

Scotland Excel

2020/21 Annual Audit Report – PROPOSED



Prepared for Scotland Excel Executive Sub-Committee and the Controller of Audit
December 2021

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Key messages

2020/21 Annual Accounts

Scotland Excel's financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework.

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

A surplus of £20,325 for the financial year 2020/21 was achieved, compared to a budgeted breakeven position.

The audited Annual Accounts confirm a useable reserves balance of £1.019 million as at 31 March 2021. Reserves of £0.769 million are ring-fenced for continuing 2021/22 project delivery and £0.249 million are uncommitted.

Future planning estimates a breakeven position in 2022/23. Scotland Excel is sustainable into the foreseeable future, although it should continue to review and update its medium-term financial plan as more clarity on the financial impacts of Covid-19 is obtained.

Introduction

1. This report summarises the findings from our 2020/21 audit of Scotland Excel.
2. The scope of our audit was set out in our Annual Audit Plan presented to the 23 April 2021 meeting of the Executive Sub-committee. This report comprises the findings from:
 - an audit of Scotland Excel Annual Accounts
 - our consideration of financial sustainability and the Annual Governance Statement.
3. The global coronavirus pandemic has had a considerable impact on Scotland Excel during 2020/21. This has had significant impact on service delivery, affecting the Scotland Excel funding model, with associate income and income from projects being under-recovered in year. The Scotland Excel Academy moved to an online delivery environment which has had a considerable impact on new programmes. Revised plans have been put in place going forward, for income streams adversely affected by Covid-19.

Adding value through the audit

4. We add value to Scotland Excel through the audit by:
 - having regular dialogue with senior officers as the strategic and operational impact of Covid-19 developed
 - sharing learning from our experiences working with other bodies and agreed a clear, no surprises, approach for the remote audit of the 2020/21 accounts
 - identifying and providing insight on significant risks, and making clear and relevant recommendations
 - sharing intelligence from our wider work programme with management and facilitating discussions with Audit Scotland colleagues in areas where Scotland Excel operates.
5. 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

6. Scotland Excel 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. Scotland Excel is also

responsible for compliance with legislation putting arrangements in place for governance, propriety and regularity that enable it to successfully deliver its objectives.

7. 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. Local government bodies have a responsibility to have arrangements in place to demonstrate Best Value in how they conduct their activities. Our audit work on Scotland Excel's' Best Value arrangements is focussed on their use of resources to secure financial sustainability.

8. As public sector auditors we give independent opinions on the annual accounts. Additionally, we conclude on the appropriateness of disclosures in the Annual Governance Statement and the appropriateness and effectiveness of the arrangements in place for securing financial sustainability. Further details of the respective responsibilities of management and the auditor can be found in the Code of Audit Practice 2016 and supplementary guidance.

9. 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 2020/21 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 2020/21 audit.

10. This report raises matters from our audit. 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.

Auditor Independence

11. 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 2020/21 audit fee of £6,150 as set out in our Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

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

13. We would like to thank management and staff for their co-operation and assistance during the audit, particularly given the difficulties of auditing remotely during the COVID-19 pandemic.

Part 1. Audit of 2020/21 Annual Accounts

The principal means of accounting for the stewardship of resources and performance

Main judgements

Scotland Excel's financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework.

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.

Our audit opinions on the annual accounts are unmodified

14. The Annual Accounts for the year ended 31 March 2021 were approved by the Executive Sub-Committee on 10 December 2021. As reported in the independent auditor's report:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework
- 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.

There was a delay in the Annual Accounts being signed off

15. The unaudited annual accounts received in line with our revised agreed audit timetable on 15 June 2021. There has been limited impact of Covid-19 on the audit process. The physical limitations on access to records and systems did not impact on the audit and Scotland Excel staff were supported in homeworking during the period of the outbreak.

16. Due to the ongoing challenges of Covid-19, there have been delays in Audit Scotland completing the statutory audit of a number of public sector clients. The annual accounts of Scotland Excel are due to be signed off on 10 December 2021.

17. 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.

Overall materiality is £98,000

18. Our initial assessment of materiality was carried out during the planning phase of the audit. This was reviewed on receipt of the unaudited annual accounts and it was concluded no changes were required to our planned levels. Materiality is summarised in [Exhibit 1](#).

Exhibit 1 Materiality values

Materiality level	Amount
Overall materiality	£98,000
Performance materiality	£74,000
Reporting threshold	£5,000

Source: Annual Audit Plan 2020/21

Appendix 1 identifies the main risks of material misstatement and our audit work to address these

19. [Appendix 1](#) provides our assessment of risks of material misstatement in the annual accounts. These risks influence our overall audit strategy, the allocation of staff resources to the audit and inform where the efforts of the team are directed. It also identifies the work we undertook to address these risks and our conclusions from this work.

We have four significant findings to report on the accounts

20. 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. We have identified the following issues per Exhibit 2.

Exhibit 1 Significant findings from the audit of the financial statements

Issue	Resolution
1. Accrued Income - Overstatement	This was corrected within the audited annual accounts.

Issue	Resolution
<p>Income of £34,929 relating to 2021/22 was incorrectly accrued in 2020/21. This overstated income resulted in an overstatement of the year-end outturn and Usable Reserves position.</p>	<p>The accounts were amended to remove the overstated income and the year-end outturn and useable reserves position updated.</p>
<p>2. Accrued Income – Understatement</p> <p>Income accrued in relation to Crown Commercial rebates was estimated at £23,000. The actual rebate received in June 2021 was £55,622, resulting in under-statement of accrued income and debtors in the unaudited accounts.</p>	<p>This was corrected within the audited annual accounts.</p> <p>The accounts were amended to reflect the additional £32,622 accrued income.</p>
<p>3. Operating Lease Payments</p> <p>Note 11 of the unaudited accounts detailed total future minimum lease payments of £0.873 million, however the current year element had been double counted meaning the correct total was £0.776 million. A similar issue had occurred during 2019/20.</p>	<p>This was corrected within the audited annual accounts.</p> <p>Note 11 was amended to reflect the correct total of future minimum lease payments and the prior year amount restated.</p>
<p>4. Goodwin</p> <p>The Chief Secretary to the Treasury has made a ‘Written Ministerial Statement’ (WMS) in respect of survivor benefits payable from the Teachers’ Pension Scheme in England. Following an employment tribunal, survivor benefits payable to male survivors of females in opposite sex marriages will be equal to those payable to other categories of survivor. This has implications for the Local Government Pension Scheme. The legislation / regulations underpinning the various public service pension schemes have not yet been amended.</p>	<p>This was updated within the audited annual accounts.</p> <p>The 2020/21 accounts have been updated to a reflect a new contingent liability in relation to Goodwin as set out in paragraphs 24-30 of CIPFA Bulletin 05.</p>

Source: Audit Scotland

21. We have reviewed the nature and causes of these misstatements and have concluded that they arose from issues that have been isolated and identified in their entirety and do not indicate further systemic error.

22. Adjustments made in the audited accounts increased net expenditure in the Comprehensive Income and Expenditure Statement by £2,307 and decreased Usable Reserves by £2,307.

23. It is our responsibility to request that all misstatements, other than those below the reporting threshold, are corrected, although the final decision on making the correction lies with those charged with governance considering advice from senior officers and materiality. Management have adjusted all

identified misstatements above our reporting threshold; there are no unadjusted errors to report.

Part 2. Financial sustainability and Annual Governance Statement

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

Main judgements

A surplus of £20,325 for the financial year 2020/21 was achieved, compared to a budgeted breakeven position.

The audited annual accounts for 2020/21 confirm a useable reserves balance of £1.019 million as at 31 March 2021. Reserves of £0.769 million are ring-fenced for continuing 2021/22 project delivery and £0.249 million are uncommitted.

Future planning estimates a breakeven position in 2022/23. Scotland Excel is sustainable into the foreseeable future, although it should continue to review and update its medium-term financial plan as more clarity on the financial impacts of Covid-19 is obtained.

Financial performance in 2020/21

24. The Joint Committee approved the 2020/21 budget in December 2019. Budgeted income for core services was £4.372 million and budgeted expenditure was £4.372 million, resulting in an anticipated balanced budget position at year-end. This position included £0.120 million planned use of reserves and the application of net project income of £0.315 million (i.e., the budgeted surplus from projects). Budgeted income for projects was £1.996 million and budgeted expenditure was £1.681 million, resulting in the budgeted surplus of £0.315 million outlined above.

25. An overall surplus of £20,325 was achieved in 2020/21, despite lower income generated from projects and associate income. Actual outturn for both core services and projects was expenditure of £5.819 million and income of £5.839 million, resulting in a surplus of £20,325. The main factors regarding variances are set out in the Management Commentary in the annual accounts.

26. The overall surplus of £20,325 resulted in useable reserves increasing from £0.998 million in 2019/20 to £1.019 million as at 31 March 2021. Reserves of £0.769 million are ring-fenced for continuing 2021/22 project delivery and £0.249 million are uncommitted

Short term financial planning

27. The largest source of income for Scotland Excel is requisitions from members of the Joint Committee. However, the level of income generated from other sources has increased in recent years and makes up approximately 37 per cent of total income in 2020/21. The other sources of income include rebates, associate memberships and Projects, including the Academy.

28. The Joint Committee approved the 2021/22 budget in December 2020. Budgeted income and expenditure for Core services was £4.460 million, resulting in a breakeven position. Budgeted income for Projects includes £0.404 million use of reserves and net expenditure of £0.152 million (i.e., the budgeted deficit from projects). Budgeted income from projects was £1.227 million and budgeted expenditure was £1.379 million, resulting in the project deficit of £0.152 million, with £0.252 million budgeted to be applied to core services.

29. Delivery of plans over the year will allow Scotland Excel to achieve a breakeven position in 2021/22. However, ongoing uncertainties due to the Covid-19 pandemic could have a significant impact on Scotland Excel's ability to achieve planned income and surpluses from projects. Further details on the impact of Covid-19 are outlined in the section below.

Medium to long term financial planning

30. We reviewed the financial planning systems and assessed how effective they are in identifying and addressing risks to financial sustainability across the medium and long term.

31. 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.

32. The audited annual accounts for 2020/21 confirm a useable reserve balance of £1.019 million. Forecasts up to 2023/24 were included within the 2021/22 budget. The forecasts estimate a breakeven position in 2021/22 through to 2023/24. This position is based on a three per cent increase in requisition income for 2021/22 and two per cent in subsequent years. This position also assumes a project deficit of £0.152 million in 2021/22, with use of project reserves of £0.404 million.

33. From the work carried out, we have concluded that Scotland Excel has adequate financial planning arrangements in place. Cost pressures are expected to arise in the medium term. However, the financial planning arrangements in place have allowed management to plan for these pressures and ensure necessary actions are taken when required.

34. Due to the additional challenges presented by the Covid-19 pandemic, the existing financial outlook will require to be reviewed to ensure it remains relevant and appropriate. It is important that Scotland Excel updates its medium-term financial plan as soon as more clarity on the financial impacts of Covid-19 is obtained.

35. In addition to the pressures presented by Covid-19, the UK's withdrawal from the European Union could present challenges to many organisations and businesses. Scotland Excel has documented a summary position regarding key commodity areas that have been impacted, and are likely to be further impacted, if a second wave of Covid-19 peaks in Scotland at the same time as the potential of a "No Deal" withdrawal from the European Union. Scotland Excel will continue to develop further contingency planning and work with all partners and stakeholders.

Annual Governance Statement

36. Our review of the Annual Governance Statement assessed the assurances which are provided to the Joint Committee 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 that a 'reasonable level of assurance can be placed upon the adequacy and effectiveness of Scotland Excel's internal control, risk management and governance arrangements.

37. 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.

Appendix 1. Significant audit risks

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.

Risks of material misstatement in the financial statements

Audit risk	Assurance procedure	Results and conclusions
<p>1. Risk of material misstatement due to fraud caused by the management override of controls</p> <p>International Auditing Standards require that audits are planned to consider the risk of material misstatement in the financial statements caused by fraud, which is presumed to be a significant risk in any audit. This includes the risk of fraud due to the management override of controls.</p>	<p>Detailed testing of journal entries.</p> <p>Reviewed accounting estimates.</p> <p>Focused testing of accruals and prepayments.</p> <p>Evaluated 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 material misstatement caused by accounting for pensions</p> <p>Scotland Excel recognised a net liability of £1.922 million relating to its share of Strathclyde Pension Fund at 31 March 2020. There is a significant degree of subjectivity in the measurement and valuation</p>	<p>Assessed the pension fund actuary and information they provide in accordance with ISA 500.</p> <p>Reviewed the estimates used, and assumptions made in calculating the pension fund liability.</p> <p>Assessed the completeness and accuracy of information submitted to Strathclyde</p>	<p>A review of the actuary and the assumptions made in calculating the estimated pension liability was performed and no issues were identified. The approach and assumptions used by the actuary were considered reasonable and in line with expectation.</p>

Audit risk	Assurance procedure	Results and conclusions
<p>of the pension fund liability. The valuation is based on specialist assumptions and estimates, and changes can result in material changes to the valuation.</p> <p>Additionally, the triennial valuation exercise that took place during 2020/21 will impact on the 2020/21 annual accounts. This exercise was more detailed than the annual valuations and set employer contributions rates for the next three years.</p>	<p>Pension Fund to support the triennial valuation exercise.</p>	<p>Conclusion: the estimates and judgements made in the calculation of the net pension liability were reasonable.</p>

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

Audit risk	Assurance procedure	Results and conclusions
<p>3. Financial sustainability</p> <p>The 2020/21 Revenue Estimates highlight increasing costs in the medium-term, putting pressures on available resources. Covid-19 has also impacted on resources. No specific funding has been announced for Scotland Excel to manage the additional pressures and these are currently being met through core budgets and reserves.</p> <p>Due to the pressures above, it is likely savings will be required over the medium-term to achieve a breakeven position and maintain reserves at an appropriate level.</p>	<p>Reviewed budget monitoring reports and future Revenue Estimates and discussed with management Scotland Excel's medium-term financial position.</p> <p>Concluded on financial position and financial sustainability within the Annual Audit Report.</p>	<p>A review of budget monitoring reports and the financial statements highlight reserves have increased in year. It is anticipated that earmarked project reserves will be used each year to 2022/23 to achieve financial balance. However, a prudent use of reserves is planned, and management will look to maintain reserves at a minimum of five per cent of net expenditure.</p> <p>Conclusion: Scotland Excel continues to operate in a challenging financial climate, with pressures in delivering existing services with the current levels of resources. Management continues to review options and resources for the delivery of future services.</p>

Scotland Excel

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