



Scotland Excel

**2022/23 Annual Audit Report to the
Executive Sub-Committee and the
Controller of Audit**

September 2023



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Key messages

This report concludes our audit of Scotland Excel (the “Joint Committee”) for the year ended 31 March 2023. This section summarises the key findings and conclusions from our audit.

Financial statements audit

Audit opinion	<p>The annual accounts were approved by the Executive Sub-Committee on 15 September 2023.</p> <p>We report unqualified opinions within our independent auditor’s report.</p>
Key audit findings	<p>Scotland Excel had appropriate administrative processes in place to prepare the annual accounts and the supporting working papers. We have obtained adequate evidence in relation to the key audit risks identified in our audit plan.</p> <p>The accounting policies used to prepare the financial statements are considered appropriate. We are satisfied with the appropriateness of the accounting estimates and judgements used in the preparation of the financial statements. All material disclosures required by relevant legislation and applicable accounting standards have been made appropriately.</p>
Audit adjustments	<p>Scotland Excel updated the financial statements for all the potential audit adjustments identified during the audit process.</p> <p>We also identified some disclosure and presentational adjustments during our audit, which have been reflect in the final set of financial statements.</p>

Accounting systems and internal controls

We have applied a risk-based methodology to the audit. This approach requires us to document, evaluate and assess Scotland Excel’s processes and internal controls relating to the financial reporting process.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we include these in this report. We consider the control environment within Scotland Excel to be satisfactory.

Wider scope and Best Value audit

Financial Sustainability

Financial sustainability looks forward to the medium and longer term to consider whether Scotland Excel is planning effectively to continue to deliver its services.

Auditor judgement



Scotland Excel’s revised revenue budget for 2023/24 and indicative budget estimates for the subsequent two years (to 2025/26) show a balanced financial position for the full three years, utilising uncommitted reserves from 2024/25 onwards.

Requisition income has seen an indicative 3% increase for 2023/24, whilst estimated non-requisition income for 2023/24 totals £1,061k representing an increase of 4.7%. This level of non-requisition income is estimated to continue to increase in 2024/25 and 2025/26.

Scotland Excel’s financial plans are subject to ongoing review and development. The application of reserves to support service delivery offers a potential short-term solution for existing funding gap in 2024/25 of £60k and 2025/26 of £111k. However, it does not achieve a sustainable financial plan to address the potential future funding gaps from 2026/27.

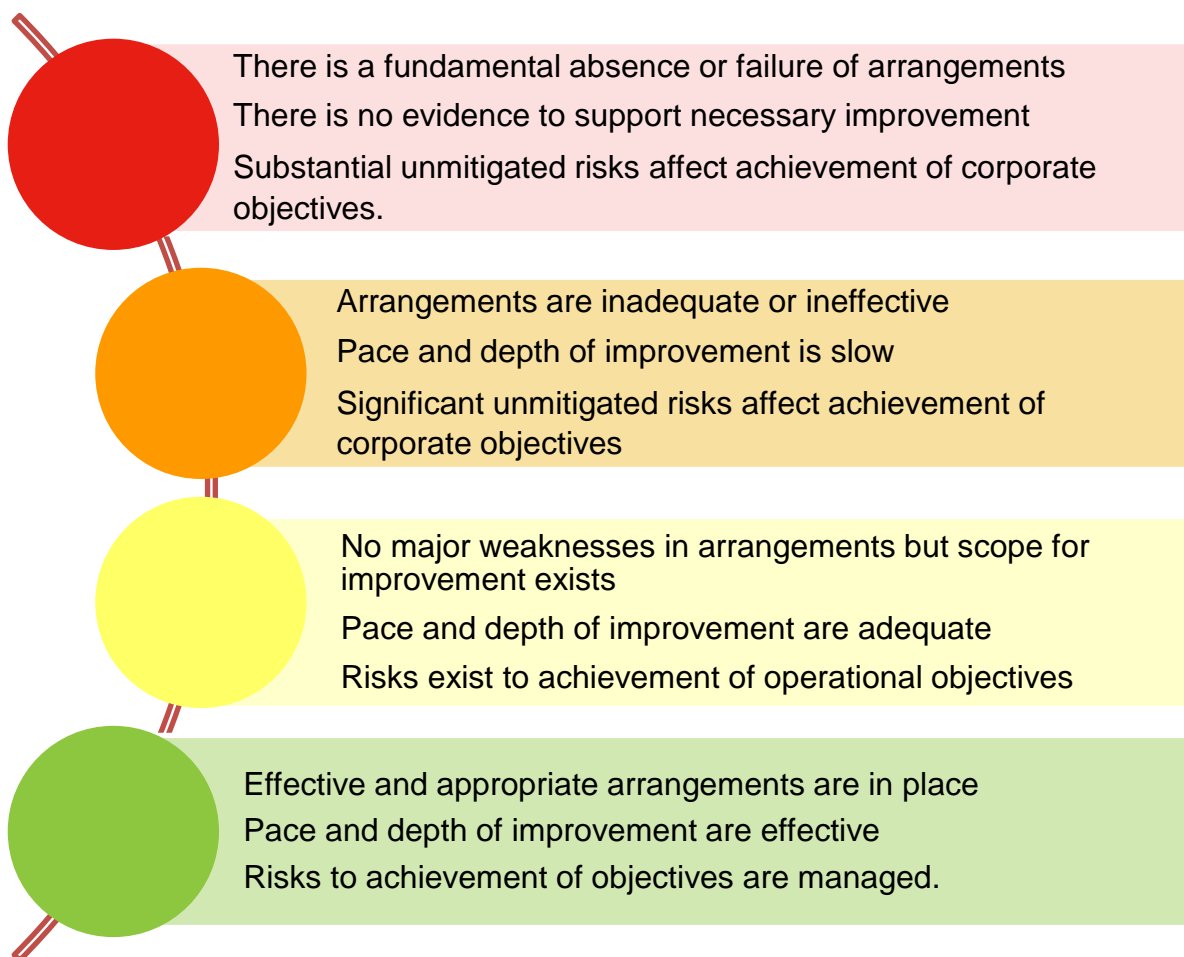
Work is ongoing to develop business plans that will further increase non-requisition income, thereby reducing reliance on requisition and the use of reserves.

Annual Governance Statement

We are content that the Annual Governance statement reflects the position within Scotland Excel and overall, we found the organisation to have appropriate governance arrangements. Our audit has not identified any issues or non-compliance from the work performed on the Annual Governance Statement.

Definition

We use the following gradings to provide an overall assessment of the arrangements in place as they relate to the wider scope and best value areas. The text provides a guide to the key criteria we use in the assessment, although not all of the criteria may exist in every case.



Introduction

The annual audit comprises the audit of the financial statements and the wider-scope and Best Value audit responsibilities set out in the Code of Audit Practice.

We outlined the scope of our audit in our External Audit Plan, which we presented to the Executive Sub-Committee at the outset of our audit. We have not made any subsequent changes to the risks outlined in that plan.

Responsibilities

Scotland Excel is responsible for preparing its annual accounts, including financial statements which show a true and fair view, and for implementing appropriate internal control systems. The weaknesses or risks identified in this report are only those that have come to our attention during our normal audit work and may not be all that exist. Communication in this report of matters arising from the audit 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.

We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on, the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

We would like to thank all management and staff for their co-operation and assistance during our audit.

Auditor independence

International Standards on Auditing in the UK (ISAs (UK)) require us to communicate on a timely basis all facts and matters that may have a bearing on our independence.

We confirm that we complied with the Financial Reporting Council's (FRC) Ethical Standard. In our professional judgement, we remained independent, and our objectivity has not been compromised in any way.

We set out in Appendix 1 our assessment and confirmation of independence.

Adding value

All our clients quite rightly demand of us a positive contribution to meeting their ever-changing business needs. We add value by being constructive and forward looking, by identifying areas of improvement and by recommending and encouraging good practice. In this way we aim to promote improved standards of governance, better management and decision making and more effective use of public money.



Any comments you may have on the service we provide would be greatly appreciated. Comments can be reported directly to any member of your audit team.

Openness and transparency

This report will be published on Audit Scotland's website www.audit-scotland.gov.uk.

Annual accounts audit

Scotland Excel's annual accounts are the principal means of accounting for the stewardship of its resources and its performance in the use of those resources.

Our audit opinion

Opinion	Basis for opinion	Conclusions
Financial statements	<p>We conduct our audit in accordance with applicable law and International Standards on Auditing.</p> <p>Our findings / conclusions to inform our opinion are set out in this section of our annual report.</p>	<p>The draft financial statements, management commentary, remuneration report and annual governance statement were considered by the Joint Committee and approved on 16 June 2023.</p> <p>We have issued an unqualified audit opinion.</p> <p>We identified a number of non-trivial errors during our audit of the financial statements, as set out in Appendix 2. Management amended the financial statements for the errors identified.</p> <p>We received the draft annual accounts and supporting papers in line with our audit timetable and those draft accounts were of good quality. Further information and revisions were provided promptly where required. Our thanks go to the Finance team for their assistance with our work.</p>

Opinion	Basis for opinion	Conclusions
<p>Going concern basis of accounting</p>	<p>In the public sector, when assessing whether the going concern basis of accounting is appropriate, the anticipated provision of services is more relevant to the assessment than the continued existence of a particular public body.</p> <p>We assess whether there are plans to discontinue Scotland Excel’s functions.</p> <p>Our wider scope audit work considers the financial sustainability of Scotland Excel.</p>	<p>Our understanding of the legislative framework and activities undertaken by Scotland Excel provides us with sufficient assurance that the services provided by Scotland Excel will continue to operate for at least 12 months from the signing date.</p> <p>Our audit opinion is unqualified in this respect.</p>
<p>Opinions prescribed by the Accounts Commission:</p> <ul style="list-style-type: none"> • Management Commentary • Corporate Governance Statement • Remuneration Report 	<p>We plan and perform audit procedures to gain assurance that the management commentary, corporate governance statement and the audited part of the remuneration report are prepared in accordance with:</p> <ul style="list-style-type: none"> • statutory guidance issued under the Local Government in Scotland Act 2003 (management Commentary); • the Delivering Good Governance in Local Government: Framework (corporate governance statement); and • The Local Authority Accounts (Scotland) 	<p>We have concluded that:</p> <ul style="list-style-type: none"> • the information given in the management commentary is consistent with the financial statements and has been prepared in accordance with relevant statutory guidance. • the information given in the corporate governance statement is consistent with the financial statements and has been prepared in accordance with the Delivering Good Governance in Local Government: Framework. • the audited part of the Remuneration Report has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014.

Opinion	Basis for opinion	Conclusions
	Regulations 2014 (remuneration report)	
Matters reported by exception	We are required to report on whether: <ul style="list-style-type: none"> • adequate accounting records have not been kept; or • the financial statements and the audited part of the remuneration report are not in agreement with the accounting records; or • we have not received all the information and explanations we require for our audit. 	We have no matters to report.

An overview of the scope of our audit

The scope of our audit was detailed in our External Audit Plan, which was presented to the Executive Sub-Committee in March 2023. The plan explained that we follow a risk-based approach to audit planning that reflects our overall assessment of the relevant risks that apply to Scotland Excel. This ensures that our audit focuses on the areas of highest risk (the significant risk areas). Planning is a continuous process, and our audit plan is subject to review during the course of the audit to take account of developments that arise.

At the planning stage, we identified the significant risks that had the greatest effect on our audit. Audit procedures were then designed to mitigate these risks.

In our audit, we test and examine information using sampling and other audit techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain evidence through performing a review of the significant accounting systems, substantive procedures and detailed analytical procedures.

Significant risk areas and key audit matters

Significant risks are defined by auditing standards as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, we consider the

nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement. Audit procedures were designed to mitigate these risks.

As required by the Code of Audit Practice and the planning guidance issued by Audit Scotland, we consider the significant risks for the audit that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the audit team (the 'Key Audit Matters'), as detailed in the tables below.

Our audit procedures relating to these matters were designed in the context of our audit of the annual accounts as a whole, and not to express an opinion on individual accounts or disclosures.

Our anticipated opinion on the annual accounts is not modified with respect to any of the risks described below.

Significant risks at the financial statement level

These risks are considered to have a pervasive impact on the financial statements as a whole and potentially affect many assertions for classes of transaction, account balances and disclosures.

Risk area	Management override of controls
<p>Significant risk description</p>	<p>Management of any entity is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p> <p>Although the level of risk will vary from entity to entity, this risk is nevertheless present in all entities. Due to the unpredictable way in which such override could occur, it is a risk of material misstatement due to fraud and thus a significant risk on all audits.</p> <p>This was considered to be a significant risk and Key Audit Matter for the audit.</p> <p>Inherent risk of material misstatement: Very High</p>
<p>How the scope of our audit responded to the significant risk</p>	<p>Key judgement</p> <p>There is the potential for management to use their judgement to influence the financial statements as well as the potential to override controls for specific transactions.</p> <p>Audit procedures</p>

Risk area	Management override of controls
	<ul style="list-style-type: none"> • Documenting our understanding of the journals posting process and evaluating the design effectiveness of management controls over journals. • Analysing the journals listing and determining criteria for selecting high risk and / or unusual journals. • Testing high risk and / or unusual journals posted during the year and after the unaudited annual accounts stage back to supporting documentation for appropriateness, corroboration and appropriate approval in line with Scotland Excel’s journals policy. • Gaining an understanding of the accounting estimates and critical judgements made by management. We challenged key assumptions and considered the reasonableness and indicators of management bias which could result in material misstatement due to fraud. • Evaluating the rationale for any changes in accounting policies, estimates or significant unusual transactions.
<p>Key observations</p>	<p>We have not identified any indication of management override of controls from our audit work. We did not identify any areas of bias in key judgements made by management. Key judgements were consistent with prior years.</p>

Significant risks at the assertion level for classes of transaction, account balances and disclosures

Key risk area	Fraud in revenue recognition
<p>Significant risk description</p>	<p>Material misstatement due to fraudulent financial reporting relating to revenue recognition is a presumed inherent risk on every audit unless it can be rebutted.</p> <p>The presumption is that Scotland Excel could adopt accounting policies or recognise income in such a way as to lead to a material misstatement in the reported financial position. Given the financial pressures facing the public sector as a whole, there is an inherent fraud risk associated with the recording of income around the year end.</p> <p>However, in respect of requisitions received from the member authorities, we do not consider the revenue recognition risk to be significant due to a lack of incentive and opportunity to manipulate revenue of this nature. The risk of fraud in relation to revenue recognition is present in all other income streams.</p> <p>This was considered to be a significant risk and Key Audit Matter for the audit.</p> <p>Inherent risk of material misstatement: Revenue (occurrence / completeness): High</p>
<p>How the scope of our audit responded to the significant risk</p>	<p>Key judgements</p> <p>Given the financial pressures facing the public sector as a whole, there is an inherent fraud risk associated with the recording of income around the year end.</p> <p>Audit procedures</p> <ul style="list-style-type: none"> • Evaluating the significant income streams and reviewing the controls in place over accounting for revenue. • Considering key areas of income and obtaining evidence that income is recorded in line with appropriate accounting policies and the policies have been consistently applied during the year.

Key risk area	Fraud in revenue recognition
Key observations	We have gained reasonable assurance on the completeness and occurrence of income and we are satisfied that it is fairly stated in the financial statements.

Key risk area	Fraud in non-pay expenditure
Significant risk description	<p>As most public sector bodies are net expenditure bodies, the risk of fraud is also present in relation to expenditure. There is a risk that expenditure may be materially misstated in the financial statements.</p> <p>This was considered to be a significant risk and Key Audit Matter for the audit.</p> <p>Inherent risk of material misstatement:</p> <ul style="list-style-type: none"> • Non-pay expenditure (occurrence / completeness): High • Accruals (existence / completeness): High
How the scope of our audit responded to the significant risk	<p>Key judgements</p> <p>Given the financial pressures facing the public sector as a whole, there is an inherent fraud risk associated with the recording of accruals and expenditure around the year end.</p> <p>Audit procedures</p> <ul style="list-style-type: none"> • Evaluating the significant non-pay expenditure streams and the design of the key controls in place over accounting for expenditure. • Considering key areas of expenditure and obtaining evidence that expenditure is recorded in line with appropriate accounting policies and the policies have been consistently applied during the year. • Testing accruals around the year end to consider if there is any indication of understatement of balances held through consideration of accounting estimates.
Key observations	We have gained reasonable assurance over the completeness and occurrence of expenditure and are

Key risk area	Fraud in non-pay expenditure
	satisfied that expenditure is fairly stated in the financial statements.

Key risk area	Valuation of defined benefit pension asset (key accounting estimate)
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Significant risk description	<p>An actuarial estimate of the pension fund asset/liability is calculated on an annual basis under IAS 19 and on a triennial funding basis by an independent firm of actuaries with specialist knowledge and experience. The estimates are based on the most up to date membership data held by the pension fund and have regard to local factors such as mortality rates and expected pay rises with other assumptions around inflation when calculating the liabilities. There is a risk that the assumptions used are not appropriate.</p> <p>Inherent risk of material misstatement: Defined benefit pension asset (valuation): Very High</p>
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How the scope of our audit responded to the significant risk	<p>Key judgements</p> <p>A significant level of estimation is required in order to determine the valuation of pension assets/liabilities. Small changes in the key assumptions (including discount rates, inflation and mortality rates) can have a material impact on the pension asset/liability.</p> <p>Audit procedures</p> <ul style="list-style-type: none"> • Evaluating management processes and assumptions for the calculation of the estimates, the instructions issued to their actuarial experts and the scope of their work. • Evaluating the competence, capabilities and objectivity of management’s actuarial expert. • Considering the basis on which the valuation was carried out and challenging the key assumptions applied. • Evaluating the information provided to the actuary for the purposes of their calculation of the IAS 19 estimate
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Key risk area	Valuation of defined benefit pension asset (key accounting estimate)
	<p>to ensure it was complete and consistent with our understanding.</p> <ul style="list-style-type: none"> Ensuring pension valuation movements made during the year were input correctly into the general ledger and financial statements and that the accounting treatment applied was in line with the financial reporting framework.
Key observations	<p>We reviewed the reasonableness of those assumptions used in the calculation against other local government pension fund actuaries and other observable data, with no issues identified. In addition, we reviewed the information in the actuarial report for completeness and accuracy against the published pension fund data.</p> <p>We have considered the competence, capability and objectivity of the actuary in line with the requirements of ISA (UK) 500 'Audit Evidence'. From this review we did not identify any items which gave us cause for concern over the suitability of the actuary.</p> <p>However, in accordance with the guidance issued on the recognition of the Pension Assets, an adjustment has been identified as detailed in Appendix 2.</p>

Estimates and judgements

We are satisfied with the appropriateness of the accounting estimates and judgements used in the preparation of the financial statements.

As part of the planning and fieldwork stages of the audit we identified all accounting estimates made by management and determined which of those were key to the overall financial statements. Consideration was given to pension assumptions, income and expenditure accruals, depreciation, amortisation and leases. Other than pension assumptions, we have not determined the accounting estimates to be significant. We revisited our assessment during the fieldwork and completion stages of our audit and concluded that our assessment remained appropriate.

Our audit work consisted of reviewing these key areas for any indication of bias and assessing whether the judgements used by management are reasonable. We have summarised our assessment of this below, categorised between Prudent, Balanced and Optimistic.

Estimates and judgements

Pensions Assumptions

Auditor judgement: Balanced

An actuarial estimate of the pension fund asset is calculated on an annual basis and on a triennial funding basis by an independent firm of actuaries with specialist knowledge and experience. We have considered the competence, capability and objectivity of the actuary in line with the requirements of ISA (UK) 500 'Audit Evidence'. From this review we did not identify any items which gave us cause for concern over the suitability of the actuary.

We reviewed the reasonableness of the assumptions and source data used in the calculation and the information in the actuarial report for completeness and accuracy against the published pension fund data. Our work included a meeting with the actuary to discuss, scrutinise and review the pensions assumption relevant to Scotland Excel. Our findings and conclusions are included in the significant risk table above.

Scotland Excel has disclosed in its annual accounts a sensitivity analysis to help users of the annual accounts understand the judgements management have made about the sources of estimation uncertainty. Clydeplan has disclosed in its annual accounts a sensitivity analysis to help users of the annual accounts understand the judgements management have made about the sources of estimation uncertainty.

Materiality

Materiality is an expression of the relative significance of a matter in the context of the financial statements as a whole. A matter is material if its omission or misstatement would reasonably influence the decisions of an addressee of the auditor's report. The assessment of what is material is a matter of professional judgement and is affected by our assessment of the risk profile of Scotland Excel and the needs of users. We review our assessment of materiality throughout the audit.

Whilst our audit procedures are designed to identify misstatements which are material to our audit opinion, we also report to the Executive Sub-Committee and management any uncorrected misstatements of lower value errors to the extent that our audit identifies these.

Our initial assessment of materiality was £148,000. On receipt of the unaudited financial statements, we reassessed materiality and have increased this to £165,000 in proportion to the increase in Gross Expenditure for 2022/23 financial year. We consider that our updated assessment has remained appropriate throughout our audit.

	Materiality £
Overall materiality for the financial statements (100%)	165,000
Performance materiality (75%)	124,000
Trivial threshold (5%)	8,000

Materiality	<p>Our assessment is made with reference to Scotland Excel’s gross expenditure. We consider this to be the principal consideration for the users of the annual accounts when assessing financial performance of Scotland Excel.</p> <p>Our assessment of materiality equates to approximately 2% of gross expenditure as disclosed in the 2022/23 unaudited annual accounts.</p> <p>In performing our audit, we apply a lower level of materiality to the Remuneration Report. Our materiality was set at £5k.</p> <p>We perform audit procedures on all transactions, or groups of transactions, and balances that exceed our materiality levels set. We perform a greater level of testing on the areas deemed to be at significant risk of material misstatement.</p>
Performance materiality	<p>Performance materiality is the working level of materiality used throughout the audit. We use performance materiality to determine the nature, timing and extent of audit procedures carried out.</p> <p>Performance materiality is set at a value less than overall materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of the uncorrected and undetected misstatements exceeds overall materiality.</p>
Trivial misstatements	<p>Trivial misstatements are matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.</p>

Audit differences

We identified a number of errors in the draft financial statements during our audit. These are set out in more detail in Appendix 2. Management agreed to amend the financial statements for all the errors we identified. The overall impact of the adjustments made on the financial statements was £7,354k.

We also identified disclosure and presentational adjustments during our audit which have been reflected in the final set of financial statements and are disclosed in Appendix 2.

Internal controls

As part of our work, we considered internal controls relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Executive Sub-Committee. These matters are limited to those which we have concluded are of sufficient importance to merit being reported.

We did not identify any significant control weaknesses during our audit.

Follow up of prior year recommendations

We followed up on progress in implementing actions raised by the predecessor auditor in the prior year as they relate to the audit of the financial statements. Full details of our findings are included in Appendix 3.

Other communications

Accounting policies, presentation and disclosures

Our work included a review of the adequacy of disclosures in the financial statements and consideration of the appropriateness of the accounting policies adopted by Scotland Excel.

The accounting policies, which are disclosed in the financial statements, are in line with the CIPFA LASAAC Code of Practice and are considered appropriate. The accounting policies used in preparing the financial statements are unchanged from the previous year.

There are no significant financial statements disclosures that we consider should be brought to the attention of Scotland Excel. All the disclosures required by relevant legislation and applicable accounting standards have been made appropriately. Overall, we found the disclosed accounting policies, and the overall disclosures and presentation to be appropriate.

Fraud and suspected fraud

We have previously discussed the risk of fraud with management and the Executive Sub-Committee. We have not been made aware of any incidents in the period nor have any incidents come to our attention as a result of our audit testing.

Our work as auditor is not intended to identify any instances of fraud of a non-material nature and should not be relied upon for this purpose.

Non-compliance with laws and regulations

As part of our standard audit testing, we have reviewed the laws and regulations impacting Scotland Excel. There are no indications from this work of any significant incidences of non-compliance or material breaches of laws and regulations.

Written representations

We requested written representations from management, and these have been shared with the Executive Sub-Committee alongside this report, and are due to be approved and signed alongside the financial statements upon completion.

Related parties

We are not aware of any related party transactions which have not been disclosed.

Confirmations from third parties

All requested third party confirmations have been received.

Wider Scope

Financial sustainability

Financial Sustainability

Financial sustainability looks forward to the medium and longer term to consider whether Scotland Excel is planning effectively to continue to deliver its services.

Auditor judgement



Scotland Excel's revised revenue budget for 2023/24 and indicative budget provides estimates for the subsequent two years (to 2025/26) and shows a balanced financial position for the full three years, utilising uncommitted reserves from 2024/25 onwards.

Requisition income has only seen an indicative 3% increase for 2023/24, whilst estimated non-requisition income for 2023/24 totals £1,061k representing an increase of 4.7%. This level of non-requisition income is estimated to continue to increase in 2024/25 and 2025/26.

Scotland Excel's financial plans are subject to ongoing review and development. The application of reserves to support service delivery offers a potential short-term solution for existing funding gap in 2024/25 of £60k and 2025/26 of £111k. However, it does not achieve a sustainable financial plan to address the potential future funding gaps from 2026/27.

Work is ongoing to develop business plans that will further increase non-requisition income, thereby reducing reliance on requisition and the use of reserves.

Significant audit risk

Our audit plan identified a significant risk in relation to financial sustainability under our wider scope responsibilities:

Extract from External Audit Plan - Financial sustainability

In December 2022 the Joint Committee considered its revenue budget for 2023/24 and indicative budget estimates for the subsequent two years to 2025/26.

Scotland Excel is estimating a break-even position for core activities at the end of 2022/23 and uncommitted reserves level of £246k. This level of reserves represents 5% of estimated operating income and is treated as a minimum level required for unforeseen cost.

The main cost driver is staff expenditure which is budgeted to increase over the period of the estimate by 3% each year and represents c.83% of total core activity cost. This cost is more variable for Projects, where staffing levels scale according to the level of project activity each year.

The local authorities' requisitions in 2023/24 will increase by 3%, but any potential future increases beyond that year are yet to be considered and agreed. Increases of the same level for the further two years of the forecast would create a deficit position in each of these years. If uncommitted reserves were to be used to cover projected deficits, then core reserves would reduce to £75k at the end of 2025/26 (or 1.4% of the operating income). This level of reserves would not represent a financially sustainable position.

There is a level of uncertainty in the above estimates due to:

- Indirect dependence on the Scottish Government annual allocation of funding to local authorities who in turn fund Scotland Excel activities through their requisitions. The funding levels from the Scottish Government beyond 2023/24 are uncertain and impacted by wider economic factors in Scotland.
- Unpredictability of the projects and rebates income; although Scotland Excel assumes the projects income will represent c.20% of the cost in each of the three years of the financial forecast;
- Scotland Excel faces cost pressures, particularly in its staff cost which make up 83% of its core activities expenditure. While the most recent Bank of England's expectation is that the inflation will fall to 4% at the calendar year-end, current levels of inflation remain high at around 7%.

Scotland Excel's medium to longer term financial planning is therefore challenging due to the wider economic environment and local government funding uncertainties. Current budget estimates to the end of 2025/26 indicate a potential reserves position which will severely limit Scotland Excel's ability to respond

Extract from External Audit Plan - Financial sustainability

flexibly to meet any unforeseen costs. To mitigate against this risk, however, work is ongoing to develop business plans that will further increase non-requisition income, thereby reducing reliance on requisition and the use of reserves.

Our detailed findings on the Funds financial sustainability arrangements are set out below.

2022/23 revenue budget

The Comprehensive Income and Expenditure Statement for 2022/23 shows that Scotland Excel spent £8.271 million on the delivery of services, resulting in an accounting deficit of £0.720 million.

The accounting deficit includes certain elements of income and expenditure that need to be accounted for to comply with the Code of Practice on Local Authority Accounting in the United Kingdom (the 2022/23 Code), and which are subsequently adjusted to show their impact on reserves.

Taking account of these adjustments, Scotland Excel reported a surplus of £0.381, million increasing general fund reserves to £1.740 million.

At the outset (December 2022) the Joint Committee approved a balanced revenue budget. As at 31 March 2023 (financial year-end), net expenditure for Core activities was £0.002m, comprising gross expenditure of £4.890m, less gross income of (£4.888m). There were only minor movements in the final variances to budget compared to the projected break-even position at Period 11.

Medium term financial plan

Scotland Excel's revised revenue budget for 2023/24 and indicative budget estimates for the subsequent two years (to 2025/26) show a balanced financial position for the full three years, utilising uncommitted reserves from 2024/25 onwards.

	2023/24	2024/25	2025/26
	£'000	£'000	£'000
Core Operating Costs	5,060	5,295	5,465
Core Operating Income	(5,060)	(5,235)	(5,354)
Net Expenditure	-	60	111
Uncommitted Reserves			
Opening balance at 1 April	246	246	186
Use of reserves	-	(60)	(111)
Closing balance at 31 March	268	238	208
% of Operating Income	4.9%	3.6%	1.4%

Key assumptions in the 2023/24 budget and indicative financial plans include;

- in addition to the 3% pay inflation (and 5% pay award for 2022/23), adjustments have been made to reflect the revised staffing structure currently in place within Scotland Excel and, as in previous years, there is a staffing turnover assumption of 5%;
- the Apprenticeship Levy has been increased in line with employee costs; and
- increased costs in relation to the Service Level Agreement (SLA) with Renfrewshire Council, which now reflects additional legal support.

Requisition income has seen an indicative 3% increase for 2023/24, whilst estimated non-requisition income for 2023/24 totals £1,061k representing an increase of 4.7%. This level of non-requisition income is estimated to continue to increase in 2024/25 and 2025/26.

However, we note that despite those challenges identified above for managing the use of reserves within Core Services, as at 31 March 2023 total usable reserves for both Core Services and Projects was £1.740m.

Scotland Excel's financial plans are subject to ongoing review and development. The application of reserves to support service delivery offers a potential short-term solution for existing funding gap in 2024/25 of £60k and 2025/26 of £111k. However, it does not achieve a sustainable financial plan to address the potential future funding gaps from 2026/27.

Work is ongoing to develop business plans that will further increase non-requisition income, thereby reducing reliance on requisition and the use of reserves..

Annual Governance Statement

Our review of the Annual Governance Statement assessed the assurances which are provided to Scotland Excel and management regarding the adequacy and effectiveness of the system of internal control which operated in the financial year. The statement also summarises internal audit findings with the Chief Internal Auditor's assurance statement concluding a reasonable level of assurance can be placed upon the adequacy and effectiveness of Scotland Excel's internal control system.

We concluded that the information in the Annual Governance Statement is consistent with the financial statements and complies with the guidance issued by the Scottish Ministers.

Appendices



Appendix 1: Responsibilities of Scotland Excel and the Auditor

Appendix 2: Audit differences identified during the audit

Appendix 3: Follow up of prior year recommendations



Appendix 1: Responsibilities of Scotland Excel and the Auditor

Responsibilities of Scotland Excel

Scotland Excel is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has responsibility for the administration of those affairs. The Treasurer has been designated as that officer. The Treasurer is responsible for the preparation of Scotland Excel’s annual accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

Area	Scotland Excel’s responsibilities
Corporate governance	<p>Scotland Excel is responsible for establishing arrangements to ensure the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Those charged with governance should be involved in monitoring these arrangements.</p>
Financial statements and related reports	<p>Scotland Excel has responsibility for:</p> <ul style="list-style-type: none"> • preparing financial statements which give a true and fair view of the financial position of Scotland Excel and its expenditure and income, in accordance with the applicable financial reporting framework and relevant legislation; • maintaining accounting records and working papers that have been prepared to an acceptable professional standard and support the balances and transactions in its financial statements and related disclosures; • preparing and publishing, along with the financial statements, an annual governance statement, management commentary (or equivalent and a remuneration report that is consistent with the disclosures made in the financial statements and prepared in accordance with prescribed requirements. The management commentary should be fair, balanced and understandable and also address the longer-term financial sustainability of Scotland Excel. <p>Management is responsible, with the oversight of those charged with governance, for communicating relevant information to users about Scotland Excel and its financial performance, including providing adequate disclosures in accordance with the applicable</p>

Area	Scotland Excel's responsibilities
	<p>financial reporting framework. The relevant information should be communicated clearly and concisely.</p> <p>Scotland Excel is responsible for developing and implementing effective systems of internal control as well as financial, operational and compliance controls. These systems should support the achievement of its objectives and safeguard and secure value for money from the public funds at its disposal. Scotland Excel is also responsible for establishing effective and appropriate internal audit and risk-management functions.</p>
<p>Standards of conduct for prevention and detection of fraud and error</p>	<p>Scotland Excel is responsible for establishing arrangements to prevent and detect fraud, error and irregularities, bribery and corruption and also to ensure that its affairs are managed in accordance with proper standards of conduct.</p>
<p>Financial position</p>	<p>Scotland Excel is responsible for putting in place proper arrangements to ensure its financial position is soundly based having regard to:</p> <ul style="list-style-type: none"> • Such financial monitoring and reporting arrangements as may be specified; • Compliance with statutory financial requirements and achievement of financial targets; • Balances and reserves, including strategies about levels and their future use; • Plans to deal with uncertainty in the medium and long term; and • The impact of planned future policies and foreseeable developments on the financial position.
<p>Best Value</p>	<p>Scotland Excel has a specific responsibility to ensure that arrangements have been made to secure best value. It is responsible for ensuring that these matters are given due priority and resources, and that proper procedures are established and operate satisfactorily.</p>

Auditor responsibilities

Code of Audit Practice

The Code of Audit Practice (the Code) describes the high-level, principles-based purpose and scope of public audit in Scotland. The 2021 Code came into effect from 2022/23.

The Code of Audit Practice outlines the responsibilities of external auditors appointed by the Auditor General and it is a condition of our appointment that we follow it.

We have concluded that Scotland Excel is a less complex public body for 2022/23.

Our responsibilities

Auditor responsibilities are derived from the Code, statute, International Standards on Auditing (UK) and the Ethical Standard for auditors, other professional requirements and best practice, and guidance from Audit Scotland.

We are responsible for the audit of the accounts and the wider-scope responsibilities explained below. We act independently in carrying out our role and in exercising professional judgement. We report to Scotland Excel and others, including Audit Scotland, on the results of our audit work.

Weaknesses or risks, including fraud and other irregularities, identified by auditors, are only those which come to our attention during our normal audit work in accordance with the Code and may not be all that exist.

Wider scope audit work

Reflecting the fact that public money is involved, public audit is planned and undertaken from a wider perspective than in the private sector.

The wider scope audit specified by the Code broadens the audit of the accounts to include additional aspects or risks in areas of financial management; financial sustainability; vision, leadership and governance; and use of resources to improve outcomes.

However, for less complex bodies the wider scope and best value work is limited to:

- a review of the Annual Governance Statement; and
- concluding on the financial sustainability of the body and the services that it delivers over the medium to longer term and; for local government bodies, reporting on the arrangements for securing Best Value.

Financial sustainability



Financial sustainability means being able to meet the needs of the present without compromising the ability of future generations to meet their own needs.

Auditor considerations

Auditors consider the extent to which audited bodies show regard to financial sustainability. They look ahead to the medium term (two to five years) and longer term (over five years) to consider whether the body is planning effectively so it can continue to deliver services.

Best Value

Appointed auditors have a duty to be satisfied that local government bodies have made proper arrangements to secure best value.

Our work in respect of Scotland Excel's best value arrangements has been integrated into our audit approach, including our work on the wider scope areas as set out within this report.

Audit quality

The Auditor General and the Accounts Commission require assurance on the quality of public audit in Scotland through comprehensive audit quality arrangements that apply to all audit work and providers. These arrangements recognise the importance of audit quality to the Auditor General and the Accounts Commission and provide regular reporting on audit quality and performance.

Audit Scotland maintains and delivers an [Audit Quality Framework](#).

The most recent audit quality report can be found at <https://www.audit-scotland.gov.uk/publications/quality-of-public-audit-in-scotland-annual-report-202223>

Independence

The Ethical Standards and ISA (UK) 260 require us to give Scotland Excel and fair disclosure of matters relating to our independence. In accordance with our profession's ethical guidance and further to our External Audit Annual Plan issued confirming audit arrangements we have no matters to bring to the Executive Sub-Committee's attention.

We confirm that Azets Audit Services and the engagement team complied with the FRC's Ethical Standard. We confirm that all threats to our independence have been

properly addressed through appropriate safeguards and that we are independent and able to express an objective opinion on the financial statements.

Our period of total uninterrupted appointment as at the end of 31 March 2023 was one year.

Audit and non-audit services

The total fees charged to the entity for the provision of services in 2022/23 were as follows. Prior year charges for the predecessor auditor are also shown for comparative purposes:

	Current year	Prior year
Auditor remuneration	£24,380 (base is £21,230)	£5,460
Pooled costs	-	£570
Audit support costs	£800	£290
Sectoral cap adjustment	(£14,920)	-
Total audit fee	£10,510	£6,320

The FRC's Ethical Standard stipulates that where an auditor undertakes non-audit work, appropriate safeguards must be applied to reduce or eliminate any threats to independence. We have not provided any non-audit services to Scotland Excel.

Appendix 2: Audit differences identified during the audit

We are required to inform the Executive Sub-Committee of any significant misstatements within the financial statements presented for audit that have been discovered during the course of our audit. The non-trivial misstatement discovered during the course of our audit which have been adjusted for by management are summarised in the table below.

Adjusted misstatements

Details of the item corrected following discussions with management is as below.

No	Detail	Assets	Liabilities	Reserves	CIES
		Dr / (Cr) £'000	Dr / (Cr) £'000	Dr / (Cr) £'000	Dr / (Cr) £'000
1.	<p>This year's IAS 19 report for Scotland Excel with the actuarial results indicated a pension surplus (or pension asset) of £7,467k. This is a significant difference to prior year's pension liability of £2,096k and was mainly driven by a significant increase in discount rate assumption between the years. The discount rate as at 31 March 2023 has been 4.75% and decreasing the future obligations substantially, which combined with no significant movement in the value of investment assets resulted in a pension surplus.</p> <p>However, the accounting standards require Scotland Excel to review the pension surplus and only recognise it to the lower of the surplus or an 'asset ceiling'. A detailed technical guidance on how to calculate the</p>	(7,467)			7,467

No	Detail	Assets Dr / (Cr) £'000	Liabilities Dr / (Cr) £'000	Reserves Dr / (Cr) £'000	CIES Dr / (Cr) £'000
	pension asset ceiling had been issued by Audit Scotland early in July 2023. Following that, we asked the management to calculate the asset ceiling and assess the surplus against it. This resulted in a material adjustment to the accounts and limiting the asset to the asset ceiling value to a nil value, with a £7,467k audit adjustment processed in the accounts.				
2.	Pension valuation adjustment to reflect the actual figures received from SPFO.	(168)	168		
3.	Adjustment to accrued income to reflect actual income recognised against the initial estimates made where the variances are significant.	113			(113)
4.	Reclassification adjustment to reflect incorrect posting against Debtors which should have been posted to Creditors	186	(186)		
	Net impact on general fund reserve				(7,354)
	Net impact on net assets				7,354

Unadjusted misstatements

We identified no unadjusted misstatements during our audit.

Misclassification and disclosure changes

Our work included a review of the adequacy of disclosures in the financial statements and consideration of the appropriateness of the accounting policies and estimation techniques adopted by Scotland Excel.

We identified a number of reclassification adjustments and some minor presentational issues in Scotland Excel's accounts, and these have all been amended by management. Details of all disclosure changes amended by management which following discussions are as below.

No	Detail
1.	<u>Minor presentational and disclosure issues</u> The audit team have raised minor and presentational issues with management and we recommend that this is updated.
2.	<u>Pension Asset Narrative</u> Scotland Excel has updated its pension disclosures to account for the change in pension asset values as detailed in adjustments table above.

Impact of prior year unadjusted misstatements

There were no prior year unadjusted misstatements reported in the prior year audit.

Appendix 3: Follow up of prior year recommendations

We have followed up on the progress Scotland Excel has made in implementing the recommendations raised by the previous auditor last year which were reported as either new or ongoing.

We note that this is now resolved.

1.	Related parties
<p>Recommendation</p>	<p>There was one audit finding in relation to related parties. Scotland Excel’s related parties note was reviewed against the requirements of IAS 24 and Audit Scotland’s Good Practice Note. Scotland Excel’s process for identifying related parties could be further improved by management by:</p> <ul style="list-style-type: none"> • conducting a review of the register of interest of each Joint Committee member against a year-end transaction listing to identify any related party disclosures; • consideration of the interests of close persons or family members of those related to Scotland Excel in the identification of related parties; and • adding a link in the note to signpost to Joint Committee members Register of Interests.
<p>Resolved</p>	<p>We note that Scotland Excel have updated the disclosure considerably following this recommendation, and deem this matter resolved.</p>



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