

East of Scotland European Consortium

Report on the 2006-07 Audit

31 August 2007

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Executive Summary

Introduction

We have audited the financial statements of the East of Scotland European Consortium (the Consortium) for the year ending 31 March 2007 and examined aspects of the Consortium's governance arrangements. This report sets out our key findings and discharges our responsibilities under ISA260 - reporting matters arising from our audit to those charged with governance.

Key findings

We have given an unqualified opinion on the financial statements of the Consortium for 2006-07. There are no material adjustments to the accounts following our audit. We have made some recommendations, detailed in Section 2, relating to consideration of the following matters:

- the need for a formal reserves policy;
- the arrangements for recording transactions of the Consortium, including arrangements for banking and dealing with transactions between Clackmannanshire Council and the Consortium; and
- the need to ensure the advertisement of the audit fully complies with the requirements of the Act.

In addition, the Consortium's Statement on the Systems of Internal Financial Control identifies several areas for improvement in internal control systems including: more detailed budgeting systems; the development of targets to measure financial and other performance; and the extension of internal audit services from Clackmannanshire Council to cover the audit of the Consortium. We will continue to monitor the Consortium's progress in addressing these issues as part of our 2007-08 audit.

Our findings and recommendations are summarised in the Action Plan that accompanies this report (Appendix A) which has been agreed with management.

Status of our Report

This report is part of a continuing dialogue between the Consortium and Grant Thornton UK LLP and is not, therefore, intended to cover every matter which came to our attention. Our procedures are designed to support our audit opinion and they cannot be expected to identify all weaknesses or inefficiencies in the Consortium's systems and work practices.

The report is not intended for use by third parties and we do not accept responsibility for any reliance that third parties may place on. The report will be submitted to Accounts Commission for Scotland and will be published on their website at www.audit-scotland.gov.uk.

Acknowledgements

We would like to take this opportunity to thank the staff who have been involved in this review for their assistance and co-operation.

Detailed Findings

Introduction

In accordance with the Code of Audit Practice we are required to audit the financial statements of the Consortium for the year ended 31 March 2007 and examine aspects of the Consortium's governance arrangements.

In auditing the financial statements, we give an opinion on whether:

- they present fairly the Consortium's financial position as at 31 March 2007 in accordance with Part VII of the Local Government (Scotland) Act 1973 (the Act) and the CIPFA 2006 Statement of Recommended Practice (2006 SORP);
- the Statement on the System of Internal Financial Control is consistent with the information we obtain through our audit.

The Consortium's Income and Expenditure Account for the year records a deficit for the financial year of £16,127. Income of £98,394 was received in the year, mainly from subscriptions from member local authorities.

Expenditure of £114,042 was incurred in the year, comprising largely staff costs of £43,610 (38%). There was a significant increase in transport costs in the year, increasing from £9,738 to £26,303, reflecting higher staff travel to Brussels for lobbying in connection with the development of the next five year phase of European Union funding from 2008-2013.

Matters Arising

We have given an unqualified opinion on the Consortium's 2006-07 financial statements. Under ISA 260, we are required to communicate certain matters arising from the audit to those charged with governance. The areas considered are summarised in the table below:

Area	Key Messages
Independence and objectivity of the audit team	We are able to confirm our independence and objectivity as auditors and note the following: <ul style="list-style-type: none">• we are independently appointed by Audit Scotland;• we comply with the Auditing Practices Board's Ethical Standards; and• we have not performed any non Code or advisory work during the year.
Quality of the Accounts	The draft financial statements were presented for audit on 30 June 2007 in line with the agreed timetable. The accounts and supporting working papers were of a good standard and, as a result, few adjustments were required to be processed following our audit.

Detailed Findings

<p>Approach to the audit</p>	<p>Our approach to the audit was set out in our 2006-07 audit plan. We have planned our audit in accordance with International Auditing Standards and the Code. Other key factors to highlight include:</p> <ul style="list-style-type: none"> • we consider the materiality of items in the financial statements both in determining the approach to audit them and in determining the impact of any errors; and • the Consortium's financial affairs are managed by Clackmannanshire Council and rely on the Council's financial systems for processing, recording and reporting transactions. Grant Thornton UK LLP are also the auditors of Clackmannanshire Council and, during the 2006-07 financial year, we performed audit work on the core financial systems in operation at the Council. Our work did not identify any specific control weaknesses in the financial systems operated by the Council that we need to draw to the Consortium's attention.
<p>Accounting policies and practices</p>	<p>We consider that the Treasurer has adopted appropriate accounting policies in the areas covered by our testing, in accordance with the 2006 SORP.</p> <p>The Treasurer has considered and confirmed that the Consortium remains a going concern and confirms this in the Letter of Representation.</p>
<p>Material risks and exposures</p>	<p>The Consortium has considered and confirmed that it has no material risks and exposures which should be reflected in the financial statements and the Treasurer will confirm this in the Letter of Representation.</p> <p>There are no unadjusted audit differences to report. We identified one omission of a £400 creditor that has been adjusted in the accounts.</p>
<p>Audit adjustments and unadjusted errors</p>	<p>We have identified several minor disclosure amendments and reclassifications to improve the presentation of the accounts.</p>

The key matters arising from the audit are:

Financial position

The Consortium's level of reserves reduced significantly during the year from £25,845 to £9,718, and now represent 8% of 2006-07 expenditure. The level of reserves has declined by £49,709 in the past two years due to the impact of budget overspends. Whilst the current level of reserves may be appropriate to the Consortium's circumstances, it should consider setting a reserves policy to ensure adequate funds are available to meet unforeseen expenditure and future financial commitments.

Refer action plan point 1

Creditors

The accounts include a creditor balance of £6,698 in the balance sheet at 31 March 2007 relating largely to monies owed to Clackmannanshire Council for the preparation of the financial statements. We noted that £3,000 remains unpaid for the preparation of the 2004-05 and 2005-06 financial statements. These creditor balances are now over one year old. The Consortium should liaise with Clackmannanshire Council to pay these balances during 2007-08.

Refer action plan point 2

Accounts Advert

The Consortium is required to advertise the audit of its financial statements to allow members of the public the opportunity to inspect the financial statements and underlying records and to make objections. The Consortium's accounts advert did not comply with the Local Authority (Scotland) Regulations 1985 as it did not specify a 21 day period for objections to be raised by members of the public as required by the Regulations. Audit Scotland have requested that the Consortium amend its accounts advert to correct the error in future years.

Refer action plan point 3

System of Controls

The Consortium's Statement on the Systems of Internal Financial Control identifies several areas for improvement in internal controls systems including: more detailed budgeting systems; the development of targets to measure financial and other performance; and the extension of internal audit services from Clackmannanshire Council to cover the audit of the Consortium. We will continue to monitor the Consortium's progress in addressing these issues as part of our 2007-08 audit.

Refer action plan point 4

Bank Account

The Consortium does not have its own bank account, and all cash balances are held within the bank accounts of Clackmannanshire Council. The Council maintains a separate cost centre for the Consortium within its general ledger. All transactions flow through the cost centre and a year end cash balance is determined by the Council.

The Consortium should consider the costs and benefits of operating its own bank account to improve financial management, make payments in its own name and to ensure prompt payment.

Refer action plan point 5

Grant Thornton UK LLP

31 August 2007

Appendix A – Action Plan

No	Finding	Priority	Recommendation	Management Response	Implementation date
1	The Consortium's level of reserves reduced significantly during the year from £25,845 to £9,718 representing 8% of 2006-07 expenditure.	Low	The Consortium should consider setting a reserves policy to ensure adequate funds are available to meet unforeseen expenditure and future financial commitments.	Agreed. However, this issue is one for the new host authority.	Treasurer 30 June 2008
2	We noted that £3,000 remains unpaid for the preparation of the 2004-05 and 2005-06 financial statements. These creditor balances are now over one year old.	Low	The Consortium should liaise with Clackmannanshire Council to pay these balances during 2007-08.	Agreed	Treasurer 30 June 2008
3	The Consortium's accounts advert did not comply with the Local Authority (Scotland) Regulations 1985 as it did not specify a 21 day period for objections to be raised by members of the public.	High	The Consortium should ensure that future accounts adverts comply with relevant Regulations.	Agreed The advert ran from Monday 13th till Friday 31st of August, but to fully comply should have been held over till Sunday 2nd September.	Treasurer 30 June 2008
4	The Consortium's Statement on the Systems of Internal Financial Control identifies several areas for improvement in internal controls systems.	Medium	The Consortium should take action to address identified weaknesses in internal controls.	Agreed However, this issue is one for the new host authority.	Treasurer 30 June 2008

No	Finding	Priority	Recommendation	Management Response	Implementation date and Responsible Officer
5	<p>The Consortium is treated as a separate cost centre within Clackmannanshire Council's ledger rather than a separate entity. As a result:</p> <ul style="list-style-type: none"> • the Consortium does not operate its own bank account; • transactions between the Consortium and the Council are treated as internal transfers and no invoices are raised. This approach can lead to creditor and debtor balances building up unnecessarily in the ledger (see point 2 above); • budgeting is undertaken at a high level which can limit the accuracy of budget forecasts; and • there is less clarity and accountability for the financial control environment. 	Medium	<p>The Consortium should undertake a review of its financial management arrangements and should consider arrangements for:</p> <ul style="list-style-type: none"> • banking; • recordings its transactions within Clackmannanshire Council's ledger; • managing 'internal' transactions between the Council and the Consortium; and • budget setting. 	<p>Agreed, but only in part.</p> <p>If the Consortium had a separate bank account then it would also need a separate creditors run. This would mean two payments going to some of the larger creditors e.g BT. It would also involve greater administration costs. I do not agree that by not having a separate bank account that there is not effective financial management.</p> <p>As far as effective budgeting is concerned, the current arrangement provides for budget monitoring going down to the level of each detailed code, and so the Board's financial position is being reflected in detailed operational budgets.</p> <p>The other issues raised will be reviewed.</p>	<p>Treasurer 30 June 2008</p>