



# East of Scotland European Consortium

Annual audit report to  
Members and the  
Controller of Audit

Date September 2015

The Accounts Commission is a statutory body which appoints external auditors to Scottish local government bodies. ([www.audit-scotland.gov.uk/about/ac](http://www.audit-scotland.gov.uk/about/ac))

Audit Scotland is a statutory body which provides audit services to the Accounts Commission and the Auditor General. ([www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk))

The Accounts Commission has appointed Pearl Tate as the external auditor of East of Scotland European Consortium (the consortium) for the period to 2015/16.

This report has been prepared for the use of the consortium and no responsibility to any member or officer in their individual capacity or any third party is accepted.

This report will be published on our website after it has been considered by the consortium. The information in this report may be used for the Accounts Commission's annual overview report on local authority audits published on its website and presented to the Local Government and Regeneration Committee of the Scottish Parliament.

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# Key messages

 <p>Audit of financial statements</p>	<ul style="list-style-type: none"><li>• Unqualified auditor's report on the 2014/15 financial statements.</li><li>• The financial statements of the consortium have been prepared on the going concern basis. We are not aware of any events or conditions that may cast significant doubt on the consortium's ability to continue as a going concern.</li><li>• We review and report on other information published within the financial statements, including the management commentary and the annual governance statement. We have nothing to report in respect of these statements.</li></ul>
 <p>Financial management and sustainability</p>	<ul style="list-style-type: none"><li>• The consortium achieved a surplus position with useable reserves held of £92,190 (136.6% of budgeted expenditure). The reserve strategy plans to use £69,011 of this reserve by 2017/18.</li><li>• The financial management arrangements are satisfactory for an organisation the size of the consortium.</li><li>• The financial position is sustainable currently, although the use of reserves in the long term is not financially sustainable. A reduction in its membership will also place a strain on the consortium's capacity to deliver services at the current levels.</li></ul>
 <p>Governance and transparency</p>	<ul style="list-style-type: none"><li>• The governance arrangements in place are appropriate to the organisation.</li><li>• A review of the legal structure of the organisation is currently being undertaken.</li><li>• There were no issues of concern in relation to the consortium's financial control systems.</li><li>• The partnership has appropriate anti-fraud arrangements.</li><li>• The consortium's website does not allow easy access to appropriate documentation.</li></ul>



## Best Value

- The consortium's vehicles for demonstrating best value are its strategy and work plan.
- 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.



## Outlook

- 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.

# Introduction

1. This report is a summary of our findings arising from the 2014/15 audit of East of Scotland European Consortium (the consortium). The report is divided into sections which reflect our public sector audit model.
2. The consortium is responsible for:
  - preparing financial statements which give a true and fair view
  - implementing appropriate internal control systems
  - putting in place proper arrangements for the conduct of its affairs
  - ensuring that the financial position is soundly based.
3. Our responsibility, as the external auditor of the consortium, is to undertake our audit in accordance with International Standards on Auditing, the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011 and the ethical standards issued by the Auditing Practices Board.
4. An audit of 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; this does not relieve management of their responsibility for the preparation of financial statements which give a true and fair view.
5. The significant audit risks identified at the planning stage and how we address each risk in arriving at our opinion for the financial statements is set out in **appendix I**.
6. Local audit reports have been issued by Audit Scotland during the course of the year. These reports are summarised at **appendix II**.
7. **Appendix III** is an action plan setting out our recommendations to address the high level risks we have identified during the course of the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "Management action/response". We recognise that not all risks can be eliminated or even minimised. What is important is that the consortium understands its risks and has arrangements in place to manage these risks. The consortium should ensure that they are satisfied with the proposed action and have a mechanism in place to assess progress and monitor outcomes.
8. We have included in this report only those matters that have come to our attention as a result of our normal audit procedures; consequently, our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.
9. The cooperation and assistance afforded to the audit team during the course of the audit is gratefully acknowledged.

# Audit of the 2014/15 financial statements

## Submission of financial statements for audit

10. We received the unaudited financial statements on 30 June 2015, in accordance with the agreed timetable. The working papers were of a high standard and staff provided good support to the audit team which assisted the delivery of the audit to deadline.
11. The consortium's Policy Board agreed in March 2015 to delegate its responsibilities for scrutiny of the consortium's 2014/15 unaudited accounts to Angus Council's Scrutiny & Audit Committee and these were discussed by that committee on 25 August 2015.

## Overview of the scope of the audit of the financial statements

12. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined in our Annual Audit Plan presented to the consortium in March 2015.
13. 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 2014/15 agreed fee for the audit was set out in the Annual Audit Plan and, as we did not

carry out any work additional to our planned audit activity, the fee remains unchanged.

14. The concept of audit risk is of central importance to our audit approach. During the planning stage of our audit we identified a number of key audit risks which involved the highest level of judgement and impact on the financial statements and consequently had the greatest effect on the audit strategy, resources and effort. We set out in our Annual Audit Plan the audit work we proposed to undertake to secure appropriate levels of assurance. **Appendix I** sets out the significant audit risks identified during the course of the audit and how we addressed each risk in arriving at our opinion on the financial statements.
15. Our audit involved obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.

## Materiality

16. Materiality can be defined as the maximum amount by which auditors believe the financial statements could be misstated and still not be expected to affect the decisions of users of financial statements. A misstatement or omission, which would not normally be regarded as material by amount, may be important for other reasons (for example, an item contrary to law).
17. We consider materiality and its relationship with audit risk when planning the nature, timing and extent of our audit and conducting

our audit programme. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.

18. We summarised our approach to materiality in our Annual Audit Plan. Based on our knowledge and understanding of the consortium we set our planning materiality for 2014/15 at £578 (1% of gross expenditure). Performance materiality was calculated at £434, to reduce to an acceptable level the probability of uncorrected and undetected audit differences exceeding our planning materiality level.
19. On receipt of the financial statements we reviewed our materiality levels and concluded that our original calculation remained appropriate.

## Evaluation of misstatements

20. A number of presentational adjustments were identified within the financial statements during the course of our audit however these had no impact on either the comprehensive income & expenditure statement or the balance sheet. These were discussed with relevant officers who agreed to amend the unaudited financial statements.

## Significant findings from the audit

21. International Standard on Auditing 260 requires us to communicate to you significant findings from the audit, including:

- the auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures
  - significant difficulties encountered during the audit
  - significant matters arising from the audit that were discussed, or subject to correspondence with management
  - written representations requested by the auditor
  - other matters which in the auditor's professional judgment, are significant to the oversight of the financial reporting process.
22. During the course of the audit we did not identify any significant issues that, in our view, require to be communicated to you.



# Financial management and sustainability

## Financial management

23. In this section we comment on the consortium's financial outcomes and assess the consortium's financial management arrangements.
24. The consortium sets an annual budget to meet its service and other commitments for the forthcoming financial year. Regular monitoring of expenditure and income against agreed budgets is central to effective financial management.

## Financial outcomes

25. The main financial objective for the consortium is to ensure that the financial outturn for the year is within the budget. The Consortium's 2014/15 budgeted expenditure approved by the Policy Board in February 2014 was £67,500 with anticipated income of £55,900. At March 2014 the Consortium held significant reserves of £83,587 and anticipated using £11,600 of these during the year.
26. However the consortium expenditure in 2014/15 was only £45,943 on the provision of services along with income of £54,000 giving a surplus of £8,603 for the year. This surplus represents 12.7% of the approved budget and was in the main due to no Policy Officer being in post between May and August 2014.

## Financial management arrangements

27. As auditors, we need to consider whether the consortium have established adequate financial management arrangements. We do this by considering a number of factors, including whether:
  - the proper officer has sufficient status within the body to be able to deliver good financial management
  - financial regulations are comprehensive, current and promoted within the consortium
  - reports monitoring performance against budgets are accurate and provided regularly to budget holders
  - monitoring reports do not just contain financial data but are linked to information about performance
  - members provide a good level of challenge and question budget holders on significant variances.
28. The Treasurer as the section 95 officer is responsible for ensuring proper accounting records are kept. The consortium has a responsibility to ensure that an effective system of internal financial control is maintained. The consortium place reliance on Angus Council's financial regulations. Members monitor the consortium's financial position against budget at every Policy Board meeting (bi-annually).
29. Overall the consortium's financial management arrangements are satisfactory for an organisation the size of the consortium.

## Financial sustainability

30. Financial sustainability means that the consortium has the capacity to meet the current and future needs of its communities.
31. The surplus of £8,603 in 2014/15 resulted in the consortium holding usable reserves of £92,190 at 31 March 2015 which represents 136.6% of budgeted expenditure. A reserve strategy agreed in November 2014 set a provisional budget for three years with plans to utilise £69,011 of this reserve by 2017/18.
32. The consortium's 2015/16 budgeted expenditure is £78,202 with anticipated income of £54,550.
33. 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 reserve strategy also recognises the reduction in income from April 2016 with Stirling Council leaving the consortium. The consortium will need to ensure it can demonstrate value for money to its members for their continuing subscriptions.

### **Action plan no. 1**

34. Overall we conclude that the financial position is sustainable currently, although the use of reserves in the long term is not financially sustainable. A reduction in its membership will also place a strain on the consortium's capacity to deliver services at the current levels.

# Governance and transparency

35. Members and management of the consortium are responsible for establishing arrangements to ensure that its business is conducted in accordance with the law and proper standards, that public money is safeguarded and for monitoring the adequacy and effectiveness of these arrangements.
36. The consortium is currently considering the different options for its legal structure including the status quo, company limited by guarantee or associate membership. We understand that the Policy Officer consulted Angus Council Legal Department for advice on the options available and a paper was taken to the March 2015 board meeting but no consensus was reached at that stage. At the Officer Group meeting of 4 September, those present discussed the benefits of associate membership and agreed to present this as a recommendation to the board on 25 September. At the September meeting the consortium agreed to set up a short life working group to further consider the associate membership proposal.

## Corporate governance

37. The consortium is a non-statutory committee representing the interests of its eight member local authorities 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 and is underpinned by an officer group.

38. The Policy Board is responsible for ensuring that business is conducted in accordance with the law and proper standards, and that resources are safeguarded and properly accounted for.
39. The consortium is serviced by a secretariat which rotates amongst the member councils. The secretariat was based in Angus Council for the period April 2012 to March 2015. The consortium agreed in November 2014 to extend Angus Council's tenure as host authority to March 2017 subject to members conducting internal consultations. The March 2015 meeting subsequently confirmed this extension.
40. The consortium operates within the principles of Angus Council's code of corporate governance. Overall the governance arrangements in place are appropriate to the organisation.

## Internal control

41. 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 2014/15 there was no internal audit coverage of the consortium's transactions.

42. 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.
43. We have been able to take assurance from the work of the external auditor of Angus Council on the financial systems. In addition we also sample tested the transactions and balances in the consortium's financial statements. Overall, on the basis of the audit testing undertaken, there were no issues of concern in relation to the operation of the consortium's financial control systems.

### Annual Governance Statement

44. An annual governance statement (AGS) requires fuller disclosure in accordance with the CIPFA/SOLACE *Delivering Good Governance in Local Government* document and is recognised good practice in this area.
45. The consortium operates within the principles of Angus Council's code of corporate governance and use the systems of Angus Council, for processing all financial transactions.
46. The Treasurer's review of the effectiveness of the system of internal financial control is informed by reviews undertaken by internal audit as part of the Angus Council's overall corporate governance annual review.
47. The AGS is signed on behalf of the consortium by the Chair of the Consortium and the Treasurer. The AGS in 2014/15 was completed

and considered by Angus Council's Scrutiny & Audit Committee in August 2015 as part of the consideration of the unaudited accounts.

### Arrangements for maintaining standards of conduct and the prevention and detection of corruption/fraud

48. 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. In our opinion the overall arrangements in place (i.e. adopting Angus Council's procedures as host authority) are satisfactory, although it should be noted that no system can eliminate the risk of fraud entirely

### Transparency

49. It is not clear how the consortium ensures its services and performance is transparent to the public. It is unclear whether meetings are open to the public as the agendas/minutes are not publicly available and meeting dates are not easily found. The consortium's website does not contain relevant information for a number of areas including:
  - agendas and minutes of the consortium meetings
  - relevant financial and performance reports
  - annual accounts

50. The Policy Officer has indicated, however, that the current website is to be updated and we will therefore monitor this as part of our 2015/16 audit.

# Best Value

51. Best value is a key factor to consider when planning policies, programmes and projects and when taking any spending decisions. The consortium should have systems and processes to ensure that it can demonstrate that it is delivering best value by assessing and reporting on the economy, efficiency, effectiveness and equality in service provision.
52. 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.
53. To address the strategy the consortium agreed three key priorities with sixteen areas identified as the key focus in the 2014/15 work plan approved in February 2014. The three key priorities identified in the 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
54. 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.
55. 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. The consortium in November 2014 discussed including milestones in future work plans, which would help keep track of activity. The work plan for 2016 is due to be discussed by the consortium in September 2015.

**Action plan no. 1**

# Appendix I – Significant audit risks

The table below sets out the financial statement audit risks we identified during the course of the audit and how we addressed each risk in arriving at our opinion on the financial statements.

Audit Risk	Assurance procedure	Results and conclusions
<b>Risk of material misstatement</b>		
<p><b>Management override of controls</b></p> <p>As stated in ISA 240, management has the ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p> <p><i>Risk: The accounts are material misstated.</i></p>	<ul style="list-style-type: none"> <li>• Detailed testing of journal entries</li> <li>• Review of accounting estimates for bias</li> <li>• Evaluating significant transactions that are outside the normal course of business</li> </ul>	<p>From our audit testing no issues were identified and nor were there any significant transactions outwith the normal course of business. Assurances obtained.</p>

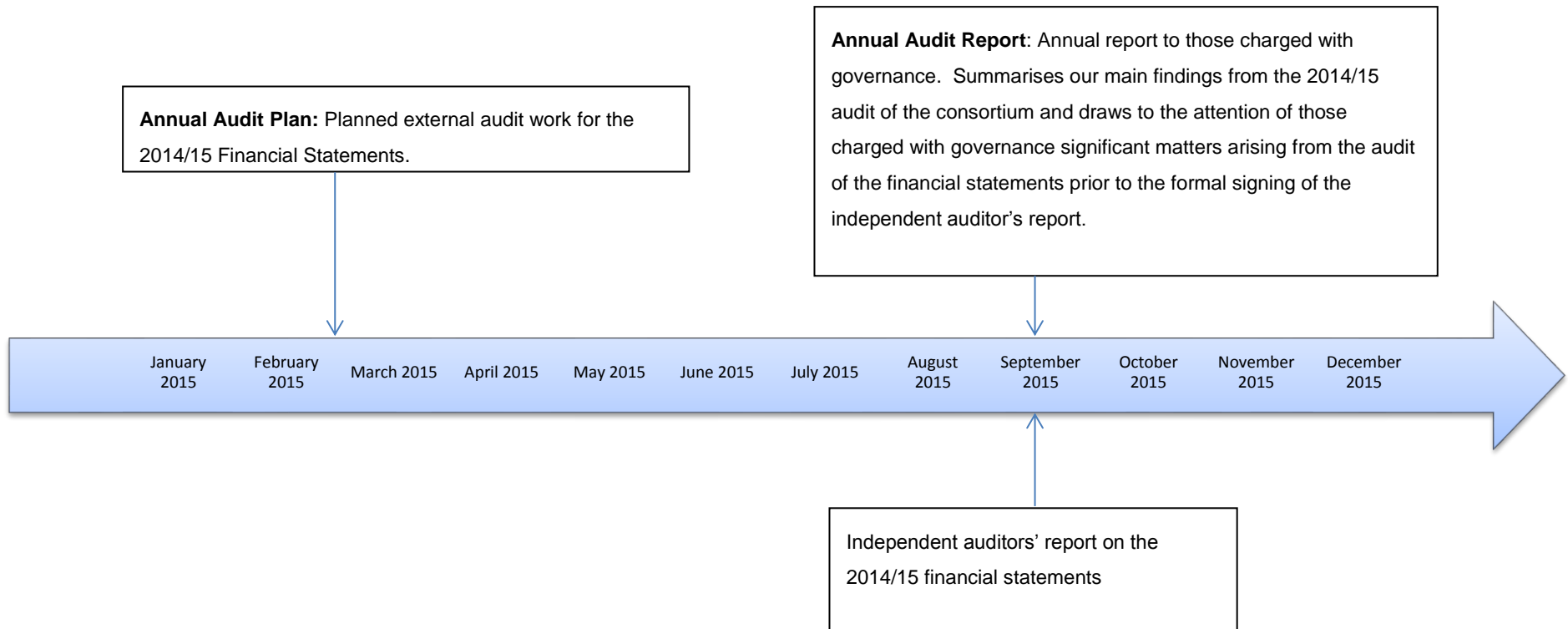
Audit Risk	Assurance procedure	Results and conclusions
<p><b>The Local Authority Accounts (Scotland) Regulations 2014</b></p> <p>The regulation stipulate that:</p> <ul style="list-style-type: none"> <li>• unaudited accounts are required to be considered by the consortium by 31 August</li> <li>• audited accounts are to be approved by the consortium by 30 September</li> <li>• publication on the consortiums website of:               <ul style="list-style-type: none"> <li>○ the signed audited financial statements by 31 October</li> <li>○ the annual audit report by 31 December</li> </ul> </li> </ul> <p>The accounts are now also required to contain a management commentary in accordance with proper accounting practices. Separate guidance is currently being drafted which will align to the reporting requirements in the <i>Government financial reporting manual</i></p> <p><i>Risk: Regulation deadlines are not met and appropriate disclosures are not detailed in the financial statements.</i></p>	<ul style="list-style-type: none"> <li>• Communication with management regarding timetable of accounts process</li> <li>• Ensure the management commentary is prepared in accordance with proper accounting practice and relevant guidance</li> </ul>	<p>The Consortium in March 2015 agreed to delegate the consideration of the unaudited annual accounts to Angus Council’s Scrutiny &amp; Audit Committee.</p> <p>The consortium considered the audited accounts for approval in September 2015.</p> <p>Management commentary prepared in line with relevant guidance.</p> <p>We understand that the website is to be updated for consortium’s audited accounts (refer para 49 - 50).</p>



Audit Risk	Assurance procedure	Results and conclusions
<b>Risks identified from the auditor’s wider responsibility under the Code of Audit Practice</b>		
<p><b>Financial sustainability and performance monitoring</b></p> <p>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.</p> <p>Performance measures are not built into work plans therefore the Consortium are unable to measure its effectiveness in delivering against its key priorities.</p> <p><i>Risk: The consortium will not be able to demonstrate value for money in the delivery of its priorities.</i></p>	<ul style="list-style-type: none"> <li>Monitor the consortium’s financial position and performance arrangements and report to members as appropriate.</li> </ul>	<p>Refer <i>financial management and sustainability</i> section.</p> <p>Performance measures to be built into work plan (refer Action plan no.1)</p>

# Appendix II

## Summary of local audit reports 2014/15



# Appendix III

## Action plan

No. Page/para	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
1 10/33 14/55	<p>The consortium's member councils face significant financial challenges in the current economic climate and the reserve strategy has recognised the reduction in income with Stirling Council leaving the consortium. The consortium will need to ensure it can demonstrate value for money to its members for their continuing subscriptions. However, the work plan currently does not include key milestones or performance measures</p> <p><b>Risk:</b> The consortium is unable to demonstrate either value for money to its members for their continuing subscriptions or whether the strategy will be delivered.</p> <p><b>Recommendation:</b> In order to assess progress against the consortium's strategy and evidence value for money key measurable milestones should be included in the work plans to ensure delivery is on target.</p>	<p>The consortium in November 2014 discussed including milestones in future work plans, which would help keep track of activity. However, due to the nature of the work of the consortium – soft lobbying and seeking funding opportunities for members – such milestones are difficult to determine. The work plan for 2016 is due to be discussed by the consortium in September 2015</p>	Policy Officer	September 2015