



**HENDERSON LOGGIE**  
Chartered Accountants

**East of Scotland European Consortium**

**Report to Members and the  
Controller of Audit**

**2009/10**

**External Audit Report No: 2010-01**

**Draft Issued: 9 September 2010**

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## Contents

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	<b>Page</b>
<b>1. Executive Summary</b>	<b>1</b>
<b>2. Introduction</b>	<b>2</b>
<b>3. Finance</b>	<b>3 – 5</b>
<b>4. Governance</b>	<b>6 – 7</b>
<b>5. Action Plan</b>	<b>8 - 11</b>
<b>Appendix I      Respective Responsibilities</b>	<b>12</b>
<b>Appendix II     Acronyms</b>	<b>13</b>

### **Restriction on Use**

This report has been prepared in accordance with our responsibilities under International Standards on Auditing and Audit Scotland's Code of Audit Practice for the audit of East of Scotland European Consortium's statement of accounts. Our audit does not necessarily disclose every weakness and for this reason the matters referred to in this report may not be the only shortcomings which exist.

We take this opportunity to remind you that:

- This report has been prepared for the sole use of East of Scotland European Consortium and its Policy Board and will be shared with the Accounts Commission and Audit Scotland
- No responsibility is assumed by us to any other person who may choose to rely on it for his or her own purposes



# 1. Executive Summary

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## Introduction

1. The East of Scotland European Consortium ('ESEC') is a non statutory joint committee representing the European interests of thirteen local authorities in Eastern Scotland. Member authorities collaborate on a shared European agenda.

## Finance

2. Our opinion on the statement of accounts is unqualified. The statement of accounts give a true and fair view, in accordance with relevant legal and regulatory requirements and the 2009 SORP, of the financial position of the East of Scotland European Consortium (the Consortium) and have been properly prepared in accordance with the Local Government (Scotland) Act 1973.
3. The Consortium's Income and Expenditure Account records a surplus for the year of £22,265. The accumulated surplus at 31 March 2010 was £72,405.

## Governance

4. The 13 elected members of the Consortium are drawn from the 13 constituent councils. Together with support from an officer from each Council, the elected Members form the Policy Board. The Board meets quarterly, rotating around all Member authorities, and is the decision making body of the Consortium.
5. An Officer Group meets quarterly to discuss current issues and agree the agenda for the forthcoming Policy Board meeting.
6. The Consortium's financial transactions are processed through Aberdeen City Council's financial systems. It is the responsibility of the Council's management to maintain adequate financial systems and associate internal controls.
7. Our review of these systems was conducted as part of the audit of Aberdeen City Council and supplemented by specific audit work on the consortium's statement of accounts. No areas of concern were identified relating to the transactions.
8. The Statement on the System of Internal Financial Control states that reasonable assurance can be placed upon the adequacy and effectiveness of the consortium's internal financial control system. The statement complies with accounting requirements and is not inconsistent with the findings of our audit.

## Acknowledgement

9. Our audit has brought us in contact with officers within the Consortium and Aberdeen City Council staff. We would like to take this opportunity to place on record our appreciation of the co-operation and assistance extended to us in the discharge of our duties.



## 2. Introduction

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### Introduction

10. We are pleased to submit our annual report, covering significant matters arising during the course of our audit of the Consortium for the year ended 31 March 2010. This year's report combines the issues covered in our two separate reports in previous years: **ISA260 Report to Those Charged with Governance** and **Report to Members and the Controller of Audit**.
11. Our overall responsibility as the external auditor of the Consortium is to undertake our audit in accordance with the principles contained in the Audit Scotland Code of Audit Practice. The Code sets out the need for public sector audits to be planned and undertaken from a wider perspective than in the private sector, involving assurance on the financial statements but also consideration of areas such as regularity, performance and achievement of Best Value. The respective responsibilities of the Consortium's Members, Officers and Auditors are set out in Appendix I to this report.
12. Broadly the scope of our audit was to:
  - provide an opinion on the Statement of Accounts in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Accounts Commission
  - review and report on the Consortium's corporate governance arrangements in relation to systems of internal control, the prevention and detection of fraud and irregularity, standards of conduct, prevention and detection of corruption, and the Authority's financial position
  - review and report on the Consortium's arrangements to manage its performance, as they relate to economy, efficiency and effectiveness in the use of resources and in securing Best Value
13. As part of our overall planning approach to the Consortium's annual audit we carried out a review of the key financial risks, national and local, facing the Consortium and have continued to monitor them during the year through attendance at Committee meetings, review of minutes and discussions with officers. To a certain extent the content of this report comprises general information that has been provided by, or is based on discussions with, management and staff. Except to the extent necessary for the purposes of the audit, this information has not been independently verified.
14. This report summarises the findings from our 2009/10 audit of the Consortium. Findings are set out in two sections: finance and governance.
15. We have made some recommendations which are intended to address the issues identified during the course of the audit and improve the audit process for future years. They are included in an Action Plan at Section 5. We have also followed up the Action Plan agreed in 2008/09 and progress on these recommendations is also included at Section 5.
16. We take this opportunity to remind you that external auditors do not act as a substitute for the Consortium's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for and used efficiently, economically and effectively.

### 3. Finance

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#### Financial Statements Audit

17. We are pleased to report that the target date of 30 September 2010 for the audit completion and certification of the annual accounts was met. We have given an unqualified opinion on the statement of accounts for the year ended 31 March 2010.
18. We set out below a summary of the audit certification issues:
- the statement of accounts give a true and fair view, in accordance with relevant legal and regulatory requirements and the 2009 SORP, of the financial position of East of Scotland European Consortium as at 31 March 2010 and its income and expenditure for the year then ended
  - the statement of accounts have been properly prepared in accordance with the Local Government (Scotland) Act 1973
  - the Statement on the System of Internal Financial Control reflects compliance with the SORP. We were not required to consider whether this statement covers all risk and controls, or form an opinion on the effectiveness of the Consortium's corporate governance or risk and control procedures
19. Non-compliance with statute or regulations may materially affect the financial statements. Our audit procedures include the following:
- reviewing minutes of relevant meetings
  - enquiring of senior management the position in relation to litigation, claims and assessments
  - detailed testing of transactions and balances
20. We confirm that we did not identify any instances of concern with regard to the legality of transactions or events.
21. We also request written confirmation from the Treasurer that the Consortium's financial transactions accord with relevant legislation and regulations. He has confirmed that he is not aware of any actual or potential non-compliance with laws and regulations that could have a material effect on the ability of the Consortium to conduct its business and therefore on the results and financial position to be disclosed in the statement of accounts for the year ended 31 March 2010.
22. Under International Standard on Auditing (ISA) 260, we are required to communicate certain matters arising from the audit to those charged with governance. The areas considered are summarised in the following table:

### 3. Finance

**Table 1: ISA260 Reporting**

Area	Key Messages
Nature and scope of audit	We have planned our audit in accordance with International Auditing Standards and the Code.
Integrity and objectivity of the audit engagement partner and audit staff	As external auditors, we are required to communicate on a timely basis all facts and matters that may have a bearing on our independence. We provided no consultancy or non audit services to the East of Scotland European Consortium during the year and can confirm that we have complied with the Auditing Practices Board Ethical Standard 1 – Integrity, Objectivity and Independence. In our professional judgement the audit process has been independent and our objectivity has not been compromised.
Accounting policies and practices	In our opinion there are no issues that require to be brought to the Consortium’s attention regarding the appropriateness of the accounting policies.
Material Risk and exposure	The Consortium has confirmed that it has no material risks and exposures which should be reflected in the Statement of Accounts and the Treasurer has confirmed this in the Letter of Representation.
Audit Adjustments	No audit adjustments were identified during the course of our audit.
Unadjusted Misstatements	There were no unadjusted misstatements (other than those which are trivial).
Material Uncertainties	There are no material uncertainties relating to events and conditions that cast significant doubt on the Consortium’s ability to continue as a going concern.
Fundamental Disagreements	There are no areas of disagreement with management that, individually or in aggregate, have a significant impact on the financial statements and our audit report.
Modifications to our audit report	There are no modifications to our audit report.
Material Weaknesses	No material weaknesses in the accounting and internal control systems were identified during the audit which would adversely affect the ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the accounts.
Other matters relevant to the audit	There are no other matters which we need to draw to your attention.

### Financial Position

23. The Consortium’s Income and Expenditure Account shows a surplus for the year of £22,265, compared with a surplus of £27,003. The accumulated surplus at 31 March 2010 was £72,405. The Consortium’s expenditure in the year was £75,235, compared with £77,997 in the previous year. The main reason for the reduction in expenditure was due to efficiencies in transport costs and no expenditure on computer charges. The surplus is significantly less than previous years due to the reduced membership subscription resulting from the number of member authorities reducing from 14 to 13 in the year.

### 3. Finance

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#### Financial Performance

24. Financial performance is measured against the financial budget set by the Consortium in February 2009 for 2009/10. In this regard the Consortium reported an underspend for the financial year of £22,265 against a budgeted breakeven position.
25. The budget for 2010/11 has set expenditure at a level equal to income from annual contributions to be received from participating authorities. This is based on a subscription income of £6,750 from 11 local authorities, a reduction of two from the level in 2009/10 due to Clackmannanshire and Midlothian Councils giving notice of withdrawing from membership, effective from April 2010.
26. In our **2008/09 Report to Members and the Controller of Audit**, Report 2009/02 issued on 11 November 2009, we recommended that Consortium staff should liaise with officers in the finance function of Aberdeen City Council to produce budgets that can be input into the ledger. This would result in budget monitoring reports that are comparable with the final accounts. As noted in our follow-up Action Plan at Section 5, the 2009/10 budget was not input into the system and further work will be required on the 2010/11 budget to bring it into a format that is compatible with the ledger.

#### Reserves and Balances

27. The Consortium holds reserves which consist of earmarked amounts set aside to support future year's expenditure and contingencies for unexpected events or emergencies. At 31 March 2010, the General Fund Reserve held by the Consortium totalled £72,405. The balance has increased by £22,265 as a result of the surplus for the year.
28. In 2008/09 we recommended that the Consortium liaise with the Council to ensure that its funds, and any resulting interest from their investment, are ring-fenced and identified as being those of the Consortium. The Consortium's balance of funds held by Aberdeen City Council at 31 March 2010 is £80,000. However, it has not received interest on this balance in 2009/10, as the funds were not transferred to a separate code within the ledger until 31 March 2010. Now that this is in place, interest will be received from 2010/11 onwards.

#### Pensions

29. Consortium staff are Aberdeen City Council employees and the Council is an admitted body of the Local Government Superannuation Scheme administered by Aberdeen City Council. The Consortium staff pension costs are reflected in the Council's financial statements.

## 4. Governance

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### General

30. The 13 elected members of the Consortium are drawn from the 13 constituent Councils. Together with support from an officer from each Council, the elected Members form the Policy Board. The Board meets quarterly, rotating around all member authorities, and is the decision making body of the Consortium.
31. Edinburgh City Council left the Consortium on 31 March 2009, thus reducing the number of elected members and supporting officers to 13 of each during 2009/10. Clackmannanshire and Midlothian Council's have also given notice on their membership, effective from April 2010, reducing the number of members in 2010/11 to eleven.
32. An Officer Group meets quarterly to discuss issues and agree the agenda for the forthcoming Policy Board meeting.
33. The Policy Board met four times during 2009/10 receiving and approving the 2009/10 budget, receiving financial monitoring updates and reports on other matters of relevance to the role and work of the Consortium.
34. The Officer Group met four times during 2009/10, discussing and drawing up the 2010/11 budget, discussing and drafting financial monitoring updates and other relevant reports, and setting the agendas for the Policy Board meetings.
35. Responsibility for providing administration and support services remained with Aberdeen City Council for the period to 31 March 2010.

### Internal Control

36. The Consortium's financial transactions are processed through Aberdeen City Council's financial systems. It is the responsibility of the Council's management to maintain adequate financial systems and associate internal controls.
37. As reported in our **2008/09 Report to Members and the Controller of Audit**, there is currently no Service Level Agreement in place with Aberdeen City Council to document the services being provided. There is therefore a risk that the service expectations are not clear to all parties. We have recommended that a Service Level Agreement should be agreed with Aberdeen City Council. Consideration should be given to incorporating monitoring arrangements to ensure delivery is per the specifications.

### Annual Governance Statement

38. In June 2007, CIPFA in association with SOLACE published the revised Framework – Delivering Good Governance in Local Government. This recommends that the review of the effectiveness of the system of internal control should be reported in an Annual Governance Statement. The Consortium has opted not to introduce this during 2009/10. While this has not been designated as statutory proper practice, the Consortium should be encouraged to include an Annual Governance Statement within its statement of accounts for 2010/11.

#### **Recommendation 1:**

Consideration should be given to producing a single Annual Governance Statement for inclusion within the 2010/11 Statement of Accounts.



## 4. Governance

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### Internal Audit

39. The Consortium utilises the internal audit service of Aberdeen City Council. For 2009/10, no internal audit work was carried out.

**Recommendation 2:**

As part of discussions with Aberdeen City Council to agree a Service Level Agreement, consideration should be given to requesting the Council's Internal Audit provider to carry out a review of the robustness of the systems in internal financial control.

### Fraud and Irregularity

40. As external auditors we are required to consider the arrangements made by management for the prevention and detection of fraud and irregularities.
41. Through its arrangements with the constituent Councils, the Consortium has appropriate arrangements in place to help prevent and detect fraud and irregularity. These arrangements include adopting each constituent Councils policies and strategies including their anti-fraud and corruption strategies, whistle blowing policies and codes of conduct for elected members and staff. Overall we concluded that arrangements were generally satisfactory to prevent and detect fraud and other irregularities.
42. We are required to have arrangements in place to be notified of all frauds over £5,000 and to submit reports to Audit Scotland. No such frauds were reported during 2009/10.



## 5. Action Plan

Observation and Risk	Recommendation	Management Response	
<p>1. In 2009/10, the Consortium has continued to publish a Statement on the Systems of Internal Financial Control.</p>	<p><b>R1.</b> Consideration should be given to producing a single Annual Governance Statement for inclusion within the 2010/11 Financial Statements.</p>	<p>Agreed to consider.</p> <p>Due to the size of the organisation and the costs associated with producing this statement, it may not be practical to produce a full Annual Governance Statement. However, a proportionate level of reporting will be considered.</p> <p><b>To be actioned by:</b> Policy Board</p> <p><b>No later than:</b> 31 March 2011</p>	
		<b>Grade</b>	<b>B</b>
<p>2. The Consortium utilises the internal audit service of Aberdeen City Council. For 2009/10, no internal audit work was carried out.</p>	<p><b>R2.</b> As part of discussions with Aberdeen City Council to agree a Service Level Agreement, consideration should be given to requesting the Council's Internal Audit provider to carry out a review of the robustness of the systems in internal financial control.</p>	<p>Agreed.</p> <p><b>To be actioned by:</b> ESEC Officers</p> <p><b>No later than:</b> 31 March 2011</p>	
		<b>Grade</b>	<b>B</b>



## 5. Action Plan

### Follow-up 2008/09 Recommendations

Recommendation	Management Response		Update at September 2010
<p><b>R1.</b> A formal timetable should be developed and implemented to ensure that the draft accounts are submitted to the Accounts Commission and the Consortium by 30 June 2009 as required by statute.</p>	<p>Agreed</p> <p><b>To be actioned by:</b> Consortium and Aberdeen City Council officers</p> <p><b>No later than:</b> 31 March 2010</p>		<p>ESEC is following that timetable set for the preparation of ACC's accounts to ensure that the 2010 accounts are prepared and signed by 30 June 2010</p>
	<b>Grade</b>	<b>B</b>	<b>Fully Implemented</b>
<p><b>R2.</b> Consortium staff should liaise with officers in the finance function of Aberdeen City Council to produce budgets that can be input into the ledger. This would result in budget monitoring reports that are comparable with the final accounts.</p>	<p>Agreed this will be implemented as soon as possible with regard to 2009-10 and by 31 January 2010 at the latest by Consortium and Aberdeen City Council officers. The budget for 2010-11 will follow the revised procedure.</p> <p><b>To be actioned by:</b> Consortium and Aberdeen City Council officers</p> <p><b>No later than:</b> 31 January 2010</p>		<p>The 2009/10 budget was not input into the system and further work will be required on the 2010/11 budget to bring it into a format that is compatible with the ledger. Copy of the 2010/11 budget received by Finance on 29/06/10.</p>
	<b>Grade</b>	<b>B</b>	<b>Not Implemented – Revised Completion Date 30 November 2010</b>

## 5. Action Plan

Recommendation	Management Response		Update at September 2010
<p><b>R3.</b> The Consortium should liaise with Aberdeen City Council to ensure that its funds, and any resulting interest from their investment, are ring-fenced and identifiable as being those of the Consortium.</p>	<p>Agreed - Consortium and Aberdeen City Council officers working together will review processes to ensure this issue is addressed by 31 March 2010. However it should be noted the interest likely to be earned is minimal in current economic climate. Also there has been no recovery of costs by Aberdeen City Council and this will need to be examined as part of this exercise to bring the position into line with what occurred in other authorities.</p> <p><b>To be actioned by:</b> Consortium and Aberdeen City Council officers</p> <p><b>No later than:</b> 31 March 2010</p>		<p>Funds were transferred to a Q code within the Aberdeen City ledgers as at 31 March 2010 so are now separately identifiable. This allows for interest to be received for 2010/11 onwards.</p> <p>The 2010/11 budget for ESEC allows for ACC to recover costs for the finance work carried out.</p>
<p><b>R4.</b> The Consortium should undertake a review of its financial management arrangements and should consider arrangements for;</p> <ul style="list-style-type: none"> <li>• banking;</li> <li>• recording its transactions within Aberdeen City Council's ledger; and</li> <li>• managing transactions between Aberdeen City Council and the Consortium.</li> </ul>	<p>Agreed – Consortium and Aberdeen City Council officers will review the position jointly by 31 March 2010, however it should be noted that a similar exercise was carried out while ESEC operated from Clackmannanshire and it was found that the present arrangements were the most costs effective and efficient.</p> <p><b>To be actioned by:</b> Consortium and Aberdeen City Council officers</p> <p><b>No later than:</b> 31 March 2010</p>		<p>A meeting was held between ESEC and Finance officers in January 2010 to discuss this review. While it was felt that the status quo was the best option, the proposals were to be put out to the Board to seek their agreement.</p>
	<b>Grade</b>	<b>B</b>	<b>Fully Implemented</b>
	<b>Grade</b>	<b>B</b>	<b>Partially Implemented – Revised Completion Date 31 October 2010</b>



## 5. Action Plan

Recommendation	Management Response		Update at September 2010
<p><b>R5.</b> A Service Level Agreement should be agreed with Aberdeen City Council. Consideration should be given to incorporating monitoring arrangements to ensure delivery is per the specifications.</p>	<p>Agreed – this will be taken forward initially by Consortium officers who will liase with Aberdeen City Council officers and be finalised by 31 March 2010.</p> <p><b>To be actioned by:</b> Consortium and Aberdeen City Council officers</p> <p><b>No later than:</b> 31 March 2010</p>		<p>This item is being dealt with by Ingrid Dobson.</p> <p><i><b>Not Implemented – Revised Completion Date 31 March 2011</b></i></p>
	<b>Grade</b>	<b>B</b>	



## Appendix I – Respective Responsibilities

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Each public sector body is accountable for the way in which it has discharged its stewardship of public funds. Stewardship is a function of both executive and non-executive management and, therefore, responsibility for effective stewardship rests upon both Members and Officers of a public sector body.

That responsibility is discharged primarily by the establishment of sound arrangements and systems for the planning, appraisal, authorisation and control over the use of resources, and by the preparation, maintenance and reporting of accurate and informative accounts.

It is our responsibility to undertake an independent appraisal of the discharge by management of its stewardship responsibilities, to enable us to give an assurance that those responsibilities have been reasonably discharged.

The Consortium's Board and the Treasurer's responsibilities for the Statement of Accounts are set out on page 5 of the annual statement of accounts. Our responsibility is to form an independent opinion, based on our audit, on the financial statements and report that opinion to you.

We are required to review whether the Consortium's Statement on the System of Internal Financial Control reflects compliance with the 2009 SORP, and we report if, in our opinion, it does not. We are not required to consider whether this statement covers all risk and controls, or form an opinion on the effectiveness of the Consortium's corporate governance procedures or its risk and control procedures.



## Appendix II – Acronyms

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ACC	Aberdeen City Council
CIPFA	Chartered Institute of Public Finance and Accounting
ESEC	East of Scotland European Consortium
ISA	International Standards on Auditing
SOLACE	Society of Local Authority Chief Executives
SORP	Statement of Recommended Practice