Midlothian Council
Tuesday 3 November 2015
Relative to Item No 8

~~Audit Committee~~
~~Tuesday 29 September2015~~
~~Item No.5~~

Midlothian Council

Annual Report to Members and the Controller of Audit for the financial year ended 31 March 2015

29 September 2015

Key messages

During 2014-15, Midlothian Council achieved a significant underspend against budget, and the Council's uncommitted reserves now stand at £13.7 million, an increase of £0.7 million on 2013-14. The Council's developing Financial Strategy and Transformation Delivery Plan set out plans to address the financial challenges ahead, but currently project a budget shortfall in the period to 2017-18 of £4.945 million. In June 2015, the Council adopted the Delivering Excellence framework, which is focused on reshaping service delivery as the most sustainable way to address the financial and service challenges, to deliver excellence and maintain service and financial sustainability through a continuing period of public sector constraint.

The framework recognises that the Council is on a journey of transformation, and need to act now to be prepared for the likely financial environment of the future. Leadership and culture, both internally and the Council's role as a leader for partners and communities will be critical to identify new and innovative ways of delivering services and in realising the opportunities arising from integrated health and social care, the Borders Railway and the City Deal.

ISA 260 requirements

We intend to issue an unqualified opinion on the 2014-15 financial statements.

We did not have reason to change our audit plan during the year, and we did not identify any fundamental weakness in the Council's systems of internal control, based on our work undertaken.

We have no un-adjusted differences to report. The Council processed three adjustments, which had the effect of increasing the balance sheet by £18 million. There was no impact on the Council's useable reserves.

Public Sector Audit impact dimensions

Our external audit work is undertaken in accordance with the Audit Scotland Code of Practice (May 2011). Our annual report is structured to reflect our wider responsibilities under the Code, and this year we have shaped this around the 4 Public Sector impact dimensions reflected in the Audit Scotland Corporate Strategy 2015-2018.

Financial management

The Council achieved a £3.2 million underspend against budget, and year on year, reserves have increased to allow for unforeseen cost pressures and to direct expenditure in line with Council priorities.

There remains scope to improve the Council's reporting of financial performance to members throughout the year. The robustness of financial information will be key to ensure that the Council is well placed to respond to future financial challenges. As the achievement of Business Transformation savings targets becomes more important, progress needs to become more prominent in financial reporting to Council. The Finance Team will have a key role to support and challenge services during the Delivering Excellence programme.

Key projects have begun to make improvements in the Council's collection of debt and in managing costs. We also noted improvements in the Council's accounting processes, following an internal reorganisation. The level of errors and adjustments we noted both in testing and the financial statements has significantly reduced during 2014-15.

Financial sustainability

Future financial and service sustainability is an ongoing challenge for all local authorities in Scotland. The Council currently forecasts a budget gap of around £5 million by 2017-18.

During 2014-15, the Council reviewed the Transformation Strategy to ensure that it is focused on key priorities. The Council continues to deliver savings through the approved Transformation Delivery Plan, but recognise that the role the Council plays and the way services are delivered must change to meet future challenges.

In response, the Council has developed the Delivering Excellence framework, which is focused on reshaping service delivery as the most sustainable way to address the financial and service challenges through a continuing period of public sector constraint. The framework will refocus the Council's overall approach to service planning, priority setting and resource allocation, whilst also addressing the need to consult and engage with communities.

The framework outlines that its success will require a shift in culture and thinking, requiring a more innovative and entrepreneurial approach across the Council, and therefore be underpinned by strong leadership.

Governance and transparency

The Council's internal auditors review the effectiveness of its governance arrangements and compliance against the Local Code of Governance on an annual basis. We concluded that the Council's Annual Governance Statement is balanced and in line with CIPFA requirements, but during the audit process we asked the Council to consider additional disclosures relating to ongoing development in the management of the Newbyres replacement houses. We also asked the Council to outline key future changes in governance following the inaugural meeting of the Midlothian Integrated Joint Board.

One of the key aspects of councils' governance framework is the approach to the management of risk. Midlothian's risk management arrangements continued to evolve, but that during 2014-15, and the Audit Committee now receive a quarterly risk management update, which is focused on the key critical and high risk areas, and mitigating actions undertaken.

During 2014-15, we noted that the Council also reviewed its arrangements for managing grants paid to external organisations, following weaknesses noted at a national level. Key improvements include the use clear criteria for grant allocation and monitoring, aligned with the Single Midlothian Plan priorities and outcomes, and the adoption of a co-production approach.

The Council's Business Transformation Programme delivered savings of £0.9 million in 2014-15, and we consider monitoring arrangements to be robust, but we believe that there is scope to improve the transparency of reporting actual against planned savings.

Looking ahead, the Council has recently elected a new Leader, representing the fourth Leader of the Council since the elections in May 2012. Changes made to officer leadership arrangements team during 2013-14 provide capacity and capability in the core leadership team and have ensured that the Council's focus on transformation and service delivery continue to drive improvements, including health and social care integration and the transformation of Children's Services.

Best value and value for money

The Council, and its community planning partners, has integrated the Single Outcome Agreement (SOA), Midlothian Community Plan and Midlothian Council Corporate Strategy into a single document – the Single Midlothian Plan.

Each council service has a Service Improvement Plan which provides a link to the local outcomes within the Single Midlothian Plan, and short, medium and long term priorities and outcomes. The Council's annual progress report against outcomes highlights a number of achievements, particularly in the three key priorities relating to:

- Economic recovery and growth
- Employment, especially youth employment
- Early years and early interventions.

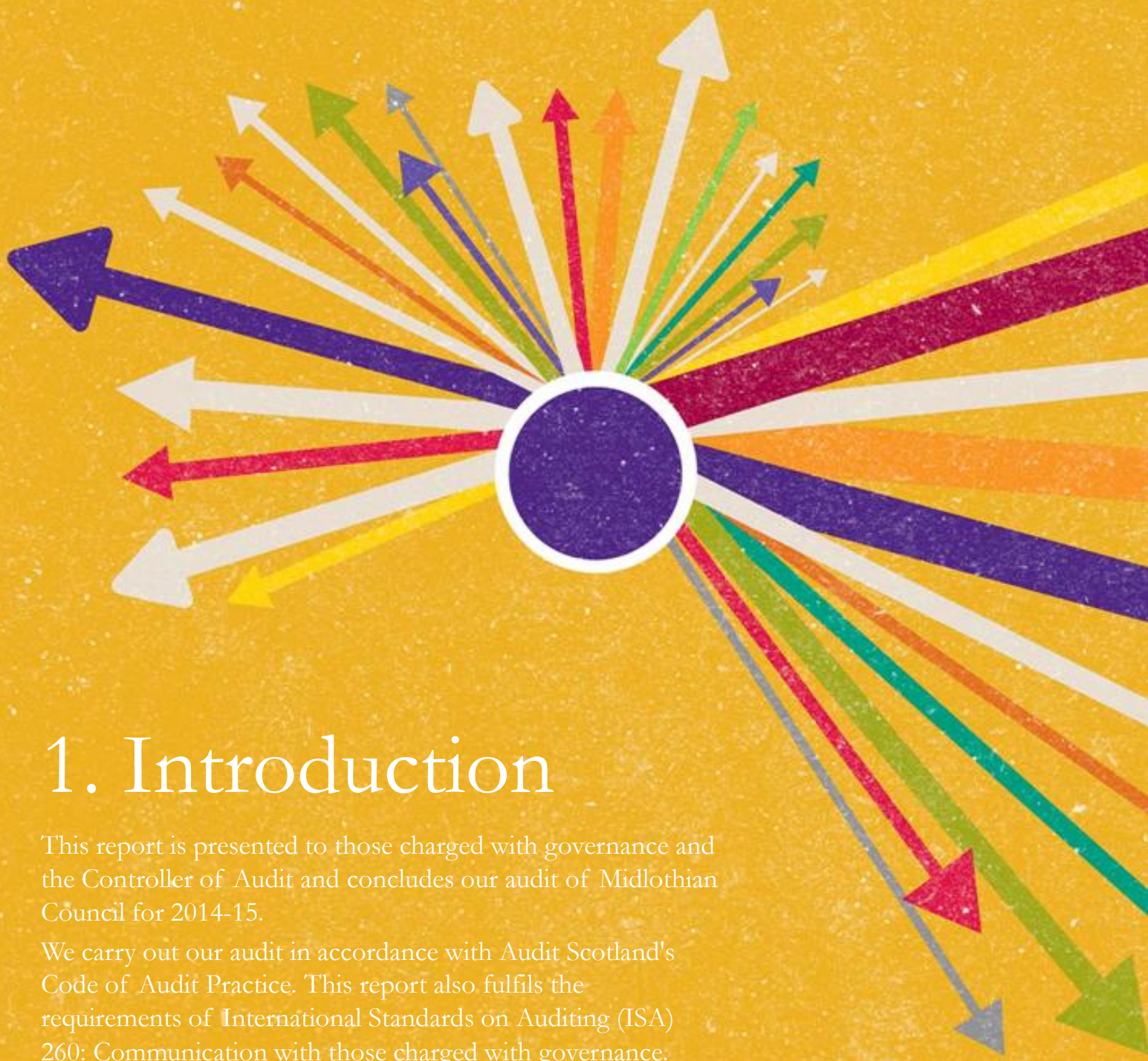
Council service performance is monitored in quarterly reports to the Performance Review and Scrutiny Committee. Analysis of the Council's statutory performance indicators continue to show mixed performance, with 24% recorded in the upper quartile for Scottish local authorities, but 20% in the bottom.

We believe there is scope to improve the clarity and focus of these reports to members, by focusing on the key priorities and outcomes within the Single Midlothian Plan.

Audit Scotland found that public performance reporting was largely well-developed, but noted areas for further improving performance information, including the results of community engagement, accessibility and information on customer satisfaction.

As the Council looks to the future, the importance of community engagement and partnership working is clear. Health and Social Care integration between the Council and NHS Lothian continues to develop, building on the strong partnership arrangements already in place.

Contents



1. Introduction

This report is presented to those charged with governance and the Controller of Audit and concludes our audit of Midlothian Council for 2014-15.

We carry out our audit in accordance with Audit Scotland's Code of Audit Practice. This report also fulfils the requirements of International Standards on Auditing (ISA) 260: Communication with those charged with governance.

Introduction

Purpose of this report

- Audit Scotland appointed Grant Thornton UK LLP as auditor of the Council for the period 2011-12 to 2015-16. The appointment is made under the Local Government (Scotland) Act 1973
- This annual audit report is addressed to those charged with governance at the Council and the Controller of Audit
- We summarise our opinion and conclusions on significant issues arising from our external audit for the year ended 31 March 2015.

The Council's responsibilities

- It is the Council's responsibility to prepare the financial statements in accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom (the CIPFA Code)
- The Council must:
  - prepare financial statements which give a true and fair view of the financial position of the Council and its income and expenditure for the year to 31 March 2015
  - maintain proper accounting records which are up to date
  - take steps to prevent and detect fraud and other irregularities.
- Is also responsible for establishing proper arrangements to ensure that:
  - public business is conducted in accordance with the law and proper standards
  - public money is safeguarded and properly accounted for
  - economy, efficiency, effectiveness and Best Value is achieved in the use of resources.

Our responsibilities

- We are required to meet the requirements of the Code of Audit Practice ('the Code') May 2011, including consideration of the wider scope of public sector audit.
- We provide an opinion on the Financial Statements and Annual Governance Statement. Under the Code we also review and report on the governance arrangements as well as wider financial management, value for money and performance considerations
- International Standard of Auditing (UK and Ireland) ('ISA') 260: Communication with those charged with governance requires us to communicate audit matters arising from the audit of the financial statements to those charged with governance. This annual report, together with other reports to the Audit Committee throughout the year, discharges our ISA 260 commitments

Acknowledgements

We would like to take this opportunity to record our thanks for the assistance provided by the Head of Finance and Integrated Service Support, the Financial Services Manager and the Finance Team during the course of our work.

Our responsibilities under the Code of Audit Practice:

Financial statements

Provide an opinion on:

- whether the financial statements provide a true and fair view of the financial position of the Council
- whether the financial statements have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements

Review and report on:

- other information published within the financial statements, including the remuneration report
- the Council's financial position

Corporate governance

Review and report on the Council's corporate governance arrangements as they relate to:

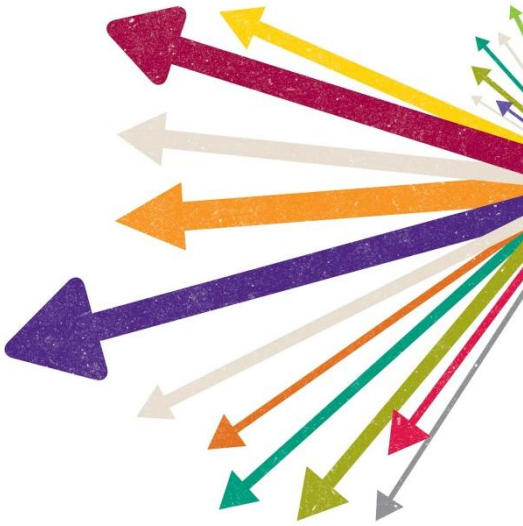
- the Council's corporate governance and systems of internal control, including reporting arrangements
- the prevention and detection of fraud and irregularity
- standards of conduct and arrangements for the prevention and detection of corruption

Best value and performance

- The Local Government (Scotland) Act 1973 places a duty on the auditors of local government bodies to be satisfied that proper arrangements have been made for securing Best Value and complying with responsibilities relating to community planning
- We are required to review and report on other aspects of the Council's arrangements to manage their performance as they relate to economy, efficiency and effectiveness in the use of resources
- We review and report on the Council's arrangements for preparing and publishing statutory performance information
- In accordance with guidance issued by Audit Scotland, auditors may be requested to participate in a performance audit, an examination of the implications of a particular topic for the Council at a local level or a review of the Council's response to national recommendations. In 2014-15 we have completed a baseline assessment of the financial capacity at the Council.

An audit of the financial statements is not designed to identify all matters that may be relevant to those charged with governance. Weaknesses or risks are only those that have come to our attention during our normal audit work in accordance with the Code and may not be all that exist.

Communication of the matters arising from our audit work does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.



2. ISA 260 communication to those charged with governance

ISA 260 Requirements

Draft financial statements were received on 22 June 2015. These were of a good standard, supported by adequate working papers

Testing provided assurance on all identified areas of significant and reasonably possible audit risk

The Management Commentary is in line with our knowledge of the Council and the guidance issued by the Scottish Government

We identified 3 misstatements during the course of our audit. The adjustments increased the Council's Balance Sheet by £18 million

We intend to issue a true and fair audit opinion on the financial statements of the Council

The audited parts of the Remuneration Report are free from error

Financial statements overview

Introduction

We have not had to alter or change our audit approach, which we set out in our Audit Plan, which was presented to the Audit Committee on 17 March 2015.

Our audit is substantially complete although we are finalising our procedures in the following areas:

- obtaining and reviewing the management letter of representation
- updating our post balance sheet events review, to the date of signing the opinion.

Financial statements opinion

Our audit identified two unadjusted differences. These are set out in Appendix A.

We intend to issue an unqualified opinion on the financial statements for the financial year ended 31 March 2015.

Our review of the financial statements

The draft financial statements were of an improved quality than prior years and we identified fewer errors and misstatements.

We reviewed the narrative elements of the financial statements (including the Management Commentary, Statement of Responsibilities, Annual Governance Statement and Remuneration Report). We review these statements for compliance with required CIPFA Code disclosures, for consistency with other areas of the financial statements and our knowledge of the client.

The Local Authority Accounts (Scotland) Regulations 2014 introduced a requirement for the Management Commentary to be included in the financial statements. The Scottish Government produced supplementary guidance on the content of this commentary in May 2015 and the Council has followed this guidance.

We have reviewed the financial statements against the requirements of the CIPFA Code which resulted in a number of disclosure adjustments, which are reflected in the final financial statements.

Grants certification

The two grant claims below were certified within the required timescales during the year, with no issues arising:

- Criminal Justice Social Work
- Education Maintenance Allowance

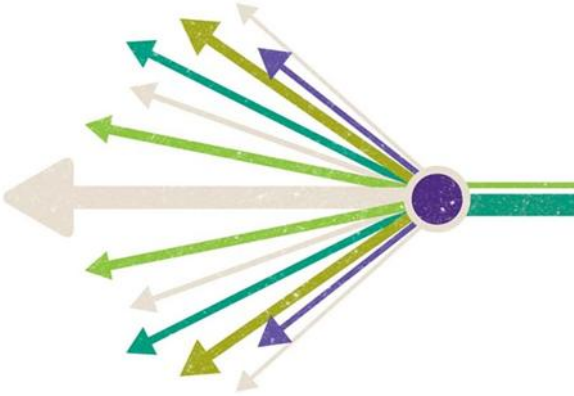
The Non-Domestic Rates and Housing Benefit grant claims will be signed following completion of our audit work in October and November.

Whole of Government Accounts

The Council submits a WGA pack for the financial year ended 31 March 2015.

For 2014-15 the Council is below the testing threshold and therefore full audit assurance is not required.

In accordance with the WGA guidance we have completed the required assurance statement and submitted that to Audit Scotland, with no issues arising.



Our audit plan: a reminder

Scope of the Audit

We consider the inherent risks to the Council and how these may result in a material misstatement in the accounts. We identified one significant risk and three reasonably possible risks which are outlined on pages 11 and 12.

We conduct a range of audit procedures across all balances above performance materiality, including analytical review, agreement to third party confirmations and substantive testing on a sample basis.

Performance materiality was £2.7 million (testing limit set to reduce the probability that aggregate of uncorrected/ undetected misstatements exceed materiality)

Final materiality level for Council set at £3.884 million, calculated as 1.5% of gross expenditure

Reasonably possible risks in Plan relating to

- operating expenses;
- housing revenue account
- employee remuneration; and
- welfare benefit.

Unadjusted differences over our de minimus level of £194k are included within Appendix A

All misstatements identified under limit have been reported to officers.

Assumed significant risk relating to management override of controls (Fraud risk).

Audit findings against significant and reasonably possible risks

Set out below is our response to the significant risks of material misstatement identified in the Audit Plan.
There are two presumed significant risks which are applicable to all audits under auditing standards but, as set out in our plan and below, we rebutted the presumed risk around revenue recognition.

Significant Risks identified in our audit plan	Work completed	Assurance gained
1 Management override of controls • Under ISA 240 there is a presumed risk that the risk of management over-ride of controls is present in all entities	• Review of accounting estimates, judgments and decisions made by management • Testing of journal entries • Review of unusual and/or significant transactions	• Our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues. Minor control points have been separately communicated to officers in a management letter.
2 The revenue cycle includes fraudulent transactions • Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue • This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition	• Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we determined the risk of fraud arising from revenue recognition can be rebutted, because: – there is little incentive to manipulate revenue recognition – opportunities to manipulate revenue recognition are very limited – the culture and ethical frameworks of local authorities, including the Council, mean that all forms of fraud are seen as unacceptable • The most significant area of revenues was grant funding from the Scottish Government totalling £123.4 million (46% of revenues). We have substantively agreed grant funding to confirmation from the Scottish Government. • In addition we have conducted judgemental sampling of fees, charges and other income to trace to cash receipts	• Our work confirmed that revenue had been recognised appropriately in the financial statements

Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty

(ISA (UK&I) 315).

Set out below is our response to the other 'reasonably possible' risks of material misstatement which we identified in the Audit Plan.

Transaction cycle	Description of Reasonably Possible Risks	Work completed	Assurance gained
Operating expenses	Creditors understated or not recorded in the correct period • Midlothian Council is responsible for the delivery of a range of services to the local area. In 2014-15 the cost of delivering these services was £191.5 million • Purchasing is decentralised across service lines with the budgetary responsibility with the heads of service to ensure monies are recorded correctly	We gained assurance over the risk through: • Review and walkthrough of the processes and controls in operation over purchase ordering, procurement and general payment and recording of expenditure • Reconciliation of the creditors system to the general ledger and financial statements • Statistical sample of post year end transactions to test for unrecorded liabilities	• Our initial sample of transactions identified 2 errors and our sample was therefore extended • We gained sufficient assurance over the operating expenditure control environment and balances to conclude that there is not a material understatement of creditors • Refer to action plan point 1
Employee remuneration	Employee remuneration accruals understated: • Employee costs accounted for 43% of gross expenditure in 2014-15. There are a large number of transactions processed throughout the year and the Council relies on numerous controls including monthly reconciliations and segregated duties when compiling employee remuneration batches to ensure that the employee costs are recorded correctly in the financial statements	We gained assurance over the risk through: • Review and walkthrough of the processes and controls in operation for payment of staff • Substantive testing of employee remuneration accruals at the year end • Judgemental testing of a sample of employees to the HR system, recalculation of employer costs • Analytically review employee remuneration expenses in comparison to expectations and investigate any significant variances • Review of the relevant disclosures relating to staff costs within the financial statements	• We gained sufficient assurance over employee remuneration processes to conclude that there are no material misstatements
Welfare expenditure	Welfare benefit expenditure improperly computed • The Council received £26.6 million in housing benefit subsidy. The systems to establish entitlement to housing and council tax benefit are complex and rely on a number of controls to provide assurance that the benefits area awarded and recorded correctly	We gained assurance over the risk through: • Review and walkthrough of the processes and controls in place to calculate pay and record benefit expenditure • Analytical review of the benefit expenditure in comparison to auditor expectations • Statistical sampling of rent rebates and rent allowance transactions • Reperformance of the reconciliation between the housing benefit system and general ledger	• We gained sufficient assurance over the welfare benefit control environment and transactions to conclude that there is not a material misstatement in welfare benefit arising from improper calculation
Housing revenue	Revenue transactions not recorded • During 2013-14 we identified potential weaknesses relating to the recording of completed new builds within the financial systems, which resulted in adjustments to the Property, Plant and Equipment balances	We gained assurance over the risk through: • Reviewing the controls in place to ensure the completeness of the billing list, including new completions • Conducting detailed analytical review of revenues in comparison to expectations • Conducting sample testing of payments and debtors balances	• Our audit work has not identified any issues in the administration of the Housing Revenue Account. • An adjustment was made to the financial statements to fully impair the value of houses in Newbyres Crescent.

"Reasonably possible risks are, in the auditor's judgement, other risk areas which they have identified as an area where the likelihood of material misstatement cannot be reduced to remote, without the need for gaining an understanding of the associated control environment, along with the performance of an appropriate level of substantive work"

Accounting estimates and significant judgements

Accounting area	Summary of policy	Commentary	Our assessment
Revenue recognition	• **Grants receivable:** Government grants, third party contributions and donations are recognised as due to the Council when there is reasonable assurance that the Council will comply with the conditions attached to the payments • **Sale of goods:** Recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits will flow to the Council • **Provision of Services:** Recognised when the Council can measure reliably the percentage of the completion of the transaction • **Council Tax and Non Domestic Rates:** Revenue from Council Tax and Non Domestic Rates is recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the Council and the amount of revenue can be measured reliably.	• The revenue recognition policies are appropriate under the CIPFA Code • The disclosure in the draft accounts was found to be reasonable and in line with prior years, however, it was noted that there were not specific revenue recognition policies for Council Tax or Non-Domestic Rates. As both are material income streams a specific revenue recognition policy should be disclosed • The disclosures were enhanced in the revised financial statements and were found to be appropriate	●
Property, plant and equipment	• The Code permits a class of assets to be revalued on a rolling basis providing the revaluation of the class of assets is completed within a short period and the revaluations are kept up to date. We would expect this short period to be within 1 financial year. The Council's current approach, as set out in the policy, doesn't fully meet code requirements. • The Finance Team is currently working with inhouse valuers to adopt a revised revaluation programme to ensure that the full requirements of the Code are met in 2015-16 and beyond.	The current approach is similar to other local authorities but a rolling programme of valuations increases the risk that the carrying value of assets is materially different from fair value. The Council has considered movements in the market to establish whether there had been a significant movement in value and concluded that the valuations are materially correct. Note 10 does not currently meet the requirements of the Code because it does not fully describe the revaluation programme and the coverage of assets in the 5 year plan. We describe the revaluation process on page 15.	●

Assessment

- ● Material accounting policy which could potentially attract attention from stakeholders
- ● Accounting policy appropriate but scope for improved disclosure
- ● Accounting policy appropriate and disclosures sufficient

Accounting area	Summary of policy	Commentary	Our assessment
Provisions	• The Council recognises provisions where an event has taken place that gives the Council a legal or constructive obligation that will probably require a settlement by transfer of economic benefits or service potential • Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year the Council becomes aware of the obligation	• We are satisfied the policy is appropriate under the CIPFA Code • The Council has recognised provisions for two items: – insurance provision (£0.91 million) – debtor provisions (£10.48 million) • We have reviewed the reasonableness of management's judgements in line with our knowledge of the Council • We have conducted a detailed review of the debtors provision including re-performance of calculations and review of assumptions • We are satisfied the provisions have been disclosed appropriately	●
Pension fund valuations and liabilities	• In accordance with International Accounting Standards the Council is required to account for retirement benefits when it is committed to giving them • This involves recognition in the Balance Sheet of the Council's share of the net pension asset or liability together with a pension reserve • Estimation of the net liability to pay pensions depends on a number of complex judgements. A firm of consulting actuaries (Hymans Robertson) is engaged to provide the Council with expert advice about the assumptions to be applied	• We have reviewed the accounting policies and confirmed they are in line with the guidance in the CIPFA Code and IAS 19 • We have relied on an auditors expert, PriceWaterhouseCoopers (PwC) UK LLP, to provide assurance over the reasonableness of assumptions and judgements applied by the actuary • PwC provided confirmation on the competence, capability and objectivity of Hymans Robertson, who have been used as management's expert in year • We are satisfied pensions have been disclosed appropriately	●
Other accounting policies	• We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards	• Disclosures were in line with the CIPFA Code and considered reasonable	●

Assessment

- ● Material accounting policy which could potentially attract attention from stakeholders
- ● Accounting policy appropriate but scope for improved disclosure
- ● Accounting policy appropriate and disclosures sufficient

Other areas of audit focus

Internal controls

We update our understanding of the Council's key financial controls and overall control environment on an annual basis.

We considered internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate to our financial statements audit, but not for the purpose of expressing an opinion on the effectiveness of internal control. We undertook walkthrough testing related to:

- employee remuneration
- operating expenditure
- welfare expenditure
- housing revenue account
- IT control environment.

We did not identify any significant deficiencies or material weaknesses arising from our limited testing of the financial controls, however we did identify minor deficiency relating to the control of journals. Control weaknesses over the financial ledger potentially expose the Council to a risk of fraudulent journals. While our testing provides assurance that the accounts are not materially misstated, there is a residual risk that individuals could exploit the system deficiency for personal benefit.

Refer to action plan point 2

IT control environment

Our testing identified a limited a number of deficiencies relating to the IT control environment which have been reported in a separate letter to the Digital Services Manager. Our three IT recommendations were:

- the requirement to conduct proactive reviews of logical access within the Council's databases and applications
- the ongoing disaster recovery risk related to the close proximity of the Council's primary and secondary servers, which is currently monitored by the Contingency Planning Group
- the Council should perform a gap analysis against the requirements of the latest version of the Payment Card Industry – Data Security Standard.

An agreed action plan is set out within our management letter to officers.

Housing revaluation exercise

The Council requested a full revaluation of the housing stock, following significant adjustments during the 2013-14 audit. The Council's inhouse valuers carried out the revaluation using the Beacon methodology. For housing assets the beacon principle is applied in line with CIPFA/LASAAC guidance for Scottish Local Authorities. The key elements of this approach are:

- the Council selected a sample of 200 properties, which they deem to be representative of the group and for each property a detailed inspection is carried out.
- the Council's inhouse RICS qualified valuers establish an Existing Use Value- Social Housing for recording in the financial statements.
- Key assumptions by the Council in this approach are that the property is vacant and that the future use is for residential accommodation with no potential for redevelopment.
- Following the valuation of the sampled properties "the beacons" a discount factor (and corresponding adjustment factor) is applied. The Council have set the discount factor as 65.4% as part of the revaluation process in 2014-15. The discount factor is based on the local rental market for private residential accommodation compared to social housing rents.

As a result of our challenge to the valuers, relating to the scale of the initial downward revaluation, the Council changed the accounting estimate relating to the carrying value of housing components such as kitchens and bathrooms. The Council has disclosed the nature of this change in estimation technique within the revised financial statements.

Looking ahead

Going concern

We considered going concern and obtained assurance through:

- review of financial factors including levels of debt, liabilities, arrears and operating cash flows
- review of financial forecasts and the assumptions which underpin the forecasted figures. The Council business plan sets out indicative financial forecasts through to 2017-18.

Overall we conclude that it is appropriate for the Council to prepare the financial statements on a going concern basis.

Future accounting considerations

There are two key accounting changes for 2015-16 which will impact on the Council's financial statements:

IFRS13: Fair value measurement

For surplus assets three valuation options will be available:

- the market approach uses prices and other relevant information generated by market transactions involving comparable assets or liabilities.
- the cost approach reflects the amount that would be required to replace the service capacity of the asset.
- the income approach converts future cash flows, income or expenditure to a single current amount. The fair value measurement reflects current market expectations about those future amounts.

The Council currently value surplus assets at fair value based on existing use, with current surplus assets valued at £9.4 million.

Refer to action plan point 3

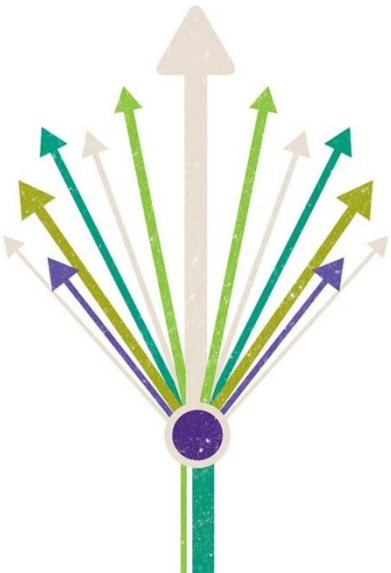
Accounting for Infrastructure assets

The Council has a range of transport infrastructure assets including carriageways, footways, cycle tracks, and street lighting.

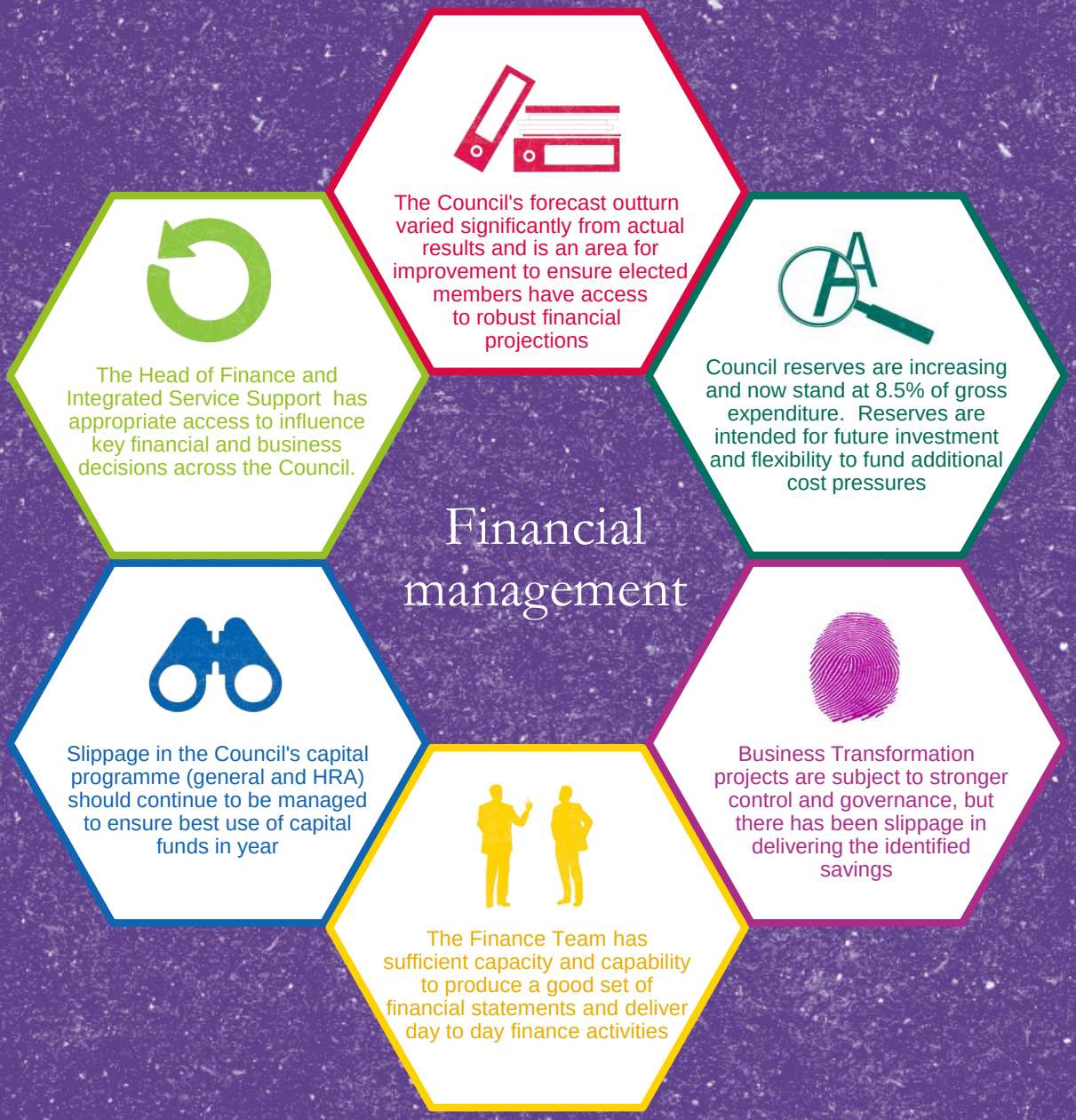
The 2016-17 CIPFA Code changes the valuation base from historical cost to a depreciated replacement cost (DRC) basis. DRC is a method of valuation that provides the current cost of replacing an asset with it's modern equivalent asset less deductions for deterioration or obsolescence.

This change will have a significant impact on the balance sheet of the Council and requires retrospective restatement. In order to ensure successful delivery for 2016-17 preparatory work will be required in 2015-16. The Finance Team has already started to consider the implications of this change in the Council's financial statements, having sought technical advice and we will continue to support the team in this transition.

Refer to action point 4



3. Financial management



Financial management

2014-15 out-turn

The Council approved the 2014-15 general services revenue budget in February 2014 alongside indicative budgets for financial years 2015-16 and 2016-17.

Budgeted expenditure in 2014-15 was set at £194.7 million. Actual net service expenditure for the year was £191.5 million representing 98.4% of the annual budget (an underspend of £3.2 million). Funding from council tax and grants from the Scottish Government resulted in higher than budgeted income of £1.5 million.

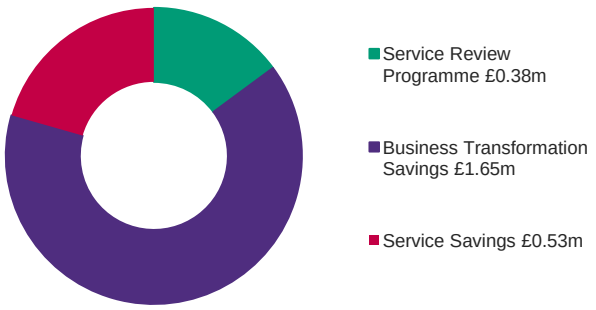
The overall result was a net reinstatement of reserves of £0.8 million, rather than a budgeted utilisation of £3.9 million of reserves.

Financial savings

The 2014-15 budget was set following adoption of the Council's medium term Financial Strategy. The Financial Strategy, and related Transformation Delivery Plan identifies a range of savings options based on future requirements, and aligned to priorities within the Single Midlothian Plan.

As part of the budget setting process, elected Members were provided with options and approved a number of savings projects totalling £2.43 million:

Targeted savings in 2014-15 were split across Council programmes as follows:

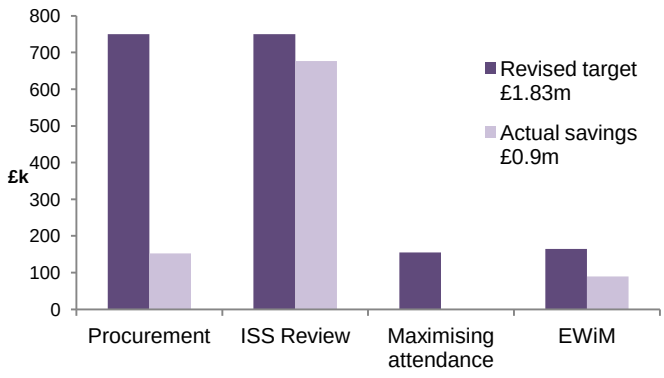


Source: Midlothian Council minutes February 2014

Following a £5.3 million underspend during 2013-14, the Finance Team also conducted a detailed financial discipline review to identify where budgets could be reduced or removed. The review identified a further £0.57 million of savings that have no impact on service delivery.

The Business Transformation Steering Group is responsible for monitoring progress against the Transformation Delivery Plan. Updates are also provided within Financial Monitoring reports to the Council. During 2014-15, the delivery plan was reviewed to focus on five key projects. The targeted level of savings to be realised from Procurement was also increased from £455k to £750k.

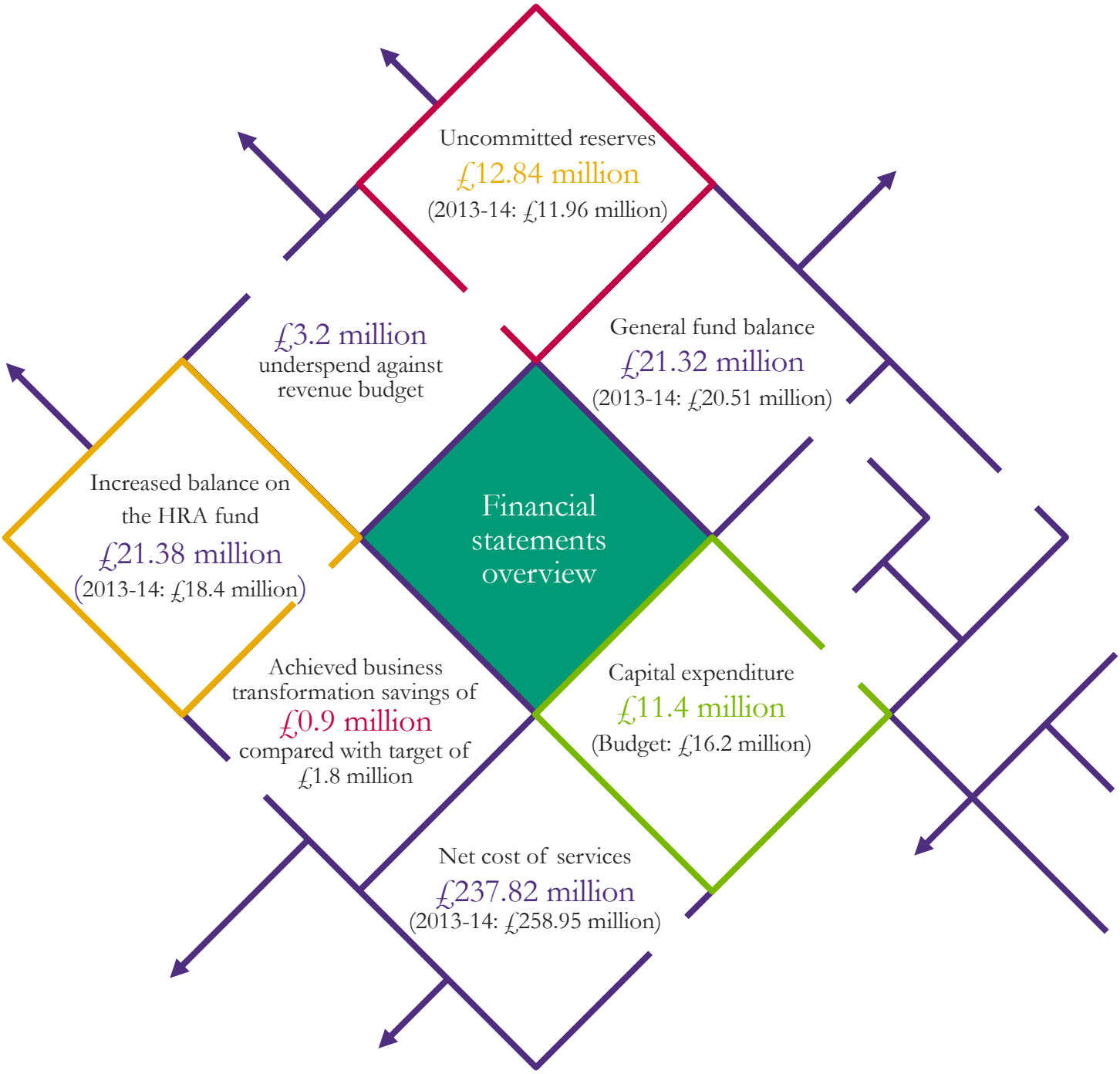
As the figure below highlights, the Council achieved in-year business transformation savings of £0.9 million compared with the revised savings target of £1.8 million, largely due to the timing of when procurement savings will be realised.



Source: Midlothian Council Financial Monitoring Report June 2015

The Council has delivered significant underspends against budget in 2013-14 and 2014-15, providing space to allow transformational projects to develop in line with key priorities. This has allowed the Council to enhance the level of uncommitted reserves to ensure it can respond to opportunities and financial challenges in the future.

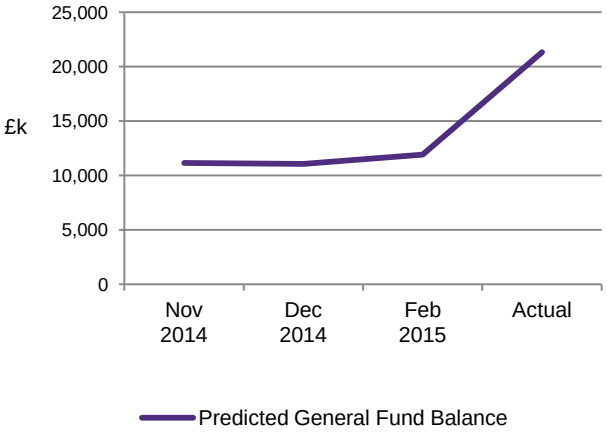
Key Financial Statement highlights for the financial year ended 31 March 2015 were:



Reporting the financial position

The Council has a good track record of delivering services within the approved revenue budget, with detailed financial monitoring reports presented on a quarterly basis. However, as in 2013-14, we noted that there were significant variances between the anticipated outturn reported during the year, and the final General Fund position.

The General Fund Outturn was significantly different to Council forecasts throughout 2014-15



Source: General Fund Monitoring Reports to Midlothian Council

While we understand that this is primarily as a result of a series of one-off, unexpected variances, reporting during the year could be improved for elected members, particularly during a period of financial constraint.

Financial forecasts should be as robust and up to date as possible to facilitate decision making on spend and reductions to services.

Refer to action plan point 5

As at 31 March 2015 there was a £3.2 million underspend against the cost of services budget. Key variances include:

- an underspend of £0.97 million for Communities and Economy as a result of lower expenditure than anticipated on contaminated land, increased income as a result of improved housing and commercial development markets
- additional income within Education following agreement with PPP partners relating to third party income (£0.14 million), underspends against programmes including Surestart, Employability and Opportunities for all (£0.41 million) and vacancies (£0.1 million)
- lower Council Tax reductions granted in 2014-15, and additional Housing Benefit Overpayment recoveries totalling £0.74 million
- an underspend of £0.95 million in Properties and Facilities Management, primarily as a result of lower energy costs (£0.4 million) and additional snowsports income

In addition, there was also an underspend of £0.8 million against Loan Charges following a review of the Council's capital investment programme and Treasury Management Strategy.

The Council also received higher income in 2014-15 than projected. An additional £0.8 million was received from the Scottish Government. Council tax income also increased by £0.7 million over budget, as a result of increased homes, but also increased collection rates.

Income maximisation

During 2013-14, we noted that the Council's internal auditors had highlighted a number of concerns relating to procedures to collect and manage council tax liabilities. In 2014-15, the Council improved the in-year council tax collection from 93.48% to 93.8%. However, according to 2013-14 data from the Local Government Benchmarking Framework, this still places Midlothian Council in the bottom quartile of Scottish Councils, below a national average of 95.16%. We estimate that in 2014-15, the Council would have collected an additional £0.5 million in year if performance improved to national average levels. Over the longer term, the Council achieves higher collection rates, at around 98%.

Internal audit also identified a number of concerns regarding the Council's performance in the collection of debts. An exercise was undertaken to improve income maximisation during 2014-15. As a result of the review, the policy framework and communication of the Council's policy has been strengthened during 2015.

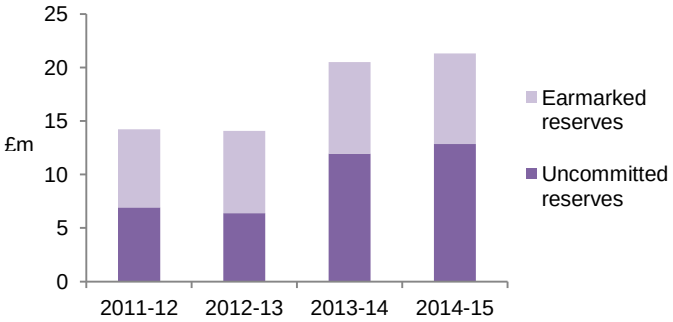
In September 2014, Audit Scotland reported on the results of their Housing Benefits performance audit. The audit found significant improvements in the financial accuracy and time taken to process claims, but also noted areas for improvement in relation to scrutiny and monitoring the recovery of fraud overpayments and administrative penalties.

Key improvements have been made to scrutiny arrangements through the Performance Review and Scrutiny Committee. In addition, our work to date on the Council's Housing Benefits Grant Subsidy claim for 2014-15 has noted fewer processing errors than in previous years.

Reserves position

Un-earmarked reserves as at 31 March 2015 were £12.84 million, representing an increase of £0.9 million on the prior year.

The earmarked element of the General Fund fell slightly in year to £8.47 million (2013-14: £8.5 million).



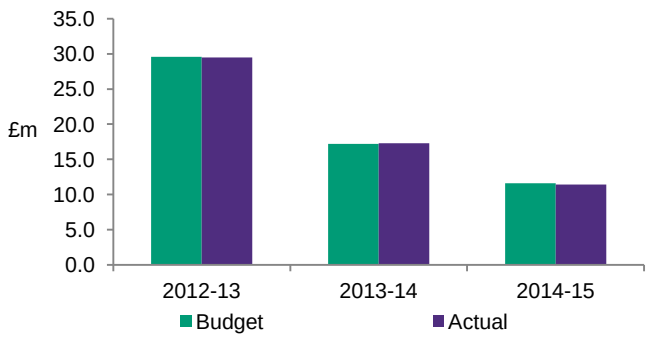
Source: Midlothian Council Abstract of Accounts 2011-12 to 2014-15

Earmarked purposes include:

- £2.3 million of remaining support for the Business Transformation programme. Funds of £5.9 million were set aside as part of the Financial Strategy to fund costs associated with the ongoing transformation programme. £3.6 million has been spent or committed to date
- Ringfenced funding from partner organisations of £3.2 million
- Funding committed in 2014-15, but which will not be spent until 2015-16 of £1.7 million.

Capital programme

The Council incurred General Services capital expenditure of £11.4 million, (70.4% of the capital budget of £16.2 million). As a result, the budget was reprofiled in June 2015 to £11.6 million. Due to slippage, £4.7 million has been carried forward into 2015-16.



Source: Midlothian Council General Services Capital Programme Committee Paper

The capital budget has significantly reduced in 2014-15, primarily as a result of slippage in EWiM and key IT projects.

There was a similar reduction in capital spend in the housing capital programme, as a result of the scheduling of the Phase 2 council house building programme. As a result, the Council has around 90 houses less than was projected at the start of the financial year.

Finance Team

CIPFA's guidance on *"The role of the Chief Financial Officer"* noted that a local authority's Chief Finance Officer should be a key member of the Leadership Team and must be actively involved in and able to bring influence to bear on all material business decisions.

The Council's most senior finance officer is the Head of Finance and Integrated Support Services (ISS). He is a core member of the Council's Strategic Leadership Team. He also regularly attends Council and Audit Committee meetings to present key financial monitoring reports, and progress reports on the delivery of the Financial Strategy. Overall we have concluded that the Finance function within the Council has sufficient status at a strategic level to deliver expected financial management.

Quality and financial capability of the Finance Team

During 2014-15, the capacity and capability of the Finance Team was reviewed as part of the ISS review of structures. This key piece of work forms part of the Council's business transformation programme. This project aims to transform support services into an integrated service support model. The core objectives are to improve support services by making them efficient and effective, reduce costs and improve career paths in support functions, including finance.

The Council has 20 employees working within the financials services team. This excludes staff involved in other financial processes such as creditors, revenues and service based teams.

Overall there has been a reduction in professionally qualified and support staff across the finance function since 2011-12, but we found that this reduction has had no negative impact on the quality of the financial statements or overall financial stewardship. Where possible the Council has considered redistribution of roles and work load in order to achieve savings while maintaining the level of service.

3. Financial Sustainability

Financial sustainability

The Council has approved savings required for 2015-16 and have plans in place for future years based on financial discipline and Business Transformation

The Council continues to focus on investing in line with the strategic priorities although, alongside other Council's, has identified a funding gap post 2017-18.

The Council recognises that future financial sustainability will require innovation and strong leadership to meet the challenges ahead

The Council is continuing to deliver against financial targets but the position remains uncertain beyond 2017-18

The Council recognise the financial challenges ahead, but there is scope to strengthen longer term financial planning

The Council seeks to promote economic growth through working in partnership with others, such as other councils in the Edinburgh City Region and the university sector

Financial Sustainability

Developing Financial Sustainability

Our national work with local authorities has identified that Local Government is, so far, continuing to deliver despite significant financial challenges. This is replicated at Midlothian Council, but the Leadership Team recognise that it will become increasingly difficult for the Council to achieve financial balance without a more fundamental change to the way the Council operates.

The Council has developed a Financial Strategy, with interlinked Business Transformation Delivery Plan, People Strategy and Effective Working in Midlothian (EWiM) Plan. The Strategy recognises the significant challenges facing the Council including: the Council tax freeze; decreases in in grant funding, an ageing population and resultant pressure on services, and key areas of growth and opportunity within Midlothian. Regular Financial Strategy updates are provided to the Council, which highlight any changes in financial assumptions, or additional information.

The Financial Strategy to June 2015 set out a programme for reducing the budget deficit in the period to 2017-18 by drawing on prior success in financial discipline, and delivering planned savings from the business transformation programme and related strategies. However, as outlined below, the Strategy projections highlight a remaining budget shortfall by 2017-18 of £4.945 million.

Delivering Excellence

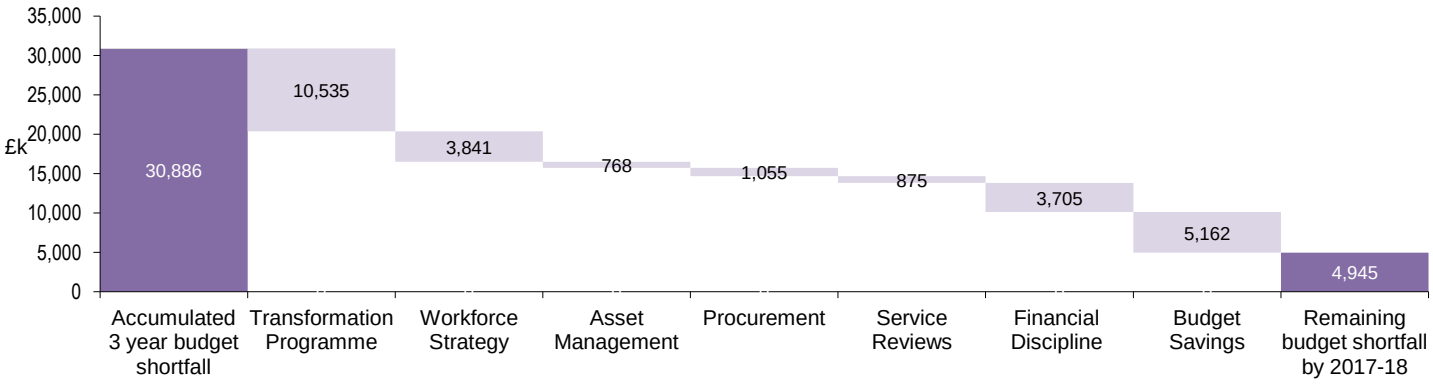
In June 2015, the Council approved the next stage in delivering financial sustainability. The Delivering Excellence framework aims to reposition services to have a greater emphasis on the priorities and outcomes within the Single Midlothian Plan. Delivering Excellence is supported by an updated Financial Strategy, which provides initial budget projections to 2020-21. Based on the assumptions set out within the Financial Strategy, the projected budget gap over the period is estimated at £23 million.

To achieve financial sustainability in the context of the projections requires the repositioning of services and a focus on priorities. The framework recognises that the achievement of savings of this level will be dependent on policy decisions taken by the Council. Key decisions will be needed to prioritise services and identify others that will no longer be funded or will be provided by alternative approaches. To deliver excellence across the organisation, leadership and culture will be critical.

Audit Scotland set out ten features of long term financial planning. The table overleaf sets out our assessment of Midlothian's Financial Strategy, and associated strategies, against these good practice characteristics. Based on our review the plan meets the majority of the key features identified by Audit Scotland.

Refer to action plan point 6

Current strategies to reduce the budget shortfall:



Our consideration of Midlothian's Financial Strategy against Audit Scotland's good practice characteristics:

Element	Expected characteristic	Our assessment	Key features within the 5 year Business Plan
Income	An assessment of expected income, including projected changes to council tax income. It should set out options to increase income, for example policies on fees and charges.	●	• Expected income factored using key financial assumptions including the impact of demographic change, central government funding and anticipated council tax income. • Strategy for fees and charges agreed by Council.
Costs	A clear understanding of the Council's costs, including those of individual services, borrowing costs etc. It should highlight future cost pressures and identify options for relieving these.	●	• Key factors cost pressures such as the impact of pay awards and demographic changes. • Options for relieving cost pressures are considered during service reviews, financial discipline and budget challenges.
Savings	An analysis of required savings along with evidence-based options for achieving these. This should set out details of one-off and recurring savings and the risk of these not being achieved.	●	• Clear outline of savings required and remaining funding gap for each year to 2017-18.
Funding gaps	Details of any funding gaps between projected income and the cost of providing services, including the reasons for these and how these will be managed.	●	• A £4.9m funding gap has been identified by 2017-18, with indicative gaps to 2020-21 • The Delivering Excellence framework provides a model for realising additional savings but there are not yet detailed plans for the years following 2017-18. • The framework signifies a programme of cultural and structural change, based on key principles including community engagement.
Assets, liabilities and reserves	An assessment of assets and liabilities showing how these will change over time. There should also be a reserves policy, setting out details of adequacy, why reserves are held and what they will be used for.	●	• The Business Plan is aligned to a range of interlinked strategies, including the People Strategy, refreshed Treasury Management and Capital Strategy and Effective Working in Midlothian Strategy.
Scenario planning	Different scenarios that show the best, worst and most likely financial positions. This should set out the assumptions used, and take into account long-term economic forecasts and interest rate projections.	●	• Major influences over the period of the Strategy are identified, but the Council needs to more fully consider and understand the sensitivity of key assumptions.
Capital investment activity	Details of investment needs and plans and how these will be paid for. This should include details of estimated financing charges.	●	• The Plan links to the capital programme, which highlights priority projects including EWiM, and source of borrowing with details of the impact on the revenue budget. A debt cap has been approved by the Council.
Demand	Analysis of demand for services, taking into account various population projections. It should also include the impact of demand on capital investment needs.	●	• Demographic pressures built into cost model and regularly reviewed and updated.
Risks	An analysis of significant financial risks, their implications and how these might be mitigated.	●	• Improvements have been made to the risk management process, but there are limited approaches in place to mitigate the risk of future cost pressures, other than the increased target for uncommitted reserves.
Links	Clear links to the Council's corporate strategy, CPP objectives and other plans.	●	• The Single Midlothian Plan provides the key priorities for the Council and it's partners. There are clear links to the Economic Strategy, People Strategy and Business Transformation Strategy.

Key

- ● In our view the Financial Strategy meets the relevant feature of good practice medium to long term financial planning
- ● The Financial Strategy (and associated documents) partially meets the relevant good practice feature
- ● The Financial Strategy does not meet the relevant good practice feature

Forecasted funding gaps: comparisons with others

The Accounts Commission Overview of Local Government 2015 highlighted that Councils are facing increasingly difficult financial challenges. In the 3 years to 2013-14 Scottish Government funding to Scottish councils reduced by 8.5% in real terms to £10.3 billion.

These financial challenges are forecasted to continue, particularly in 2016-17 and 2017-18.

In a briefing paper taken to the Accounts Commission in May 2015, the Director of Performance Audit and Best Value outlined the funding gaps that councils are predicting between 2015-16 and 2017-18. The Commission agreed that the paper be shared with auditors for their use. The paper was based on information provided by auditors on their councils budgeted income, revenue expenditure, savings plans and use of reserves in the years 2015-16, 2016-17 and 2017-18. This information was submitted when councils set the 2015-16 budgets.

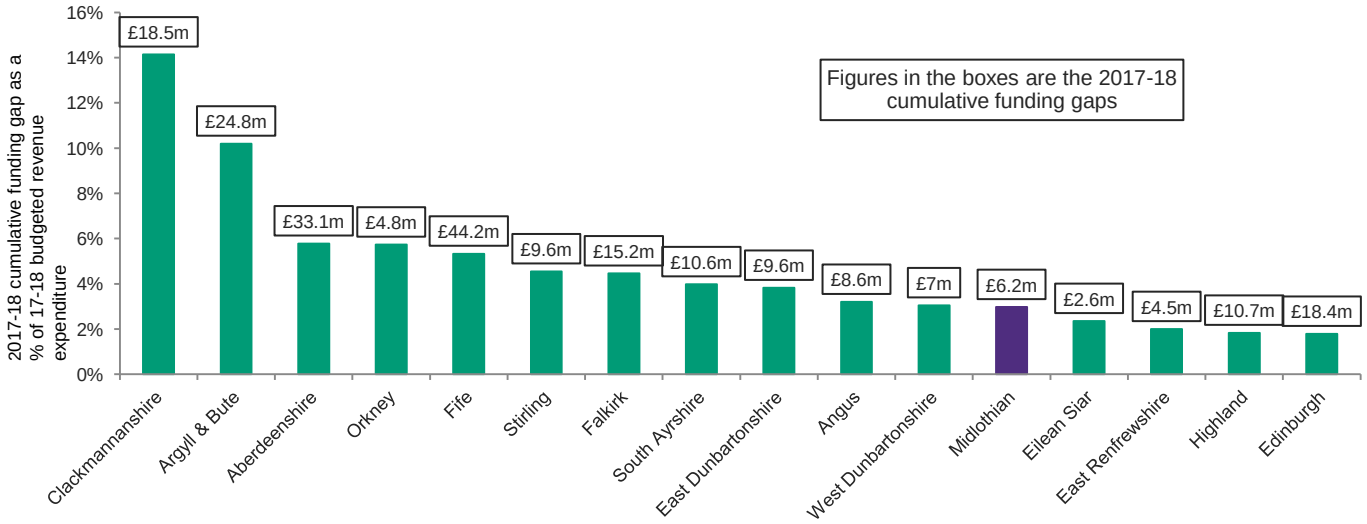
A funding gap is defined as the deficit that remains after a council has identified measures, such as savings or using reserves, to address the shortfall between their budgeted annual income and revenue expenditure.

The exercise highlighted differences in the way that councils present budget information. This means that it is difficult to understand each council's individual funding gap and to calculate the total funding gap facing all councils in the next few years, and comparing information across local authorities should therefore be done with caution.

Overall, sixteen councils predicted that they would have a cumulative funding gap in 2017-18, although a further six councils have not prepared sufficiently detailed projections to provide comparable information. The graph below shows the variation in funding gaps. The funding gap ranges from 2% to 16%, with Midlothian showing a gap of around 3% of budgeted revenue expenditure, which is comparable to Angus and West Dunbartonshire Council.

This chart highlights the difficult financial position across the local government sector in Scotland. Midlothian Council, like many others, has realised the easily identifiable savings and this has not yet impacted on service delivery. Looking ahead, the Council recognise that service delivery at the current level and model will not be sustainable without transformational change.

Cumulative funding gaps in 2017/18 (as a percentage of 2017-18 revenue expenditure)



Note: In 2017-18 ten councils are predicting a balanced budget and a further six councils have not prepared a budget for 2017-18

Source: Accounts Commission paper presented May 2015

Midlothian's economy – key opportunities

In order to achieve financial sustainability, the Council must continue to promote economic growth across the area. The Single Midlothian Plan recognises the wider economic role and strategy of the Council. The Council, together with it's community partners, has identified economic growth, and interlinked employment as two of the three key priorities for Midlothian in the medium and longer term.

Following an internal and external consultation process in 2014, the Community Planning Partnership partners approved the Midlothian Economic Recovery Plan (MERP), branded as *Ambitious Midlothian*, to drive forward sustainable economic development and growth in Midlothian. The strategy reflects a shared ambition for growth and diversification of the local economy and has a key objective to attract trade and investment to the Midlothian area that will deliver new economic infrastructure with high quality job opportunities. The Council aims to achieve this through five strategic themes:

- Support for Business
- Infrastructure Development and Major Projects
- Education, Skills and Employment
- Support for Key Economic Sectors
- A Sense of Place

The plan fosters growth across a variety of sectors based around current Midlothian strengths such as science and technology - life sciences, biotechnology, industrial biotechnology, and the animal health and welfare cluster based around the Bush / Roslin area, as well as tourism and construction.

Key strategic progress has been made with partners, such as the Shawfair development, the opening of the Borders Railway, Town Centre Regeneration and the developing City Plan.

Midlothian has a relatively small economy, and the area currently has a small business stock and a very low business density but the business formation rate is high, with Midlothian ranking in the top 40% of local authorities nationally. The 24 month survival rate is also very high by national standards at 82.5.

The proportion of businesses in knowledge intensive sectors, which is a key driver of productivity, is 30.45%, compared to 29.78% across Scotland.

74.8% of the population are employed, which is in the middle 20% of all local authorities across the UK. Like many local authority areas Midlothian is dependent on the public sector as a key employer (31.3% of people employed in Midlothian are employed in this sector), compared to 30.06% across Scotland.

Midlothian has a growing population. The population is expected to grow from 86,000 to 99,000 by 2037, but may exceed these projections. The current population is mixed, with very high levels of young people compared to national statistics, but relatively lower levels of elderly resident.

A large proportion of Midlothian's residents have higher level qualifications (NVQ 4 or equivalent and above) at 38.5% compared to 36.03% nationally. At the other end of the spectrum a small proportion of residents have low qualifications (NVQ 2 or equivalent) and 9.72% of residents have no qualifications, compared to 12.44% nationally.

However, a large proportion of the working age population claim benefits, at 14% compared to a national average of 12.5%. The proportion of 16-24 year olds who claim benefits is high at 10.87%, suggesting a lack of suitable employment opportunities for residents. A key part of the Council's focus continues to be investing in infrastructure which will support economic growth, and directly create training and employment opportunities.

Key actions progressed across the Council to drive economic growth include:

- ✓ Partnership to develop the Shawfair estate
- ✓ Commitment to exploit the economic opportunities offered by the Borders Railway
- ✓ Development of the City Deal with key partners, particularly partners focusing on traditional strengths such as science and technology
- ✓ Development of the Penicuik Business Improvement District
- ✓ Prioritisation of economic growth and employment within the Single Midlothian Plan.
- ✓ Plans to regenerate Dalkeith Town Centre

3. Governance and transparency

Governance and transparency

Annual governance statement

The Local Authority Accounts (Scotland) Regulations 2014 require the preparation of an Annual Governance Statement (AGS) within the financial statements. The Council has been preparing an AGS on a voluntary basis for a number of years, to comply with its Local Code of Corporate Governance. The Code is based on principles within the CIPFA/SOLACE framework (2007).

The Council's internal auditors conducted a review of effectiveness of the governance framework and the system of internal control to inform the AGS. The review of effectiveness did not highlight any issues that would impact on the level of assurance over the governance framework, however there were a number of areas for improvement identified and reflected in the statement:

- compliance with the new International Framework of Good Governance in the Public Sector
- full compliance against the new CIPFA code of practice on Managing the Risk of Fraud and Corruption
- weaknesses in control including Business Transformation and the management of petty cash
- the implications of the Data Protection Act within the Council and to monitor on-going compliance.

We reviewed the Council's AGS as part of our audit procedures and concluded, subject to amendments made during the audit process, that the disclosures were in line with the CIPFA Code and our knowledge of the Council. The statement is sufficiently balanced, reflecting key aspects of the Council's governance structure as well as key areas for future development.

Additional disclosures were made in relation to the significant incident at Newbyres, and progress in the development of the Health and Social Care Integrated Joint Board.

Management restructure

The Council adopted a new management structure of its senior leadership team during 2013-14, which was designed to better align service leadership to corporate plan objectives and to drive performance and accountability against its strategic plan objectives. The Management Review reduced 3rd and 4th tier management posts from 162 to 143.

Throughout 2014-15, services have embedded new management structures. The reduction is a positive step to continuing to make the Council's internal governance arrangements streamlined and effective, and to explore new and different ways of working as they continue to undertake the programme of change signalled within Delivering Excellence.

Scrutiny arrangements

The Council's committee structure has been stable since the formation of the Administration in June 2012. There are two key committees responsible for the scrutiny of policy and performance:

- Audit Committee
- Performance Review and Scrutiny (PRS) Committee

In June 2015, the Audit Committee conducted a self assessment of its effectiveness against CIPFA's *Audit Committee - Practical Guidance for Local Authorities*.

The self assessment found a strong level of compliance against the guidance. Specific amendments were highlighted relating to the Committee's Terms of Reference relating to ethics, the Committee's role in Treasury Management and specific service reviews. In addition, individual Audit Committee members have been asked to complete a Core Knowledge Self Assessment to allow any training needs to be identified.

Our own observations of the Audit Committee are good. The Committee is well-attended, both by members and by senior Council officers. The Committee is also well supported by internal audit, and by the Independent Chair, who provides additional perspective and financial expertise to the Committee. In future, the reduction of committee meetings provides an opportunity to review the workplan of the Committee to ensure that business is focused on key priorities, both for the Committee and the Council.

Refer to action plan point 8

In September 2014, Audit Scotland noted within their risk assessment of the Housing Benefit service that there was limited evidence of challenge from PRS members where performance was not meeting targets.

As a result, the Committee asked for a review of information presented to allow improvements to processes to be identified. A Housing Benefits improvement plan was presented to the Committee in September 2015 and includes:

- a consistent approach to performance management and monitoring
- development of performance targets in service planning; and
- Structured scrutiny activity with exception reporting highlighted for challenge.

Governance of Arms' Length External Organisations

Midlothian does not currently have any Arms' Length External Organisations (ALEOs) which are consolidated within the Council's accounts. However, in June 2014, the Council recognised the risk associated with key partnerships as part of a wider review of the Council's Services to Communities.

A review of the processes and procedures for the allocation of grants to community groups was established to re-examine the priority to be given to certain areas of activity, to align with the Council and partner overall priorities as set out in the Single Midlothian Plan and related documents.

A Co-Production Panel was set up comprising five voluntary sector representatives, a community planning partner representative from the Council's health partners and a number of council officers. The Panel conducted a stakeholder engagement exercise based on the following objectives:

- to establish a consistent process for grant allocation and monitoring
- to identify resources and define clear criteria for grant allocation and monitoring, aligned with the Single Midlothian Plan priorities and outcomes
- to incorporate relevant recommendations from Internal Audit's review of Following the Public Pound arrangements
- to develop an approach to forming a co-production panel.

The Panel has developed a range of recommendations including the creation of five grant streams to replace current approaches and the development of an implementation plan.

The Panel has also requested a review of commissioned services to ensure that they deliver Best Value and contribute savings. We believe that this review will further demonstrate compliance with the Council's responsibilities under the *Following the Public Pound*[1] Code.

1 The principles of funding external bodies were set out in the Accounts Commission and the Convention of Scottish Local Authorities (COSLA) 1996 '*Code of Guidance on Funding External Bodies and Following the Public Pound*'

Newbyres incident

We reported during 2013-14 that the Council faced a significant challenge, relating to carbon dioxide gas affecting houses in Newbyres Crescent. Newbyres is a new social housing estate and Care Home, completed within 2007-2009.

In 2014-15, the Council considered the results of an options appraisal for the future of the site and, based on recommendations from technical advisors, opted to demolish the site and rebuild the housing as part of the Phase 2 social housing programme.

We have not considered the history of the Newbyres development, but have focused solely on the governance surrounding the response, outlined on the following page. As a result of this review, we concluded that the Council acted appropriately and in partnership with advisors and public health professionals.

Risk management

The Council revised its Risk Management Policy and Procedures in February 2014. A Risk Management Group is in place, and risk registers are held at strategic, service and project levels.

Individual services are responsible for updating Service Risk Registers in line with service delivery priorities. To support this, the Risk Management Group contributes to the identification of new/emerging risks. Risk Management Group members are therefore directly involved in supporting service risk management arrangements.

Updates on the strategic risk register are reported to the Audit Committee on a quarterly basis, where it is subject to a degree of scrutiny.

Strategic risks in the register include:

- the achievement of identified savings and the ability to balance budgets in future years
- corporate transition and change; and
- the implications of the Welfare Reform Act.

We are satisfied that risk management arrangements have improved in recent years, but will continue to monitor the success of embedding risk within the performance monitoring processes and culture of the Council in 2015-16.

Internal Audit

The Council has an in-house Internal Audit function in place. The team carried out a self assessment of its compliance with new Public Sector Internal Audit Standards in 2014-15. This demonstrated that the key elements of the Standards were complied with during the year and established an action plan to address the small number of areas where performance could be improved. An external assessment of compliance is planned for 2016-17.

Internal Audit is led by the Internal Audit Manager, who reports to the Chief Executive, and consists of a team of four.

Internal Audit is required to provide an annual opinion to the Audit Committee on the assurance framework. In 2014-15, the Internal Audit Manager issued the following opinion:

"It is my view that overall internal controls have been implemented and are monitored by management in line with Financial Directives, Council Policy and the other key essentials of a robust Internal Control Environment."

There were a number of areas where improvements to internal controls were required:

- the Transformation Programme (limited assurance);
- the controls operating over Petty Cash (very limited assurance);
- Council tax liability and billing (moderate assurance); and
- Statutory performance indicators (moderate assurance).

In 2015-16 the Internal Audit programme includes key reviews on:

- the Financial Strategy and follow up of Business Transformation
- Welfare Reform (Universal Credits)
- a review of Self Directed Support
- Tendering of contracts

As set out in our audit plan we reviewed the work of Internal Audit to inform our audit approach. However, we did not place reliance on any specific Internal Audit work undertaken in 2014-15.

Overall Internal Audit have completed their plan for 2014-15 as agreed with the Audit Committee and have provided detailed updates to Committee.

Newbyres timeline

Sept 2013

Residents from two adjacent houses in Newbyres Crescent became unwell and two people attended the Royal Infirmary of Edinburgh.

- Investigations by the Coal Authority identified that carbon dioxide (CO2) was migrating into the houses and accumulating at levels sufficient to affect human health.

Nov 2013

Midlothian Council contracted Fairhurst engineers to undertake a review of issues associated with ground gases entering houses built on 'Gorebridge Site 32' at Newbyres Crescent, and to provide advise regarding further investigations.

- Residents from 5 affected houses were decanted from Newbyres Crescent.

Nov 2013 – May 2014

- Carbon dioxide detectors installed in each property
- Dedicated response team established to provide support to tenants
- Site office established at 12A Gore Avenue to provide tenants with access to services from the council and partner agencies.
- The Incident Management Team (IMT) directed the ongoing monitoring of the release and accumulation of carbon dioxide and immediate action by Midlothian Council staff should trigger levels be reached.

- IMT was established with NHS Lothian's Health Protection Team
- "Care for People Group" established to monitor responsibilities under the Civil Contingencies Act. The group includes NHS Lothian, Police Scotland, utilities and the voluntary sector.

June 2014

A Senior Officers Group was formed to respond to the situation. Management presented an options appraisals exercise to Special Council.

1. Retrofit gas membrane to all houses Est. cost £3.7m	2. Demolish and rebuild all 64 houses Est. cost £12m	3. Demolish and rebuild only decanted properties Est. cost £4.4m	4. Leave decanted houses unoccupied Est. cost £2.3m	5. Demolish all 64 houses and market site for development

Options 2 and 5 were recommended based on advice from the IMT and the independent engineering consultants, Fairhursts. Option 1 was dismissed due to the uncertainty associated with no precedent, guarantee of success, or support from Fairhursts to retro-fit gas membranes.

- The Council accepted officers recommendations to demolish the site, but delayed the decision on whether to rebuild or market the site until the Incident Management Team (IMT) reported on public health concerns.

June 2014

- The Council begins to decant the remaining residents from homes on the estate. Each tenant is allocated additional points on the housing allocation register.
- A Home Loss payment is available for secure tenants who have lived in the home being demolished for at least 12 months.
- A Disturbance Payment covers moving costs and situations where tenant have suffered "demonstrable detriment".

Audit Committee maintains a watching brief on progress, including discussions with the Council's insurers and options to pursue recompense

Oct 2014

A seminar was held to discuss a draft report by the Chief Executive, providing an update to elected members.

The seminar was attended by a representative from the independent engineering consultants, Fairhursts and considered a range of factors, including the project risk register, the insurance position, and legal position.

At the subsequent meeting on 4th November 2014, the Council agreed to demolish the site, and rebuild the housing with gas membranes, as part of the Council's Phase 2 social housing building programme.

Aug 2015

Fairhursts prepared an expert report for a private session of Midlothian Council, outlining whether members of the professional team complied with their contractual obligations in respect of the site investigation.

Shepherd and Wedderburn prepared a note of advice setting out their view of the prospects of the Council successfully making a claim.

There are currently 6 households remaining at the Newbyres site from the original 64 properties.

At the private meeting on 11th August, the Council agreed a way forward in line with the professional advice given.

Prevention and detection of fraud and irregularity

The Council has a Counter Fraud and Corruption Policy and Strategy, which is designed to promote an anti-fraud and anti-corruption culture. This is supplemented by the Council's Public Interest Disclosure (Whistleblowing) Policy.

Our enquiries of management and the Council's internal identified no instances of fraud during the year, although a review undertaken by the Council's internal auditors regarding the use of petty cash found areas of at risk of financial loss. An action plan has been developed to address the control weaknesses identified.

There were no instances of internal fraud highlighted to us over the course of the audit.

In order to gain assurance that there were no material fraudulent transactions in year, we conducted testing on journal entries and related party balances to identify any unusual transactions. There were no issues arising from this testing.

In September 2014, the Council approved the decision to retain 2 FTE fraud investigation officers following the introduction of Single Fraud Investigation Service (SFIS).

These officers have now transferred to the Council's internal audit team and from October 2015 (following the transfer of responsibility for investigating Housing Benefit Fraud to SFIS), they will help identify and investigate any suspected internal or external fraud; undertake specific audits on areas deemed vulnerable to fraud (including serious organised crime); and to update fraud policy and procedures including the whistle blowing facility.

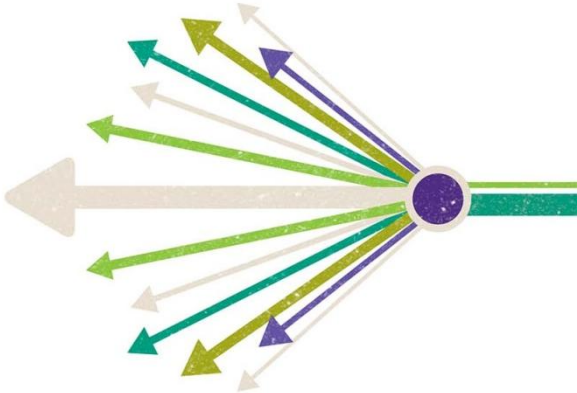
The Council participates in Audit Scotland's National Fraud Initiative. During 2014-15 the data matching exercise found 3,302 matches of which 512 were recommended matches. The Council has investigated 3,143 (95%) of the recommended matches as at May 2015. The exercise has identified 24 Disabled Parking Blue Badges in existence where the holder is deceased, and these have now therefore been cancelled.

Arrangements for maintaining standards of conduct

In line with the Ethical Standards in Public Life etc (Scotland) Act 2000, the Council has established a Code of Ethical Standards and the specific Code of Conduct for Councillors as approved by the Scottish Government. A register of interests is available for each Councillor on the Council's website, and declarations of interest are made at each Council meeting.

An Integrity Group has recently been established, consisting of Senior Officers who represent areas considered to be at risk of Serious Organised Crime. The Group is chaired by the Council's Director Resources and will examine areas including:

- Corporate Fraud
- Serious Organised Crime
- Procurement Fraud
- Housing Tenancy Fraud
- Local data matches



4. Best value and value for money

Achieving Best Value

Single Midlothian Plan

The Single Midlothian Plan acts as the sovereign planning documents for the Council and its community planning partners. It sets out medium and long term outcomes for deliver against agreed partnership priorities. The Plan sets out a framework focusing on three key priorities:

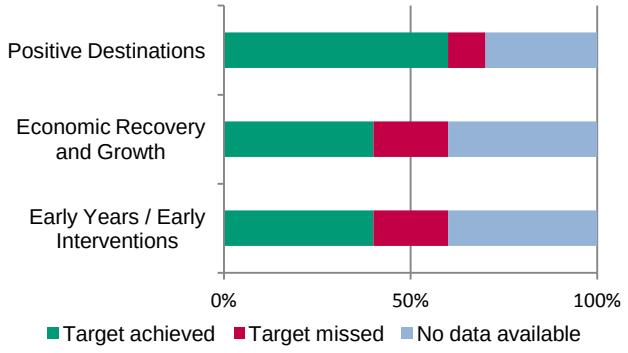
- economic growth
- employment, especially youth employment
- early years, including reducing child poverty

The Plan also prioritises three areas within Midlothian where there is a significant statistical gap in outcomes and average outcomes for the rest of Midlothian and Scotland as a whole. The priorities are based on an extensive annual strategic assessment which give the Council and its partners a strong understanding of the area, its residents and sense of place.

The Plan has been developed in line with the Council's Future Model of Service delivery approach, which includes a focus on preventative intervention, building community capacity and changing where and how the public access resources. Current opportunities such as the Integrated Joint Board for health and social care, and the developing City Deal mean that the Council is well-placed to make significant progress in changing how services are delivered in the future.

The Community Planning Partnership Board receive six-monthly reports on progress against the outcomes in the Single Midlothian Plan.

Good progress was made against outcome targets in 2014-15:



The Annual Report for 2014-15 highlighted key successes against the three priority areas. These include:

- improvements in educational attainment
- supporting ten high value business start ups
- achieved assisted area status for economic development investment around the Bush estate
- achieving improved positive destinations for young people.

Community Engagement

The Council has actively sought to increase community engagement in the community planning process. The CPP engages with local communities through Neighbourhood Planning arrangements, a bi-annual Citizens Panel, and stakeholder joint planning. Service users also help to shape services through formal user groups within community care and community learning and development services.

The Community Empowerment (Scotland) Bill was passed in June 2015. The Bill aims to make provision about the achievement of national outcomes through increased community involvement and collaborative decision making. The Bill makes provision:

- for community planning partnerships to be embedded in law with a requirement to work alongside communities
- to enable communities to buy abandoned or neglected land
- for registers of common good property

The Council has responded positively to the principles of Community Empowerment, which are entrenched in the Future Models of Service Delivery approach. The Council has also adopted a Community Management of Assets Policy to provide a clear pathway for the consideration of the transfer and management of assets by communities.

Performance management framework

The Council continues to develop arrangements to ensure that the Single Midlothian Plan is underpinned by strong service planning and self-evaluation arrangements.

Each service has a Service Improvement Plan which provides a link to the local outcomes contained within the Single Midlothian Plan and the commitments in the Transformation Strategy.

Plans are in place to improve the Service Planning process by developing a balanced scorecard approach to recognise key service priorities, and how each service contributes to the three key priorities of the Council and its community planning partners.

The Council also continues to develop its approach to self-evaluation. However, the Midlothian Excellence Framework (MEF), which is a self-evaluation approach based on the Public Sector Improvement Framework, has not yet been rolled out across services consistently, and outcomes have not yet been reported to the Council or Performance Review and Scrutiny Committee.

Performance reporting to Committees has not been changed to reflect the Balanced Scorecard, and there is significant scope to improve the impact of performance reporting by focusing on the Council's key priorities and outcomes.

Performance information is currently provided in reports from the Council's performance management system, Covalent every quarter. However, as the following table highlights, current reporting categories focus on operational aspects, rather than priority outcomes.

The Annual Performance Reports also include over 100 actions and indicators relating to:

- Adult Health and Care
- Community Safety
- Getting it Right for Every Midlothian Child
- Improving Opportunities for People in Midlothian
- Sustainable Growth

Current performance reporting framework:

Outcomes and customer feedback	• Provide an efficient complaints service
Making the best use of our resources	• Managing revenue budget • Sickness absence
Corporate health	• Process invoices efficiently • Control risk
Improving for the future	• Implement improvement plans

We consider that there is scope to improve performance reporting to focus more on outcomes and value for money. This will allow Councillors to play a greater role in monitoring the effectiveness of services, and driving the pace of change.

Refer to action plan point 8

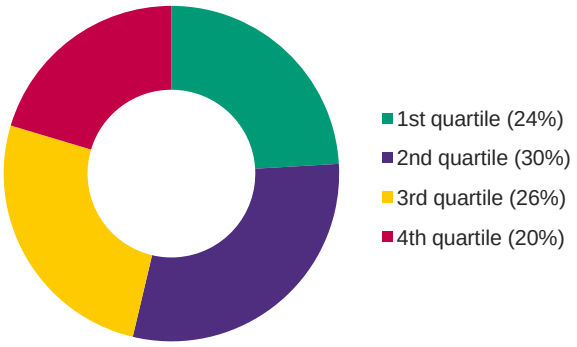
Statutory performance indicators (SPIs)

Under the Local Government Act 1992 Publication of Information (Standards of Performance) Direction 2013, the Council has collected and reported information on Corporate Management (SPI 1), Service Performance (SPI 2) and the Local Government Benchmark Framework (LGBF SPI 3).

The LGBF comprises a suite of performance indicators which are collected for all councils across Scotland to create a database of comparable data. The performance data that was reported into the 2013-14 LGBF is available on the Council's website. In 2013-14 there were 54 indicators as part of the LGBF for which the Council reported data.

We summarise performance on the following page.

Performance against LGBF indicators:



Source: Local Benchmarking Framework 2013-14

This chart highlights that service performance in a national context remains mixed with 24% in the first quartile, but 20% at the bottom quartile. Areas performing well include: housing services, positive destinations for school leavers, sickness absence and the costs of environmental services including street cleaning and waste disposal.

Performance in the bottom quartile of councils include home care costs, the costs of children who are looked after in residential care and the percentage of adults who are satisfied with social care services.

Overall, the services measured by statutory performance indicators are improving. 54% of the indicators improved during the year.

We did, however, note that the Council's internal auditors found that there were errors within a sample of 5 key performance reporting submissions, including a minor expenditure misclassification in a heading on one of the Local Finance Returns submitted to the Scottish Government.

Accounts Commission Public Performance Reporting review

The Accounts Commission reported on how well Councils have met the requirements of its SPI Direction 2012 in June 2015. The report presented to the Accounts Commission meeting outlined where Public Performance Reporting (PPR) has improved and where further improvement is required.

The Commission noted that although there was a general trend of improvement there were significant variations across the SPI 1 and SPI 2 themes.

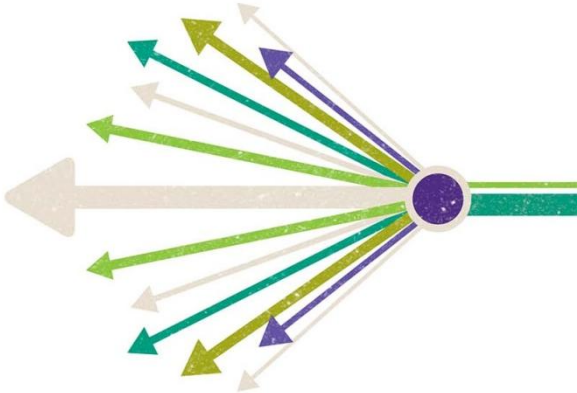
As part of the review it assessed how well councils met all of the 18 themes within the SPI Direction 2012. As a result of the review Councils were split into quartiles for compliance.

Midlothian Council was in the first quartile noting full compliance with 16 out of the 18 priorities. The Accounts Commission identified procurement and customer satisfaction as areas for improvement. The findings in the above areas were:

- the Council does not offer the public a variety of performance indicators to develop a contextual understanding of procurement or employee performance within the Council
- the Council does not systematically report on customer satisfaction ratings, or the outcomes of community engagement.

Refer to action plan point 9

The Accounts Commission review into where Public Performance Reporting has improved, based on the SPI Direction noted that Midlothian Council were in the top quartile for reporting against the 2012 Direction, with 16 out of 18 key performance indicators identified as "fully compliant".



Health and Social Care Integration

The Council has made good progress on delivering Integrated Health and Social Care, with its partners in NHS Lothian. Partnership working has historically been strong, and the Midlothian Community Planning Partnership has met national delayed discharge targets in recent years.

In August 2015, the inaugural meeting of the Midlothian Integrated Joint Board was held, which formally appointed the Chief Officer. The Board has two categories of members, voting members and non-voting members. The voting members are nominated representatives from key partners as follows:

- Midlothian Council: 4 members
- NHS Lothian: 4 members

A draft Strategic Plan has been developed and subject to a period of consultation. A programme of staff engagements has been undertaken based on localities and patient pathways. The Board has also established a Strategic Planning Group to agree the content of the Plan, ensure that the key objectives are developed and progressed. The Group will also retain an overview of the Plan's complex interdependencies. This role recognises that the Plan will be a live working document which will require continual adjustment and refinement.

A performance framework is being developed around 9 national outcomes and the Single Midlothian Plan.

The creation of a fully integrated Board is complex, and within the finance work stream a process of due diligence is being undertaken. The Council has considered update reports outlining the approach agreed and underlying methodology.

The creation of a fully Integrated Joint Board is effectively a large change programme, coming at a time where across the sector there is increasing financial pressure and wider future sustainability questions. For the success of the IJB and the wider partnerships it will be essential that finance does not become the sole driver at the potential expense of a focus on outcomes across all aspects of care reflected within the IJB.

The intention to set up integrated health and social care across Scotland was to allow for greater achievement of outcomes. Quickly the new IJB will need to move to a focus on service redesign – and a shift from "as is" provision to something which in effect may need to be radically different.

Based on current leadership, we are confident that Midlothian is fully committed to making integration work and achieve stronger outcomes for communities.

Like all change programmes buy in from stakeholders is key and the partners and Chief Officer recognise the importance of organisational development, and the wider communication and engagement work which is planned over the next 12 months and beyond. These plans include progress on integrating Children's Services and assisting the workforce and each organisations to move towards greater integration.

Appendices

Contents	Page

Appendix A: Unadjusted misstatements

We are required to report to those charged with Governance any identified adjustments, over and above our de minimis materiality level of £0.19 million, which we have reported to Officers but have not subsequently been changed in the final version of the Financial Statements. We have 2 potential adjustments to report, which are outlined below.

	Detail	Comprehensive income and expenditure account £m	Balance sheet £m	Reason for not adjusting
1	• We noted a minor difference between the Non Domestic Rates income figure within the financial statements, to that determined within the Local Government Finance (Scotland) Act.	295k		• Below materiality threshold
2	• We noted that a number of items classed as disposals in 2014-15 relate to assets that do should have been removed from the fixed asset register in prior years. The sum of disposals affected totals £1.7m.	-	-	• No impact on 2014-15 carrying value of Property, Plant and Equipment.

Appendix B: Action plan

	Issue and risk	Priority	Agreed action
1	Errors in accruals During testing for unrecorded liabilities, we identified three errors from an extended sample of 20 transactions. The largest item not accrued for was £604. Our review of accruals highlighted that there is no accrual policy in place to provide clarity on the minimum value of an item to be accrued for. Our analysis of accruals found 3,835 items were accrued for transactions less than £1,000, which accounted for around £0.8 million. Risk There is a risk of inconsistency and inefficiency in processing of accruals during the year end processes.	Low	Expansion of the automated purchase to pay process and implementation of a new version of Integra will improve workflows. **Owner/Timescale:** David Gladwin, Financial Services Manager 31 December 2015
2	Journal control weaknesses During our testing on journals, we continue to note a number of control weaknesses including: • The manual entry of journal numbers, which means that they are not always consecutive • Gaps in the journals listing • Manual entry of who has posted and approved individual journals Risk The existence of control weaknesses over the financial ledger exposes the Council to a risk of fraudulent journals. While our testing provides assurance that the accounts are not materially misstated, there is a risk that individuals could exploit the weaknesses for personal benefit.	Low	Implementation of a new version of Integra will improve workflows in the system and allow for automated journal processing, which will improve the audit trail. Meanwhile, the Finance Team will continue to ensure there are no transactions associated with gaps in journal numbers. **Owner/Timescale:** David Gladwin, Financial Services Manager 31 December 2015
3	Future accounting considerations – Fair Value accounting The change in accounting for fair value will have a significant impact on the Council's balance sheet. Finance should consider the implication of this change, particularly the implications for the revised revaluation programme being developed with the Valuation Team. Risk Fair value valuations may not be undertaken, leading to a potential material misstatement in 2015-16	High	Changes to the Accounting Code of Practice will be reviewed and assessed prior to the creation of the Final Accounts Audit Plan. **Owner/Timescale:** David Gladwin, Financial Services Manager 31 December 2015
4	Future accounting considerations – Infrastructure assets The change in accounting for infrastructure assets will have a significant impact on the Council's balance sheet. Finance should continue to consider the implication of this change, with a view to considering the balances for 2015-16 and we will continue to work proactively with Finance in this area Risk Prior work may not be undertaken in respect of infrastructure assets leading to an impact on 2016- 17 financial statements	Medium	Work will continue to ensure that information will be available and robust in time for implementation. **Owner/Timescale:** David Gladwin, Financial Services Manager 31 December 2015

	Issue and risk	Priority	Agreed action
5	Accuracy of financial forecasting As in 2013-14, we noted a significant movement in the forecasts within financial monitoring reports and the final outturn. Risk Significant, and unexpected fluctuations in financial performance mean that it can be difficult for elected members to fulfil their financial scrutiny role.	Medium	Work continues to further develop the quality and accuracy of projections in some areas, bearing in mind the very uncertain nature of some events that impact on them. **Owner/Timescale:** David Gladwin, Financial Services Manager Ongoing
6	Long term financial planning Our review of the Council's Financial Strategy and supporting documents against Audit Scotland's best practice criteria highlighted areas for improvement including the use of scenario planning. Risk The Council is aware of the risk of not achieving savings, such as the business transformation savings, but has not prepared for significant fluctuations in key assumptions, such as the outcome of the review of Council tax arrangements.	Medium	Work continues to further develop the financial projections set out in the Financial Strategy and to assess the impact of key assumptions. The report to Council on 22nd September 2015 sets out the key sensitivities and highlights the impact of a differing grant scenario. This development will continue through the period covered by the Financial Strategy. **Owner/Timescale:** Gary Fairley, Head of Finance and Integrated Service Support Ongoing
7	Audit Committee Workplan The reduction of meetings provides the opportunity to improve the planning and focus of the work of the Audit Committee, by identifying priorities for the year and ensuring that key papers to support the priorities are planned in advance. Risk There is a risk that the Audit Committee may not achieve key priorities for scrutiny	Low	The Committee have the opportunity to influence the priorities of internal audit through consultation on the annual plan in March. In 2015-16, an Audit Committee Away Day will be held to ensure that the committee can influence future reports and priorities. **Owner/Timescale:** Graham Herbert, Internal Audit Manager 31 March 2016
8	Performance reporting to members could be better focused on key outcomes There is scope to improve the quality of performance reporting to Committee by: • making performance reports shorter, sharper and more clearly focused on the priorities within the Single Midlothian Plan • focusing on improvement actions Risk There is a risk that current performance reports focus on operational issues, and therefore prevent full scrutiny of progress against the outcomes in the Single Midlothian Plan.	Low	Recent engagement with elected members to discuss improvements in performance reporting to committee. This engagement will determine both the improvement and timescale for any changes. **Owner/Timescale:** Myra Forsyth, Quality and Scrutiny Manager Ongoing
9	Public Performance Reporting could be improved to reflect best practice Midlothian Council achieved full compliance with 16 out of 18 priorities in the Statutory Performance Indicators. There was scope for improvement in reporting aspects of managing people and procurement. The Accounts Commission also noted that reporting on customer satisfaction and community engagement could be improved. Risk The performance information available for the listed indicators may be insufficient for the public needs to allow them to understand the services in those areas.	Low	An improvement plan has been submitted to Audit Committee to address areas for action. **Owner/Timescale:** Myra Forsyth, Quality and Scrutiny Manager 31 March 2016

Appendix C: Follow-up of prior year actions

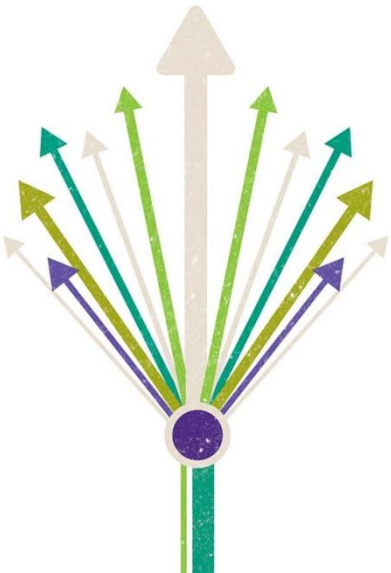
Set out below is our follow up of the 2013-14 Annual Report to members recommendations.

	Recommendation	Action taken
1	The savings identified within the current transformation programme will not be sufficient to bridge the projected budget gap. Plans to deliver further savings must be agreed as quickly as possible.	**Implementation ongoing:** The Financial Strategy presented to the Council identifies savings to bridge the gap in the short term. *Delivering Excellence* provides a framework to bridge the remaining forecast funding gap of £4.9 million.
2	We recommend that the transformation programme is streamlined to focus support and resources on the areas that will have the biggest impact on the Council's priorities and savings.	**Implemented**: The Business Transformation programme has been streamlined to removed 'business as usual' projects such as income maximisation and energy efficiency. The rigour and governance applied to the Business Transformation programme also improved throughout 2014-15.
3	The Council should review the reporting arrangements to ensure that elected members know how many individuals have been placed in switch, and the costs and outcomes of the programme.	**Implemented in full:** Information is reported within quarterly reporting of Finance and Integrated Service Support performance.
4	The Council's 'golden thread' review of the planning and performance management framework should ensure that performance reporting is as effective as possible. Consideration should be given to giving elected members training and access to the Covalent performance management system.	**Partially implemented**: We continue to comment on the focus and clarity of performance reporting during 2014-15. Plans to adopt a balanced scorecard approach were delayed as a result of the management restructure. However, the Council is developing the browser version of the Covalent performance management system, to allow elected members to gain direct access.
5	The Council should ensure that services routinely use benchmarking and comparators to challenge their performance, drive improvement and explain their relative position to elected members.	**Partially implemented**: The Council participates in a range of benchmarking carried out nationally but there is limited reporting of results to members. The SOLACE Benchmarking indicators have been incorporated within specific Service areas in terms of planning and performance monitoring and management. Midlothian is also currently participating in several LGBF peer groups as part of the revised national approach to identifying and sharing best practice with a view to driving improvements using benchmarking.
6	The Finance Team should review the current format of financial monitoring reports to ensure that they are clear, understandable and reflect key risks.	**Partially implemented**: The financial monitoring reports provide clarity of movement and projected outturn. We also consider that reporting on the outturn against planned business transformation savings has improved. However, in 2014-15 we have again noted significant movements between forecast outturn and the actual reported within the financial statements.
7	The Finance Team should review the content and format of the Financial Statements to ensure that they are clear, understandable and comply with the Code.	**Partially implemented**: Key improvements have been made to the presentation and management commentary within the financial statements. We also noted a lower level of error in 2014-15, suggesting improved quality assurance processes. However, there are still a number of areas where the accounts do not comply with the requirements of the Code of Practice on Local Authority Accounts in the United Kingdom.

Appendix D: Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards to communicate to those charged with governance.

Issue	Commentary
1 Written representations	• A letter of representation has been requested from the Council • In particular, representations will be requested from management in respect of: – significant assumptions used in making accounting estimates, including those measured at fair value, are reasonable – responsibility for the design and implementation of internal control to prevent and detect error and fraud – related party relationships and transactions being appropriately accounted for and disclosed in accordance with the requirements of the CIPFA Code – all events subsequent to the date of the financial statements and for which the CIPFA Code and International Financial Reporting Standards requires adjustment or disclosure having been adjusted or disclosed
2 Disclosures	• Our audit work identified no material omissions in the financial statements
3 Matters in relation to fraud	• We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures
4 Matters in relation to laws and regulations	• We are not aware of any significant incidences of non-compliance with relevant laws and regulations
5 Matters in relation to related parties	• We are not aware of any related party transactions which have not been disclosed
6 Going Concern	• We have considered managements assessment of going concern. Our work has identified no significant issues in relation to going concern



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