

## Financial Statements for the year ended 31 March 2018

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

#### 1 Purpose of Report

The purpose of this report is to present the Council's draft audited Financial Statements for 2017/18 to Audit Committee and to provide a brief overview of the changes made during the audit process. The draft audited accounts are included separately on today's agenda.

#### 2 Background

Council submitted its unaudited annual accounts to the external auditor by the required date of 30<sup>th</sup> June 2018 and they were examined in detail at a special Audit Committee on Tuesday 28<sup>th</sup> August 2018.

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

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

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

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

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

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

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

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

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

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

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

Accordingly the accounts are presented to Audit Committee today as required by the regulations as is the appointed external auditor, EY's, report in respect of 2017/18.

The external auditors report will also be presented to Council on Tuesday 13<sup>th</sup> November 2018 and a copy of audited accounts provided to all members.

## **2.1 Changes to Accounts through the Audit Process**

There are no qualifications to the Financial Statements.

Twelve principal audit differences were identified and adjusted during the audit. These adjustments have no impact on the Council's reported outturn for the year. Given that, at the time of writing, the audit of the accounts remains to be finalised, members will be advised if any further material changes arise at the meeting.

The twelve adjustments agreed to date during the audit included:

- Five related to Property Plant and Equipment (PPE) which result in a reduction of £4.524 million in the combined value of PPE and Assets held for sale shown in the Balance Sheet. This is as a consequence of a of revisions to the carrying value of individual assets;
- An increase of £3.131 million in the value of Long Term Investments in the Balance Sheet. At the time of preparing the unaudited accounts Lothian Buses accounts to the year ended 31 December 2017 were not available but became available shortly thereafter. Lothian Buses have shown a considerable increase in their net assets from the prior year thus the value of Midlothian Council's shareholding increases in line;
- A reduction in the value of the Pension Liability of £8.237 million as a consequence of the actual value of Lothian Pension Fund assets compared to the estimation used by the actuary when compiling their assessment of Midlothian Councils pension liability at the year end. This was identified as a national issue during the audit process and for Midlothian the value of the difference required an adjustment to be made to the accounts.
- A reduction in the liability for Grant Receipts in Advance of £2.843 million. The first part of this (£2.594 million) relates to the treatment of Housing Revenue Account Developer Contributions which was reported as a non-adjusting error in 2016/17 with agreement to revise in 2017/18. Amended treatment no longer shows these as a liability in the Balance Sheet. The second part (£0.249 million) is a correction in the treatment of grants received which have no terms or conditions attached to them which may result in a repayment of said grant at some point in the future. The correct treatment for

those with no conditions is a credit to the Taxation and non-specific income line in the Comprehensive Income and Expenditure Account.

- A correction to the PFI accounting entries which resulted in a reduction increase in deferred liabilities of £0.230 million.
- The remaining two adjustments relate to the treatment of Capital Funds.

These adjustments have no impact on the General Fund Balance of £10.777 million or the Housing Revenue Account Reserve Balance of £33.863 million.

## **2.2 Management Commentary and Annual Governance Statement**

During the audit a number of agreed enhancements were made to both the Management Commentary and the Annual Governance Statement.

## **3 Financial Management and Financial Sustainability**

The annual report by EY also on today's agenda rates both Financial Management and Financial Sustainability as Red.

In respect of Financial Management the report highlights that:-

- *Similar to prior years, the Council has not operated within approved budgets. Continued work is required to ensure that budgets are robust and realistic.*
- *The Council continues to under deliver against its capital plans, due to recurring slippage in delivery of capital projects. The capital plan is a significant part of transforming the Council; ongoing slippage or unrealistic budgets have the potential to impede delivery of change.*
- *Improvements remain to be made over financial reporting arrangements to support budget holders and members in their roles. There is also a need for the Council to review the level of skills and capacity across finance and integrated support services to ensure these remain appropriate to support the Council and service transformation.*

In respect of Financial Sustainability the report highlights that:-

- *The Council continues to experience acute financial pressures. Significant progress is urgently required to deliver a balanced 2018/19 outturn and to support approval of a robust 2019/20 budget.*
- *There are significant funding gaps over the period to 2022/23. Difficult decisions will have to be taken to achieve financial balance. There is a need for a significant improvement in the pace of transformation, supported by enhanced reporting and scrutiny.*
- *The Council is projecting that the uncommitted General Fund Reserve at 31 March 2019 will be £1.7 million. This poses a significant risk to the Council and provides limited ability to respond to unforeseen events.*

EY's annual report sets out a number of recommendations and the management response to these. Whilst the responses sit with officer's to implement the report sets out critical messages for all elected

members to respond to in the coming months to strengthen the Council's financial position in response the acute financial pressures. As the report highlights difficult decisions will have to be taken to achieve financial balance.

## **4 Report Implications**

### **4.1 Resource**

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

### **4.2 Risk**

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

### **4.3 Single Midlothian Plan and Business Transformation**

Themes addressed in this report:

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

### **4.4 Impact on Performance and Outcomes**

The proposals in this report do not directly impact on performance or outcomes.

### **4.5 Adopting a Preventative Approach**

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

### **4.6 Involving Communities and Other Stakeholders**

No consultation was required.

### **4.7 Ensuring Equalities**

There are no equality implications arising directly from this report.

### **4.8 Supporting Sustainable Development**

There are no sustainability issues arising from this report.

#### **4.9 IT Issues**

There are no IT implications arising from this report.

#### **5 Recommendations**

Audit Committee is recommended to approve the 2017/18 accounts for signature having regard to the appointed auditor's report for 2017/18.

16<sup>th</sup> September 2018.

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**Background Papers:**