

# East of Scotland European Consortium

Annual Audit Plan 2021/22



 AUDIT SCOTLAND

Prepared for East of Scotland European Consortium

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# Introduction

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## Summary of planned audit work

1. This document summarises the work plan for our 2021/22 external audit of the East of Scotland European Consortium. The main elements of our work include:

- an audit of the annual accounts of the East of Scotland European Consortium and the issue of an independent auditor's report setting out our audit opinions on the financial statements and other statutory information including the Management Commentary and Annual Governance Statement
- consideration of arrangements in relation to the audit dimensions that frame the wider scope of public sector audit. As the East of Scotland European Consortium is a very small audited body without complex transaction streams, we have applied the small audited bodies provision of the Code of Audit Practice. Our audit work is therefore limited to a review of financial sustainability arrangements (focused on winding-up arrangements as 2021/22 is the final year of the consortium's operation) and the audit of the Annual Governance Statement.

## Impact of Covid-19

2. The coronavirus disease (Covid-19) pandemic has had a significant impact on public services and public finances, and the effects will be felt well into the future.

3. The Auditor General for Scotland, the Accounts Commission and Audit Scotland continue to assess the risks to public services and finances from Covid-19 across the full range of our audit work, including annual audits and the programme of performance audits. The well-being of audit teams and the delivery of high-quality audits remain paramount. Changes in our approach may be necessary and where this impacts on annual audits, revisions to this Annual Audit Plan may be required.

## Adding value

4. We aim to add value to the East of Scotland European Consortium through our external audit work by being constructive and forward looking, by identifying areas for improvement and by recommending and encouraging good practice. In so doing, we will help the East of Scotland European Consortium promote improved standards of governance, better management and decision making and more effective use of resources.

## Respective responsibilities of the auditor and the East of Scotland European Consortium

5. The [Code of Audit Practice \(2016\)](#) sets out in detail the respective responsibilities of the auditor and the East of Scotland European Consortium. Key responsibilities are summarised below.

### Auditor responsibilities

6. Our responsibilities as independent auditors are established by the Local Government (Scotland) Act 1973 and the [Code of Audit Practice](#) (including [supplementary guidance](#)) and guided by the Financial Reporting Council's Ethical Standard.

7. Auditors in the public sector give an independent opinion on the financial statements and other information within the annual accounts. We also review and report on the arrangements within the audited body to manage its performance and use of resources. In doing this, we aim to support improvement and accountability.

### East of Scotland European Consortium responsibilities

8. The East of Scotland European Consortium is responsible for maintaining accounting records and preparing financial statements that give a true and fair view.

9. Also, the East of Scotland European Consortium has the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to deliver their objectives.

10. We anticipate that the consortium will agree at its Extraordinary General Meeting that after 31 March 2022, Dundee City Council's Scrutiny Committee will have responsibility for the scrutiny and approval of the 2021/22 annual accounts and consideration of the annual audit report.

### 2021/22 is the final year of the audit appointment

11. Audit appointments are usually for five years but were extended to six years due to Covid-19. 2021/22 is the final year of the current appointment and it is also the final year of operation for the East of Scotland European Consortium. The consortium is being removed from the list of audited bodies for the new audit appointments.

# Financial statements audit planning

## Materiality

**12.** Materiality is an expression of the relative significance of a matter in the context of the financial statements as a whole. We are required to plan our audit to determine with reasonable confidence whether the financial statements are free from material misstatement. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement.

### Materiality levels for the 2021/22 audit

**13.** We assess materiality at different levels as described in [Exhibit 1](#). The materiality values for the East of Scotland European Consortium are set out in [Exhibit 1](#).

## Exhibit 1

### 2021/22 Materiality levels for the East of Scotland European Consortium

Materiality	Amount
<b>Planning materiality</b> – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. It has been set at 2% of budgeted gross expenditure for the year ended 31 March 2022.	£830
<b>Performance materiality</b> – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this would indicate that further audit procedures should be considered. Using our professional judgement, we have assessed performance materiality at 80% of planning materiality.	£660
<b>Reporting threshold (i.e., clearly trivial)</b> – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. This has been calculated at 5% of planning materiality.	£42

Source: Audit Scotland

## Significant risks of material misstatement to the financial statements

**14.** Our risk assessment draws on our cumulative knowledge of the East of Scotland European Consortium, its major transaction streams, and the host council's key systems of internal control and risk management processes. Also, it is informed by our discussions with management, assurances from the external auditor of the host council, attendance at Policy Board meetings and a review of supporting information.

**15.** Based on our risk assessment process, we identified the following significant risks of material misstatement to the financial statements. These are risks which have the greatest impact on our planned audit procedures. [Exhibit 2](#) summarises the nature of the risk, the sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurance over the risk.

### Exhibit 2

#### 2021/22 Significant risks of material misstatement to the financial statements

Significant risk of material misstatement	Sources of assurance	Planned audit response
<p><b>1. Risk of material misstatement due to fraud caused by the management override of controls</b></p> <p>As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance</p>	<ul style="list-style-type: none"> <li>• Test journals at the year-end and any post-closing entries and focus on significant risk areas.</li> <li>• Evaluate significant transactions outside the normal course of business.</li> <li>• We will assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year. (Following the Policy Board decision to wind up the consortium, the break-up method of accounting was used in the prior year financial statements.)</li> <li>• Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year. There should be no accruals or prepayments as this is the final year of the consortium's operation.</li> </ul>

**16.** As set out in International Standard on Auditing (UK) 240: *The auditor's responsibilities relating to fraud in an audit of financial statement*, there is a presumed risk of fraud over the recognition of revenue. There is a risk that revenue may be misstated resulting in a material misstatement in the financial statements. We have rebutted this presumed risk in 2021/22 because there is limited scope for fraud as income is primarily member councils' subscription fees. All other income is interest received, which will be agreed to third party supporting documentation.

**17.** In line with Practice Note 10: *Audit of financial statements and regularity of public sector bodies in the United Kingdom*, as most public-sector bodies are net spending bodies, the risk of material misstatement due to fraud related to expenditure recognition may in some cases be greater than the risk relating to revenue recognition. We have rebutted the risk of material misstatement caused by fraud in expenditure in 2021/22 because approximately 85% of prior year expenditure relates to staff costs which will be agreed to payroll records. Other expenditure streams are not complex and will be sample tested.

**18.** We have not, therefore, incorporated specific work into our audit plan in these areas over and above our standard audit procedures.

### Other area of audit focus

**19.** As part of our assessment of audit risks, we have identified one other area where we consider there are also risks of material misstatement to the financial statements. Disclosures in the annual accounts will be an area of audit focus in 2021/22 as this is the final year of the consortium's operation. Clear disclosures in the Management Commentary, the Annual Governance Statement and the notes to the accounts will need to explain the context, governance, and accounting impact of winding up the East of Scotland European Consortium, including the break-up basis of accounting.

### Audit risk assessment process

**20.** Audit risk assessment is an iterative and dynamic process. Our assessment of risks set out in this plan may change as more information and evidence becomes available during the progress of the audit. Where such changes occur, we will advise management and where relevant, report them to those charged with governance.

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# Audit dimensions and Best Value

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## Introduction

21. The [Code of Audit Practice](#) sets out the four dimensions that frame the wider scope of public sector audit. The Code of Audit Practice requires auditors to consider the adequacy of the arrangements in place for the audit dimensions in audited bodies.

## Audit dimensions

22. The four dimensions that frame our audit work are shown in [Exhibit 3](#).

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### Exhibit 3

#### Audit dimensions



Source: Code of Audit Practice

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23. In summary, the four dimensions cover the following:

- **Financial management** – financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.
- **Financial sustainability** – as auditors, we consider the appropriateness of the use of the going concern basis of accounting as part of the annual



audit. We will also comment on financial sustainability in the longer term. We define this as medium term (two to five years) and longer term (longer than five years).

- **Governance and transparency** – governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership, and decision-making and transparent reporting of financial and performance information.
- **Value for money** – value for money refers to using resources effectively and continually improving services.

**24.** The Code of Audit Practice 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. In the light of the volume and lack of complexity of the financial transactions, we plan to apply the small body provisions of the Code to the 2021/22 audit of the East of Scotland European Consortium.

**25.** We have previously reported that the consortium's ongoing use of its reserves to cover annual deficits is not financially sustainable. Taking this and other factors into account, the Policy Board agreed in November 2021 to wind up the consortium by 31 March 2022. The remaining reserves will be distributed between the member councils in accordance with East of Scotland European Consortium constitution. Our wider dimensions audit work will therefore be limited to the consortium's winding-up arrangements and the audit of the Annual Governance Statement.

# Reporting arrangements, timetable, and audit fee

## Reporting arrangements

**26.** Audit reporting is the visible output for the annual audit. All Annual Audit Plans and the outputs, as detailed in [Exhibit 4](#), and any other outputs on matters of public interest will be published on our website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

**27.** Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the relevant officers to confirm factual accuracy.

**28.** We will provide an independent auditor's report to East of Scotland European Consortium and the Accounts Commission setting out our opinions on the annual report and accounts. We will provide the East of Scotland European Consortium and the Controller of Audit with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit. These reports will be addressed to Dundee City Council's Scrutiny Committee if the East of Scotland European Consortium agrees at its Extraordinary General Meeting that after 31 March 2022, this committee will have responsibility for the scrutiny and approval of the 2021/22 annual accounts and consideration of the annual audit report.

**29.** [Exhibit 4](#) outlines the target dates for our audit outputs, and we aim to issue the independent auditor's report by the statutory deadline of 31 October 2022. We acknowledge this will be challenging due to the ongoing pressures and uncertainties caused by Covid-19.

## Exhibit 4 2021/22 Audit outputs

Audit Output	Target date	Scrutiny Committee Date
Annual Audit Plan	31/03/2022	27/04/2022
Independent Auditor's Report	31/10/2022	TBC
Annual Audit Report	31/10/2022	TBC

Source: Audit Scotland

## Timetable

**30.** To support an efficient audit, it is critical that the timetable for producing the annual accounts for audit is achieved. We have included a proposed timetable for the audit at [Exhibit 5](#) that has been discussed with management.



**31.** Covid-19 has had a considerable impact on the conduct and timeliness of the audit. We recognise that it is in the best interests of public accountability to get the reporting of audited accounts back to pre-pandemic timelines. To this end, 2021/22 is a transition year with the reporting deadline brought forward by one month relative to the two prior years. We are identifying ways to work more efficiently to expedite the 2021/22 audits whilst at the same time maintaining high standards of quality.

**32.** We will continue to work in close partnership with management with clarity over timescales and the requirement for high quality unaudited accounts and supporting working papers. Progress will be discussed with management and finance officers over the course of the audit.

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## Exhibit 5

### Proposed annual accounts timetable

 Key stage	 Provisional Date
Latest submission date for the receipt of the unaudited annual accounts with complete working papers package.	30 June 2022
Consideration of the unaudited annual accounts by those charged with governance	By 31 August 2022
Latest date for final clearance meeting with officers	TBC October 2022
Issue of Letter of Representation and proposed Independent Auditor's Report	TBC October 2022
Agreement of audited and unsigned annual accounts	TBC October 2022
Issue of Annual Audit Report to those charged with governance.	TBC October 2022
Signed Independent Auditor's Report	TBC - by 31 October 2021

Source: Audit Scotland

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## Audit fee

**33.** The proposed audit fee for the 2021/22 audit of the East of Scotland European Consortium is £3,000 (2020/21: £2,920). In determining the audit fee, we have taken account of the risk exposure of the consortium, the planned management

assurances in place and the level of reliance we plan to take from the work of internal audit.

**34.** Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual accounts, the absence of adequate supporting working papers or being unable to take planned reliance from the work of internal audit, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises out with our planned audit activity.

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# Other matters

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## Internal audit

**35.** International standards on Auditing (UK) 610: *Considering the work of internal audit* requires us to:

- consider the activities of internal audit and their effect on external audit procedures;
- obtain an understanding of internal audit activities to inform our planning and develop an effective audit approach that avoids duplication of effort;
- perform a preliminary assessment of the internal audit function when there is scope for relying on internal audit work which is relevant to our financial statements' responsibilities; and
- evaluate and test the work of internal audit, where use is made of that work for our financial statements responsibilities to confirm its adequacy for our purposes.

**36.** Internal audit is provided by the Internal Audit section of Dundee City Council. We place reliance on the Dundee City Council external audit team's annual review of the adequacy of internal audit. We will report any significant findings to the East of Scotland European Consortium on a timely basis.

**37.** There is no planned 2021/22 internal audit coverage of the East of Scotland European Consortium, so we have no planned reliance on internal audit work. Internal audit assurances will be provided to support the consortium's Annual Governance Statement.

## Independence and objectivity

**38.** Auditors appointed by the Auditor General for Scotland or Accounts Commission must comply with the [Code of Audit Practice](#) and relevant supporting guidance. When auditing the financial statements, auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has robust arrangements in place to ensure compliance with these standards including an annual '*fit and proper*' declaration for all members of staff. The arrangements are overseen by the Director of Audit Services, who serves as Audit Scotland's Ethics Partner.

**39.** The engagement lead (i.e., appointed auditor) for the East of Scotland European Consortium is Rachel Browne, Senior Audit Manager. Auditing and ethical standards require the appointed auditor to communicate any relationships

that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of the East of Scotland European Consortium.

## Quality control

**40.** International Standard on Quality Control (UK) 1 (ISQC1) requires a system of quality control to be established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and legal requirements are being complied with and that the independent auditor's report or opinion is appropriate in the circumstances.

**41.** The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the [Code of Audit Practice](#) (and supporting guidance) issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards, Audit Scotland conducts peer reviews and internal quality reviews. Additionally, the Institute of Chartered Accountants of Scotland (ICAS) have been commissioned to carry out external quality reviews.

**42.** As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We welcome feedback at any time, and this may be directed to the engagement lead.

# East of Scotland European Consortium

## Annual Audit Plan 2021/22

Audit Scotland's published material is available for download on the website in a number of formats. For information on our accessibility principles, please visit:

[www.audit-scotland.gov.uk/accessibility](http://www.audit-scotland.gov.uk/accessibility)

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