

East of Scotland European Consortium

Annual report on the 2011/12 audit



Prepared for East of Scotland European Consortium and the Controller of Audit
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Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

Contents

Key messages	4
2011/12	4
Introduction	5
Financial statements	6
Audit opinion	6
Accounting issues	7
Financial position	8
Financial results	8
Outlook	8
Governance and accountability	9

Key messages

2011/12

In 2011/12, we audited the financial statements and looked at aspects of governance within East of Scotland European Consortium (ESEC). This report sets out our main findings.

Overall, we found ESEC's financial stewardship of public funds during the year to be satisfactory. The main conclusions and outcomes from the audit are highlighted below:

- An unqualified opinion has been issued on the financial statements for 2011/12;
- Final accounts working papers were of a good standard, although improvements could be made to the accounts preparation process;
- ESEC has a sound corporate governance framework.

We are also satisfied with disclosures made in the statement on the system of internal financial control.

Outlook

2011/12 was the final year of Aberdeen City Council's role as ESEC's host authority; in 2012/13 the host authority is Angus Council. We would like to thank Aberdeen City Council and ESEC staff for their assistance with our 2011/12 audit.

Introduction

1. East of Scotland European Consortium has nine local authority members, who collaborate on a shared European agenda:
 - Aberdeen City Council
 - Aberdeen shire Council
 - Angus Council
 - Dundee City Council
 - Falkirk Council
 - Fife Council
 - Moray Council
 - Perth & Kinross Council
 - Stirling Council
2. ESEC aims to:
 - Influence, where directly relevant, the development of emerging European policy and legislation as it affects Eastern Scotland;
 - Maximise European Union financial assistance;
 - Foster co-operation between local authorities in Eastern Scotland and to provide a framework for the promotion of appropriate geographic and sectoral groupings; and,
 - Develop links with similar regional groupings within Scotland, the United Kingdom and other European member states and develop Eastern Scotland corporate representation on appropriate bodies.
3. The members of ESEC are responsible for the management and governance of the organisation. As external auditors, we review and report on the arrangements in place and seek to gain assurance that:
 - The financial statements have been prepared in accordance with statutory requirements and that proper accounting practices have been observed
 - ESEC's system of recording and processing transactions provides an adequate basis for the preparation of the financial statements and the effective management of assets and interests
 - ESEC has adequate corporate governance arrangements which reflect the three fundamental principles of openness, integrity and accountability
 - The systems of internal control provide an appropriate means of preventing or detecting material misstatement, error, fraud or corruption
 - ESEC has proper arrangements for securing best value in its use of resources.
4. This report summarises the issues arising from our work during 2011/12.

Financial statements

5. Audited bodies' financial statements are an essential part of accounting for their stewardship of the resources made available to them and their performance in the use of those resources.
6. Auditors are required to audit financial statements in accordance with the timescales set by Audit Scotland, which may be shorter than statutory requirements, and give an opinion on:
 - whether they give a true and fair view of the financial position of audited bodies and their expenditure and income
 - whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements.
7. Auditors review and report on, as appropriate, other information published with the financial statements, including the explanatory foreword and the statement on the systems of internal financial control. This section summarises the results of our audit of the financial statements.

Audit opinion

8. We have given an unqualified opinion on the financial statements of ESEC for 2011/12, concluding that the financial statements:
 - give a true and fair view, in accordance with applicable law and the 2011/12 Code of the state of affairs of ESEC during the year ended 31 March 2012, and of the income and expenditure of ESEC for the year then ended
 - have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2011/12 Code
 - have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973 and the Local Government in Scotland Act 2003.

Statutory objection

9. Citizens have the right to make a statutory objection under section 101(2) of the Local Government (Scotland) Act 1973. No objections were received in relation to the ESEC 2011/12 financial statements.

Legality

10. Through our planned audit work we consider the legality of the financial transactions. In addition, the Treasurer, Aberdeen City Council's Head of Finance, has confirmed that, to the best of his knowledge and belief, and having made appropriate enquiries of the organisation's management team, the financial transactions of ESEC were in accordance with relevant legislation and regulations. There are no legality issues arising from our audit which require to be brought to members' attention.

Going concern

11. Auditing standards require auditors to consider an organisation's ability to continue as a going concern when forming an opinion on the financial statements. ESEC has considered it appropriate to adopt a going concern basis for the preparation of the financial statements.

Statement on the System of Internal Financial Control

12. ESEC's financial transactions are processed through Aberdeen City Council's financial systems. Our review of these systems was conducted as part of the council's external audit, supplemented by specific audit work on the ESEC's financial statements.
13. We are satisfied with the disclosures made in the Statement on the System of Internal Financial Control and the adequacy of the process put in place to obtain the necessary assurances.

Accounting issues

14. Local authorities and joint committees in Scotland are required to follow the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 (the Code). The 2011/12 financial statements have been prepared in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the 2011/12 Code.

Remuneration report

15. The Local Authority Accounts (Scotland) Amendment Regulations 2011 (SSI 2011/64) amend the local Authority Accounts (Scotland) regulations 1985 (SI no 1985/267) and requires local authority bodies to prepare a Remuneration Report. As the senior management of ESEC are all employees or members of its constituent local authorities and have been considered in relation to disclosure in their councils' remuneration reports, we are satisfied that there is no requirement to include a remuneration report in ESEC's financial statements. However, a disclosure note has been inserted to explain the omission of such a report.

Accounts preparation & submission

16. ESEC's draft financial statements were submitted to the Controller of Audit by the deadline of 30 June.
17. A number of presentational errors were identified in the draft financial statements. We suggest that improvements could be made in the accounts preparation process to reduce the number of amendments required to the draft accounts.
18. However, the working papers supplied were of a good standard and this allowed the audit to progress smoothly. All errors identified during the audit have been corrected in the audited financial statements.

Financial position

19. Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based.
20. Auditors consider whether audited bodies have established adequate arrangements and examine:
 - financial performance in the period under audit
 - compliance with any statutory financial requirements and financial targets
 - ability to meet known or contingent, statutory and other financial obligations
 - responses to developments which may have an impact on the financial position
 - financial plans for future periods.
21. These are key areas in the current economic circumstances. This section summarises the financial position and outlook for the organisation.

Financial results

Financial position

22. In 2011/12 ESEC generated a surplus on the provision of services of £2,050 (including provision for accumulated absences) compared to £7,365 in 2010/11.
23. ESEC's balance sheet as at 31 March 2012 reflected net assets of £79,868, an increase of £2050, reflecting the surplus on the provision of services for the year.

Outlook

2012/13 financial plans

Budgeted expenditure for 2012/13 is £67,920, which includes the element of the projected costs to be borne by ESEC of the planned familiarisation visit of new Board representatives to Brussels.

Governance and accountability

24. The three fundamental principles of corporate governance – openness, integrity and accountability – apply to all audited bodies, whether their members are elected or appointed, or whether they comprise groups of people or an individual accountable officer.
25. Through its chief executive or accountable officer, each body is responsible for establishing arrangements for ensuring the proper conduct of its affairs, including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies usually involve those charged with governance (including audit committees or similar groups) in monitoring these arrangements.
26. Consistent with the wider scope of public audit, auditors have a responsibility to review and report on audited bodies' corporate governance arrangements as they relate to:
 - corporate governance and systems of internal control
 - the prevention and detection of fraud and irregularity
 - standards of conduct and arrangements for the prevention and detection of corruption.
27. In this part of the report we comment on key areas of governance.

Relationship with host authority

28. In accordance with ESEC's minute of agreement, financial transactions were processed through Aberdeen City Council's financial systems. It is the responsibility of the council's management to maintain adequate financial systems and associated internal controls, both for the purpose of giving an opinion on the statements of accounts, and in order to report on the adequacy of such systems and controls.
29. Our audit placed reliance on the external audit of these financial systems within Aberdeen City Council and was supplemented by specific audit work on ESEC's financial statements. Our conclusions are that Aberdeen City Council's financial systems are adequate for the purpose of producing ESEC's financial statements. No areas of significant concern were identified relating to the transactions.

Corporate governance and systems of internal control

30. The Statement on the System of Internal Financial Control states that reasonable assurance can be placed upon the adequacy and effectiveness of ESEC's internal financial control system. The statement complies with accounting requirements and is not inconsistent with the findings of our audit.
31. As raised in prior years by Henderson Loggie, the previous external auditors, it is considered best practice to disclose an Annual Governance Statement within the financial statements.

The Annual Governance Statement has wider coverage than the Statement on the System of Internal Financial Control. We note that ESEC has agreed to introduce a process for annual review of governance arrangements, with the intention of preparing an Annual Governance Statement from 2012/13.

Prevention and detection of fraud and irregularities

32. Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity. Auditors review and report on these arrangements. We have nothing to report for 2011/12 in respect of these arrangements.

Standards of conduct and arrangements for the prevention and detection of corruption

33. Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and have proper arrangements in place for implementing and monitoring compliance with standards and codes of conduct, standing orders and financial instructions. Auditors consider whether bodies have adequate arrangements in place. We have nothing to report for 2011/12 in respect of these arrangements.

Outlook

34. From May 2012 the role of host authority was assumed by Angus Council. We will liaise with Angus Council on financial systems audit coverage and the accounts preparation process as part of our 2012/13 audit.