

**Annual Accounts for the year ended 31 March 2023**

**Report by David Gladwin, Chief Financial Officer & Section 95 Officer**

**Report for Decision**

**1 Recommendation**

Audit Committee is recommended to approve the 2022/23 audited accounts for signature in light of the appointed auditor's report for 2022/23.

**2 Purpose of Report/Executive Summary**

The purpose of this report is to present the Council's audited Financial Statements for 2022/23 to Audit Committee and to provide a brief overview of findings during the audit process.

24<sup>th</sup> October 2023.

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### 3 Background

Council submitted its unaudited annual accounts to the external auditor by the required date of 30<sup>th</sup> June 2022 and they were examined in detail at Audit Committee on Monday 26<sup>th</sup> June 2023.

#### 3.1 Regulations

The Local Authority Accounts (Scotland) Regulations 2014 set 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.*

Due to additional challenges across the sector in completing and auditing financial statements during 2020/21 and 2021/22 Scottish Ministers agreed to an extension to statutory timescales. Whilst this does not extend into 2022/23 accounts normal deadlines remain challenging. Local authorities are required to publish signed annual accounts no later than 31<sup>st</sup> October immediately following the financial year to which they relate.

Accordingly, the accounts are presented to Audit Committee today as required by the regulations alongside the 2022/23 Annual Audit Report to Members and the Controller of Audit – year ended 31 March 2023 prepared by the appointed external auditor, Audit Scotland.

The full external auditors report including commentary extending beyond the 2022/23 accounts will be presented to Audit Committee in December prior to full Council on Tuesday 19<sup>th</sup> December. A copy of the audited accounts will be provided to all members of Council.

## **3.2 Audit findings**

Audit Scotland have issued an unqualified audit opinion on the 2022/23 financial statements for the Council and its Group.

### Adjustments to the Unaudited Financial Statements

#### **3.2.1 *Accumulated Absence Account***

Regulations allow a statutory adjustment to the Accumulated Absence Account for a financial assessment of the liability relating to unused annual leave at the balance sheet date. Calculations reflected in the unaudited accounts also include values relating to flexitime and time off in lieu balances and this is consistent with previous years but is not in accordance with latest accounting guidance. The following adjustment for this has been made to the draft audited accounts:

- Cr Comprehensive Income and Expenditure Account - £0.681 million
- Dr Statutory Adjustments - £0.681million
- Dr Creditors - £0.681 million
- Cr Employee Benefits Statutory Adjustment Account - £0.681 million.

#### **3.2.2 *Scottish Government Funding for Ukrainians***

The unaudited accounts provided for an assessment of the outstanding funding position from the Scottish Government for Ukrainian resettlement schemes. It was accepted at this time that work was underway to re-calculate funding for all Scottish Local Authorities and this would not conclude until after the unaudited accounts were finalised.

Since publishing the unaudited accounts two significant events have occurred and are reflected in the draft audited financial statements:

1. The figures calculated for arrival payments and thank you payments did not contain the most up to date rates of funding per individual. This understated the value of funding due to the Council by the Scottish Government by £0.351 million.
2. A national reconciliation of funding was concluded tracking movement of people between Local Authority areas. This resulted in a further £0.419 million becoming due to Midlothian Council.

Accordingly, the following adjustments have been made to the draft audited accounts:

- Cr Comprehensive Income and Expenditure Account - £0.770 million
- Dr Debtors - £0.664 million
- Dr Creditors £ 0.106 million

These entries increase the Council's General Fund balance by £0.770 million to £34.963 million with all the increase specifically earmarked for use in supporting Ukrainian resettlement.

### 3.2.3 *Debtors and Creditors*

Audit work highlighted two presentational errors between debtors and creditors in the Balance Sheet that have been adjusted in the accounts. The cumulated adjustment is:

- Dr Debtors - £5.948 million
- Cr Creditors - £5.948 million

These adjustments have no impact on the CIES or on any Reserves totals.

### 3.2.4 *Lothian Pension Fund Valuation*

The accounting standard imposes a limit on the maximum amount of surplus which can be recognised on an employer's balance sheet and this limit depends on factors unique to each employer. The limitation on valuation is based on the remaining future working lifetime of active staff and the present value of accruing service cost less value of cash contributions.

Figures in this context show that the net present value of future employer contributions exceeds the future employer service costs thus giving a negative contribution. Accounting standards dictate that in these circumstances no asset or liability should be disclosed in the Council's Balance Sheet.

However, audit review of actuarial valuations and application of accounting standards has highlighted that any unfunded element of a Pension Fund Valuation must either be offset against any asset shown, or in the case of Midlothian as a liability. The actuarial valuation at the 31<sup>st</sup> March 2023 shows £7.800 million of unfunded assets. Consequently, the Councils accounts have been adjusted with the following entries:

- Dr Pension Reserve - £7.800 million
- Cr Net Pension Liability - £7.800 million

Unfunded benefits are liabilities of individual employers as a consequence of discretionary enhanced severance approvals. There are no plan assets to meet these liabilities.

### **3.3 Management Commentary, Remuneration Report, Annual Governance Statement and Disclosures**

As indicated by Audit Scotland the unaudited financial statements were prepared to a good standard and were materially compliant with the Code and required disclosures. As part of the audit process, the Council's finance team worked with Audit Scotland to make amendments and enhancements to the presentation of the financial statements. Particular enhancements were made to the Remuneration Report and disclosure notes 23 (Debtors), 25 (Creditors) and 12 (Grant Income).

## **4 Report Implications (Resource, Digital and Risk)**

### **4.1 Resource**

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

### **4.2 Digital**

There are no digital issues arising directly from this report.

### **4.3 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.

### **4.4 Ensuring Equalities**

There are no equality implications arising directly from this report.

### **4.5 Additional Report Implications See Appendix A**

## **APPENDIX A – Report Implications**

### **A.1 Key Priorities within the Single Midlothian Plan**

The financial statements set out the utilisation of resources committed to support the delivery of the key priorities in the single Midlothian Plan.

### **A.2 Key Drivers for Change**

Key drivers addressed in this report:

- ☐ Holistic Working
- ☐ Hub and Spoke
- ☐ Modern
- ☐ Sustainable
- ☐ Transformational
- ☐ Preventative
- ☐ Asset-based
- ☐ Continuous Improvement
- ☐ One size fits one
- ☒ None of the above

### **A.3 Key Delivery Streams**

Key delivery streams addressed in this report:

- ☐ One Council Working with you, for you
- ☐ Preventative and Sustainable
- ☐ Efficient and Modern
- ☐ Innovative and Ambitious
- ☒ None of the above

### **A.4 Delivering Best Value**

The report does not directly impact on Delivering Best Value.

### **A.5 Involving Communities and Other Stakeholders**

No consultation was required.

### **A.6 Impact on Performance and Outcomes**

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

### **A.7 Adopting a Preventative Approach**

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

### **A.8 Supporting Sustainable Development**

There are no sustainability issues arising from this report.

## **Appendix – Draft Audited Annual Accounts 2022/23**