

Scotland Excel

Annual report on the 2013/14 audit



Prepared for Members of Scotland Excel Joint Committee and the Controller of Audit
November 2014

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

2013/14

We have given an unqualified opinion that the 2013/14 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 2013/14 was for a £453,283 deficit, to be funded from reserves, and the final outturn was a £37,758 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 2014 shows net liabilities of £1,720,120 (£1,282,518 in 2012/13); a significant deterioration over the previous year but this is mainly due to the increase in the pension liability during 2013/14 of £436,000, attributable to the revision in the net pension position made by the fund actuary under IAS19.

The balance of usable reserves reduced marginally to £1,135,106 at 31 March 2014 but the latest projected result for 2014-15 shows a drawdown of £303,000, reducing the reserves to £832,000.

Due to resource constraints two new strategic contracts out of the planned five were delivered during the year, but we understand that the further three new contracts were awarded in the first part of the 2014-15 financial year.

Outlook

Scotland Excel's financial plans show that requisition income from partner authorities is expected to remain constant during both 2014/15 and 2015/16.

On behalf of the Accounts Commission, Audit Scotland undertook 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 was published in April 2014 and recommended that Scotland Excel work with councils to review and formalise arrangements to fund procurement improvement activity beyond 2016. Scotland Excel is addressing those arrangements in the three year business plan (2015- 2018) to be presented to the Joint Committee in June 2015.

Recent indications from the Scottish Government are that the final delivery of the new Regulations transposing the new European Directive and to enact provisions of the Procurement Reform (Scotland) Act 2014 will take place towards the end of 2015. Officers are intending to produce a more detailed report for members on the Directive and its implications for Scotland Excel in the coming months.

Introduction

1. This report is the summary of our findings arising from the 2013/14 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 in May 2014 and presented to Scotland Excel on 20 June 2014, 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 2013/14 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 2013/14 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 30 September 2014.
8. We received the unaudited financial statements on 13 June 2014, 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 2013/14 (the 2013/14 Code) and we can confirm that the financial statements have been properly prepared in accordance with the 2013/14 Code.

Findings

10. The results 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 25 September 2014.
11. A small number of presentational adjustments were identified within the financial statements during the course of our audit. These were discussed with finance officers who agreed to amend the unaudited financial statements. There were no unadjusted misstatements.

Financial results

2013/14 Outturn

12. In 2013/14 Scotland Excel incurred an accounting deficit on the provision of services of £158,360 as shown in the Comprehensive Income and Expenditure Statement (CIES). The deficit as presented in the Treasurer's foreword in the financial statements of £37,758 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 2013/14 deficit of £37,758 was less than the budgeted deficit of £453,283 (to be funded from the reserves) mainly due to:
 - a net underspend of £149,608 (5%) on the total of employee costs, reflecting on-going difficulty in recruiting procurement specialists; and
 - other income higher by £222,255 mainly due to recovery of training expenditure £169,529, recovery of specialist support payments £43,893, an under recovery of £6,105 in associate member payments and an unbudgeted payment of bank interest of £14,938.
14. In the CIES 2013/14, total cost of services was £3.5m which was consistent with the prior year costs. However, as shown on the CIES, property costs decreased by £162,509 (49%); 2012/13 included costs of relocating into Renfrewshire Council premises and 2013/14 reflects the savings of sharing accommodation. Employee costs increased by £111,087 due to pension accounting movements.
15. The requisition income level decreased by 1.7% in line with the planned budget reduction.

2013/14 financial position

16. The balance sheet at 31 March 2014 shows net liabilities of £1,720,120 (£1,282,518 as at 31 March 2013), a significant deterioration over the previous year due primarily to the pension liability increasing by £436,000 and reflects changes in the actuary's financial assumptions for the pension fund.
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 revenue estimates for the two-year period up to 2014/15 allowed for a 1.7% reduction to requisition income for 2013/14 and remaining constant for 2014/15.
19. In November 2013, Scotland Excel approved the 2014/15 budget with, as planned, no change in council requisitions. The budget was split into a breakeven position for core work and a budgeted drawdown of reserves of £360,000 (£485,000 for 2013/14) for procurement improvement activity. In June 2014 there were some late amendments for increased expenditure on IT and insurance costs altering the total budget to a drawdown of reserves of £455,383.
20. Management monitor income and expenditure against budget with financial monitoring reports being presented to the Scotland Excel Executive Sub Committee. The most recent financial

monitoring report for 2014/15 showed that, as at 12 September 2014, officers forecast that the anticipated year-end position would be a deficit of £303,000, which is £153,000 less than the approved drawdown and is mainly due to staff vacancies reducing the payroll cost.

Pressures

21. As noted in previous years, Scotland Excel has been investigating options on how to fund procurement improvement activity. 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. The average score for the Local Government sector has increased from 22% in 2009 to 56% in 2013, and there are now only four councils remaining in the “conformance” category, twenty seven in the “improved” category and one council has been assessed in the “superior” category of performance procurement improvement activity.
22. The local government procurement community met in February 2014 to review the PCA results and to discuss performance and plans for the future. It was recognised that local government is facing a different and more formidable set of challenges and that procurement will need to continue to develop its role in order to support council operations. It was agreed that a more innovative approach to the strategic process of commissioning services is required to continually deliver better service and lower costs throughout the life of service delivery. As part of these changes the national PCA Working Group, involving all sectors and the Scottish Government, is currently developing a replacement for the PCA to take effect in 2015.
23. The recent Accounts Commission report on ‘Procurement in Councils (April 2014)’ recommended that “Councils and Scotland Excel should review and formalise arrangements to fund procurement reform activity beyond 2016”. A paper presented to the June 2014 committee meeting confirmed that this will be addressed in the next three year business plan covering the period 2015- 2018 which will now be presented to the Joint Committee in June 2015.

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 year-end there has been a change in Director, with Dorothy Cowie leaving on 31 August 2014 and Julie Welsh starting on 1 September 2014.
26. In June 2014, a revised scheme of delegations was approved to ensure that decisions enacted on behalf of Scotland Excel are taken at a level appropriate to the requirements for good governance and to the needs of operational efficiency. The main revision relates to the approval of Associate Memberships which previously was delegated to the Chief Executive Officers Management Group but has now been delegated to the Executive Sub-Committee.

Accounting and internal control systems

27. 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.
28. 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 by internal audit.
29. In the Internal Audit Annual Report 2013/14, the Chief Auditor concluded that overall Scotland Excel's system of internal control was operating in a satisfactory manner. All previous audit recommendations had been addressed. New recommendations were made to improve recruitment processes and contract management arrangements, in particular consistency of working practices across regional teams.
30. We assess the work of internal audit and where possible place reliance on their work. For 2013/14 we placed reliance on aspects of their testing on council systems. In the prior year Internal audit had reported there were some system weaknesses on trade payables and for 2013-14 we carried out additional testing required for our audit; the results were satisfactory.

Prevention and detection of fraud and irregularity

31. 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, subject to action point 1 below, 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

32. 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.
33. As noted below Audit Scotland published its report on *Procurement in Councils* in April. One of the recommendations is for councils to require staff involved in procurement to complete a register of interest statement and we consider this principle should apply to those staff involved in negotiating contracts.

Refer to Action point 1

Best value and performance

Best value

34. 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.
35. 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

36. 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 22 objectives under five strategic aims:
 - Best value contracts
 - Procurement capability
 - Stakeholder engagement
 - Corporate social responsibility
 - Organisational development
37. A report on progress towards the objectives as at the end of Year 2 (2013-14) was presented to Scotland Excel on 20 June 2014. The following performance was noted:
 - 13 objectives were fully achieved including actual spend targets, increasing the number of contracts managed as 'category 1' contracts, and the completion of a customer survey in which three quarters of respondents reported above average satisfaction.
 - 8 objectives were partially achieved with average savings on contracts awarded this financial year at 3.6%, lower than the anticipated 5% partly due to the renewal of the heavy vehicles framework which required more expensive vehicle specifications to meet new European emission standards. The rolling annual absence rate for 2013-14 was 4.4%, above the target of 3.9% due to a small number of long term absences.
 - One objective, relating to the total advertised annual value of contracts on the portfolio, was not achieved. The portfolio value of £410m is below the Year 2 target of £650m. Current projections, however, indicate that the value of the portfolio will reach the overall target of £750m by the end of Year 3.
38. Our previous year's Annual Report on the Audit recorded slippage in meeting the targets on the contract delivery plan. We note from the Business Plan update to the Joint Committee in

June 2014 that 10 contract renewals and 8 contract extensions had been completed in line with the 2013-14 contract delivery plan. Only two new contracts had been delivered during the year, due to resource constraints, but we understand that a further three new contracts have been awarded in the first part of the 2014-15 financial year.

National study

39. On behalf of the Accounts Commission, Audit Scotland's Performance Audit and Best Value Group carried out an audit on how well councils in Scotland manage procurement and Scotland Excel played a key part in the study. The report was published in April 2014 and is summarised below along with Scotland Excel actions.

Exhibit 1 Scotland Excel and Audit Scotland study *Procurement in councils*

Questions considered in report

- How well is Scotland Excel helping councils to improve procurement and achieve savings in spending on goods and services?

Findings related to Scotland Excel

- The report acknowledges that since 2006, Scottish Government and Scotland Excel initiatives have led to significant changes in councils' procurement practices, improved services and brought financial savings. The procurement capability assessments were assessed as being an effective process and councils considered them worthwhile.

Recommendations for Scotland Excel

- Set realistic timescales for contracts development, particularly in new areas of contracting.
- Maintain and improve its sharing of knowledge and experience with the Scottish Futures Trust and with associated joint venture companies.
- Work with councils and review and formalise arrangements to fund procurement improvement activity beyond 2016.

Scotland Excel is:

- Continuing to work with council heads of procurement to develop the contract planning and scheduling process.
- To use the account management model to formalise and extend the existing relationship with Scottish Futures Trust to include the hub companies [TBC]
- Considering the options for funding reform activities in the next three year business plan 2015-2018

Source: Audit Scotland Report *Procurement in councils*

Procurement Reform Bill

40. The Procurement Reform (Scotland) Bill has completed its passage through the Scottish Parliament and the EU Procurement Directive has been formally adopted by the European Parliament. The Directive has to be implemented into UK law by April 2016. Recent indications from the Scottish Government are that the final delivery of the new Regulations transposing the new Directive and to enact provisions of the Procurement Reform (Scotland) Act 2014 will be towards the end of 2015. Officers are intending to produce a more detailed report for members on the Directive and its implications for Scotland Excel in the coming months.

Acknowledgements

41. We would like to express our thanks to the staff of Renfrewshire Council and Scotland Excel for their help and assistance during the 2013/14 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	33	<p>Register of Interest</p> <p>The Audit Scotland April 2014 report on <i>Procurement in Councils</i> in recommended that council staff involved in procurement should complete a register of interest statement and we consider this principle should apply to staff involved in negotiating contracts.</p> <p><i>Risk/issue: a register of interest can improve the transparency around the awarding of contracts and is an appropriate arrangement for the prevention and detection of corruption.</i></p>	Scotland Excel will establish a "Register of Interests" for all staff in line with recommendations	Julie Welsh Director	31 December 2014