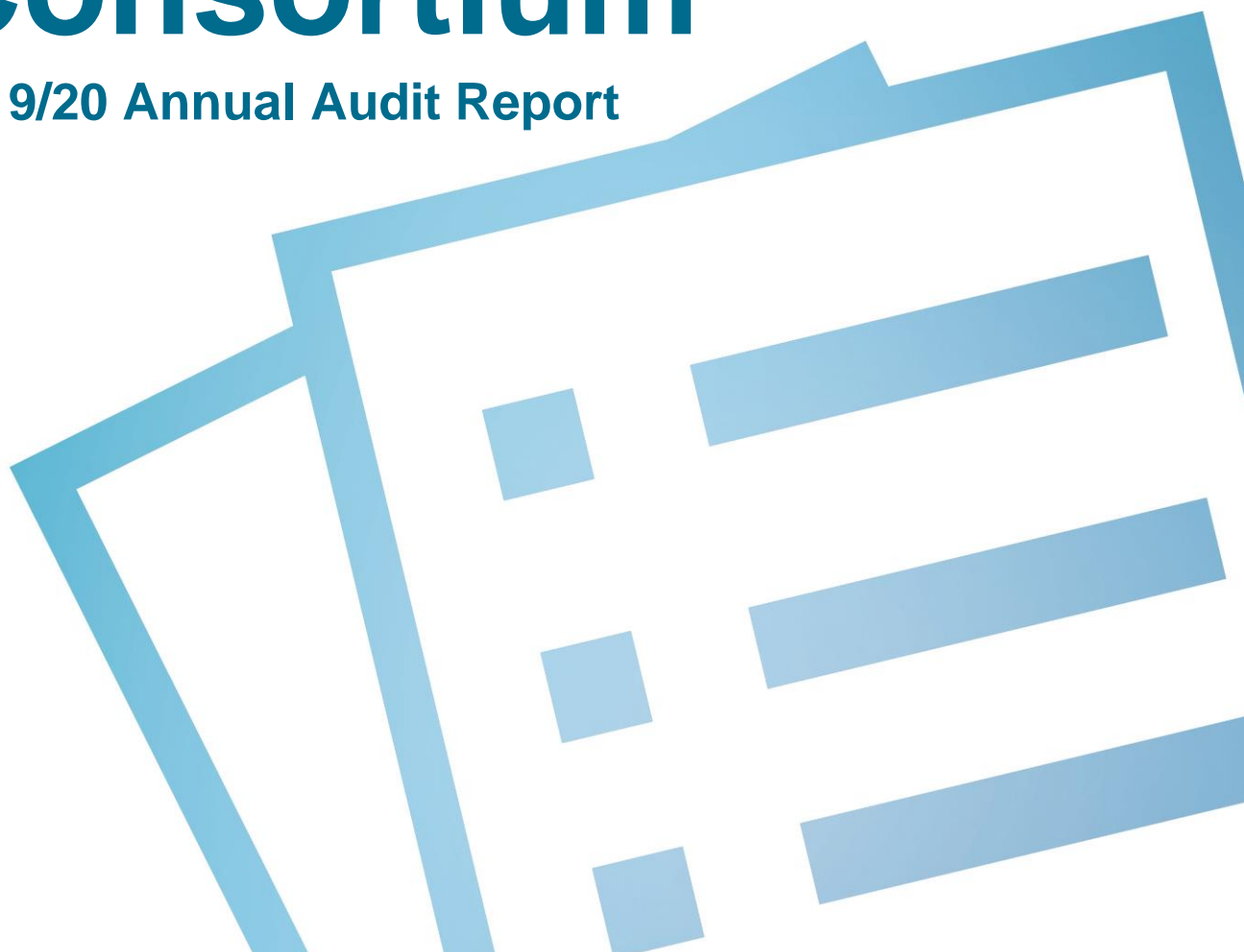


East of Scotland European Consortium

2019/20 Annual Audit Report



 AUDIT SCOTLAND

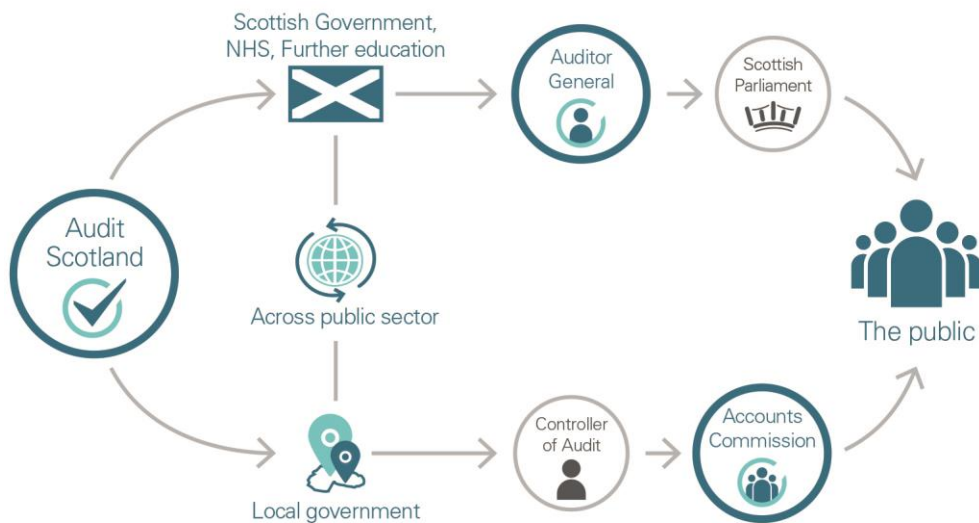
Prepared for the East of Scotland European Consortium and the Controller of Audit

27 November 2020

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

2019/20 annual accounts

- 1** The East of Scotland European Consortium's financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework.
- 2** The management commentary and annual governance statement were consistent with the financial statements.
- 3** The unaudited accounts were prepared in accordance with the planned timetable; the audit process was delayed by the impact of Covid-19. The audited accounts were signed off in accordance with the revised deadline of 30 November agreed by the Scottish Government.

Financial management and sustainability

- 4** The East of Scotland European Consortium incurred a deficit of £4,226 in 2019/20. Its use of reserves is not sustainable. The consortium's budget reporting indicates that reserves will be exhausted in less than 3 years. The planned Policy Board consideration of options for the future of the consortium was delayed due to the impact of Covid-19.
- 5** We concluded that the information in the annual governance statement is consistent with the financial statements and complies with the applicable guidance. The impact of Covid-19 on governance arrangements has been appropriately disclosed in the annual governance statement.

Introduction

1. This report summarises the findings from our 2019/20 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 2020. This report comprises the findings from:

- an audit of the East of Scotland European Consortium's annual accounts
- our consideration of financial sustainability

3. Subsequent to the publication of the Annual Audit Plan, in common with all public bodies, the East of Scotland European Consortium has had to respond to the Covid-19 pandemic. This impacted on the final month of the year and will continue to have significant impact into financial year 2020/21. Our planned audit work has had to adapt to new emerging risks as they relate to the audit of the financial statements.

Adding value through the audit

4. We add value to the East of Scotland European Consortium through the audit by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations
- sharing intelligence and good practice through our national reports ([Appendix 3](#)) and good practice guides
- providing clear conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability

5. In so doing, we aim to help the East of Scotland European Consortium promote improved standards of governance, better management and decision making and more effective use of resources.

Responsibilities and reporting

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

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

8. As public sector auditors we give independent opinions on the annual accounts. Additionally, in applying the small body provisions of the Code of Audit Practice, we conclude on the appropriateness of the disclosures in the annual governance statement and on arrangements for securing financial sustainability. Further details

of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#) and supplementary guidance.

9. This report raises matters from our audit. The 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.

10. Our annual audit report contains an agreed action plan at [Appendix 1](#) setting out specific recommendations, responsible officers and dates for implementation. It also includes outstanding actions from last year and progress against these.

Auditor Independence

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 2019/20 audit fee of £2,860 as set out in our Annual Audit Plan, remains unchanged.

12. We are not aware of any relationships that could compromise our objectivity and independence.

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 in due course.

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

Part 1

Audit of 2019/20 annual accounts



Main judgements

The East of Scotland European Consortium's financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework.

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

The unaudited accounts were prepared in accordance with the planned timetable; the audit process was delayed by the impact of Covid-19. The audited accounts were signed off in accordance with the revised deadline of 30 November agreed by the Scottish Government.

Our audit opinions on the annual report and accounts are unmodified

15. The annual accounts are the principal means of accounting for the stewardship of the East of Scotland European Consortium's resources and its performance in the use of those resources.

16. The annual report and accounts for the year ended 31 March 2020 were approved by the Policy Board on 26 November 2020.

17. As reported in the independent auditor's report:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework
- the management commentary and the annual governance statement were consistent with the financial statements and properly prepared in accordance with the applicable requirements.

Objections

18. The Local Authority Accounts (Scotland) Regulations 2014 require local government bodies to publish a public notice on their website that includes details of the period for inspecting and objecting to the accounts. This must remain on the website throughout the inspection period. Compliance with this requirement was one of our prior year recommendations: refer [Appendix 1](#), prior year recommendation no.1. The 2019/20 notice for the East of Scotland European Consortium was published on the consortium's website and complies with the regulations. No objections were received to the East of Scotland European Consortium accounts.

The annual accounts were signed off in line with the timescales permitted to reflect Covid-19

19. The provisions in Schedule 6 of the Coronavirus (Scotland) Act 2020 allowed each local government body to determine its own revised timetable for the annual accounts. The unaudited annual accounts were received in line with our agreed audit timetable on 1 July 2020. The unaudited annual accounts provided for audit were complete and of a good

standard and officers provided good support to the audit team which helped ensure the final accounts audit process ran smoothly.

20. The impact of Covid-19 was a factor for the audit team which led to staff shortages and some loss of audit staff productivity due to remote working in this period. The audit timetable was revised in response to this. The annual accounts were signed off by 30 November which was the Scottish Government's revised deadline for the submission of audited annual accounts.

Risk of material misstatement

21. The assessment of what is material is a matter of professional judgement. It involves considering both the amount and nature of the misstatement.

22. On receipt of the unaudited annual accounts we recalculated our materiality levels. The revised materiality levels were not significantly different from planning materiality levels and did not require a change in our audit approach.

Exhibit 1 Materiality values

Materiality level	Planning	Revised
Overall materiality	£838	£810
Performance materiality	£670	£650
Reporting threshold	£42	£40

Appendix 2 identifies the main risks of material misstatement and our audit work to address these

23. [Appendix 2](#) provides our assessment of risks of material misstatement in the annual accounts. It also summarises the work we have done to gain assurance over the outcome of these risks. There were no additional risks identified resulting from the impact of Covid-19.

24. We have no issues to report from our work on the risks of material misstatement.

We have no significant findings to report on the accounts

25. 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. We have no significant findings to report from our audit of the financial statement. A small number of presentation and rounding errors were identified and these were corrected in the revised accounts.

Progress on a prior year recommendation was delayed due to the impact of Covid-19

26. The consortium has implemented one of our two prior year audit recommendations, as noted at paragraph 18. Progress on the other has been delayed as the March 2020 Policy Board meeting, where future options and financial sustainability were to be considered, was cancelled due to the impact of Covid-19. For the action not yet implemented, a revised response and timescale have been agreed with management and are set out in [Appendix 1](#).

Part 2

Financial management and sustainability



Main judgements

The East of Scotland European Consortium incurred a deficit of £4,226 in 2019/20. Its use of reserves is not sustainable. The consortium's budget reporting indicates that reserves will be exhausted in less than three years. The planned Policy Board consideration of options for the future of the consortium was delayed due to the impact of Covid-19.

We concluded that the information in the annual governance statement is consistent with the financial statements and complies with the applicable guidance. The impact of Covid-19 on governance arrangements has been appropriately disclosed in the annual governance statement.

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 2019/20

27. The main financial objective of 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 of £4,226 was less than the budgeted deficit of £10,349 largely due to expenditure on accommodation, travel and subsistence being less than anticipated. The consortium's reserves at 31 March 2020 were £29,098 (2018/19 £33,324).

Going concern and financial sustainability

28. The going concern basis is appropriate for the 2019/20 accounts as the East of Scotland European Consortium has sufficient reserves for the following year.

29. As reported last year, the consortium's ongoing use of reserves to cover expenditure is not sustainable. The three-year budget 2020/21-2022/23 indicates that the consortium will exhaust its reserves in less than three years. The reserves available at 31 March 2022 may not be sufficient to cover potential redundancy costs and other costs of winding up the consortium.

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

31. As noted at paragraph 26, the Policy Board's consideration of financial sustainability and future options was delayed when the March 2020 meeting was cancelled due to the impact of Covid-19. The consortium will need to progress this consideration during 2020/21. Refer to [Appendix 1](#), prior year recommendation no.2.

Annual governance statement

32. The annual governance statement for 2019/20 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 during the year and a review of effectiveness of the governance and internal control systems in operation.

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

34. The March 2020 Policy Board meeting was cancelled due to the impact of Covid-19. This change to governance arrangements has been appropriately disclosed in the annual governance statement.

35. 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.

National performance audit reports

36. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. Appendix 3 highlights a number of the reports published in 2019/20.

Appendix 1

Action plan 2019/20



Issue/risk



Recommendation



Agreed management action/timing

Follow up of prior year recommendations

1. Compliance with Local Authority Accounts (Scotland) Regulations 2014

There was no public advert for inspection of the 2018/19 unaudited ESEC accounts. In order to comply with the regulations, a public notice advertising the availability of the unaudited accounts for public inspection should be published by the date set out in the regulations.

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.

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.

A public notice of the availability for inspection of the unaudited 2019/20 accounts was placed on the ESEC website, in line with the regulations.

Complete: no further audit action required.

2. Financial sustainability

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.

Risk

Without a comprehensive options appraisal and financial plan for the next 3 years, the consortium may incur expenditure that the reserves cannot cover.

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 has introduced 3 year budgeting to assist with medium term financial planning and monitoring.

An options appraisal paper was considered by the Policy Board in September 2019. Further consideration by the Policy Board was planned for the March 2020 meeting, but this meeting was cancelled due to the impact of Covid-19.

Financial sustainability continues to be a risk. The consortium should progress its consideration of financial sustainability and options for the future.

Revised action: The options appraisal paper was further considered by the Policy Board in September 2020. It will be further developed for consideration at a future Policy Board.

Responsible officer: Treasurer

Agreed date: 31 March 2021

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.

Audit risk	Assurance procedure	Results and conclusions
Risks of material misstatement in the financial statements		
<p>1 Management override of controls</p> <p>Auditing Standards require that audits are planned to consider the risk of material misstatement caused by fraud, which is presumed to be a significant risk in any audit. This includes the risk of management override of controls that results in fraudulent financial statements.</p>	<p>Detailed testing of journals; Review of accounting estimates; Focused testing of accruals and prepayments; 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>
<p>2 Financial Sustainability</p> <p>The East of Scotland European Consortium continues to operate at a net deficit each year, which reduces the level of reserves held. It has reserves to cover 2019/20 and 2020/21 if it continues to operate at the budgeted level.</p> <p>The ongoing use of reserves to cover expenditure is not sustainable, and it is projected that reserves may be fully utilised during 2021/22. The consortium needs to plan for what happens as its reserves are exhausted.</p> <p>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 remains unclear and there is no guarantee that the member councils will continue their membership beyond 2020/21.</p>	<p>Ongoing review of revenue monitoring reports including 3-year budget and in-year financial position; Discussions with officers; Review of Policy Board papers with specific focus on the consortium's options appraisal.</p>	<p>We concluded that the consortium continued to operate as a going concern in 2019/20 but that its ongoing use of reserves is not sustainable.</p> <p>The planned Policy Board consideration of options for the future of the consortium was delayed when the March 2020 meeting was cancelled due to the impact of Covid-19.</p> <p>Financial sustainability continues to be a risk and our recommendation remains valid. The consortium should progress its consideration of financial sustainability and options for the future.</p> <p>See Action Plan no.2 in Appendix 1.</p>

Appendix 3

Summary of national performance reports 2019/20



		2019/20 Reports	
		Apr	
Social security: Implementing the devolved powers		May	
Scotland's colleges 2019		Jun	Enabling digital government
		Jul	
NHS workforce planning - part 2		Aug	
Finances of Scottish universities		Sept	
NHS in Scotland 2019		Oct	
		Nov	
Local government in Scotland: Financial overview 2018/19		Dec	
Scotland's City Region and Growth Deals		Jan	Privately financed infrastructure investment: The Non-Profit Distributing (NPD) and hub models
		Feb	
		Mar	Early learning and childcare: follow-up

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Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
T: 0131 625 1500 E: info@audit-scotland.gov.uk
www.audit-scotland.gov.uk