

# East of Scotland European Consortium

2017/18 Annual Audit Report DRAFT



 AUDIT SCOTLAND

Prepared for the East of Scotland European Consortium and the Controller of Audit  
21 September 2018

## Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



## About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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# Key messages

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## 2017/18 annual report and accounts

- 1** In our opinion the East of Scotland European Consortium's financial statements give a true and fair view and were properly prepared.
- 2** The management commentary and the annual governance statement were consistent with the financial statements.

## Financial sustainability and governance statement

- 3** The East of Scotland European Consortium incurred a deficit of £21,646 in 2017/18. Its use of reserves is not sustainable: it has sufficient reserves for the next 3 years if it continues to operate with the same membership. The consortium should plan in detail for the 3 years that its reserves are likely to last and consider the options for its future.
- 4** We concluded that the information in the annual governance statement is consistent with the financial statements and complies with the applicable guidance.

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# Introduction

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- 1.** This report summarises the findings from our 2017/18 audit of the East of Scotland European Consortium.
- 2.** The scope of our audit was set out in our Annual Audit Plan provided to the Treasurer in March 2018. This report comprises the findings from:
  - an audit of the East of Scotland European Consortium annual accounts
  - consideration of the consortium's financial sustainability and appropriateness of the annual governance statement.
- 3.** Our standard audits are based on four audit dimensions that frame the wider scope of public sector audit requirements. These are:
  - financial sustainability,
  - financial management,
  - governance and transparency, and
  - value for money.
- 4.** The [Code of Audit Practice 2016](#) (the Code) 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 governance statement and the financial sustainability of the body and its services.
- 5.** As highlighted in our 2017/18 Annual Audit Plan, due to the volume and lack of complexity of the financial transactions, we applied the small body provisions of the Code to the 2017/18 audit of the East of Scotland European Consortium.
- 6.** The East of Scotland European Consortium has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual accounts that are in accordance with proper accounting practices.
- 7.** Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice 2016](#) and guided by the auditing profession's ethical guidance.
- 8.** As public sector auditors we give independent opinions on the annual report and accounts and conclusions on securing financial sustainability and appropriateness of the governance statement disclosures. In doing this, we aim to support improvement and accountability.
- 9.** The weaknesses or risks identified are only those which have come to their attention during our normal audit work and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.
- 10.** Our annual audit report contains an agreed action plan at [Appendix 1](#) setting out specific recommendations, responsible officers and dates for implementation.

**11.** We confirm that we comply with the Financial Reporting Council's Ethical Standard. We have not undertaken any non-audit related services and therefore the 2017/18 audit fee of £4,460 as set out in our Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

### **Adding value through the audit**

**12.** Our aim is to add value to the East of Scotland European Consortium by providing insight and foresight on financial sustainability and by identifying areas of improvement and recommending / encouraging good practice. In so doing, we aim to help the East of Scotland European Consortium promote improved standards of financial planning, better management and decision making.

**13.** This report is addressed to both the consortium and the Controller of Audit and will be published on Audit Scotland's website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk) in due course.

**14.** We would like to thank the management and staff who have been involved in our work for their cooperation and assistance during the audit.

# Part 1

## Audit of 2017/18 annual report and accounts



### Main judgements

**In our opinion East of Scotland European Consortium's financial statements give a true and fair view and were properly prepared.**

**The management commentary and the annual governance statement were consistent with the financial statements.**

### Audit opinions on the annual report and accounts

**15.** The annual report and accounts for the year ended 31 March 2018 were approved by the Policy Board on 21 September 2018. We reported, within our independent auditor's report:

- an unqualified opinion on the financial statements
- the management commentary and annual governance statement were consistent with the financial statements and properly prepared in accordance with applicable guidance
- we have nothing to report in respect of those matters which we are required by the Accounts Commission to report by exception.

The annual report and accounts are the principal means of accounting for the stewardship of its resources and its performance in the use of those resources.

### Submission of annual report and accounts for audit

**16.** We received the unaudited annual report and accounts on 29 June 2018 in line with our agreed audit timetable.

**17.** The unaudited annual report and accounts provided for audit were complete and of a good standard and finance staff provided good support to the audit team which helped ensure the final accounts audit process ran smoothly.

### Risks of material misstatement

**18.** [Appendix 2](#) provides a description of areas we assessed as being at risk of material misstatement at the planning stage, how we addressed them and our conclusions thereon. These risks influenced our overall audit strategy, the allocation of staff resources to the audit and how the efforts of the audit team were directed.

### Materiality

**19.** Misstatements are material if they could reasonably be expected to influence the economic decisions of users taken based on the financial statements. When deciding on what is material we consider both the amount and nature of the misstatement.

**20.** We carried out our initial assessment of materiality for the annual accounts during the planning phase of the audit. On receipt of the annual accounts we

reviewed our planning materiality calculations and concluded that they remained appropriate and these are summarised in [Exhibit 1](#).

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## Exhibit 1

### Materiality values

Materiality level	Amount
Overall materiality	£693
Performance materiality	£520
Reporting threshold	£35

Source: ESEC annual accounts 2017/18

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### How we evaluate misstatements

**21.** There were no material adjustments to the unaudited financial statements arising from our audit.

### Significant findings from the audit (ISA 260)

**22.** International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance. There were no significant audit findings from the audit of the East of Scotland European Consortium annual accounts.

### Other findings

**23.** Our audit identified a small number of minor presentational issues which were discussed with management. These were adjusted and reflected in the audited annual accounts.

**24.** The consortium has sufficient reserves to operate for at least 12 months from the date the 2017/18 financial statements were authorised for issue. I have therefore concluded that it was appropriate for the consortium to adopt the going concern basis for its 2017/18 accounts. I note that this position will not continue due to the planned use of reserves in 2018/19 and 2019/20.



# Part 2

## Financial sustainability and governance statement



### Main judgements

**The East of Scotland European Consortium incurred a deficit of £21,646 in 2017/18. Its use of reserves is not sustainable: it has sufficient reserves for the next 3 years if it continues to operate with the same membership. The consortium should plan in detail for the 3 years that its reserves are likely to last and consider the options for its future.**

**We concluded that the information in the annual governance statement is consistent with the financial statements and complies with applicable guidance.**

### Financial performance in 2017/18

25. The main financial objective for the East of Scotland European Consortium is to ensure that the financial outturn for the year is within the budget set by the Policy Board. There was a budgeted deficit of £20,379 for 2017/18, with a planned use of reserves to cover expenditure. Expenditure of £69,282 against subscription income of £47,250 resulted in an actual deficit of £21,646 for the year. Expenditure was higher than planned due to travel expenditure, professional fees and the audit fee being higher than anticipated.

### Going concern and financial sustainability

26. The consortium is budgeting for a £15,537 deficit in 2018/19, which will be funded by reserves. The consortium's ongoing use of reserves to cover expenditure is not sustainable. It has sufficient reserves to last for the next 3 years if the membership, and therefore subscription income, remains the same.
27. The consortium is funded directly by membership subscriptions from its seven member councils. The uncertainty over the UK's withdrawal from the EU may lead to councils reconsidering their membership of the consortium.
28. When reserves reach the level where it is no longer appropriate to account for the consortium on a going concern basis, additional liabilities will be incurred in winding up the body. The consortium needs to plan in detail for the next 3 years as its reserves are consumed, looking at all its options, including winding up its operation. An officer's salary is paid by the consortium; uncertainty regarding the future of her job is likely to cause stress. The officer's future employment options should be clarified with the host authority. If the member councils agree that the consortium's work should continue beyond the 3 years its reserves will cover, there are other collaborative alternatives to the current joint committee arrangement.

Financial sustainability looks forward to the medium and longer term to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.



### Recommendation 1

**The consortium should plan in detail for the 3 years that its reserves are likely to last, and carry out a comprehensive, costed options appraisal for its future operation, including the potential wind-up of the consortium.**

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### Annual governance statement

**29.** The annual governance statement for 2017/18 outlined the corporate governance and risk management arrangements in place during the financial year. It covered the governance framework of the consortium and the host authority, Angus Council, and a review of effectiveness of the governance and internal control systems in operation.

**30.** We have taken assurance from the external audit of the internal controls and governance arrangements of the host authority which we also audit.

**31.** We concluded that the information in the annual governance statement is consistent with the financial statements, complies with applicable guidance, the Delivering Good Governance in Local Government: Framework (2016) and reflects our understanding of the consortium and of its host authority.

**32.** We noted that Falkirk Council, which continues to pay its membership subscription, has not appointed a member to the consortium's Policy Board for the past 2 years. This means that Falkirk Council is not participating in the leadership and governance of the consortium, including decisions regarding its annual work plan and longer-term future.



### Recommendation 2

**The consortium should encourage Falkirk Council to appoint a member of the Policy Board, to ensure that all member councils are exercising their leadership and governance roles.**

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# Appendix 1

## Action plan 2017/18

### 2017/18 recommendations for improvement



No.	Issue/risk	Recommendation	Agreed management action/timing
1	<p><b>Financial sustainability</b></p> <p>The consortium has reserves to cover the next three years if it continues to operate at the same level. The consortium's role following the UK's withdrawal from the EU is unclear and there is no guarantee that the members will continue their membership. The consortium needs to plan for what happens as its reserves are exhausted. When it is no longer producing accounts on a going concern basis, additional liabilities will be incurred for winding up the body.</p> <p><b>Risk</b></p> <p>Without a comprehensive options appraisal and financial plan for the next 3 years, the consortium may incur expenditure that the reserves cannot cover.</p>	<p>The consortium should plan in detail for the 3 years that its reserves are likely to last and carry out a comprehensive costed options appraisal for its future operation, including the potential wind-up of the consortium.</p> <p><a href="#">Paragraph 27</a></p>	<p>An options appraisal will be undertaken and submitted to the Board for consideration</p> <p>Responsible officer: Treasurer</p> <p>Agreed date: 31 March 2019</p>
2	<p><b>Membership of the Policy Board</b></p> <p>Falkirk Council has not appointed a member to the consortium's Policy Board for the past 2 years, despite continuing to pay its membership subscription.</p> <p><b>Risk</b></p> <p>Falkirk Council is not fulfilling its leadership and governance role within the consortium, including decisions on the future of the consortium.</p>	<p>The consortium should encourage Falkirk Council to appoint a member of the Policy Board, to ensure that all member councils are exercising their leadership and governance roles.</p> <p><a href="#">Paragraph 31</a></p>	<p>Falkirk Council will be approached for a representative.</p> <p>Responsible officer: Policy Officer</p> <p>Agreed date: 31 October 2018</p>

# Appendix 2

## Significant audit risks identified during planning

The table below sets out the audit risks we identified during our planning of the audit and how we addressed each risk in arriving at our conclusion. The risks are categorised between those where there is a risk of material misstatement in the annual report and accounts and those relating our wider responsibility under the [Code of Audit Practice 2016](#).

Audit risk	Assurance procedure	Results and conclusions
<b>Risks of material misstatement in the financial statements</b>		
<p><b>1 Management override of controls</b></p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.</p>	<p>Detailed testing of journal entries.</p> <p>Review of accounting estimates.</p> <p>Focused testing of accruals and prepayments.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p>	<p>Our testing results were satisfactory, and we identified no evidence of management override of controls.</p>
<b>Risks identified from the auditor's wider responsibility under the Code of Audit Practice</b>		
<p><b>4 Financial Sustainability</b></p> <p>Uncertainty exists around the long-term future of the Consortium following the outcome of the EU Referendum in 2016. The continued support of the member Councils may be influenced by the exiting of the UK from the EU in March 2019.</p> <p>The full impact of this on the Consortium is still to be determined.</p> <p>The Consortium has been using reserves to part-fund its running costs in recent years, which is not sustainable in the long-term.</p> <p>There are no issues relating to the Consortium remaining as a going concern for the 12 months to March 2019, and the period immediately after, given the existing member Council commitments to the Consortium</p>	<p>Discussion with officers.</p> <p>Review of Policy Board papers.</p> <p>Review of the Consortium's financial planning and reserves strategy.</p>	<p>We concluded that the consortium continued to operate as a going concern but that its ongoing use of reserves is not sustainable.</p> <p>See Recommendation 1 in Appendix 1.</p>











Audit risk	Assurance procedure	Results and conclusions
<p>and the availability of usable reserves in the short-term.</p> <p>However, the EU Referendum outcome and budget position present a significant risk to the Consortium's ability to continue as a going concern beyond 2019/20.</p>		

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# Appendix 3

## Summary of national performance reports 2017/18



		Apr	
		May	
Common Agricultural Policy Futures programme: further update		Jun	 Scotland's colleges 2017
		Jul	 NHS workforce planning
Self-directed support: 2017 progress report		Aug	
Equal pay in Scottish councils		Sept	
Transport Scotland's ferry services		Oct	 NHS in Scotland 2017
Local government in Scotland: Financial overview 2016/17		Nov	
		Dec	
		Jan	
Early learning and childcare		Feb	
Managing the implementation of the Scotland Acts		Mar	

# East of Scotland European Consortium

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