pension assets.
17. 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 and contributions from employees and employers, together with increases in contributions, provide security over future liabilities. In light of these factors, it is reasonable that the accounts are prepared on a going concern basis.

Financial planning

18. Scotland Excel's income and expenditure have been projected in its revenue estimates for a two-year period up to 2014/15 based on predicted levels of operating income and expenditure and with the assumption of 1.7% reduction to requisition income for 2013/14 and no further decreases or increases in 2014/15. In 2013 Scotland Excel moved into Renfrewshire Council headquarters, which saves on property costs.
19. In November 2012, Scotland Excel approved the 2013/14 budget for £453,000 deficit (£456,580 in 2012/13) on gross expenditure of £3,668,000. The main areas where the core budget has changed from previous year are for decreases in property costs (£100,000) and employee costs (£87,000); and an increase in contractor costs (£120,000).

20. Management monitor income and expenditure against budget with financial monitoring reports being presented to the Scotland Excel Executive Sub Committee three times a year. The most recent financial monitoring report for 2013/14 showed that, as at 16 August 2013, officers forecast that the anticipated year-end position would be a deficit of £283,000.

Procurement reform activity

21. When Scotland Excel was created it received a Scottish Government grant of £4.5m for the purpose of funding the set-up costs and the outstanding balances are used for procurement reform activities.
22. Last year we reported that, at current spending rates the reserves used for reform activities would be utilised over three to four years and the extent of work restricted unless new funding models were developed. The current balance is £1,172,865 (2011/12 £1,238,287).
23. Scotland Excel has been working through options. 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. Following approval by Scotland Excel to introduce chargeable services for the provision of intensive, customised consultancy type activities, this approach is now being implemented. Work is currently ongoing with one council on a chargeable basis and a short piece of project work has been completed with an associate member of Scotland Excel. Following a series of post PCA feedback sessions with senior stakeholders in councils, discussions are ongoing to clarify if additional, chargeable services are required by councils.

Corporate governance and systems of internal control

Overall governance arrangements

24. The Code of Audit Practice gives auditors a responsibility to review and report on audited bodies' corporate governance arrangements and we found that Scotland Excel has satisfactory governance arrangements in place.
25. Since the 31 March 2013 year-end, procedural standing orders, scheme of delegations, financial regulations and standing orders relating to contracts have been reviewed and are being updated.

Accounting and internal control systems

26. 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.
27. With Renfrewshire Council (the council) being the host for Scotland Excel, all financial transactions of the authority 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.

28. In the Internal Audit Annual Report 2012/13, the Chief Auditor concluded that overall Scotland Excel's system of control was operating in a satisfactory manner. Recommendations were made to improve recruitment processes and contract management arrangements, in particular consistency of working practices across regional teams.
29. We assess the work of internal audit and where possible place reliance on their work. For 2012/13 we placed reliance on aspects of their testing on council systems. Internal audit reported there were some system weaknesses on trade payables and we carried out additional testing required for our audit; the results were satisfactory.

Prevention and detection of fraud and irregularity

30. In our Annual Audit Plan we highlighted the responsibility audited bodies have for establishing arrangements to prevent and detect fraud and other irregularities. In our opinion the overall arrangements for the prevention of fraud within Scotland Excel are satisfactory, although it should be noted that no system can eliminate the risk of fraud entirely.

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

31. 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. No issues have been identified by us for inclusion in this report.

Best value and performance

Best value

32. Audited bodies have a specific responsibility to ensure that arrangements have been made to secure best value. 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.
33. Auditors may also consider the use of resources in services or functions, where the need for this is identified through local audit risk assessments. 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.

Performance

34. In February 2012, members approved a three-year business plan which covers the period 2012-2015. The plan includes specific performance measures covering a range of areas under the above five strategic aims. 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
35. A progress report for year one for the above objectives was presented to Scotland Excel on 21 June 2013. The following performance was noted:
- Nine objectives were fully achieved including average savings and actual spend targets, reducing and maintain sickness absence rate at below 4% and increasing the number of contracts managed as 'category 1' contracts.
 - Five objectives were partially achieved and some of them related to the partial delivery of the contract programme and communications strategy.
 - Three were not achieved including the fact that the value of the contract portfolio was £395m (target of £500m) and development of a stakeholder engagement model was postponed.
36. One of the partially achieved targets in 2012/13 was delivering the contract programme. In January 2012 Scotland Excel approved contract delivery programme for 2012/13 of which priorities were to renew or extend 32 contracts, migrate three contracts and to consider further 13 new contracts.
37. According to the year one progress report, three new contracts were delivered from a schedule of 12 opportunities, with delays being due to extended periods of stakeholder consultation and resource limitations. Five of the contract opportunities are in development for delivery in 2013-14, and two are still being researched. Following scoping exercises, two contracts were dropped from the schedule. All renewed and extended contracts have been delivered in line with delivery plan.
38. A progress report on 2013/14 contract delivery schedule presented to the Chief Executive Officers Management Group (CEOMG) in August 2013 shows that delivering social care portfolio within the original timescales is also challenging due to level of stakeholder engagement required. Another area of slippage noted was in relation to the renewal processes for library books/textbooks and trade materials.

Refer to action point 1

Outlook

39. **Audit Scotland study:** On behalf of the Accounts Commission, Audit Scotland is carrying out an audit to assess how well councils in Scotland manage procurement and Scotland Excel plays a key part in the study. The audit will seek to answer the following questions:
- How much do councils spend on goods and services and what savings have councils identified through better procurement?

- Do councils manage procurement well and have good governance for it in line with good practice?
- How well is Scotland Excel helping councils to improve procurement and achieve savings in spending on goods and services?

40. The report is due to be published in March 2014.

41. **Procurement Reform Bill:** The Procurement Reform (Scotland) Bill was introduced to the Scottish Parliament on 3 October 2013 and parliamentary scrutiny of the bill will take place through to April/ May 2014. Officers have provided regular updates on progress of the consultation and bill to chief officers and members.

Acknowledgements

42. We would like to express our thanks to the staff of Renfrewshire Council and Scotland Excel for their help and assistance during the 2012/13 audit.

Appendix A: Action Plan

Issues and Planned Management Action

Action Point	Refer Para No	Issue Identified	Planned Management Action	Responsible Officer	Target Date
1	38	<p>Contracts delivery slippage</p> <p>We noted slippage in meeting the targets on the contract delivery plan in 2012/13 and previous years. There were number of factors identified that delayed the delivery of the programme including resources shortages and stakeholder engagement process.</p> <p><i>Risk: there are delays to councils being able to access savings on contracts.</i></p>	<p>1. Continue with recruitment campaign and use of short term re-allocation of existing resource (including the use of temporary contractors) to mitigate delays.</p> <p>2. Continue to seek external technical support (such as that in place currently from Zero Waste Scotland) to help develop new contract areas and strengthen stakeholder engagement.</p> <p>3. Complete the next three year plan for Scotland Excel which incorporates workforce planning requirements and actions.</p> <p>4. Continue to review contract strategies and maximise opportunities to rationalise the portfolio and reduce resource requirements (e.g. educational materials - previously six separate contracts were in place - now managed as one.</p> <p>5. Carry out regular reviews of the contract portfolio priorities through the Commercial User Intelligence Group meetings and the Contract Delivery Programme Steering Group.</p>	<p>H Carr</p> <p>H Carr</p> <p>H Carr</p> <p>H Carr</p> <p>H Carr</p>	<p>31 December 2013</p> <p>Ongoing</p> <p>30 June 2014</p> <p>Ongoing as part of the contract governance process</p> <p>31 March 2014</p>