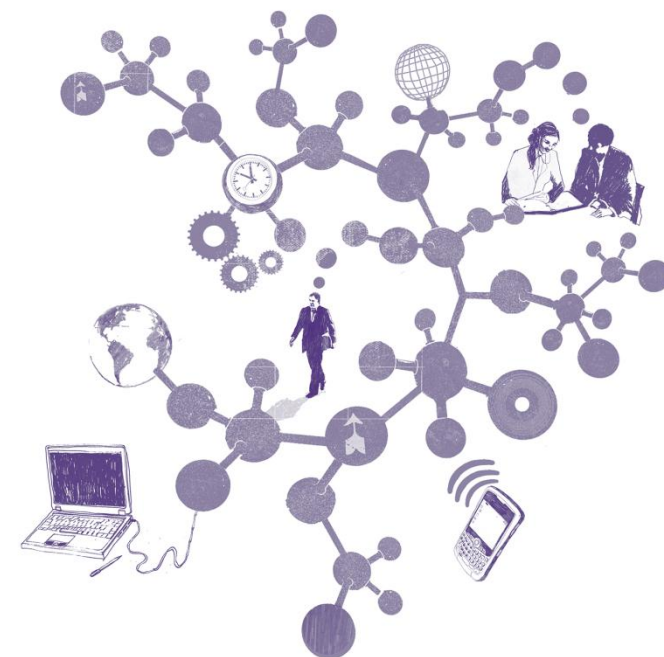


This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.

Financial Statement Audit Findings for Midlothian Council

Year ended 31 March 2013

September 2013



The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify.

We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Section 1: Executive summary

01. Executive summary

02. Audit findings

03. Fees, non audit services and independence

04. Communication of audit matters

Executive summary

Introduction

This report has been prepared for the benefit of discussion between Grant Thornton UK LLP and Midlothian Council ("the Council"). The purpose of this report is to highlight the key issues arising from the audit of the Council's financial statements for the year ending 31 March 2013.

Under the Audit Scotland Code of Audit Practice we are required to report whether, in our opinion, the Council's financial statements present a true and fair view of the financial position, its expenditure and income for the year and whether they have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting.

This report meets the mandatory requirements of the International Standard on Auditing 260 (ISA 260) to report the outcome of the audit to 'those charged with governance', designated as the Audit Committee.

Scope of our work

During the course of our audit we have not had to alter or change our planned audit approach, which we communicated to you in our Audit Plan in March 2013.

We received draft financial statements and accompanying working papers at the start of our audit, in accordance with the agreed timetable.

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

- certification of the Housing Benefits and Council Tax Benefits grant claim
- review of the final version of the financial statements
- obtaining and reviewing the management letter of representation
- updating our post balance sheet events review, to the date of signing the opinion
- clearance from Lothian and Borders Police and Fire auditors, to support the group accounts
- Review of the Council's Whole of Government Accounts submission.

We received draft financial statements and a number of accompanying working papers at the start of our audit, in accordance with the agreed timetable.

Financial Statements Opinion

We expect to provide an unqualified opinion on the Council's 2012-13 financial statements.

We have identified a small number of adjustments within Table 3, on page 12. The adjustments have not impacted on the Council's net deficit position, but have improved the presentation of the financial statements and adjustments to financial disclosures in the notes.

Summary of Key Findings

Reporting area	Our Summary
Financial Statements	<ul style="list-style-type: none"> ■ We intend to give an unqualified opinion on the financial statements of Midlothian Council ■ We highlight a number of adjustments within Section 2, which management have processed within the revised financial statements.
Financial position	<ul style="list-style-type: none"> ■ The financial statements record a net deficit on the provision of services of £13.14 million (2012: surplus of £0.4m). The key variances related to costs associated with the Lasswade project, including an impairment of the previous school site. ■ At 31 March 2013, the Council had a general reserve balance of £14.1 million, of which £6.4 million is available as a contingency (2012: £6.9 million). Uncommitted reserves represent 3.3% of the Council's net expenditure.
Internal controls	<ul style="list-style-type: none"> ■ We reviewed the Annual Governance Statement and were satisfied that disclosures are in line with our knowledge of the Council and that the statement is underpinned by a robust assurance framework, developed by internal audit. ■ We highlight a small number of areas for improvement in internal control within Table 6 in Section 3.

Looking forward

Matters arising from the financial statements audit and review of the Council's internal control arrangements have been discussed with the Head of Finance and HR.

Section 4 of this report highlights key changes for 2013-14. We have made a number of recommendations, which are set out in the action plan in Appendix A. Recommendations have been discussed and agreed with the Finance team.

In October 2013 we will issue our Annual Report to Members. This report draws together the results of all our audit work throughout the year, including reporting on the Council's financial position, financial resilience, overall performance and governance. We will present this report to the Audit Committee at their meeting on 29th October 2013.

Acknowledgment

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

Grant Thornton UK LLP
September 2013

Section 2: *Audit findings*

01. Executive summary

02. Audit findings

03. Fees, non audit services and independence

04. Communication of audit matters

Audit Findings

Introduction

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and findings arising from our work in respect of the audit risks we identified in our audit plan, which was issued to the Council in March 2013.

We also set out the adjustments to the financial statements from our audit work and our findings in respect of internal controls.

Audit opinion

We anticipate that we will provide the Council with an unmodified opinion conclude that the financial statements are prepared in accordance with Part VII of the Local Government (Scotland) Act 1973 and the Code. Our audit opinion is set out in Appendix B.

Changes to the audit plan

During the conduct of our audit, we have not had to alter or change our audit plan issued in March 2013.

Outstanding matters

Our audit is substantially complete. We continue to finalise our audit procedures in the following areas:

- certification of the Housing Benefits and Council Tax Benefits grant claim
- review of the final version of the financial statements
- obtaining and reviewing the management letter of representation
- updating our post balance sheet events review, to the date of signing the opinion
- clearance from Lothian and Borders Police and Fire auditors, to support the group accounts
- Review of the Council's Whole of Government Accounts submission.

The draft management letter of representation is attached as Appendix C to this report.

Table 1: Audit findings against significant risks




Under International Standard on Auditing (ISA) 315, we are required to identify and assess the risks of material misstatement within the Council's financial statements. We identified those areas that we consider to risks within our External Audit Plan 2012-13. We outline our response to the significant risks of material misstatement which we identified in the Audit Plan below.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	<p>Operating expenses</p> <p>All Councils will find it increasingly difficult to deliver and balance budgets during the period of significant financial restraint.</p>	<ul style="list-style-type: none"> Review of the controls in place over the accounts payable system Substantive testing of a sample of 60 expenditure transactions, which was concluded at the year end with no issues arising. Review of post year end transactions to look for unrecorded liabilities A review of aged creditors 	<p>Our audit work on controls and substantive testing on expenditure has not identified any issues in respect of operating expenses.</p>
2.	<p>Employee remuneration</p> <p>Employee costs account for around 45% of the Council's expenditure. Large numbers of employees and transactions mean that there are inherent risks associated with payroll costs.</p>	<ul style="list-style-type: none"> We completed detailed substantive testing of the payroll processes on a sample basis at interim and the year end. This testing provided assurance that payroll processes were operating in line with requirements. Additional testing was conducted at the year end to provide assurance over the figures in the accounts. This testing included analytical analysis of the detailed payroll data and of the reported balances. 	<p>We gained sufficient assurance over payroll processes to conclude that there are no material misstatements.</p>
3.	<p>Property, Plant and Equipment</p> <p>Fixed assets account for the majority of assets on the Council's balance sheet, with a value of around £718 million.</p>	<ul style="list-style-type: none"> Substantive testing was used to gain assurance on the value of property, plant and equipment. We verified key additions such as the work on the Lasswade campus and the social housing programme to completion certificates. We used the final audit visit to review the controls in place over the fixed asset register, including valuation arrangements. 	<p>Our audit testing provided sufficient assurance on the property, plant and equipment to conclude that there are no material misstatements. We have, however, made two recommendations relating to fixed assets within Appendix A. These relate to the programme of valuations provided by the Council's internal valuer and some descriptions within the fixed asset register.</p>

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
4.	<p>Housing Revenue Account</p> <p>The Council's rent debit is determined annually based on the amount required to meet the expenditure requirements of the Housing Revenue Account.</p> <p>The amount collected is subject to a number of variables including the level of arrears and the number of rent free weeks</p>	<ul style="list-style-type: none"> • We conducted detailed testing on controls during our interim fieldwork to ensure that they operate effectively • We performed testing on a sample of 25 rent accounts to verify the existence and accuracy of the debt. 	<p>Our audit work has not identified any issues in the administration of the Housing Revenue Account. We will, however, continue to monitor the impact of Welfare Reform on the Council's level of rent arrears, and therefore the resilience of the Account.</p>
5.	<p>Benefit expenditure</p> <p>The systems to establish entitlement to housing and council tax benefit are complex. There are large monetary amounts involved, and it is difficult to predict annual movements</p>	<ul style="list-style-type: none"> • We used our interim audit visit to document and evaluate the controls in place over the benefits system. • We have undertaken the testing required to validate the Council's Housing and Council Tax Benefit grant claim 	<p>Our audit work has given us sufficient assurance that there are no material misstatements within benefit expenditure.</p>
6.	<p>Improper revenue recognition</p> <p>Under ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition</p>	<ul style="list-style-type: none"> • Review and testing of revenue recognition policies • Testing of material revenue streams • A review of unusual significant transactions 	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
7.	<p>Management override of controls</p> <p>Under ISA 240 there is a presumed risk of management over-ride of controls</p>	<ul style="list-style-type: none"> • Review of accounting estimates, judgements and decisions made by management • Testing of journals entries • Review of accounting estimates, judgements and decisions made by management • A review of unusual significant transactions 	<p>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.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</p>

Table 2: Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	<ul style="list-style-type: none"> The predominant source of revenue for the Council is from Grants and Taxation. Revenue for this category of receipts is recognised when the amounts become due. Revenue from goods and services is recognised when it is certain that the Council will receive cash, and only recognised in the year in which it has provided the service to earn the revenue. 	<ul style="list-style-type: none"> the revenue recognition policies are appropriate under the CIPFA/LASAAC Code of Practice in a small number of cases, judgements are made regarding levels of accrued income, and no issues have been found with this from the audit. the disclosure of the accounting policy is adequate 	
Judgements and estimates	<ul style="list-style-type: none"> Key estimates and judgements include: <ul style="list-style-type: none"> useful life of assets and capital equipment pension fund valuations and settlements revaluations impairments provisions 	<p>For all material items, we have reviewed:</p> <ul style="list-style-type: none"> the appropriateness of your policies under the CIPFA / LASAAC Code of Practice the extent of judgement involved the potential financial statement impact of different assumptions the adequacy of disclosure of the accounting policy <p>We have no concerns to highlight to the Audit Committee.</p>	
Other accounting policies	<ul style="list-style-type: none"> We have reviewed the Council's policies against the requirements of the CIPFA LASAAC Code and accounting standards. 	<ul style="list-style-type: none"> Our review of accounting policies has not highlighted any issues which we wish to bring to your attention 	

Assessment




-  Marginal accounting policy which could potentially attract attention from regulators
-  Accounting policy appropriate but scope for improved disclosure
-  Accounting policy appropriate and disclosures sufficient

Table 3: Adjusted misstatements

A number of adjustments to the draft financial statements have been identified during the audit process. We are required to report all misstatements to those charged with governance, whether or not the financial statements have been adjusted by management. The table below summarises the adjustments arising from the audit which have been processed by management.

Impact of adjusted misstatements

All adjusted misstatements are set out below along with the impact on the key statements and the reported financial position.

Detail	Comprehensive Income and Expenditure Account	Balance Sheet	Impact on total net expenditure
	£'000	£'000	£'000
1 Reallocating debtors in line with required disclosures	-	Dr Central Government Debtors	£2,113 -
		Dr NHS bodies	£948
		Cr Debtors – Grants, external debtors	(£3,061)
2 Reallocating Site 4: Gorebridge from AUC to Housing in line with completion certificate	-	Dr Fixed Assets – Housing	£5,004 -
		Cr Fixed Assets – Under Construction	(£5,004)
3 Reallocating NDR debit balance held within creditors to debtors		Dr Debtors – NDR/Council tax	£1,577 -
		Cr Creditors – NDR/Council tax	(£1,577)
4 Reallocating the disclosure of PPP liabilities due within 12 months		Dr Long Term Creditors	£966
		Cr Short Term Creditors	(£966)

Table 4: Misclassifications & disclosure changes

Table 4 below provides details of significant misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements. We made a number of other, minor, suggestions to management about improvements to disclosures.

Adjustment type	Account balance	Impact on the financial statements
1 Misclassification	Note 4: Transfer from capital fund	A presentational change has been made to the transfer from the capital fund to clarify that capital funds have been used for the repayment of the principal of loans.
2 Misclassification	Note 9: Movement in Property, Plant and Equipment	A minor change has been made to the note to separately disclose impairments from other revaluations and restatements.

Table 5: Unadjusted misstatements

Table 5 provides details of adjustments identified during the audit but which have not been made within the final set of financial statements. The Audit Committee is required to approve management's proposed treatment of all items recorded within the table below:

Detail	Comprehensive Income and Expenditure Account £'000	Balance Sheet £'000	Reason for not adjusting
<p>1 We have challenged the Council's valuation of its share in Lothian Buses. The current valuation stands at £0.962 million and is based on an offer to purchase the shares received from City of Edinburgh Council a number of years ago. The potential valuation varies from the nominal value of the shares, £0.35 million, to the proportion of the net worth of the company, £2.7 million.</p>	-	<p>Dr Investments £1,738</p> <p>Cr Unusable Reserves (£1,738)</p>	<p>We are satisfied that the range in valuation does not present a risk of material misstatement. We have therefore asked the Council to review the valuation of their share in the company, to ensure that they can demonstrate a realistic and reliable estimate in future years.</p>
Overall impact	-	£0	

Table 6: Our findings on internal controls

The purpose of an audit is to express an opinion on the financial statements. Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported within Table 6 are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

These and other recommendations, together with management responses, are included in the action plan attached at Appendix A.

	Issue and risk	Recommendations
1.	The Council values its assets using a five year rolling programme, undertaken by an internal valuer. Under best practice, the Finance Team should have a service level agreement in place with the valuer to ensure that the correct basis of valuation is adopted, and that the impact of any material changes in value are considered across the asset base.	We recommend that the Finance Team ensures that arrangements to instruct the internal valuer are formalised and documented.
2.	During our testing on the Remuneration Report, we noted an unusually high level of expenses were paid to a former elected member. These expenses related to a number of financial years. There is therefore a risk that any expenses claimed could not be subject to the Council's normal verification checks.	The Council should ensure that a time bar is in place for all expense claims, to ensure that reasonable checks can be undertaken on their accuracy.

Table 7: Other communication requirements

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

	Issue	Commentary
1.	Matters in relation to fraud	<ul style="list-style-type: none"> We have previously discussed the risk of fraud with the Audit Committee and been made aware of irregularities regarding the use of fuel cards. 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.
2.	Matters in relation to laws and regulations	<ul style="list-style-type: none"> We are not aware of any incidences of non-compliance with relevant laws and regulations.
3.	Written representations	<ul style="list-style-type: none"> A standard letter of representation has been requested from the Council.
4.	Disclosures	<ul style="list-style-type: none"> Our review found no material omissions in the financial statements. Improvements made to the financial statements are highlighted within Table 4.
5.	Matters in relation to related parties	<ul style="list-style-type: none"> We are not aware of any material related party transactions which have not been disclosed.
6.	Going concern	<ul style="list-style-type: none"> Our work has not identified any reason to challenge the Council's decision to prepare the financial statements on a going concern basis.

Looking forward

Key changes for 2013-14

In this section we highlight the key changes affecting the financial statements in 2013-14.

Audit of Charitable Trusts

Under the requirements of Section 106 of the Local Government (Scotland) Act 1973 and the provisions of the Charities Accounts (Scotland) Regulations, each of the Council's registered charities should be subject to full audit. The Office of the Scottish Charity Regulator (OSCR) expect these regulations to be complied with in full from 2013-14.

In June 2013, the Accounts Commission elected to extend the appointment of each local authority auditor to cover the registered charities for which the Council is sole trustee. The Council currently has three registered charities, with combined balances of less than £6,000. There is therefore a risk that the cost of an audit would exceed the balances available within each Trust.

OSCR has made provision for the Council to amalgamate or dissolve Trusts in advance of the audit requirement.

Significant Trading Organisations

In June 2013 CIPFA/ LASAAC issued an update on the Significant Trading Operations Guidance. The most significant change to this guidance was a change in the focus of the identification of a Significant Trading Organisation (STO). The guidance states that the identification of an STO should focus only on those activities which are external to the organisation and which are not statutory in nature.

Services which are provided internally can still be operated at the discretion of the local authority, however, this trading would only be subject to the legislative duty to secure best value. The legislation relating to trading operations and accounts does not apply to internal trading operations.

Section 3: Fees, non audit services and independence

01. Executive summary

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04. Communication of audit matters

Fees, non audit services and independence

We confirm below our final fees charged for the audit and confirm that there were no fees for the provision of non audit services.

Fees

	Per Audit plan £	Actual fees £
Fee payable to Audit Scotland	237,000	237,000
Total audit fees	237,000	237,000

Fees for other services

Service	Fees £
None	Nil

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

Section 4: Communication of audit matters

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04. Communication of audit matters

Communication of audit matters to those charged with governance

International Standard on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

Respective responsibilities

This Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Audit Scotland.

We have been appointed as the Council's independent external auditors by the Accounts Commission, the body responsible for appointing external auditors to the Local Government sector in Scotland. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by Audit Scotland on behalf of the Accounts Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence.	✓	✓
Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged		
Details of safeguards applied to threats to independence		
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Compliance with laws and regulations		✓
Expected auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

Appendices

Appendix A: Action plan

Priority

High

Significant effect on control system

Medium

Effect on control system

Low

Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1.	The Council should review the valuation on its share in Lothian Buses to ensure that a realistic and reliable estimate is in place in future years.	High	The valuation basis will be revised in the 2013-14 Financial Statements.	Financial Services Manager 31 March 2014
2.	We recommend that the Finance Team ensures that arrangements to instruct the internal valuer are formalised and documented.	Medium	A documented and agreed list of properties to be valued, valuations bases, policies etc will be provided to Estates.	Financial Services Manager 31 March 2014
3.	The Council should ensure that a time bar is in place for all expense claims, to ensure that reasonable checks can be undertaken on their accuracy.	Medium	Existing arrangements will be reviewed and a time bar recommended.	Head of Finance and HR 31 December 2013
4.	The Council should review the costs and benefits of maintaining each registered charitable Trust in light of the audit requirement from 2013-14.	Low	A review of registered charities has commenced.	Head of Finance and HR / Head of Customer Services 31 December 2013
5.	The Council should review the description of some classes of asset within the fixed asset register. Capital projects initiated by elected members are currently listed under the name of the elected member, rather than a description of the work undertaken.	Low	Agreed.	Senior Accountant Corporate Finance Immediately

Appendix B: Audit opinion

We anticipate we will provide the Council with an unmodified audit report

Independent auditor's report to the members of Midlothian Council and the Accounts Commission for Scotland

We certify that we have audited the financial statements of Midlothian Council for the year ended 31 March 2013 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Comprehensive Income and Expenditure Statement, Movement in Reserves Statement, Balance Sheet, and Cash-Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2012-13 (the 2012-13 Code).

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 125 of the Code of Audit Practice approved by the Accounts Commission for Scotland, we do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Respective responsibilities of the Responsible Financial Officer and auditor

As explained more fully in the Statement of Responsibilities, the Responsible Financial Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Accounts Commission for Scotland. Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the body's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Responsible Financial Officer; and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the statement of accounts to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view in accordance with applicable law and the 2012-13 Code of the state of the affairs of the body as at 31 March 2012 and of the income and expenditure of the body for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2012-13 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973 and the Local Government in Scotland Act 2003.

Opinion on other prescribed matters

In our opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 1985; and
- the information given in the Explanatory Foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We are required to report to you if, in our opinion:

- adequate accounting records have not been kept; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit; or
- the Annual Governance Statement does not comply with the 2012-13 Code; or
- there has been a failure to achieve a prescribed financial objective.

We have nothing to report in respect of these matters.

Appendix C: Draft Letter of Representation

Grant Thornton UK LLP
7 Exchange Crescent
Conference Square
Edinburgh
EH3 8AD

Dear Sirs

Midlothian Council: Financial Statements for the Year Ended 31 March 2013

This representation letter is provided in connection with the audit of the financial statements of Midlothian Council for the year ended 31 March 2012 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the Local Government (Scotland) Act 1973, the Local Government in Scotland Act 2003 and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the UK 2012-13 Code.

I confirm that to the best of my knowledge and belief having made such inquiries as I considered necessary for the purpose of appropriately informing myself:

Financial Statements

- i. I have fulfilled my responsibilities, as set out in the Statement of Responsibilities for the Statement of Accounts, for the preparation of the financial statements in accordance with the Local Government (Scotland) Act 1973, the Local Government in Scotland Act 2003. In particular the financial statements give a true and fair view of Midlothian Council's state of affairs as at the 31 March 2012 and of its income and expenditure for the financial period.
- ii. I acknowledge my responsibility for the design and implementation of internal control to prevent and detect error and fraud.
- iii. Significant assumptions used by me in making accounting estimates, including those measured at fair value, are reasonable.
- iv. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of the 2012-13 Code.
- v. All events subsequent to the date of the financial statements and for which the 2012-13 Code requires adjustment or disclosure have been adjusted or disclosed.
- vi. I have confirmed that Capital Fund monies have been used only for expenditure to which capital is properly applicable, or in providing money for the repayment of the principal of loans.

- vii. The financial statements are free of material misstatements, including omissions.

Information Provided

I have provided you with:

- i. access to all information of which I am aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
- ii. additional information that you have requested from me for the purpose of your audit; and
- iii. unrestricted access to persons within the entity from whom you determine it necessary to obtain audit evidence.

I have disclosed to you the results of my assessment of the risk that the financial statements may be materially misstated as a result of fraud.

All transactions have been recorded in the accounting records and are reflected in the financial statements.

I have disclosed to you my knowledge of fraud or suspected fraud affecting the entity involving:

- i. management;
- ii. employees who have significant roles in internal control; or
- iii. others where the fraud could have a material effect on the financial statements.

I have disclosed to you my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

I have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

I have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which I am aware.

Yours faithfully

Gary Fairley
Head of Finance and HR



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