

Scotland Excel

2018/19 Annual Audit Report



 AUDIT SCOTLAND

Prepared for Scotland Excel Executive Sub-Committee and the Controller of Audit
September 2019

Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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Key messages

2018/19 annual accounts

- 1** Scotland Excel's financial statements give a true and fair view and were properly prepared.
- 2** An adjustment to pension disclosures and balances was required as a result of a legal judgment. This resulted in an increase of £0.227 million to the pension fund liability reported in the Balance Sheet.
- 3** The Management Commentary, the Annual Governance Statement, and the audited part of the Remuneration Report were all consistent with the financial statements and properly prepared in accordance with the applicable requirements.

Financial sustainability and Annual Governance Statement

- 4** Scotland Excel achieved a surplus of £0.318 million in 2018/19. This comprises a deficit of £0.098 million for core services and a surplus of £0.416 million for projects.
- 5** The 2019/20 budget projected total budgeted income and expenditure of £4.002 million, resulting in a breakeven position. Budgeted income included £0.120 million planned use of reserves and net project income of £0.173 million. To aid achieving this breakeven position, an increase of two per cent in requisition income was agreed.
- 6** Future planning indicates a budget gap in 2020/21 of £90,000 and a breakeven position in 2021/22. This position is based on a three per cent increase in requisition income in both years. The budget gap experienced in 2020/21 is expected to be managed through savings.
- 7** 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.

Introduction

1. This report summarises the findings from our 2018/19 audit of Scotland Excel.
2. The scope of our audit was set out in our [Annual Audit Plan](#) presented to the 22 March 2019 meeting of the Joint Committee. This report comprises the findings from:
 - an audit of Scotland Excel annual accounts
 - consideration of the financial sustainability and Annual Governance Statement.

Adding value through the audit

3. We add value to Scotland Excel through the audit by:
 - identifying and providing insight on significant risks, and making clear and relevant recommendations for improvements
 - reporting our findings and conclusions in public
 - sharing intelligence and good practice through our national reports ([Appendix 2](#)) and good practice guides
 - providing clear conclusions on the appropriateness, effectiveness and impact of corporate governance and financial sustainability.
4. In so doing, we aim to help Scotland Excel promote improved standards of governance, better management and decision making and more effective use of resources.

Responsibilities and reporting

5. The Joint Committee has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual accounts that are in accordance with proper accounting practices. The Joint Committee is also responsible for compliance with legislation putting arrangements in place for governance, propriety and regularity that enable it to successfully deliver its objectives.
6. Our responsibilities as independent auditor appointed by the Accounts Commission are established by the Local Government in Scotland Act 1973, the [Code of Audit Practice \(2016\)](#) and supplementary guidance and International Standards on Auditing in the UK.
7. As public sector auditors we give independent opinions on the annual accounts and conclude on securing financial sustainability and appropriateness of the Annual Governance Statement disclosures. In doing this, we aim to support improvement and accountability.
8. The [Code of Audit Practice 2016](#) (the Code) includes provisions relating to the audit of small bodies. Where the application of the full wider audit scope is judged by auditors not to be appropriate to an audited body then the annual audit work can focus on the appropriateness of the disclosures in the Annual Governance Statement and the financial sustainability of the body and its services. As

highlighted in our 2018/19 Annual Audit Plan, due to the volume and lack of complexity of the financial transactions, we applied the small body provisions of the Code to the 2018/19 audit.

9. The weaknesses or risks identified are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.

10. We confirm that we comply with the Financial Reporting Council's Ethical Standard. We have not undertaken any non-audit related services and therefore the 2018/19 audit fee of £5,880 as set out in our Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

11. This report is addressed to both the Executive Sub-Committee and the Controller of Audit and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.

12. We would like to thank the management and staff for their cooperation and assistance during the audit.

Part 1

Audit of 2018/19 annual accounts



Main judgements

Scotland Excel's financial statements give a true and fair view and were properly prepared.

An adjustment to pensions disclosures and balances was required as a result of a legal judgement. This resulted in an increase of £0.227 million to the pension fund liability reported in the Balance Sheet.

The Management Commentary, the Annual Governance Statement, and the audited part of the Remuneration Report were all consistent with the financial statements and properly prepared in accordance with the applicable requirements.

The annual accounts are the principal means of accounting for the stewardship of its resources and its performance in the use of those resources.

Audit opinions on the annual accounts

13. The annual accounts for the year ended 31 March 2019 were approved by the Executive Sub-Committee on 20 September 2019. We reported, within the independent auditor's report that:

- the financial statements give a true and fair view and were properly prepared
- the Management Commentary, the Annual Governance Statement and the audited part of the Remuneration Report, were all consistent with the financial statements and properly prepared in accordance with the applicable requirements
- we have nothing to report in respect of those matters which we are required by the Accounts Commission to report by exception.

Submission of annual accounts for audit

14. We received the unaudited annual accounts on 21 June 2019 in line with our agreed audit timetable.

15. The unaudited annual accounts provided for audit were complete and of a good standard and finance staff provided good support to the audit team which helped ensure the final accounts audit process ran smoothly.

16. The Local Authority Accounts (Scotland) Regulations 2014 required Scotland Excel to give public notice for inspection and objection of the 2018/19 unaudited annual accounts by 17 June 2019. The public notice was published on the Scotland Excel website on 26 June 2019 and in a newspaper on 28 June 2019, meaning this deadline was not met.

Risks of material misstatement

17. [Appendix 1](#) provides a description of those assessed risks of material misstatement in the annual accounts and any wider audit dimension risks that were identified during the audit planning process. It also summarises the work we have done to gain assurance over the outcome of these risks.

18. We have no issues to report from our work on the risks of material misstatement highlighted in our 2018/19 Annual Audit Plan.

Materiality

19. Misstatements are material if they could reasonably be expected to influence the economic decisions of users taken based on the financial statements. When deciding on what is material, we consider both the amount and nature of the misstatement.

20. Our initial assessment of materiality for the annual accounts was carried out during the planning phase of the audit and is summarised in [Exhibit 1](#). With regards to the annual accounts, we assess the materiality of uncorrected misstatements both individually and collectively.

21. On receipt of the unaudited annual accounts we reviewed our materiality calculations as detailed in [Exhibit 1](#).

Exhibit 1 Materiality values

| Materiality level | Amount |
|-------------------------|---------|
| Overall materiality | £56,900 |
| Performance materiality | £33,600 |
| Reporting threshold | £1,000 |

Source: Audit Scotland

Significant findings from the audit (ISA 260)

22. International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of the body's accounting practices covering accounting policies, accounting estimates and financial statements disclosures. The significant findings are summarised in [Exhibit 2](#).

23. We have no significant findings to report around the qualitative aspects of the 2018/19 accounting practices.

Exhibit 2

Significant findings from the audit of the financial statements

| Finding | Resolution |
|--|--|
| <p>1. Capital accounting</p> <p>We recommended in our 2017/18 Annual Audit Report that management review how capital expenditure is reflected in the financial statements. This was discussed further with management as part of the 2018/19 audit and it was agreed that capital expenditure would be reflected in the financial statements to reflect the substance of arrangements rather than just their legal form.</p> <p>This change resulted in new accounting policies for property, plant, and equipment (PPE) and intangible assets. To comply with <i>International Accounting Standard 8 – Accounting Policies, Changes in Accounting Estimates and Errors</i>, retrospective restatements and a third Balance Sheet were required. A number of new transactions, balances, and statutory adjustments have been reflected in the financial statements.</p> | <p>The audit recommendation has been fully implemented by management within the 2018/19 financial statements.</p> |
| <p>2. Reserves accounting</p> <p>We recommended in our 2017/18 Annual Audit Report that management review how reserves are reflected in the financial statements. This was discussed further with management as part of the 2018/19 audit and it was agreed that the accounting treatment for reserves would be updated to reflect the substance of arrangements rather than just their legal form.</p> <p>This change resulted in a revenue reserve balance being recognised in the financial statements at the year end. Prior year comparatives were also restated to reflect the updated accounting treatment. The revenue reserve balance reflects accumulated surpluses that have been generated in previous years which are available to Scotland Excel.</p> | <p>The audit recommendation has been fully implemented by management within the 2018/19 financial statements.</p> |
| <p>3. Pension fund liability legal judgement</p> <p>Legal cases were brought against the UK government regarding the transition arrangements made in each of the pension schemes for judges and firefighters. These arrangements came into effect as part of the move from a Final Salary Pension Scheme to a Career Average Pension Scheme in 2015 and included certain protections for active members of the schemes.</p> <p>The claimants successfully argued, in the resultant Employment Tribunal hearing, that some elements of the protection measures were unlawful on the grounds of age discrimination. The Employment Tribunal's ruling on this matter was upheld by the Supreme Court in June 2019.</p> <p>As this would have an impact on the transition arrangements of all government backed pension schemes, the council instructed, on behalf of Scotland Excel, the actuary to the Strathclyde Pension Fund to quantify the impact on the Scotland Excel's pension fund liability. The actuary estimated that the impact from this case is to increase the Scotland Excel's pension fund liability by £0.227 million.</p> | <p>The financial statements were updated to reflect the impact of the legal judgement on the pension fund liability.</p> |

| Finding | Resolution |
|---|--|
| <p>The impact of this adjustment resulted in a £0.227 million increase to the pension fund liability reported in the Balance Sheet from £3.394 million to £3.621 million, with a matching increase in the unusable pension reserve. This also resulted in a £0.223 million increase in the pension cost charge incorporated within the Comprehensive Income and Expenditure Statement in the accounts. As these adjustments are fully mitigated by a statutory adjustment, they have no impact on the £0.098 million deficit reported in the general fund reserve balance in the unaudited accounts.</p> | |
| <p>4. Cashflow Statement</p> <p>As part of audit work during the year, we had discussions with management on the presentation of the financial statements and the requirement for a Cashflow Statement. Scotland Excel does not have a bank account and all income and expenditure transactions are processed through Renfrewshire Council's, as the administering authority, bank account. The only cash held by Scotland Excel is petty cash which amounted to £150 at the year end.</p> <p>As a result, it was agreed that the Cashflow Statement could be removed as the cash held by Scotland Excel was not significant and the Cashflow Statement should only reflect cash transactions processed by Scotland Excel, of which there were none. The Cashflow Statement was removed in the unaudited annual accounts considered by the Joint Committee in June 2019.</p> | <p>The financial statements were updated to remove the Cashflow Statement.</p> |
| <p>5. Capital expenditure</p> <p>As part of our work on PPE and intangible assets, we identified capital expenditure transactions had been correctly capitalised on the Balance Sheet. However, the transactions had also been processed incorrectly through the Comprehensive Income and Expenditure Statement as revenue expenditure. This resulted in income and expenditure being overstated by £94,074 in 2018/19.</p> | <p>The overstatement of income and expenditure in 2018/19 was corrected within the Comprehensive Income and Expenditure Statement.</p> <p>As income and expenditure were overstated by the same amount, this did not impact on the deficit on the provision of services.</p> |

Source: Audit Scotland

How we evaluate misstatements

24. It is our responsibility to request that all misstatements, other than those below the reporting threshold, are corrected. The final decision on this lies with those charged with governance considering advice from senior officers and materiality. There were two material adjustments to the unaudited financial statements which are outlined in [Exhibit 2](#).

Other Findings

25. From the audit work we performed, we noted three additional errors resulting in expenditure being understated by £11,406. This comprises £2,242 of lease costs and a £2,631 service charge for core services and £6,533 of expenditure relating to recruitment for projects that had not been recognised in the unaudited annual accounts. These errors were corrected by management.

Follow up of prior year recommendations

26. We have followed up actions previously reported and assessed progress. Three agreed actions were raised in 2017/18 and all have been fully actioned.

Recommendation 1 – Capital Expenditure and Reserves

27. As detailed in [Exhibit 2](#) above, during the 2017/18 audit, we noted that Scotland Excel had incurred capital expenditure, but this has been accounted for as revenue expenditure. The financial statements disclosed that Scotland Excel did not have the power to hold assets therefore any capital expenditure was treated as revenue expenditure.

28. A similar disclosure issue was identified in respect of Scotland Excel's reserves. The financial statements outlined that the Joint Committee had no specific powers to hold reserves therefore reserves were transferred to creditors. Any reserves that have been built up will ultimately be returned to the member councils upon the cessation of Scotland Excel or when the Joint Committee decides to reimburse the reserves to member councils.

29. The Code of Practice on Local Authority Accounting in the United Kingdom states that for financial statements to be useful, they must provide a faithful representation of financial information with the substance of a transaction/process being reported as opposed to its legal form.

30. We recommended that management should review how capital expenditure and reserves were disclosed within the financial statements.

31. For the 2018/19 financial statements management have revised their accounting treatment and now recognise assets and reserves within the financial statements. As a result, the Balance Sheet has been restated to reflect the impact of this change in accounting treatment.

Recommendation 2 – Management Commentary

32. As part of the 2017/18 audit, we reported that the Management Commentary had been prepared in accordance with statutory guidance. However, there was scope to improve how performance was reported and we recommended that management review the content of the Management Commentary and the use of performance data.

33. The Management Commentary in the 2018/19 annual accounts has undergone a significant update. It now provides a clear and user-friendly summary of Scotland Excel's performance over the year. Management have also incorporated a number of charts and exhibits to improve the transparency of the details reported.

Recommendation 3 – Budget monitoring reports

34. Income generated from projects has grown considerably in recent years and is expected to form a greater proportion of Scotland Excel's funding in future years. As a result, it was recommended in our 2017/18 Annual Audit Report that management update the content of budget monitoring reports to include details on projects.

35. The content of budget monitoring reports was updated from January 2019 and these now include details on income and expenditure associated with projects. Management will review the level of detail reported on projects and discuss with members if any changes are required in future due to the developing nature and significance of projects.

Part 2

Financial sustainability and Annual Governance Statement



Main judgements

Scotland Excel achieved a surplus of £0.318 million in 2018/19. This comprises a deficit of £0.098 million for core services and a surplus of £0.416 million for projects.

The 2019/20 budget projected total budgeted income and expenditure of £4.002 million, resulting in a breakeven position. Budgeted income included £0.120 million planned use of reserves and net project income of £0.173 million. To aid achieving this breakeven position, an increase of two per cent in requisition income was agreed.

Future planning indicates a budget gap in 2020/21 of £90,000 and a breakeven position in 2021/22. This position is based on a three per cent increase in requisition income in both years. The budget gap experienced in 2020/21 is expected to be managed through savings.

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.

Financial sustainability looks forward to the medium and longer term to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.

Financial performance in 2018/19

36. The Joint Committee approved the 2018/19 budget in December 2017. Total budgeted income and expenditure was £3.644 million, resulting in a breakeven position. Budgeted income included an underspend of £70,000 carried forward from 2017/18. Budgeted project income and expenditure was £0.960 million, resulting in a breakeven position for projects.

37. Actual outturn in 2018/19 was total expenditure of £5.102 million and total income of £5.420 million. This resulted in a surplus of £0.318 million for the year compared to a budgeted breakeven position. While an overall surplus was achieved, this was driven by projects and there was a deficit on core services ([Exhibit 3](#)).

Exhibit 3

2018/19 Outturn

| | Core (£ millions) | Projects (£ millions) | Total (£ millions) |
|-------------------------------|----------------------|--------------------------|-----------------------|
| Income | 3.555 | 1.865 | 5.420 |
| Expenditure | 3.653 | 1.449 | 5.102 |
| Net (Income) / Expenditure | 0.098 | (0.416) | (0.318) |

Source: Scotland Excel 2018/19 annual accounts

Short term financial planning

38. The largest source of income for Scotland Excel is requisitions from members of the Joint Committee. However, the level of income from other sources has increased in recent years and makes up approximately 37 per cent of total income in 2018/19. The other sources of income include rebates, associate memberships, projects, and the Academy.

39. The Joint Committee approved the 2019/20 budget in December 2018. Total budgeted income and expenditure was £4.002 million, resulting in a breakeven position. However, budgeted income included £0.120 million planned use of reserves and net project income of £0.173 million (i.e. the budgeted surplus from projects). A two per cent increase in requisition income was agreed by the Joint Committee which resulted in requisitions increasing from £3.484 million in 2018/19 to £3.554 million in 2019/20.

Medium to long term financial planning

40. We reviewed the financial planning systems and assessed how effective they are in identifying and addressing risks to the financial sustainability of Scotland Excel over the medium and long term.

41. As part of the budget setting process, revenue estimates are prepared for a three-year period. This allows management and members to identify pressures and take early actions to mitigate against these pressures.

42. Forecasts up to 2021/22 were included within the 2019/20 budget. The forecasts estimate a budget gap in 2020/21 of £90,000, that is to be managed through savings, followed by a breakeven position in 2021/22. This position is based on a three per cent increase in requisition income for both 2020/21 and 2021/22.

43. Scotland Excel carried out a review of its funding model in June 2018. The review highlighted the challenging financial landscape within local government and the work Scotland Excel would be doing to manage its financial position and support member councils. An update on the funding model was reported at the June 2019 Joint Committee meeting and the key developments are outlined below.

- **Consultancy:** a number of projects are underway with various types of organisations including East Renfrewshire Council, Fife Council, Tayside Procurement, Cycling Scotland, and City Property (Glasgow) LLP. A surplus target of £70,000 was approved by the Joint Committee and Scotland Excel is on target to achieve this, with opportunity to exceed the target.

- **Learning and development – the Academy:** programmes have been delivered and are progressing over a range of topics including project management and procurement. A marketing campaign was launched to help build the Academy's profile and create demand and awareness of programmes available. The Academy has also been approved to deliver a Business Analysis, Decision Making and Innovation programme which is accredited by the Scottish Qualifications Authority. A surplus target of £53,000 was approved by the Joint Committee and Scotland Excel is on target to achieve this target.
- **Rebates:** the Joint Committee approved the use of volume rebates within appropriate contracts. Consideration of the appropriateness of using rebates is now standard practice within the internal contract governance process. Rebates are forecast to achieve a surplus in 2020/21.

44. From the work carried out, we have concluded that Scotland Excel has appropriate financial planning arrangements in place. Cost and income generation pressures are expected to continue in the medium term. However, the financial planning arrangements in place allow management to plan for these pressures and ensure necessary actions are taken when required.

Annual Governance Statement

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

46. 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.

EU Withdrawal

47. There remains significant uncertainty surrounding the terms of the UK's withdrawal from the European Union (EU). EU withdrawal will inevitably have implications for devolved government in Scotland and for audited bodies. It is critical that public sector bodies are working to understand, assess and prepare for the impact on their business in three broad areas:

- workforce – the extent to which potential changes to migration are likely to affect the availability of the people and skills needed to deliver services
- funding – the extent to which potential changes to existing EU funding programmes are likely to affect the finances of public bodies and the activity that such funding supports
- regulation – the extent to which potential changes to EU regulations are likely to affect the activities of some public bodies.

48. Management have been carrying out work to assess the potential impact of EU withdrawal on operations. This includes research, active engagement, partnership working, and briefings to ensure management and Scotland Excel are aware of the potential impact and can respond to developments. This has also been reflected within Scotland Excel's Risk Register.

49. In addition, Renfrewshire Council is the lead authority for Scotland Excel. As a result, Scotland Excel is expected to follow and reflect the work done by the council in preparation for EU withdrawal where required.

50. We have concluded that Scotland Excel has appropriate arrangements in place in preparing for EU withdrawal.

Appendix 1

Significant audit risks identified during planning

The table below sets out the audit risks we identified during our planning of the audit and how we addressed each risk in arriving at our conclusion. The risks are categorised between those where there is a risk of material misstatement in the annual accounts and those relating our wider responsibility under the [Code of Audit Practice 2016](#).

| Audit risk | Assurance procedure | Results and conclusions |
|---|--|--|
| Risks of material misstatement in the financial statements | | |
| <p>1 Risk of management override of controls</p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls to change the position disclosed in the financial statements.</p> | <p>Detailed testing of journal entries.</p> <p>Review of accounting estimates.</p> <p>Focused testing of accruals and prepayments.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p> | <p>No unusual or inappropriate transactions were identified as part of our detailed journal testing.</p> <p>A review of accounting estimates did not show any evidence of bias.</p> <p>Focused testing of accruals and prepayments did not identify any balances that were incorrectly held on the balance sheet.</p> <p>Focused testing on a sample of transactions outside the normal course of business did not show any evidence of management override of controls.</p> <p>Conclusion: no evidence of management override of controls.</p> |
| <p>2 Risk of fraud over income</p> <p>Scotland Excel receives a significant amount of income from several sources including, income generated from sales, fees and charges. The extent and complexity of income means that, in accordance with ISA240, there is an inherent risk of fraud.</p> | <p>Analytical procedures on income streams.</p> <p>Detailed testing of income transactions focusing on the areas of greatest risk.</p> | <p>Analytical procedures were carried out over all income streams and satisfactory responses were provided for all significant variances.</p> <p>Detailed testing of revenue transactions confirmed these were normal business transactions and had been accounted for in the correct year.</p> <p>Conclusion: no evidence of fraud over income.</p> |
| <p>3 Risk of fraud over expenditure</p> <p>Most public sector bodies are net expenditure bodies and therefore the risk of fraud is more likely to occur in expenditure.</p> | <p>Analytical procedures on expenditure streams.</p> <p>Detailed testing of expenditure transactions focusing on the areas of greatest risk.</p> | <p>Analytical procedures were carried out over all expenditure streams and satisfactory responses were provided for all significant variances.</p> <p>Detailed testing of expenditure transactions confirmed these were normal business</p> |

| Audit risk | Assurance procedure | Results and conclusions |
|---|--|--|
| <p>The Code of Audit Practice expands the consideration of fraud under ISA 240 to include the risk of fraud over expenditure. This applies to Scotland Excel due to the variety and extent of expenditure incurred in delivering services.</p> | | <p>transactions and had been accounted for in the correct year.</p> <p>Conclusion: no evidence of fraud over expenditure.</p> |
| <p>4 IFRS 15 and accounting for income</p> <p>IFRS 15 Revenue from contracts with customers comes in to effect in 2018/19 and requires entities to use a five-step approach to recognising income.</p> <p>In June 2018 the Joint Committee approved changes to Scotland Excel's funding model. The changes approved will result in greater reliance on generated income as a source of funding and less reliance on requisition income. Income is expected to be generated from a number of sources and some projects span a number of years.</p> <p>The expected increases in income generated, the sources and timing of income generated, and the requirements of IFRS 15 represent an increased risk of material misstatement in the financial statements.</p> | <p>Review of income sources and detailed testing of income transactions against the recognition requirements of IFRS 15.</p> <p>Review of reserves and deferred income balances at the year-end.</p> | <p>Detailed testing of income transactions from all sources confirmed these had been correctly recognised in accordance with IFRS 15.</p> <p>A review of reserves and deferred income balances at the year-end confirmed these had been appropriately classified in the Balance Sheet.</p> <p>Conclusion: income has been recognised in accordance with IFRS 15 and reserves and deferred income balances have been appropriately classified.</p> |
| <p>5 Estimates and Judgements</p> <p>There is a significant degree of subjectivity in the measurement and valuation of the material account area of pensions.</p> <p>Scotland Excel's net liability relating to the Strathclyde Pension Fund at 31 March 2018 was £1.441 million. This value is an estimate based on a number of assumptions from the pension fund actuary.</p> <p>This subjectivity represents an increased risk of material misstatement in the financial statements.</p> | <p>Review of the pension actuary and the assumptions made in calculating the estimated pension liability.</p> | <p>A review of the actuary and the assumptions made in calculating the estimated pension liability was carried out and found the approach and assumptions used by the actuary to be reasonable and in line with expectation.</p> <p>Conclusion: the estimates and judgements made to calculate the net pension liability were reasonable.</p> |

| Audit risk | Assurance procedure | Results and conclusions |
|---|---|---|
| <p>6 New accounting system</p> <p>Renfrewshire Council implemented an enterprise resource planning system (Business World), in October 2018 which combines finance, HR, payroll and procurement into a single integrated application.</p> <p>The implementation of Business World during the 2018/19 financial year means that the annual accounts will be prepared using information recorded both before and after the change in system, under two different control environments.</p> <p>This introduces additional risks:</p> <ul style="list-style-type: none"> - The new control environment may be less robust - Data may not be correctly transferred to the new system - Differences in the new system may make accounts preparation more challenging <p>The overall impact of the move to Business World is an increased risk of material misstatement in the annual accounts. This affects Scotland Excel as Renfrewshire Council is the host authority and Scotland Excel uses its accounting system.</p> | <p>Gaining an understanding of Business World by reviewing process maps and through discussions with key officers.</p> <p>Detailed testing of significant transactions processed during the change period and rolled forward balances.</p> <p>Review of account/cost code mapping from legacy system to Business World.</p> <p>The work outlined above will be completed as part of the Renfrewshire Council audit and the Scotland Excel audit team will take assurances from that work.</p> | <p>As part of work on the Renfrewshire Council audit, a review of the process maps and the operation of the key systems was carried out. This was reported in the 2018/19 Management Report for Renfrewshire Council.</p> <p>Detailed testing of transactions processed during the change period and rolled forward balances did not identify any issues.</p> <p>A review of account code/cost code mapping from the legacy system to Business World did not identify any issues.</p> <p>Conclusion: audit work carried out did not identify any issues in the roll forward of balances and mapping of account codes/cost centres to the new system.</p> |

Risks identified from the auditor's wider responsibility under the Code of Audit Practice

| | | |
|---|--|---|
| <p>7 Financial sustainability</p> <p>The 2018/19 Revenue Estimates and finance reports to members throughout the year highlight uncertainties in future funding and increasing pressures on available resources. It is likely future savings will need to be made to achieve a breakeven position and maintain reserves at an appropriate level.</p> | <p>Review of budget monitoring reports during the year and comment on the financial position within the annual audit report.</p> | <p>A review of budget monitoring reports and the financial statements highlight a surplus was achieved in year compared to a budgeted breakeven position. This increases reserves and provides management flexibility to deal with adverse and unforeseen events in the medium term.</p> <p>Financial planning has highlighted the need to achieve savings and use reserves to achieve a breakeven position in future years. There are also risks associated with the funding model review. These issues could lead</p> |
|---|--|---|

| Audit risk | Assurance procedure | Results and conclusions |
|------------|---------------------|---|
| | | <p>pressures on the provision of services in future years. However, appropriate financial planning arrangements are in place and these will allow management to plan and take action against pressures and risks.</p> <p>Conclusion: Scotland Excel continues to operate in a challenging financial climate. However, action has been taken by management to manage financial pressures.</p> |

Appendix 2

Summary of national performance reports 2018/19



2018/19 Reports

| | | | |
|--|---|-------------|--|
| Local government in Scotland: Challenges and performance 2018 |  | Apr | |
| Councils' use of arm's-length organisations |  | May |  Scottish Fire and Rescue Service: an update |
| Scotland's colleges 2018 |  | Jun | |
| | | Jul |  The National Fraud Initiative in Scotland 2016/17 |
| Forth Replacement Crossing |  | Aug |  Major project and procurement lessons |
| Children and young people's mental health |  | Sept |  Superfast broadband for Scotland: further progress update |
| NHS in Scotland 2018 |  | Oct | |
| Health and social care integration: update on progress |  | Nov |  Local government in Scotland: Financial overview 2017/18 |
| | | Dec | |
| | | Jan | |
| | | Feb | |
| | | Mar |  Local government in Scotland: Challenges and performance 2019 |

Scotland Excel

2018/19 Annual Audit Report

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