

## Unaudited Financial Statements 2018/19

### Report by Gary Fairley, Head of Finance and Integrated Service Support

#### 1 Purpose of Report

The purpose of this report is to enable Audit Committee to consider and comment on the unaudited accounts for 2018/19. A separate presentation will be provided to the committee before it considers this report and the accounts.

#### 2 Background

The Local Authority Accounts (Scotland) Regulations 2014 sets out the requirements in respect of preparation, submission and scrutiny of unaudited accounts as follows, paragraphs 9 and 10 set out the requirements for Audit Committee to consider the unaudited accounts by 31 August 2019.

#### Published Accounts and Audit

8.—(1) A local authority must ensure that its Annual Accounts are prepared in accordance with these Regulations and, so far as compatible with these Regulations, in accordance with proper accounting practices.

(2) The Annual Accounts must include, in addition to the financial statements required by proper accounting practices, the following statements, which are to be prepared in accordance with proper accounting practices and recognised guidance—

- (a) a management commentary;
- (b) a statement of responsibilities;
- (c) an annual governance statement;
- (d) either—
  - (i) a remuneration report in the style set out in the Schedule to these Regulations, or
  - (ii) a statement that no remuneration report has been prepared because no persons have received remuneration that requires to be included in such a report.

(3) The Annual Accounts must also include such of the following statements and disclosures as are relevant to the functions of the local authority—

- (a) a housing revenue account;
- (b) a non-domestic rate account;
- (c) a council tax account;
- (d) any other statement relating to statutory funds which is required by any statutory provision.

(4) The remuneration report referred to in paragraph (2)(d)(i) must contain the information set out in the Schedule to these Regulations.

(5) The proper officer must ensure that—

- (a) the statement of responsibilities required by paragraph (2)(b) accurately reflects the proper officer's responsibilities; and
- (b) the financial statements give a true and fair view of the financial position of the local authority and its group at the end of the financial year and the transactions of the local authority and its group for that year.

(6) Once the proper officer is satisfied as to the matters set out in paragraph (5), the proper officer must certify these matters by signing and dating the statement of responsibilities and the balance sheets contained within the Annual Accounts and then submit the Annual Accounts to the auditor.

(7) The Annual Accounts must be submitted to the auditor no later than 30<sup>th</sup> June immediately following the financial year to which the Annual Accounts relate.

(8) The local authority must publish a copy of the Annual Accounts submitted to the auditor, clearly identified as an unaudited version, on a website of the authority from

the date they are submitted until the date on which the audited Annual Accounts are published in accordance with regulation 11.

(9) A local authority or a committee of that authority whose remit includes audit or governance functions must meet to consider the unaudited Annual Accounts as submitted to the auditor.

(10) The meeting referred to in paragraph (9) must be held no later than 31<sup>st</sup> August immediately following the financial year to which the Annual Accounts relate.

The regulation also provide for public inspection and in this regard public inspection is scheduled during the 23 July 2019.

Accordingly this meeting of Audit Committee is specifically to fulfil the requirements of paragraphs 9 and 10 of the regulations.

### **3 Financial Performance**

Separately on the Council agenda for 25 June 2019 is the Financial Monitoring 2018/19 –General Fund Revenue, Housing Revenue Account Revenue and Capital Final Outturn 2018/19 and General Services Capital Plan 2018/19 Final Outturn. These reports detail financial performance for each area.

### **4 Financial Statements**

The Council's External Auditors, Ernst & Young LLP (EY), made a number of recommendations based on the 2017/18 Financial Statements for action in preparing the 2018/19 statements and these were detailed in the Annual Audit Report presented to Council in the autumn last year. These actions have been progressed and accordingly the expectation is that there will be significantly fewer amendments arising during the audit process.

There are changes to the format and presentation of Midlothian's statements in 2018/19 compared to the prior year. The most significant is that transactions between segments are no longer permit to be reported in the Comprehensive Income and Expenditure Statement (CIES), i.e. they should not be included in income and expenditure in service segments. Accordingly the 2018/19 and comparative information excludes the impact of these internal transactions.

### **5 Audit and Consideration of audited Accounts**

EY will begin the substantive phase of the audit of the accounts during July with a clearance meeting to be arranged during late August 2019. The aim is to complete the audit and for EY to be provided with draft audited accounts by early September 2019.

Thereafter the audited accounts are scheduled to be presented to Audit Committee on 24 September 2019 together with EY annual audit report. The aim is to secure an unqualified audit opinion for financial year 2018/19.

The Local Authority Accounts (Scotland) Regulations 2014 also set out the requirements for completion, approval and signing of the accounts as follows.

### **Consideration and Signing of Audited Annual Accounts**

**10.**—(1) A local authority, or a committee of that authority whose remit includes audit or governance functions, must—

- (a) meet to consider the audited Annual Accounts; and
- (b) aim to approve those accounts for signature as described in this regulation no later than 30th September immediately following the financial year to which the accounts relate.

(2) That local authority or committee must consider whether the Annual Accounts should be signed, having regard to any report made on those accounts and any advice given by the proper officer or the auditor.

(3) Immediately following the approval of the Annual Accounts for signature, the statements which form part of those accounts are to be signed and dated as follows—

- (a) the management commentary by the proper officer, the Chief Executive and the Leader of the Council;
- (b) the statement of responsibilities by the Leader of the Council and the proper officer, who must also certify the matters referred to in paragraphs (5) and (6) respectively;
- (c) the annual governance statement by the Chief Executive and the Leader of the Council;
- (d) the remuneration report by the Chief Executive and the Leader of the Council; and
- (e) the balance sheets by the proper officer, to authorise publication of the financial statements.

(4) Where a local authority does not have a Chief Executive or a Leader of the Council, the statements that paragraph (3) requires that person to sign are to be signed by such other person as it nominates for that purpose.

(5) The person who signs the statement of responsibilities as Leader of the Council must certify that the Annual Accounts have been approved for signature by, or on behalf of, the authority.

(6) The proper officer must certify that the financial statements give a true and fair view of the financial position of the local authority and its group at the end of the financial year and the transactions of the local authority and its group for that year.

(7) Following the signature of the Annual Accounts, the proper officer must provide the Annual Accounts, including the signed statements, to the auditor.

(8) Any further report provided by the auditor following the signature of the Annual Accounts which relates to those accounts must be considered by the local authority or a committee of that authority whose remit includes audit or governance functions.

Accordingly Audit Committee on 24 September 2019 must consider in accordance with paragraphs 1 and 2 whether the accounts should be signed and thereafter the Leader, Chief Executive and myself as proper officer (S95 officer) will sign the accounts before submission to the Accounts Commission.

## **6 Report Implications**

### **6.1 Resource**

Whilst this report deals with financial issues there are no financial implications arising directly from it.

### **6.2 Risk**

Section 95 of the Local Government (Scotland) Act 1973 requires all Local Authorities in Scotland to have adequate systems and controls in place to ensure the proper administration of their financial affairs. The Council's Standing Orders and Financial Regulations detail the responsibilities of members and officers in relation to the conduct of the Council's financial affairs.

### 6.3 Single Midlothian Plan and Business Transformation

Themes addressed in this report:

- Community safety
- Adult health, care and housing
- Getting it right for every Midlothian child
- Improving opportunities in Midlothian
- Sustainable growth
- Business transformation and Best Value
- None of the above

### 6.4 Impact on Performance and Outcomes

The decisions taken to balance the budget will have fundamental implications for service performance and outcomes. The Council's Transformation Programme aims to minimise the impact on priority services.

### 6.5 Adopting a Preventative Approach

The proposals in this report do not directly impact on the adoption of a preventative approach.

### 6.6 Involving Communities and Other Stakeholders

No consultation was required.

### 6.7 Ensuring Equalities

There are no equality implications arising directly from this report.

### 6.8 Supporting Sustainable Development

There are no sustainability issues arising from this report.

### 6.9 IT Issues

There are no IT implications arising from this report.

## 7 Recommendations

In accordance with The Local Authority Accounts (Scotland) Regulations 2014, set out in section 2 of the report, Audit Committee are asked to consider and comment on the unaudited accounts for 2018/19.

**Date: 17 June 2019**

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**Appendix 1 Midlothian Council Unaudited Financial Statements 2018/19  
(to follow)**