

# East of Scotland European Consortium

## Annual report on the 2013/14 audit



Prepared for East of Scotland European Consortium and the Controller of Audit  
September 2014

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# Key Messages

1. We have given an unqualified opinion that the financial statements of East of Scotland European Consortium (the Consortium) for 2013/14 give a true and fair view of the state of its affairs and of the income and expenditure for the year then ended.
2. On the basis of the audit testing undertaken, there were no issues of concern in relation to the operation of the Consortium's governance arrangements.
3. The Consortium spent £57,839 in 2013/14 achieving a surplus of £4,058 compared with a budgeted deficit of £5,750. The Consortium as at 31 March 2014 had usable reserves of £83,587 representing 144% of expenditure in 2013/14. A reserve strategy is currently being developed with Consortium planning to use £11,600 of this reserve balance in 2014/15. Moray Council left the Consortium in 2013/14 with the result that income from subscriptions from local authorities in 2014/15 has dropped by 11% to £55,900.
4. Member councils are continuing to face particularly challenging financial decisions and the Consortium needs to ensure that it can demonstrate value for money to its members. The Consortium demonstrates value for money through its strategy which seeks to:
  - promote and represent the common interests of local government in the area recognised by the European Union and Scottish Government as Eastern and North Eastern Scotland and;
  - consolidate the position of Eastern and North Eastern Scotland local authorities as major partners within the European Union policy and implementation process.
5. In order to assess progress against the Consortium's strategy it is vital that key measurable milestones are built into work plans to ensure delivery is on target. The work plan does not include key milestones or performance measures and therefore it is difficult to assess whether the strategy is being delivered.

# Introduction

6. This report is the summary of our findings arising from the 2013/14 audit of East of Scotland European Consortium (the Consortium). The purpose of the report is to set out concisely the scope, nature and extent of the audit. It summarises our opinions (i.e. on the financial statements) and conclusions on significant issues arising.
7. The report also reflects our overall responsibility to carry out an audit in accordance with the public sector audit model which is based on the Code of Audit Practice prepared by Audit Scotland (May 2011). This sets out the wider dimensions of the public sector audit which involves not only the audit of the financial statements but also consideration of areas such as financial performance and corporate governance.
8. An audit of the financial statements is not designed to identify all matters that may be relevant to those charged with governance. It is the auditor's responsibility to form and express an opinion on the financial statements prepared by management; however this does not relieve management of their responsibilities in this respect. We do not expect all risks to be eliminated or even minimised. What we expect is that the Consortium understands its risks and has arrangements in place to manage these risks.
9. This report has been prepared for the use of the Consortium and no responsibility to any third party is accepted. This report is also addressed to the Controller of Audit and will be published on our website after consideration by the Consortium.

## Acknowledgements

10. We would like to express our thanks to the staff of the Consortium and Angus Council for their help and assistance during the audit of this year's financial statements which has enabled us to provide an audit report within the agreed timetable.

# Financial statements

## Conduct and scope of the audit

11. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined in the Annual Audit Plan presented to the Treasurer in March 2014, and follow the requirements of the Code of Audit Practice prepared by Audit Scotland.
12. As part of the requirement to provide full and fair disclosure of matters relating to our independence we can confirm that we have not undertaken non-audit related services. The 2013/14 agreed fee for the audit was disclosed in the Annual Audit Plan and as we did not require to carry out any additional work outwith our planned audit activity this fee remains unchanged.

## Audit opinion

13. We have given an unqualified opinion that the financial statements of the East of Scotland European Consortium for 2013/14 give a true and fair view of the state of the Consortium's affairs and of its net expenditure for the year. The audit opinion was formally issued and signed on 18 September 2014.
14. We received the unaudited financial statements on 30th June 2014 in accordance with the agreed timetable. The working papers were of a high standard and the staff provided good support to the audit team. The Consortium is required to follow the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 and we can confirm that the financial statements have been properly prepared in accordance with these accounting requirements.

## Significant findings

15. During the course of the audit we identified a few issues regarding the appropriateness of accounting policies or accounting estimates and judgements, the timing of transactions, the existence of material unusual transactions or the potential effect on the financial statements of any uncertainties. These are outlined below.

## Audit Adjustments

16. The Consortium has a Secretariat to provide support as necessary to the Board and officer group. The Consortium's Constitution notes that staff of the Secretariat will be employed by the Host Authority (Angus Council in 2013/14). The unaudited accounts were prepared on the basis that the Consortium could employ staff and presented accounting entries to reflect International Accounting Standard 19 (Employee Benefits).

17. As the Consortium can not directly employ staff all these entries in relation to employee benefits have been removed. In the 2013/14 accounts this resulted in the removal of the unusable reserve (£862 as at 31 March 2014) with an equivalent adjustment to reflect the monies due to Angus Council as a recharge of the Secretariat's costs. There was therefore no impact on the net assets in the balance sheet or on the comprehensive income and expenditure account. This restatement resulted in a prior year adjustment as disclosed in Note 11 of the adjusted financial statements.

### **Presentational and monetary adjustments to the unaudited accounts**

18. A few presentational amendments were made to the unaudited accounts; however, these had no impact on either the comprehensive income & expenditure statement or the balance sheet.

### **Remuneration report**

19. The Local Authority Accounts (Scotland) Amendment Regulations 2011 (SSI 2011/64) amend the Local Authority Accounts (Scotland) Regulations 1985 (SI no 1985/267) and require local authority bodies to prepare a remuneration report. Individuals involved with the Consortium are either employees or members of the constituent local authorities and have been considered in relation to disclosure in the respective Councils' remuneration reports. We are satisfied that there is no requirement to include a remuneration report in the Consortium's financial statements.

### **Legality**

20. Through our planned audit work we consider the legality of the Consortium's financial transactions. In addition the Treasurer has confirmed that, to the best of his knowledge and belief, and having made appropriate enquiries of the host authority, the financial transactions of the Consortium 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.

# Financial position

## Financial results

21. In 2013/14, the Consortium spent £57,839 on the provision of public services with a surplus of £4,058 (2012/13 deficit £339). The main financial objective for the Consortium is to ensure that the financial outturn for the year is within the budget. The underspend against budget in 2013/14 was £9,808 representing 14.3% of the approved budget and was in the main due to the anticipated appointment of a temporary staff member in 2013/14 not materialising, together with a reduction in anticipated conference related spend. Table 1 below highlights the actual and budget figures for 2013/14.

**Table 1: 2013/14 Outturn against Budget**

	Budget (£)	Actual (£)	Variance (£)
Expenditure	68,500	57,839	(10,661)
Income	62,750	61,897	(853)
Net	(5,750)	4,058	9,808

Source: Policy Board paper February 2013 and 2013/14 financial statements

## Financial planning

22. The Consortium's 2014/15 budgeted expenditure approved by the Policy Board in February 2014 was £67,500 with anticipated income of £55,900. The Consortium had usable reserves of £83,587 at 31 March 2014 which represents 123.8% of budgeted expenditure. The Treasurer outlined in the Explanatory Foreword that a Reserve Strategy is being developed for consideration. The Consortium anticipates using £11,600 of these reserves during 2014/15.
23. Members monitor the Consortium's financial position against budget at every Policy Board meeting (bi-annually). The Consortium's member councils face significant financial challenges in the current economic climate and have to make difficult decisions regarding their funding of services and external organisations. The Consortium should ensure it can demonstrate value for money to its members for their continuing subscriptions.



## Corporate governance and systems of internal control

### Accounting and internal control systems

24. While auditors concentrate on significant systems and key controls in support of the opinion on the financial statements, their wider responsibilities require them to consider the financial systems and controls of audited bodies as a whole. However, the extent of this work should also be informed by their assessment of risk and the activities of internal audit. In 2013/14 there was no internal audit coverage of the Consortium's transactions.
25. The Consortium has a responsibility to ensure that an effective system of internal financial control is maintained. The Consortium's financial transactions are processed through Angus Council's system and monitored through the Consortium's Policy Board meetings.
26. We have been able to take assurance from the work of the external auditor of Angus Council on the system. In addition we also sample tested the transactions and balances in the Consortium's financial statements. No material weaknesses in the accounting and internal control systems were identified during the audit.
27. An annual governance statement (AGS) requires disclosure in accordance with the CIPFA/SOLACE *Delivering Good Governance in Local Government* document and is recognised good practice. This is the first year the Consortium prepared an AGS which included a review on the system of internal financial control and its effectiveness. We are satisfied with the disclosures made in this statement and the adequacy of the process put in place by the Consortium to obtain the necessary assurances.

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

28. Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and that they have robust 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. In our opinion the Consortium's overall arrangements (i.e. adopting Angus Council's procedures as host authority) are satisfactory; nonetheless, it should be noted that no system can eliminate the risk of fraud entirely.

# Performance

## Best value

29. Achievement of Best Value or value for money depends on the existence of sound management arrangements for services, including procedures for planning, appraisal, authorisation and control. Audited bodies are responsible for ensuring that these matters are given due priority and resources, and that proper procedures are established and operate satisfactorily.
30. The Local Government (Scotland) Act 1973 places a duty on the auditors of local government bodies to be satisfied that proper arrangements have been made for securing Best Value and complying with responsibilities relating to community planning. The focus of the Consortium for demonstrating best value is its strategy which seeks to:
  - promote and represent the common interests of local government in the area recognised by the European Union and Scottish Government as Eastern and North Eastern Scotland and;
  - consolidate the position of Eastern and North Eastern Scotland local authorities as major partners within the European Union policy and implementation process.

## Consortium's work plan

31. The Consortium is a non-statutory committee representing the interests of its nine member local authorities (for 2013/14) at a European level. The key decision-making body is the Policy Board comprising one elected representative from each council which meets twice a year. The Consortium is serviced by a secretariat which rotates amongst the member councils. The secretariat is currently based in Angus Council for the period April 2012 to March 2015.
32. To address the strategy the Consortium identified three key priorities with twelve areas identified as the key focus in 2013/14. The three key priorities identified in the Consortium's 2013/14 Work Plan were to:
  - establish knowledge and information on funding;
  - lobby and petition on behalf of the East of Scotland to influence policy change; and
  - ensure policy engagement
33. Performance monitoring is conducted through the Policy Board whereby progress on individual projects and programmes are reported to members. The narrative keeps members up-to-date on emerging issues and promotes challenge and scrutiny.
34. In order to assess progress against the Consortium's strategy it is vital that key measurable milestones are built into work plans to ensure delivery is on target. The work plan currently does not include key milestones or performance measures and therefore it is difficult to assess whether the strategy will be delivered.