

East of Scotland European Consortium

2020/21 Annual Audit Report



 AUDIT SCOTLAND

Prepared for the East of Scotland European Consortium and the Controller of Audit
23 November 2021

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Key messages

2020/21 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. An 'emphasis of matter' paragraph is included in the independent auditor's report to draw attention to the disclosure that the consortium is no longer a going concern.
- 2 The management commentary and annual governance statement are consistent with the financial statements.

Financial management and sustainability

- 3 The East of Scotland European Consortium incurred a deficit of £8,353 in 2020/21. Its use of reserves is not sustainable. The consortium's budget reporting indicates that reserves will be exhausted in less than two years. The Policy Board agreed in January 2021 to continue in its current form until after the next local government elections in May 2022. A subsequent decision was made in November 2021 to disband the consortium by 31 March 2022.
- 4 The three-year budget covers the period 2019/20-2021/22 and has not been updated since 2019. The budget no longer reflects the current financial position of the East of Scotland European Consortium. It requires updating for the impact of Covid-19 and changes in consortium membership.
- 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 the Covid-19 pandemic on governance arrangements has been appropriately disclosed in the annual governance statement.

Introduction

1. This report summarises the findings from our 2020/21 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 April 2021. This report comprises the findings from:
 - an audit of the East of Scotland European Consortium's annual accounts
 - our consideration of financial sustainability

Adding value through the audit

3. 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
4. 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

5. 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.
6. 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. Local government bodies have a responsibility to have arrangements in place to demonstrate Best Value in how they conduct their activities. Our audit work on East of Scotland European Consortium's Best Value arrangements is focussed on the body's use of resources to secure financial sustainability.

7. As public sector auditors we give independent opinions on the annual accounts. Additionally, we conclude on the appropriateness of the disclosures in the annual governance statement, the suitability and effectiveness of corporate governance arrangements, the financial position and 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.

8. The Code of Audit Practice 2016 (the Code) 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. As highlighted in our 2020/21 Annual Audit Plan, due to the volume and lack of complexity of the consortium's financial transactions, we applied the small body provisions of the Code to the 2020/21 audit.

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 the consortium's 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 2020/21 audit fee of £2,920 as set out in our Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

12. This report is addressed to both the East of Scotland European Consortium and the Controller of Audit and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.

Part 1. Audit of 2020/21 annual accounts

The principal means of accounting for the stewardship of resources and performance

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. An 'emphasis of matter' paragraph is included in the independent auditor's report to draw attention to the disclosure that the consortium is no longer a going concern.

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

The unaudited accounts were prepared in accordance with the planned timetable and were of a good standard. The audited accounts were signed off later than originally planned.

Our audit opinions on the annual accounts are unmodified

13. The annual accounts for the year ended 31 March 2021 were approved by the Policy Board on 17 November 2021. 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

14. The Policy Board agreed at its 17 November 2021 meeting to disband the consortium by 31 March 2022. The 2020/21 annual accounts were amended to add disclosure on the Policy Board's decision, as this meant that the consortium was no longer a going concern and the going concern basis of accounting was not appropriate for the 2020/21 accounts. A break-up basis of accounting has been used instead. We have included an emphasis of matter paragraph in the audit opinion to draw attention to that disclosure. The opinion is not modified in respect of this matter.

The unaudited annual accounts were provided within the agreed timescale and were of a good standard

15. The unaudited annual accounts were received in line with our agreed audit timetable, by 30 June 2021. The working papers provided to support the audit process were of a good standard and the audit team received good support from finance staff.

16. The completeness and accuracy of accounting records and the extent of information and explanations that we required for our audit were not affected by the Covid-19 pandemic.

17. The impact of Covid-19 was a factor for the audit team which led to an extension in the audit timetable. Our experience of remote working is that it takes longer to obtain, review and document audit evidence than when working onsite. Audits in other sectors took longer to complete which delayed the availability of some staff for local government audits. We signed off the annual accounts on 17 November, later than originally planned in our Annual Audit Plan.

Overall materiality is £1,150

18. Our initial assessment of materiality was carried out during the planning phase of the audit. This was reviewed and revised on receipt of the unaudited annual accounts and is summarised in [Exhibit 1](#). The revised materiality did not result in a significant change in our audit approach as it did not change the overall assessment of material account areas.

Exhibit 1 Materiality values

| Materiality level | Planning | Revised |
|-------------------------|----------|---------|
| Overall materiality | £1,080 | £1,150 |
| Performance materiality | £864 | £920 |
| Reporting threshold | £54 | £60 |

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

19. [Appendix 2](#) provides our assessment of risks of material misstatement in the annual accounts and any wider audit dimension risks. These risks influence our overall audit strategy, the allocation of staff resources to the audit and inform where the efforts of the team are directed. Appendix 2 also identifies the work we undertook to address these risks and our conclusions from this work.

We have no significant findings to report on the accounts

20.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. We have no significant issues to report from the audit of the annual accounts. Some minor amendments were made to presentation and disclosure. One unadjusted error was identified, which if corrected would increase debtors by £175 and reduce the balance held in Dundee City Council's Loan Fund by £175; net assets in the Balance Sheet would not change. This error related to mistakenly charging VAT on a membership subscription invoice and issuing a credit note for a different VAT rate.

Progress was made on the prior year recommendation, but financial sustainability remains a risk

21.The East of Scotland European Consortium has made some progress in implementing our prior year audit recommendation on the financial sustainability of the consortium. The Policy Board considered future options at its January 2021 meeting and agreed to continue in its current form until after the 2022 local government elections. However, reserves are expected to last less than 2 years. As financial sustainability is a continuing risk, a revised response and timescale have been agreed with management and are set out in [Appendix 1](#).

Part 2. Financial sustainability

Financial sustainability looks forward to the medium and longer term to consider whether the body is planning effectively to continue to deliver its services

Main judgements

The East of Scotland European Consortium incurred a deficit of £8,353 in 2020/21. Its use of reserves is not sustainable. The consortium's budget reporting indicates that reserves will be exhausted in less than 2 years. The Policy Board agreed in January 2021 to continue in its current form until after the next local government elections in May 2022. A subsequent decision was made in November 2021 to disband the consortium by 31 March 2022.

The three-year budget covers the period 2019/20-2021/22 and has not been updated since 2019. The budget no longer reflects the current financial position of the East of Scotland European Consortium. It requires updating for the impact of Covid-19 and changes in consortium membership.

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 performance in 2020/21

22. 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 £8,353 deficit for the year was less than the budgeted deficit of £10,496. This was largely due to reduced travel and accommodation costs resulting from Covid-19 related travel restrictions. Events that would usually be attended in person have been held online instead. The consortium's reserves at 31 March 2021 were £20,745 (2019/20 £29,098).

Financial sustainability

23. As reported in prior years, the consortium's current structure of service delivery, which requires the use of reserves to cover expenditure, is not sustainable. The Policy Board agreed in January 2021 to continue the consortium in its current form until after the next local government elections in May 2022. It also agreed to remit the host authority to undertake a further review in early 2021/2022 of financial sustainability options for the consortium.

24. If the consortium continues to operate at a deficit, without a significant increase in income or reduction in expenditure, reserves will be exhausted

during 2022/23. The consortium needs to plan and budget for what happens as its reserves are exhausted. Discussions should be held with the host authority, which formally employs the Policy Officer, to confirm its policy as an employer, and its expectations of the consortium, if reserves run out before the 2022 review of options for the consortium's future. There is potential for additional liabilities, such as redundancy costs, to be incurred by the consortium. Without a financially sustainable model for service delivery or a comprehensive financial plan for the next 2 years, the consortium may incur expenditure that the reserves cannot cover.

Recommendation 1

The consortium should plan in detail for the period that its reserves are likely to last and carry out a comprehensive costed options appraisal to identify a financially sustainable model of service delivery. It should also discuss with the host authority what its legal and financial obligations are if the reserves are exhausted before the 2022 planned review of options for the consortium's future.

25. The consortium is funded directly by membership subscriptions from its member councils. One member council has withdrawn from consortium membership from April 2021, leaving six remaining member councils, which will reduce budgeted income in 2021/22 and in future years. There is a risk that more member councils withdraw from the consortium if its role is not clearly defined and promoted now the United Kingdom has left the European Union.

Financial monitoring

26. The most recent three-year budget covers the period 2019/20-2021/22 and was approved by the Policy Board at its May 2019 meeting. The budget has not been updated to reflect the impact of Covid-19, the implications of the United Kingdom leaving the European Union and the 2021/22 withdrawal of one of the member councils. It no longer reflects the current financial position of the East of Scotland European Consortium. The Policy Board should have up to date information to support its decisions about the consortium's finances. This is particularly important given the need to budget for potential redundancy costs as highlighted above.

Recommendation 2

The budget should be reviewed, updated and approved annually, to reflect the current financial position of the consortium and support informed decision making.

Annual Governance Statement

27. The annual governance statement for 2020/21 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.

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

29. The governance framework set out in the annual governance statement referred to approval of an annual budget. The 3-year budget (2019/20-2021/22) was approved in 2019; formal approval of the 2020/21 budget was not recorded as the spring 2020 Policy Board meeting, at the start of Covid-19 pandemic, was cancelled. (The Policy Board subsequently met three times in 2020/21, holding its meetings virtually.) The annual governance statement has been amended to reflect the governance arrangements that were in place during 2020/21, noting the areas affected by the impact of the Covid-19 pandemic.

30. 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

31. 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 2020/21.

Appendix 1. Action plan 2020/21

2020/21 recommendations

| Issue/risk | Recommendation | Agreed management action/timing |
|---|---|---|
| <p>1. Financial planning and sustainability</p> <p>The consortium has reserves to cover less than two years if it continues to operate at the same level without significant increase in income or reduction in expenditure. The consortium agreed in January 2021 to continue in its current form until after the 2022 local government elections, when a further review would be carried out. The reserves may be exhausted before a financially sustainable option is identified.</p> <p>Risk – Without a financially sustainable model for service delivery or a comprehensive financial plan for the next 2 years, the consortium may incur expenditure that the reserves cannot cover.</p> | <p>The consortium should plan in detail for the period that its reserves are likely to last and carry out a comprehensive costed options appraisal to identify a financially sustainable model of service delivery. It should also discuss with the host authority what its legal and financial obligations are if the reserves are exhausted before the 2022 planned review of options for the consortium's future.</p> <p>Paragraph 24.</p> | <p>Agreed, a comprehensive options appraisal will be presented to Policy Board for decision on future direction.</p> <p>Discussions will take place with host authority on the legal and financial obligations if reserves are exhausted before the planned review.</p> <p>Responsible officer: Treasurer.</p> <p>Agreed date: 31 March 2022.</p> |
| <p>2. Annual budget</p> <p>The three-year budget 2019/20 -2021/22, which was approved in 2019, is out of date and does not reflect the consortium's current financial position.</p> <p>Risk – The Policy Board is unable to make informed</p> | <p>The budget should be reviewed, updated and approved annually, to reflect the current financial position of the consortium and support informed decision making.</p> <p>Paragraph 26</p> | <p>Agreed, the 2021/2022 budget will be presented for approval at the next Policy Board meeting.</p> <p>Responsible officer: Treasurer.</p> <p>Agreed date: 17 November 2021.</p> |

| Issue/risk | Recommendation | Agreed management action/timing |
|------------|----------------|---------------------------------|
|------------|----------------|---------------------------------|

decisions about the consortium's finances.

Outstanding prior year recommendations

| Issue/risk | Recommendation | Agreed management action/timing |
|------------|----------------|---------------------------------|
|------------|----------------|---------------------------------|

3.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.

In Progress – In January 2021 the consortium reviewed options for the future and agreed to continue in its current form until after the next local government elections in May 2022, when a further review of options will be carried out. However, reserves are now expected to be exhausted in less than two years.

Financial sustainability continues to be a risk and our recommendation remains valid. ***Refer Recommendation 1 above for updated recommendation.***

Appendix 2. Significant audit risks

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.

Risks of material misstatement in the financial statements

| Audit risk | Assurance procedure | Results and conclusions |
|---|---|---|
| <p>1. Risk of material misstatement due to fraud caused by the management override of controls</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>Detailed testing of journals</p> <p>Review of accounting estimates</p> <p>Focused testing of accruals and prepayments</p> <p>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> |

Risks identified from the auditor's wider responsibility under the Code of Audit Practice

| Audit risk | Assurance procedure | Results and conclusions |
|--|--|--|
| <p>2. Financial sustainability</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</p> | <p>Ongoing review of revenue monitoring reports including 3-year budget and in-year financial position</p> <p>Discussion with officers</p> <p>Review of Policy Board papers with specific focus on the consortium's future plans</p> | <p>We concluded that the consortium's ongoing use of reserves is not sustainable.</p> <p>The consortium agreed in January 2021 to continue in its current until after the next local government elections in May 2022. Unless there is significant increase in income or decrease in expenditure, reserves will be exhausted during 2022/23. The</p> |

| Audit risk | Assurance procedure | Results and conclusions |
|---|---------------------|--|
| <p>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>consortium needs to identify the extent of its liabilities and ensure it has sufficient funds to meet these.</p> <p>Financial sustainability continues to be a risk and our recommendation remains valid.</p> <p>See Action Plan no. 1 in Appendix 1.</p> |

Appendix 3. Summary of 2020/21 national performance reports

April

[Affordable housing](#)

June

[Highlands and Islands Enterprise: Management of Cairngorm mountain and funicular railway](#)

[Local government in Scotland Overview 2020](#)

July

[The National Fraud Initiative in Scotland 2018/19](#)

January

[Digital progress in local government](#)

[Local government in Scotland: Financial overview 2019/20](#)

February

[NHS in Scotland 2020](#)

March

[Improving outcomes for young people through school education](#)

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Audit Scotland's published material is available for download on the website in a number of formats. For information on our accessibility principles, please visit:

www.audit-scotland.gov.uk/accessibility



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