

# East of Scotland European Consortium

Annual Audit Plan 2020/21



 AUDIT SCOTLAND

Prepared for the East of Scotland European Consortium

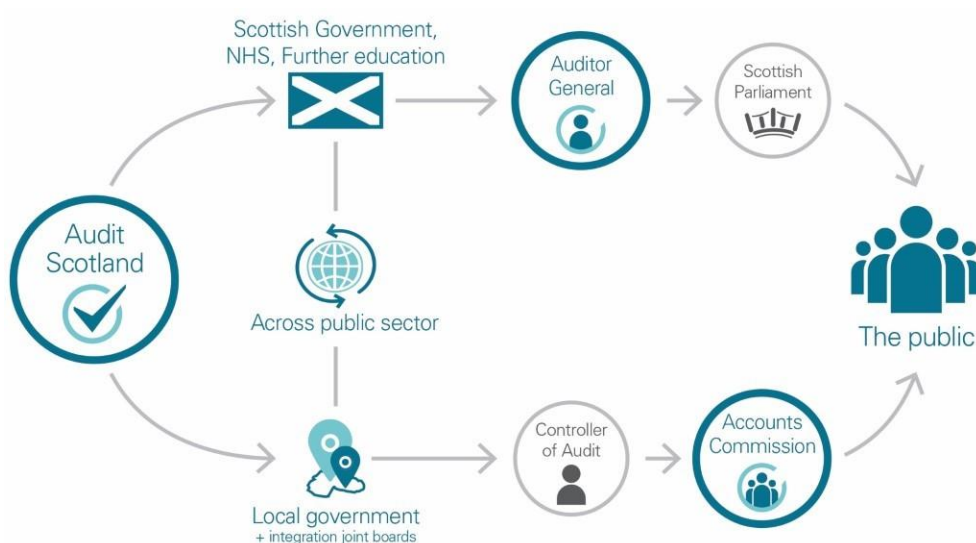
April 2021



## 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.

# Contents

---

Risks and planned work	4
Audit scope and timing	8

---

# Risks and planned work

---

**1.** This annual audit plan contains an overview of the planned scope and timing of our audit which is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and guidance on planning the audit. This plan sets out the work necessary to allow us to provide an independent auditor's report on the annual accounts and meet the wider scope requirements of public sector audit.

**2.** The wider scope of public audit contributes to assessments and conclusions on financial management, financial sustainability, governance and transparency and value for money.

**3.** The public health crisis caused by the coronavirus disease 2019 (Covid-19) pandemic has had a significant and profound effect on every aspect of Scottish society. Public services have been drastically affected, requiring immediate changes to the way they are provided. The impact on public finances has been unprecedented, which has necessitated both the Scottish and UK governments providing substantial additional funding for public services as well as support for individuals, businesses and the economy. It is likely that further financial measures will be needed and that the effects will be felt well into the future.

**4.** Public audit has an important contribution to the recovery and renewal of public services. The Auditor General, the Accounts Commission and Audit Scotland are responding to the risks to public services and finances from Covid-19 across the full range of audit work including annual audits and the programme of performance audits. The wellbeing of audit teams and the delivery of high-quality audits remain paramount. Maintaining a pragmatic and flexible approach will enable change at short notice as new issues emerge, or current risks change in significance. We have recently published an update report [Covid-19: What it means for public audit in Scotland](#).

## Adding value


**5.** We aim to add value to the East of Scotland European Consortium by being constructive and forward looking, by identifying areas for improvement and by recommending and encouraging good practice. In so doing, we intend to help the East of Scotland European Consortium promote improved standards of governance, better management and decision making and more effective use of resources.

## Audit risks

**6.** Based on our discussions with staff and a review of supporting information we have identified the following significant risk areas for the East of Scotland European Consortium. We have categorised these risks into financial statements risks and wider dimension risks. The key audit risks, which require specific audit testing, are detailed in [Exhibit 1](#).

## Exhibit 1

### 2020/21 Significant audit risks

 Audit Risk	Source of assurance	Planned audit work
<b>Financial statements risks</b>		
<p><b>1 Risk of material misstatement due to fraud caused by the management override of controls</b></p> <p>International Auditing Standards require that audits are planned to consider the risk of material misstatement in the financial statements caused by fraud, which is presumed to be a significant risk in any audit. This includes the risk of fraud due to the management override of controls.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance.</p>	<ul style="list-style-type: none"> <li>• Detailed testing of journals</li> <li>• Review of accounting estimates</li> <li>• Focused testing of accruals and prepayments</li> <li>• Evaluation of significant transactions that are outside the normal course of business</li> </ul>
<b>Wider dimension risks</b>		
<p><b>2 Financial sustainability</b></p> <p>The consortium continues to forecast an annual deficit in each year of its 3-year budget. This means ongoing use of reserves to cover expenditure, which is not sustainable. In addition, one member council has given notice of its withdrawal from consortium membership from April 2021, which will reduce budgeted income going forward. It is projected that reserves may be fully depleted within three years.</p> <p>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. The consortium will need to identify the extent of its liabilities and ensure it has sufficient funds to meet these.</p>	<p>An options appraisal was considered by the Policy Board in September 2020 which outlined potential options to provide future stability to the consortium. The consortium agreed in January 2021 to continue in its current form for 2 years, until the next local government elections.</p>	<ul style="list-style-type: none"> <li>• Ongoing review of revenue monitoring reports including 3-year budget and in-year financial position</li> <li>• Discussion with officers</li> <li>• Review of Policy Board papers with specific focus on the consortium's future plans</li> </ul>

Source: Audit Scotland

**7.** As set out in ISA(UK) 240, there is a presumed risk of fraud in revenue recognition. There is a risk that income may be misstated resulting in a material misstatement in the financial statements. We have rebutted this presumed risk in 2020/21 because there is limited scope for fraud as income is primarily member councils' subscription fees. All other income is interest, which will be agreed to third party supporting documentation.

**8.** In line with Practice Note 10, as most public-sector bodies are net expenditure bodies, the risk of fraud is more likely to occur in expenditure. We have rebutted the risk of material misstatement caused by fraud in expenditure in 2020/21 because approximately 85% of prior year expenditure relates to staff costs which

will be agreed to payroll records. Other expenditure streams are not complex and will be sample tested.

## Reporting arrangements

**9.** Audit reporting is the visible output for the annual audit and is detailed in [Exhibit 2](#). All outputs will be published on our website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

**10.** Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the relevant officers to confirm factual accuracy.

**11.** We will provide an independent auditor's report to East of Scotland European Consortium and the Accounts Commission setting out our opinions on the annual accounts. We will provide the Policy Board, the Treasurer, and the Controller of Audit with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

---

## Exhibit 2 2020/21 Audit outputs

Audit Output	Target date	Policy Board Date
Annual Audit Plan	30 April 2021	TBC
Independent Auditor's Report	31 October 2021	TBC October 2021
Annual Audit Report	31 October 2021	TBC October 2021

Source: Audit Scotland

---

## Audit fee

**12.** The proposed audit fee for the 2020/21 audit of the East of Scotland European Consortium is £2,920 (2019/20: £2,860). In determining the audit fee we have taken account of the risk exposure of the East of Scotland European Consortium, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit. Our audit approach assumes receipt of the unaudited annual accounts, with a complete working papers package on 30 June 2021.

**13.** Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual accounts or being unable to take planned reliance from the work of internal audit, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises out with our planned audit activity.

## Responsibilities

### Policy Board and Treasurer

**14.** Audited bodies have the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to successfully deliver their objectives.

**15.** The audit of the annual accounts does not relieve the Policy Board or Treasurer, as those charged with governance, of their responsibilities.

### Appointed auditor

**16.** Our responsibilities as independent auditors are established by the 1973 Act for local government, and the Code of Audit Practice (including supplementary guidance) and guided by the Financial Reporting Council's Ethical Standard.

**17.** Auditors in the public sector give an independent opinion on the financial statements and other information within the annual accounts. We also review and report on the arrangements within the audited body to manage its performance, regularity and use of resources. In doing this, we aim to support improvement and accountability.

# Audit scope and timing

## Annual accounts

**18.** The annual accounts, which include the financial statements, will be the foundation and source for most of the audit work necessary to support our judgements and conclusions. We also consider the wider environment and challenges facing the public sector. Our audit approach includes:

- understanding the business of the East of Scotland European Consortium and the associated risks which could impact on the financial statements
- assessing the key systems of internal control, and establishing how weaknesses in these systems could impact on the financial statements
- identifying major transaction streams, balances and areas of estimation and understanding how the East of Scotland European Consortium East of Scotland European Consortium will include these in the financial statements
- assessing the risks of material misstatement in the financial statements
- determining the nature, timing and extent of audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements are free of material misstatement.

**19.** We will give an opinion on whether the financial statements:

- give a true and fair view of the state of affairs of the body as at 31 March 2021 and of the income and expenditure of the body for the year then ended;
- have been properly prepared in accordance with the financial reporting framework; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, the Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

## Statutory other information in the annual accounts

**20.** We also review and report on statutory other information published within the annual accounts including the management commentary and the annual governance statement. We give an opinion on whether these have been compiled in accordance with the appropriate regulations and frameworks in our independent auditor's report.

**21.** We also review the content of any information in the annual accounts other than the financial statements for consistency with the financial statements and with our knowledge. We report any uncorrected material misstatements in statutory other information.

## Materiality

**22.** We apply the concept of materiality in planning and performing the audit. It is used in evaluating the effect of identified misstatements on the audit, and of any uncorrected misstatements, on the financial statements and in forming our opinions in the independent auditor's report.



characteristics



responsibilities



principal activities



risks



governance arrangements



**23.** We calculate materiality at different levels as described below. The calculated materiality values for the East of Scotland European Consortium are set out in [Exhibit 3](#).

### Exhibit 3 Materiality values



Materiality	Amount
<b>Planning materiality</b> – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. It has been set at 2% of gross expenditure based on the 2019/20 audited accounts.	£1,080
<b>Performance materiality</b> – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement, we have calculated performance materiality at 80% of planning materiality.	£864
<b>Reporting threshold (i.e. clearly trivial)</b> – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. This has been calculated at 5% of planning materiality.	£54

Source: Audit Scotland

### Timetable

**24.** To support the efficient use of resources it is critical that the annual accounts timetable is agreed with us to produce the unaudited accounts. We have included an agreed timetable at [Exhibit 4](#).

### Exhibit 4 Annual accounts timetable

 Key stage	 Date
Latest submission date of unaudited annual accounts with complete working papers package	30 June 2021
Consideration of unaudited annual accounts by those charged with governance	By 31 August 2021
Latest date for final clearance meeting with officers	TBC
Agreement of audited unsigned annual accounts	TBC
Issue of Annual Audit Report, Letter of Representation and Proposed Independent Auditor's Report	
Consideration of the audited accounts and audit reporting by those charged with governance	TBC – Policy Board meeting
Signing of Independent Auditor's Report	TBC - by 31 October 2021

### Internal audit

**25.** Internal audit is provided by the Internal Audit section of Dundee City Council. As part of our planning process we carry out an annual assessment of the internal

audit function to ensure that it operates in accordance with the main requirements of the Public Sector Internal Audit Standards (PSIAS). ISA (UK)610 requires an assessment on whether the work of the internal audit function can be used for the purposes of external audit. This includes:

- the extent to which the internal audit function's organisational status and relevant policies and procedures support the objectivity of the internal auditors
- the level of competence of the internal audit function
- whether the internal audit function applies a systematic and disciplined approach, including quality control.

**26.** We are placing reliance on the review of internal audit carried out by the Dundee City Council external audit team. We will report any significant findings to the East of Scotland European Consortium on a timely basis.

### Using the work of internal audit

**27.** International Auditing Standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to rely on the work of internal audit wherever possible to avoid duplication. However, internal audit does not have any 2020/21 planned audit activity directly relating to the consortium.

### Audit dimensions

**28.** Our standard audits are based on four audit dimensions that frame the wider scope of public sector audit requirements. These are: financial sustainability, financial management, governance and accountability and value for money.

**29.** The Code of Audit Practice includes provisions relating to the audit of small bodies. Where the application of the full wider audit scope is judged by auditors not to be appropriate to an audited body then the annual audit work can focus on the appropriateness of the disclosures in the governance statement and the financial sustainability of the body and its services. In the light of the volume and lack of complexity of the financial transactions, we plan to apply the small body provisions of the Code to the 2020/21 audit of the East of Scotland European Consortium.

### Independence and objectivity

**30.** Auditors appointed by the Accounts Commission or Auditor General must comply with the Code of Audit Practice and relevant supporting guidance. When auditing the financial statements auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has robust arrangements in place to ensure compliance with these standards including an annual "fit and proper" declaration for all members of staff. The arrangements are overseen by the Director of Audit Services, who serves as Audit Scotland's Ethics Partner.

**31.** The engagement lead (i.e. appointed auditor) for the East of Scotland European Consortium is Rachel Browne, Senior Audit Manager. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of the East of Scotland European Consortium.

### Quality control

**32.** International Standard on Quality Control 1 (ISQC1) requires that a system of quality control is established, as part of financial audit procedures, to provide

reasonable assurance that professional standards and regulatory and legal requirements are being complied with and that the independent auditor's report or opinion is appropriate in the circumstances.

**33.** The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice (and supporting guidance) issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards Audit Scotland conducts peer reviews and internal quality reviews. Additionally, the Institute of Chartered Accountants of Scotland (ICAS) have been commissioned to carry out external quality reviews.

**34.** As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We welcome feedback at any time and this may be directed to the engagement lead.

# East of Scotland European Consortium

## Annual Audit Plan 2020/21

If you require this publication in an alternative format and/or language, please contact us to discuss your needs: 0131 625 1500 or [info@audit-scotland.gov.uk](mailto:info@audit-scotland.gov.uk)

For the latest news, reports and updates, follow us on:



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