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

2018/19 annual accounts

1  The East of Scotland European Consortium’s financial statements give a true and fair view and were properly prepared.

2  The management commentary and 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 £12,789 in 2018/19. Its use of reserves is not sustainable: the consortium’s budget reporting indicates that reserves will be exhausted in less than 3 years. The consortium should prepare for this 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.
1. This report summarises the findings from our 2018/19 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 2019. This report comprises the findings from our main elements of work in 2018/19 including:

- an audit of the East of Scotland European Consortium annual accounts
- consideration of two of the four audit dimensions that frame the wider scope of public audit set out in the Code of Audit Practice 2016 as illustrated in Exhibit 1. Due to the volume and lack of complexity of the financial transactions, we applied the small body provisions of the Code to the 2018/19 audit of the East of Scotland European Consortium.

Exhibit 1
Audit dimensions

Adding value through the audit

3. 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, providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability
Responsibilities and reporting

4. 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. The East of Scotland European Consortium is responsible for compliance with legislation, and putting arrangements in place for governance, propriety and regularity that enable it to successfully deliver its objectives.

5. Our responsibilities, as independent auditor appointed by the Accounts Commission, are established by the Local Government (Scotland) Act 1973, the Code of Audit Practice (2016), supplementary guidance, and International Standards on Auditing in the UK.

6. As public sector auditors we give independent opinions on the annual accounts. Additionally, in applying the small apply body provisions of the Code, we conclude on the appropriateness of the disclosures in the governance statement and the financial sustainability of the body and its services.

7. In doing this we aim to support improvement and accountability. Further details of the respective responsibilities of management and the auditor can be found in the Code of Audit Practice 2016 and supplementary guidance.

8. This report raises matters from the audit of the annual accounts and consideration of the audit dimensions. Weaknesses or risks identified are only those which have come to our 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.

9. Our annual audit report contains an agreed action plan at Appendix 1. It sets out specific recommendations, responsible officers and dates for implementation. It also includes outstanding actions from last year and the steps being taken to implement them.

10. We can confirm that we comply with the Financial Reporting Council’s Ethical Standard. We are not aware of any relationships that could compromise our objectivity and independence. We can confirm that we have not undertaken any non-audit related services and therefore the 2018/19 audit fee remains at £2,800. At the date of this report the audit fee was in dispute.

11. 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 in due course.

12. We would like to thank all management and staff who have been involved in our work for their co-operation and assistance during the audit.
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 accounts

13. The annual accounts for the year ended 31 March 2019 were approved by the Policy Board on 17 September 2019. We reported within the independent auditor’s report that:

- the financial statements give a true and fair view and were properly prepared
- the management commentary and annual governance statement were consistent with the financial statements and properly prepared in accordance with proper accounting practices.

14. Additionally, we have nothing to report in respect of misstatements in information other than the financial statements, the adequacy of accounting records, and the information and explanations we received.

Submission of annual accounts for audit

15. We received the unaudited annual accounts on 28 June 2019 in line with our agreed audit timetable.

16. The unaudited annual 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

17. Appendix 2 provides a description of those assessed risks of material misstatement in the financial statements and any wider audit dimension risks that were identified during the audit planning process. It also summarises the work we have done to gain assurance over the outcome of these risks.

18. We have no issues to report from our work on the risks of material misstatement highlighted in our 2018/19 Annual Audit Plan.

19. Misstatements are material if they could reasonably be expected to influence the economic decisions of users taken based on the financial statements. The assessment of what is material is a matter of professional judgement. It involves considering both the amount and nature of the misstatement. It is affected by our perception of the financial information needs of users of the financial statements.

20. Our initial assessment of materiality for the annual report and accounts was carried out during the planning phase of the audit. We assess the materiality of
uncorrected misstatements, both individually and collectively. The assessment of materiality was recalculated on receipt of the unaudited financial statements and is summarised in Exhibit 2. The revised materiality levels were not significantly different from planning materiality levels and did not require a change in our audit approach.

### Exhibit 2
**Materiality values**

<table>
<thead>
<tr>
<th>Materiality level</th>
<th>Planning</th>
<th>Revised</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall materiality</td>
<td>£690</td>
<td>£606</td>
</tr>
<tr>
<td>Performance materiality</td>
<td>£520</td>
<td>£455</td>
</tr>
<tr>
<td>Reporting threshold</td>
<td>£35</td>
<td>£30</td>
</tr>
</tbody>
</table>

**How we evaluate misstatements**

21. There were no material adjustments to the unaudited annual accounts arising from our audit.

**Significant findings from the audit in accordance with ISA 260**

22. International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of the body’s accounting practices covering accounting policies, accounting estimates and financial statements disclosures. There were no significant findings from our audit of the financial statements.

**Other findings**

23. There was no public advertisement of the unaudited ESEC accounts, specifying the period for public inspection of the accounts, and other details required by the Local Authority Accounts (Scotland) Regulations 2014. In order to comply with the regulations, an advertisement should be published for the 2019/20 unaudited accounts. The regulations specify a website advert, but the consortium may wish to place public notices more widely.

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**Recommendation 1**

The consortium should publish a notice of the availability for public inspection of the unaudited accounts, as required by the Local Authority Accounts (Scotland) Regulations 2014.

24. The consortium has sufficient reserves to operate for at least 12 months from the date the 2018/19 annual accounts were authorised for issue. I have therefore concluded that it was appropriate for the consortium to adopt the going concern basis for its 2018/19 accounts. I note that this position is unlikely to continue, as the 3-year budget indicates that reserves will be exhausted in 2021/22; the final year of preparing accounts using the going concern basis is likely to be 2019/20.
Part 2
Financial management and sustainability

Main judgements

The East of Scotland European Consortium incurred a deficit of £12,789 in 2018/19. Its use of reserves is not sustainable: the consortium’s budget reporting indicates that reserves will be exhausted in less than 3 years. The consortium should prepare for this 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 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.

Financial performance in 2018/19

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. The actual deficit for the year was less than the budgeted deficit of £15,537 largely due to expenditure on travel and subsistence being less than anticipated, partially offset by an overspend in staff pension costs.

Going concern and financial sustainability

26. The going concern basis is appropriate for 2018/19 accounts as the East of Scotland European Consortium has sufficient reserves for the following year (and the subsequent year).

27. As reported last year, the consortium’s ongoing use of reserves to cover expenditure is not sustainable. The 3-year budget 2019/20 to 2021/22 indicates that the consortium will exhaust its reserves in 2021/22. The reserves available at 31 March 2021 may not be sufficient to cover potential redundancy costs and any other costs of winding up the consortium. The consortium should be preparing for this and identifying relevant liabilities and accounting implications of no longer being a going concern. (See Appendix 1, prior year recommendation no.1)

28. The consortium is funded directly by membership subscriptions from its seven member councils. The 2019/20 membership subscription fee has increased, but there is a risk that members may not want to continue paying a higher membership subscription. Also, the uncertainty over the UK’s withdrawal from the EU may lead to councils reconsidering their membership of the consortium.

29. If the member councils agree that the consortium’s work should continue beyond the period its reserves will cover, there are other collaborative alternatives to the current joint committee arrangement.

Annual governance statement

30. The annual governance statement for 2018/19 outlined the corporate governance and risk management arrangements in place during the financial year.
It covered the governance framework of the consortium and the two host authorities during the year (ESEC transferred from Angus Council to Dundee City Council in November 2018) and a review of effectiveness of the governance and internal control systems in operation.

31. We have taken assurance from the external audit of the internal controls and governance arrangements of the host authorities, which Audit Scotland also audits.

32. 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 authorities.
## Appendix 1
### Action plan 2018/19

<table>
<thead>
<tr>
<th>No.</th>
<th>Issue/risk</th>
<th>Recommendation</th>
<th>Agreed management action/timing</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Compliance with Local Authority Accounts (Scotland) Regulations 2014</td>
<td>The consortium should publish a notice of the availability for public inspection of the unaudited accounts, as required by the Local Authority Accounts (Scotland) Regulations 2014.</td>
<td>Agreed, this will be done for the 2019/2020 Unaudited Accounts. Responsible officer: Treasurer. Agreed date: 30 June 2020.</td>
</tr>
</tbody>
</table>

**Risk**
Interested parties are unable to inspect, or object to, the unaudited accounts. There is also a reputational risk in not complying with the regulations.

### Follow up of prior year recommendations

<p>| 1 b/f | Financial sustainability       | 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. | The consortium's 3-year budget 2019/20 to 2021/22 indicates that the consortium will exhaust its reserves in 2021/22. The reserves available at 31 March 2021 may not be sufficient to cover potential redundancy costs and any other costs of winding up the consortium. The consortium should be preparing for this and identifying relevant costs and accounting implications of no longer being a going concern. <strong>Revised action:</strong> An options appraisal is currently being developed and will be submitted to the Policy Board for consideration. |</p>
<table>
<thead>
<tr>
<th>No.</th>
<th>Issue/risk</th>
<th>Recommendation</th>
<th>Agreed management action/timing</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>consortium may incur expenditure that the reserves cannot cover.</td>
<td>An assessment of any additional liabilities will also be produced.</td>
<td>Responsible officer: Treasurer. Agreed date: 31 March 2020.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
| 2 b/f | Membership of the Policy Board                                            | 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. | We are pleased to see that Falkirk Council now has a Policy Board member appointed. This is a positive improvement from the prior year.  
**Action closed: no further audit action required** |
|     | 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. |                                                                                  |                                                                                                |
|     | Risk                                                                      |                                                                                 |                                                                                                |
|     | Falkirk Council is not fulfilling its leadership and governance role within the consortium, including decisions on the future of the consortium. |                                                                                  |                                                                                                |
## 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.

<table>
<thead>
<tr>
<th>Audit risk</th>
<th>Assurance procedure</th>
<th>Results and conclusions</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Risks of material misstatement in the financial statements</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1 Risk of management override of controls</td>
<td>Detailed testing of journal entries. Review of accounting estimates. Focused testing of accruals and prepayments. Evaluation of significant transactions that are outside the normal course of business.</td>
<td>Our testing results were satisfactory, and we identified no evidence of management override of controls.</td>
</tr>
<tr>
<td><strong>Risks identified from the auditor’s wider responsibility under the Code of Audit Practice</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2 Financial sustainability</td>
<td>Discussion with officers. Review of Policy Board papers. Review of the Consortium’s financial planning and reserves strategy.</td>
<td>We concluded that the consortium continued to operate as a going concern in 2018/19 but that its ongoing use of reserves is not sustainable. See Action Plan no. 2 in Appendix 1.</td>
</tr>
</tbody>
</table>

The Consortium has reserves to cover the next three years if it continues to operate at the same level. The Consortium is budgeting for a £15,537 deficit in 2018/19, which will be funded by reserves.

The ongoing use of reserves to cover expenditure is not sustainable, and the Consortium needs to plan for what happens as its reserves are exhausted.

In addition, although plans are being made to replace EU funding with that of the UK Shared Prosperity Fund, the Consortium’s role following the UK’s withdrawal from the EU is unclear and there is no guarantee that the member councils will continue their membership beyond 2019/20.
# Appendix 3

## Summary of national performance reports 2018/19

<table>
<thead>
<tr>
<th>Report</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local government in Scotland: Challenges and performance 2018</td>
<td>Apr</td>
</tr>
<tr>
<td>Councils’ use of arm’s-length organisations</td>
<td>May</td>
</tr>
<tr>
<td>Scotland’s colleges 2018</td>
<td>Jun</td>
</tr>
<tr>
<td>Forth Replacement Crossing</td>
<td>Jul</td>
</tr>
<tr>
<td>Children and young people’s mental health</td>
<td>Aug</td>
</tr>
<tr>
<td>NHS in Scotland 2018</td>
<td>Sept</td>
</tr>
<tr>
<td>Health and social care integration: update on progress</td>
<td>Oct</td>
</tr>
<tr>
<td></td>
<td>Nov</td>
</tr>
<tr>
<td></td>
<td>Dec</td>
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<tr>
<td></td>
<td>Jan</td>
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<tr>
<td></td>
<td>Feb</td>
</tr>
<tr>
<td></td>
<td>Mar</td>
</tr>
</tbody>
</table>

*Local government in Scotland: Challenges and performance 2019*

*Scottish Fire and Rescue Service: an update*

*The National Fraud Initiative in Scotland 2016/17*

*Major project and procurement lessons*

*Superfast broadband for Scotland: further progress update*

*Local government in Scotland: Financial overview 2017/18*