

# East of Scotland European Consortium

2021/22 Annual Audit Report



 AUDIT SCOTLAND

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

28 April 2023

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# Key messages

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- 1 In November 2021, the East of Scotland Policy Board agreed to disband the consortium by 31 March 2022. Formal arrangements for winding up by 31 March 2022 were agreed at the Extraordinary General Meeting on 9 March 2022. As a result, the audited 2021/22 annual accounts are the last set of accounts produced by the consortium.

## 2021/22 annual accounts

- 2 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.
- 3 An 'emphasis of matter' paragraph is included in the independent auditor's report to draw attention to the fact that due to winding up of the consortium, the use of the going concern basis of accounting was not appropriate for the preparation of the financial statements, and that the break-up basis of accounting has been used instead. Our opinion is not modified in respect of this matter.
- 4 The management commentary and annual governance statement are consistent with the financial statements and are prepared in accordance with relevant regulations and guidance.

## Financial management and governance

- 5 Appropriate financial management arrangements were in place during 2021/22. Year-end receivables and payables and the cash balance held at 31 March 2022 have been transferred to the host authority for settlement. Once settled, any remaining reserves will be distributed to the consortium members, after residual income and expenditure has been accounted for.
- 6 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.
- 7 Winding up the consortium has ended a financially unsustainable operating model and addressed the previously reported financial sustainability risk.

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# Introduction

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1. This report summarises the findings from our 2021/22 audit of East of Scotland European Consortium.
2. The scope of our audit was set out in our 2021/22 Annual Audit Plan presented to the consortium's Policy Board on 9 March 2022. 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 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 1](#)) and good practice guides
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.
6. 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. Also, 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: for 2021/22 this focuses on the winding up of the consortium.
8. 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.

**9.** 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 2021/22 Annual Audit Plan, due to the low volume and lack of complexity of the financial transactions, we applied the small body provisions of the Code to the 2021/22 audit.

**10.** 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.

## Auditor Independence

**11.** 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 comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies.

**12.** We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We have not undertaken any non-audit related services and therefore the 2021/22 audit fee of £3,000 as set out in our 2021/22 Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

**13.** 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](http://www.audit-scotland.gov.uk) in due course.

**14.** We would like to thank the East of Scotland European Consortium their co-operation and assistance during the audit.

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# Part 1. Audit of 2021/22 annual accounts

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

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## 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 independent auditor's report contains an 'Emphasis of Matter' paragraph to draw attention to the fact that due to winding up of the consortium, the use of the going concern basis of accounting was not appropriate for the preparation of the financial statements, and that the break-up basis of accounting has been used instead. Our opinion is not modified in respect of this matter.

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

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**15.** In November 2021, the East of Scotland Policy Board agreed to disband the consortium by 31 March 2022. Formal arrangements for winding up the consortium were approved at the Extraordinary General Meeting on 9 March 2022. As a result, the audited 2021/22 annual accounts are the last set of accounts produced by the consortium. The arrangements agreed by the Policy Board for approving the 2021/22 annual accounts were not accepted by the host council so the Policy Board reconvened in April 2023 for a final meeting to approve and sign off the annual accounts.

## Our audit opinions on the annual accounts are unmodified

**16.** The annual report and accounts for the year ended 31 March 2022 were approved by the Policy Board on 28 April 2023. 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 all consistent with the financial statements and properly prepared in accordance with the applicable requirements

**17.** Following the Policy Board decision in November 2021 to disband the East of Scotland European Consortium by 31 March 2022, the use of the going concern basis of accounting was not appropriate for the preparation of the 2021/22

financial statements, and the break-up basis of accounting has been used instead. We have included an “emphasis of matter” paragraph in our independent auditor’s report to draw attention to this. Our opinion is not modified in respect of this matter.

**18.** An “emphasis of matter” paragraph is a paragraph added to an independent auditor’s report. It does not qualify or modify the auditor’s opinion on the financial statements. It is used to indicate a matter which is disclosed appropriately in the financial statements, and notes thereto, but which the auditor considers should be drawn to users’ attention as being fundamental to understanding the financial statements.

**19.** *Note 1. Significant Accounting Policies* in the consortium’s audited accounts explains why the use of the going concern basis of accounting was not appropriate and why the break-up basis of accounting has been used. We have included an “emphasis of matter” paragraph in our independent auditor’s report to draw attention to this.

### **Delays in the audit process and in agreeing approval arrangements meant that the annual accounts were signed off later than planned**

**20.** The unaudited annual accounts were received in line with our agreed audit timetable by 30 June 2022. The working papers provided to support the audit process were of a good standard and the audit team received good support from finance staff.

**21.** The pandemic continued to have an impact on the audit process. Our experience of remote working is that it takes longer to obtain, review and document audit evidence than when working onsite. In addition, the arrangements agreed by the Policy Board for approving the 2021/22 annual accounts were not accepted by the host council so the Policy Board reconvened in April 2023 for a final meeting to approve the annual accounts. We signed off the annual accounts on 28 April 2023, which was after the Scottish Government’s revised deadline of 30 November 2022.

### **Overall materiality is £1,250**

**22.** 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 report and 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	£830	£1,250
Performance materiality	£664	£1,000
Reporting threshold	£42	£63

## We have no significant findings to report on the annual accounts

**23.** 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.

**24.** It is our responsibility to request that all misstatements above the reporting threshold are corrected. We have no unadjusted errors to report.

**25.** We have obtained audit assurances over the identified significant risks of material misstatement to the financial statements. [Exhibit 2](#) sets out the significant risks of material misstatement to the financial statements we identified in our 2021/22 Annual Audit Plan. It summarises the further audit procedures we performed during the year to obtain assurances over these risks and the conclusions from the work completed.

## Exhibit 2

### Significant risks of material misstatement in the financial statements

Audit risk	Assurance procedure	Results and conclusions
<p><b>1. Risk of material misstatement due to fraud caused by the management override of controls</b></p> <p>As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p>	<ul style="list-style-type: none"> <li>• Test journals at the year-end and any post-closing entries and focus on significant risk areas.</li> <li>• Evaluate significant transactions outside the normal course of business.</li> <li>• We will assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year. (Following the Policy Board decision to wind up the consortium, the break-up method of</li> </ul>	<p><b>Results:</b> We did not identify any significant issues within our substantive testing of income and expenditure.</p> <p>Our review of the year end entries for dissolving the consortium and transferring residual balances to Dundee City Council did not identify any issues. There were no other significant transactions outside the normal course of business.</p> <p><b>Conclusion:</b> No issues were identified that indicate</p>



Audit risk	Assurance procedure	Results and conclusions
	<p>accounting was used in the prior year financial statements.)</p> <ul style="list-style-type: none"> <li>Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year. There should be no accruals or prepayments as this is the final year of the consortium's operation.</li> </ul>	management override of controls

### The inspection notice was placed in accordance with the required regulations and no objections were raised to the 2021/22 annual accounts

**26.** Regulation 9 of the Local Authority Accounts (Scotland) Regulations 2014 requires a local authority to give public notice on its website by 17 June (at the latest) of the right to inspect its annual accounts. The specified date should be at least 14 days after the notice is published, but cannot be later than 1 July, and the inspection period should last for 15 working days from the date specified in the notice. As part of the audit we confirmed that the 2021/22 annual accounts inspection notice was placed in accordance with the regulations.

**27.** The regulations also require a local authority to give the right of interested persons to inspect and object to its accounts, as provided for by section 101 (rights of interested persons to inspect and copy documents and to object to accounts) (11) of the 1974 Act. No objections were raised to the 2021/22 annual accounts.

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# Part 2. Financial management and governance

Financial management is about financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively. Governance is about the effectiveness of scrutiny and oversight and transparent reporting of information.

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## Main judgements

Financial monitoring was less frequent during 2021/22, but this did not have a significant impact as the decision was made in November 2021 to wind up the consortium.

The consortium's balances held as at 31 March 2022 have been transferred to the host authority for onward distribution to the consortium's six member councils after residual income and expenditure has been accounted for.

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, and arrangements for winding up the consortium, have been appropriately disclosed in the annual governance statement.

The previously reported financial sustainability risk is addressed by the winding up of the consortium.

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## Financial performance in 2021/22

**28.** The deficit for the year was £20,745. The consortium has operated at a deficit for several years; this has reduced its reserves and was one of the factors in the decision to wind up the consortium.

**29.** Most of the consortium's 2021/22 expenditure was staff costs: as the Policy Officer moved to a new job in December 2021, staff costs were underspent against the budget. The other significant element of expenditure was the transfer of residual balances to the host authority, Dundee City Council, for onward payment to the consortium members after residual income and expenditure has been accounted for.

**30.** The consortium transferred its assets, liabilities, and reserves to Dundee City Council, to ensure that no balances remained on the consortium's Balance Sheet

at the year end. The consortium's reserves on 31 March 2022 were £nil (2020/21 £20,745).

## Financial monitoring

**31.** Financial monitoring was less frequent during 2021/22, and budget information was presented to the Policy Board on 17 November 2021. This did not have a significant impact as the decision was made in November 2021 to wind up the consortium.

## Annual Governance Statement

**32.** The annual governance statement for 2021/22 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. The impact of Covid-19 on governance arrangements, and arrangements for winding up the consortium, have been appropriately disclosed in the annual governance statement.

**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.** 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.

## Management commentary

**35.** The management commentary in the 2021/22 annual accounts provided a fair, balanced and reasonable analysis of the organisation's financial performance for the year, and adequately explained the arrangements to wind up the consortium.

## Financial sustainability

**36.** We have previously reported that the consortium's operating model is not financially sustainable, returning an annual deficit and reducing reserves each year. Winding up the consortium has ended the financially unsustainable operating model and addressed the previously reported financial sustainability risk.

## National performance audit reports

**37.** Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. [Appendix 1](#) highlights a number of the reports published in 2021/22.

# Appendix 1. Summary of 2021/22 national performance reports and briefing papers

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## May

[Local government in Scotland Overview 2021](#)

## June

[Covid 19: Personal protective equipment](#)

## July

[Community justice: Sustainable alternatives to custody](#)

## September

[Covid 19: Vaccination programme](#)

## January

[Planning for skills](#)

[Social care briefing](#)

## February

[NHS in Scotland 2021](#)

## March

[Local government in Scotland: Financial Overview 20/21](#)

[Drug and alcohol: An update](#)

[Scotland's economy: Supporting businesses through the Covid 19 pandemic](#)

# East of Scotland European Consortium

## 2021/22 Annual Audit Report

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](http://www.audit-scotland.gov.uk/accessibility)



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