



HENDERSON LOGGIE

**East of Scotland European Consortium**

**Report to Members and the  
Controller of Audit**

**2008/2009**

**External Audit Report No: 2009/02**

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## **Restriction on Use**

This report has been prepared in accordance with our responsibilities under International Standards on Auditing and Audit Scotland's *Code of Audit Practice* for the audit of East of Scotland European Consortium's Statement of accounts. Our audit does not necessarily disclose every weakness and for this reason the matters referred to in this report may not be the only shortcomings which exist.

We take this opportunity to remind you that:

- This report has been prepared for the sole use of East of Scotland European Consortium and their Policy Board and will be shared with the Accounts Commission and Audit Scotland; and
- No responsibility is assumed by us to any other person who may choose to rely on it for his or her own purposes.



# Executive Summary

## 1.1 Financial

- 1.1.1 The audit of the 2008/09 statement of accounts has been completed within the timescale advised by Audit Scotland. Our opinion on the statement of accounts is unqualified. The statement of accounts give a true and fair view, in accordance with relevant legal and regulatory requirements and the 2008 SORP, of the financial position of East of Scotland European Consortium ('the Consortium') and have been properly prepared in accordance with the Local Government (Scotland) Act 1973.
- 1.1.2 On 28 September 2009 we issued to the Chair of the Consortium our report no. 2009/01, *Report to those charged with Governance on the Audit of East of Scotland European Consortium 2008/09*. The report provides audit comment on the key issues and audit opinion arising from the audit of the statement of accounts and of the system of internal financial control.
- 1.1.3 The Consortium's Income and Expenditure Account shows a surplus for the year of £27,003. The accumulated surplus at 31 March 2009 was £50,140.

## 1.2 Governance

- 1.2.1 The 14 elected members of the Consortium are drawn from the 14 constituent councils. Together with support from an officer from each Council, the elected Members form the Policy Board. The Board meets quarterly, rotating around all Member authorities, and is the decision making body of the Consortium.
- 1.2.2 An Officer Group meets quarterly to discuss current issues and agree the agenda for the forthcoming Policy Board meeting.
- 1.2.3 The Consortium's financial transactions are processed through Aberdeen City Council's financial systems. It is the responsibility of the Council's management to maintain adequate financial systems and associate internal controls.
- 1.2.4 Our review of these systems was conducted as part of the audit of Aberdeen City Council and supplemented by specific audit work on the consortium's statement of accounts. No areas of concern were identified relating to the transactions.
- 1.2.5 The Statement on the System of Internal Financial Control states that reasonable assurance can be placed upon the adequacy and effectiveness of the consortium's internal financial control system. The statement complies with accounting requirements and is not inconsistent with the findings of our audit.



# Introduction

## 2.1 Introduction

- 2.1.1 We are pleased to submit our first annual report covering significant matters arising during the course of our audit of East of Scotland European Consortium ('the Consortium') for the year ended 31 March 2009.
- 2.1.2 The framework under which we operate under appointment by Audit Scotland and the audit scope is as outlined in our ***Report to those charged with Governance on the Audit of East of Scotland European Consortium 2008/09***, Report 2009/01, issued on 28 September 2009. The respective responsibilities of the Consortium's Members, Officers and Auditors are set out in Appendix I to this report.
- 2.1.3 Broadly the scope of our audit was to:
- ❑ provide an opinion on the statement of accounts in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Accounts Commission;
  - ❑ review and report on the Consortium's corporate governance arrangements in relation to systems of internal control, the prevention and detection of fraud and irregularity, standards of conduct, prevention and detection of corruption, and the Consortium's financial position; and
  - ❑ review and report on the Consortium's arrangements to manage its performance, as they relate to economy, efficiency and effectiveness in the use of resources and in securing Best Value.
- 2.1.4 Our audit approach focused on the identification of financial risks and operational and financial risks impacting on the Consortium.

## 2.2 Audit Activity and Reporting

- 2.2.1 As part of our overall planning approach to the Consortium's annual audit we carried out a review of the key financial risks, national and local, facing the Consortium and have continued to monitor them during the year through attendance at Committee meetings, review of minutes and discussions with officers. To a certain extent the content of this report comprises general information that has been provided by, or is based on discussions with, management and staff. Except to the extent necessary for the purposes of the audit, this information has not been independently verified.
- 2.2.2 In accordance with our planning approach we reviewed the Consortium's key internal controls and have raised some issues during the course of our audit including matters highlighted in our ***Report to those charged with Governance on the Audit of East of Scotland European Consortium 2008/09***.
- 2.2.3 We have made some recommendations which are intended to address the issues identified during the course of the audit and improve the audit process for future years. They are included in an Action Plan at Appendix II. We have also followed up the Action Plan agreed by the previous auditors in 2007/08 and progress on these recommendations is included at Appendix III.
- 2.2.4 We take this opportunity to remind you that external auditors do not act as a substitute for the Consortium's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for and used efficiently, economically and effectively.



# Introduction

## 2.3 Acknowledgement

- 2.3.1 Our audit has brought us in contact with officers within the Consortium and Aberdeen City Council staff. We would like to take this opportunity to place on record our appreciation of the co-operation and assistance extended to us in the discharge of our duties.



## 3.1 Audit Completion and ISA 260 Report

- 3.1.1 The target date for submission of the 2008/09 audited statement of accounts of the Consortium was 30 September 2009. We are pleased to report that the target date for the audit completion and certification of the annual was met.
- 3.1.2 The draft accounts were not submitted to the Accounts Commission and the Consortium by 30 June 2009 as required by the Local Government (Scotland) Act 1973, however were submitted to the Accounts Commission alone on 8 July 2009. We have therefore recommended that in future a formal timetable be developed and implemented for the preparation of the draft accounts (**R1**, Appendix II).
- 3.1.3 In accordance with International Standard on Auditing (ISA 260) we issued our *Report to those charged with Governance on the Audit of East of Scotland European Consortium 2008/09* which was discussed with the Chair of the Consortium on 28 September 2009. This report included our proposed audit certificate.

## 3.2 Accounts Certification

- 3.2.1 On 28 September 2009 we issued our audit report expressing an unqualified opinion on the statement of accounts of the Consortium for the year ended 31 March 2009.
- 3.2.2 We set out below a summary of the audit certification issues:
- the statement of accounts give a true and fair view, in accordance with relevant legal and regulatory requirements and the 2008

SORP, of the financial position of East of Scotland European Consortium as at 31 March 2009 and its income and expenditure for the year then ended;

- the statement of accounts have been properly prepared in accordance with the Local Government (Scotland) Act 1973; and
- the Statement on the System of Internal Financial Control reflects compliance with the SORP. We were not required to consider whether this statement covers all risk and controls, or form an opinion on the effectiveness of the Consortium's corporate governance or risk and control procedures.

- 3.2.3 There were no audit adjustments identified during the course of our audit.

## 3.3 Financial Position

- 3.3.1 The Consortium's Income and Expenditure Account shows a surplus for the year of £27,003. The accumulated surplus at 31 March 2009 was £50,140.
- 3.3.2 The Consortium's expenditure in the year was £77,997, compared with £84,962 in the previous year. The main reason for the reduction in expenditure was the decision not to carry out a Policy mission to Brussels. Cost efficiencies have also been made in other areas in the year.



## 3.3 Financial Position (cont'd)

- 3.3.3 An increase in the annual contribution from each participating authority has also influenced the increase in the accumulated surplus.

## 3.4 Financial Performance

- 3.4.1 Financial performance is measured against the financial budget set by the Consortium on 25 February 2008 for 2008/09. In this regard the Consortium reported an underspend for the financial year of £27,003 against a budgeted breakeven position.
- 3.4.2 The budget for 2009/10 has set expenditure at a level equal to income from annual contributions to be received from participating authorities.
- 3.4.3 The budgets for 2008/09 and 2009/10 have been drawn up using different cost centre allocations to those used in the preparation of the accounts. We have therefore recommended that Consortium staff should liaise with Aberdeen City Council officers within the finance function to produce budgets that can be input into the ledger. This would result in budget monitoring reports run from the ledger that are comparable with the final accounts (**R2**, Appendix II).

## 3.5 Pensions

- 3.5.1 Consortium staff are Aberdeen City Council employees and the Council is an admitted body of the Local Government Superannuation Scheme administered by Aberdeen City Council. The Consortium staff pension costs are reflected in the Council's financial statements.

## 3.6 Reserves and Balances

- 3.6.1 The Consortium holds reserves which consist of earmarked amounts set aside to support future year's expenditure and contingencies for unexpected events or emergencies. At 31 March 2009, the General Fund Reserve held by the Consortium totalled £50,140. The balance has increased by £27,003 as a result of the surplus for the year.
- 3.6.2 The Consortium's balance of funds held by Aberdeen City Council at 31 March 2009 is £46,996. However, the Consortium has not received interest on this balance in 2008/09. While this omission has not had a significant impact on the Consortium's income, we have recommended that the Consortium liaise with Aberdeen City Council to ensure that its funds, and any resulting interest from their investment, are ring-fenced and identifiable as being those of the Consortium (**R3**, Appendix II).
- 3.6.3 The Consortium is treated as a separate cost centre within Aberdeen City Council's ledger rather than as a separate entity. This has resulted in reduced clarity over transactions and balances between the Consortium and the Council. We have therefore recommended that this situation be reviewed (**R4**, Appendix II).



# Governance

## 4.1 Board Membership

- 4.1.1 The 14 elected members of the Consortium are drawn from the 14 constituent Councils. Together with support from an officer from each Council, the elected Members form the Policy Board. The Board meets quarterly, rotating around all member authorities, and is the decision making body of the Consortium.
- 4.1.2 Edinburgh City Council left the Consortium on 31 March 2009, thus reducing the number of elected members and supporting officers to 13 of each.
- 4.1.3 An Officer Group meets quarterly to discuss issues and agree the agenda for the forthcoming Policy Board meeting.

## 4.2 Board Meetings

- 4.2.1 The Policy Board met four times during 2008/09, receiving and approving the 2009/10 budget, receiving financial monitoring updates and reports on other matters of relevance to the role and work of the Consortium.
- 4.2.2 The Officer Group met four times during 2008/09, discussing and drawing up the 2009/10 budget, discussing and drafting financial monitoring updates and other relevant reports, and setting the agendas for the Policy Board meetings.

## 4.3 Chief Officers and Staff

- 4.3.1 Responsibility for providing administration and support services to the Consortium transferred from Clackmannanshire Council to Aberdeen City Council with effect from 1 April 2008.

## 4.4 Internal Control

- 4.4.1 The Consortium's financial transactions are processed through Aberdeen City Council's financial systems. It is the responsibility of the Council's management to maintain adequate financial systems and associate internal controls.
- 4.4.2 There is currently no Service Level Agreement in place with Aberdeen City Council to document the services being provided. There is therefore a risk that the service expectations are not clear to all parties. We have recommended that a Service Level Agreement should be agreed with Aberdeen City Council. Consideration should be given to incorporating monitoring arrangements to ensure delivery is per the specifications (**R5**, Appendix II).





# Appendix I - Respective Responsibilities

## Respective Responsibilities of Members, Officers and Auditors

Each public sector body is accountable for the way in which it has discharged its stewardship of public funds. Stewardship is a function of both executive and non-executive management and, therefore, responsibility for effective stewardship rests upon both Members and Officers of a public sector body.

That responsibility is discharged primarily by the establishment of sound arrangements and systems for the planning, appraisal, authorisation and control over the use of resources and by the preparation, maintenance and reporting of accurate and informative accounts.

It is our responsibility to undertake an independent appraisal of the discharge by management of its stewardship responsibilities, to enable us to give an assurance that those responsibilities have been reasonably discharged.

The Consortium Board and the Treasurer's responsibilities for the statement of accounts are set out on page 6 of the annual statement of accounts. Our responsibility is to form an independent opinion, based on our audit, on the statement of accounts and report that opinion to you.

We are required to review whether the Consortium's Statement on the System of Internal Financial Control reflects compliance with the 2008 SORP, and we report if, in our opinion, it does not. We are not required to consider whether this statement covers all risk and controls, or form an opinion on the effectiveness of the Consortium's corporate governance procedures or its risk and control procedures.



## Appendix II - Action Plan

Observation and Risk	Recommendation	Management Response	
<p><b>1.1</b> The lack of a formal timetable for the preparation of the accounts resulted in the draft accounts being submitted to the Accounts Commission alone on 8 July 2009 instead of being submitted to the Accounts Commission and the Consortium by 30 June 2009 as required by the Local Government (Scotland) Act 1973.</p>	<p><b>R1.</b> A formal timetable should be developed and implemented to ensure that the draft accounts are submitted to the Accounts Commission and the Consortium by 30 June 2009 as required by statute.</p>	<p>Agreed</p> <p><b>To be actioned by:</b> Consortium and Aberdeen City Council officers</p> <p><b>No later than:</b> 31 March 2010</p>	
<p><b>1.2</b> The budgets for 2008/09 and 2009/10 have been drawn up using different cost centre allocations to those used in the preparation of the accounts. This has resulted in expenditure allocation in the accounts differing significantly from the allocations used in the Policy Board's budget monitoring reports. This also means that the budget cannot be input into the Council's ledger to allow budget monitoring reports to be run off straight from the ledger.</p>	<p><b>R2.</b> Consortium staff should liaise with officers in the finance function of Aberdeen City Council to produce budgets that can be input into the ledger. This would result in budget monitoring reports that are comparable with the final accounts.</p>	<p>Agreed this will be implemented as soon as possible with regard to 2009-10 and by 31 January 2010 at the latest by Consortium and Aberdeen City Council officers. The budget for 2010-11 will follow the revised procedure.</p> <p><b>To be actioned by:</b> Consortium and Aberdeen City Council officers</p> <p><b>No later than:</b> 31 January 2010</p>	
		<b>Grade</b>	<b>B</b>
		<b>Grade</b>	<b>B</b>



## Appendix II - Action Plan

Observation and Risk	Recommendation	Management Response	
<p><b>1.3</b> The Consortium's funds are held within Aberdeen City Council's bank account. The Consortium does not receive any of the resulting interest from the investment of its funds.</p>	<p><b>R3.</b> The Consortium should liaise with Aberdeen City Council to ensure that its funds, and any resulting interest from their investment, are ring-fenced and identifiable as being those of the Consortium.</p>	<p>Agreed - Consortium and Aberdeen City Council officers working together will review processes to ensure this issue is addressed by 31 March 2010. However it should be noted the interest likely to be earned is minimal in current economic climate. Also there has been no recovery of costs by Aberdeen City Council and this will need to be examined as part of this exercise to bring the position into line with what occurred in other authorities.</p> <p><b>To be actioned by:</b> Consortium and Aberdeen City Council officers</p> <p><b>No later than:</b> 31 March 2010</p>	
		<b>Grade</b>	<b>B</b>



## Appendix II - Action Plan

Observation and Risk	Recommendation	Management Response	
<p><b>1.4</b> The Consortium is treated as a separate cost centre within Aberdeen City Council's ledger rather than as a separate entity. As a result;</p> <ul style="list-style-type: none"> <li>• the Consortium does not operate its own bank account;</li> <li>• transactions between the Consortium and Aberdeen City Council are treated as internal transfers and no invoices are raised;</li> <li>• there is less clarity and accountability for the financial control environment; and</li> <li>• there is a lack of clarity over completeness of accounting transactions between the Consortium and the Council.</li> </ul>	<p><b>R4.</b> The Consortium should undertake a review of its financial management arrangements and should consider arrangements for;</p> <ul style="list-style-type: none"> <li>• banking;</li> <li>• recording its transactions within Aberdeen City Council's ledger; and</li> <li>• managing transactions between Aberdeen City Council and the Consortium.</li> </ul>	<p>Agreed – Consortium and Aberdeen City Council officers will review the position jointly by 31 March 2010, however it should be noted that a similar exercise was carried out while ESEC operated from Clackmannanshire and it was found that the present arrangements were the most costs effective and efficient.</p> <p><b>To be actioned by:</b> Consortium and Aberdeen City Council officers</p> <p><b>No later than:</b> 31 March 2010</p>	
<p><b>1.5</b> There is currently no Service Level Agreement in place with Aberdeen City Council to document the services being provided. There is therefore a risk that the service expectations are not clear to all parties.</p>	<p><b>R5.</b> A Service Level Agreement should be agreed with Aberdeen City Council. Consideration should be given to incorporating monitoring arrangements to ensure delivery is per the specifications.</p>	<p>Agreed – this will be taken forward initially by Consortium officers who will liase with Aberdeen City Council officers and be finalised by 31 March 2010.</p> <p><b>To be actioned by:</b> Consortium and Aberdeen City Council officers</p> <p><b>No later than:</b> 31 March 2010</p>	
		<b>Grade</b>	<b>B</b>



## Appendix II - Action Plan

The priority ranking helps management assess the significance of the issues raised and prioritise the action required to address them. The ranking structure is summarised as follows:

<i>Ranking</i>	<i>Definition</i>
A	Fundamental issues which require the urgent consideration of senior management.
B	Significant matters which require the attention of line management.
C	Less significant matters, which do not require urgent attention but which should be followed up within a reasonable timescale.



## Appendix III – Follow-up 2007/08 Action Plan

No	Finding	Risk	Recommendation	Management Response	Position at September 2009
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	The statement of internal financial control has been revised to comply with the SORP
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 management during the transition period.	This issue will be addressed by the new host authority following the transfer of functions.	The transfer has been successfully completed and robust financial controls put in place.

