



East Scotland European Consortium

Report on the 2007-08 Audit

28 August 2008

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1 Executive Summary

Introduction

We have audited the financial statements of the East Scotland European Consortium (the "Consortium") for the year ending 31 March 2008 and examined aspects of the Consortium's governance arrangements. This report sets out our key findings and discharges our responsibilities under ISA 260 - reporting matters arising from our audit to those charged with governance.

Key Findings

We plan to give an unqualified opinion on the financial statements of the Consortium for the 2007-08 financial year. There are no material adjusted or unadjusted differences to the accounts following our audit.

The draft financial statements were presented for audit in accordance with the agreed timetable. The accounts and supporting working papers were of a good standard and, as a result, few adjustments were required following our audit.

Responsibility for providing administration and support services to the Consortium will transfer from Clackmannanshire Council to Aberdeen City Council from 1 April 2008. This event has the potential to increase the risk of interruption to the ongoing operations of the Consortium.

The Consortium should, therefore, update its risk management arrangements to identify the key risks associated with the transfer of functions and agree a plan of action to ensure these risks are effectively managed during the transition period.

Our findings and recommendations are summarised in Appendix A, which accompanies this report. This Action Plan has been agreed with management.

The Consortium has successfully addressed the recommendations made in our 2006-07 audit. A summary of the actions taken to address these prior year recommendations is contained at Appendix B.

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 and 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 it. The report will be submitted to the Accounts Commission for Scotland and will be published on their website at www.audit-scotland.gov.uk.

Acknowledgements

This is the final year of our audit appointment and we would like to take this opportunity to thank the staff who have been involved in this review for their assistance and co-operation.

2 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 2008 and examine aspects of the Consortium's governance arrangements.

We audit the financial statements and give an opinion on whether:

- they present fairly the Consortium's financial position as at 31 March 2008 in accordance with Part VII of the Local Government (Scotland) Act 1973 (the Act) and the CIPFA 2007 Statement of Recommended Practice (2006 SORP); and
- the Statement on the System of Internal Financial Control is consistent with the information we obtain through our audit.

Financial results

The Consortium's Income and Expenditure Account for the 2007-08 financial year records a surplus of £13,149. Income of £98,381 was received in the year, mainly from subscriptions from the 14 member local authorities.

Expenditure of £84,962 was incurred in the year, with staff costs (£46,195) accounting for the majority of expenditure incurred (54%). There was a significant decline in supply and service costs in the year, reducing from £33,001 to £10,020, reflecting primarily the decision to cease membership of the Conference of Peripheral and Maritime Regions and the North Sea Commission.

Matters Arising

We have given an unqualified opinion on the Consortium's 2007-08 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	<p>We are able to confirm our independence and objectivity as auditors and note the following:</p> <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 of Audit Practice (the Code) or advisory work during the year.

Area	Key Messages
Approach to the audit	<p>Our approach to the audit was set out in our 2007-08 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; • 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 2007-08 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; and • we have been able to place reliance on the work of internal audit in respect of the key accounting systems.
Quality of the Accounts	<p>The draft financial statements were presented for audit in accordance with the agreed timetable. The accounts and supporting working papers were of a good standard and, as a result, few adjustments were required following our audit.</p>
Accounting policies and practices	<p>Management agreed to our request for additional disclosure in respect of financial instruments to reflect the additional requirements of the 2007 SORP.</p> <p>Following this, we consider that the Treasurer has adopted appropriate accounting policies in the areas covered by our testing, in accordance with the 2007 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>
Material risks and exposures	<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>
Audit adjustments and unadjusted errors	<p>We identified several disclosure amendments to improve the presentation of the accounts. There are no adjusted or unadjusted differences to report.</p>

The key matters arising from the audit are outlined below:

Statement of Internal Financial Control

The draft Statement of Internal Financial Control presented for audit highlighted that controls could be enhanced with the appointment of the internal audit function of the relevant host authority to further review the adequacies of the systems for internal financial control.

Our audit identified that a specific internal audit review of the Consortium's internal financial control occurred during the 2007-08 financial year. Management have therefore agreed to amend the 2007-08 statement of internal financial control to reflect this.

Action plan point one

Transfer of Functions

The transfer of host authority functions from Clackmannanshire Council to Aberdeen City Council from 1 April 2008 has the potential to increase the risk of interruption to the ongoing operations of the Consortium.

We recommend that the Consortium update its risk management arrangements to identify the key risks associated with the transfer of functions and agree a plan of action to ensure these risks are effectively managed during the transition period.

Action plan point two

**Grant Thornton UK LLP
28 August 2008**

Appendix A: Action Plan

No	Finding	Risk	Recommendation	Management Response	Implementation date
1	The statement of internal financial control presented for audit did not fully reflect the control environment in place.	Low	The procedures for producing the statement of internal financial control should be reviewed to ensure that all relevant changes to the control environment in the year are identified.	Agreed	March 2009
2	The transfer of host authority responsibility has the potential to increase the risk of interruption to the ongoing operations of the Consortium.	High	The Consortium should update its risk management arrangements to identify the key risks associated with the transfer of functions and agree a plan of action to ensure these risks are effectively managed during the transition period.	This issue will be addressed by the new host authority following the transfer of functions.	N/A

Appendix B: Follow Up Review

No	Finding	Risk	Recommendation	Management Response and Implementation Date	Position at August 2008
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 reserve policy to ensure adequate funds are available to meet unforeseen expenditure and future financial commitments.	Agreed. However this is an issue for the new host authority.	Addressed The reserves balance has increased substantially to £23,137 during the 2007-08 financial year.
2	Creditor balances of £3,000 over one year relating to the preparation of the financial statements remained unpaid.	Low	The Consortium should liaise with Clackmannanshire Council to pay these balances during 2007-08.	Agreed.	Addressed
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.	Addressed We noted however that the 2007-08 advert included an error relating to audit contact details. This was addressed, and the advert subsequently reissued.

No	Finding	Risk	Recommendation	Management Response and Implementation Date	Position at August 2008
4	The Consortium's Statement on the Systems of Internal Financial Control identified several areas for improvement in internal control systems.	Medium	The Consortium should take action to address identified weaknesses in internal controls.	Agreed. However this is an issue for the new host authority.	<p>Addressed</p> <p>The involvement of internal audit in 2007-08 has helped improve the control environment.</p>
5	The Consortium is treated as a separate cost centre within Clackmannanshire Council's ledger rather than a separate entity.	Medium	The Consortium should undertake a review of its financial management arrangements.	Agreed, but only in part as separate arrangements would lead to higher administration costs.	<p>Addressed</p> <p>We are satisfied following review that the arrangements in place are appropriate for the Consortium.</p>



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