



Annual Accounts for the year ended 31 March 2024

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

Report for Decision

1 Recommendation

Audit Committee is recommended to approve the 2023/24 audited annual accounts for signature in light of the appointed auditor's report for 2023/24.

2 Purpose of Report/Executive Summary

The purpose of this report is to present the Council's audited annual accounts for 2023/24 to Audit Committee and to provide a brief overview of findings during the audit process.

14th November 2024.

Report Contact:
David Gladwin Tel No 0131 271 3113
E mail david.gladwin@midlothian.gov.uk

3 Background

Council submitted its unaudited annual accounts to the external auditor by the required date of 30th June 2024 and they were examined in detail at Audit Committee on Monday 24th June 2024.

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 2023/24 accounts, normal deadlines remain challenging for external auditors and some Scottish councils are still experiencing extended audit timescales. Local authorities are required

to publish signed annual accounts no later than 31st October immediately following the financial year to which they relate.

The accounts are presented to Audit Committee today as required by the regulations alongside the 2023/24 Annual Audit Report to Members and the Controller of Audit – year ended 31 March 2024 prepared by the appointed external auditor, Audit Scotland.

The Annual Audit Report will also be presented to Council on Tuesday 17th December 2024. A copy of the audited accounts will be provided to all members of Council once they are signed.

3.2 Audit findings

Audit Scotland have issued an unmodified audit opinion on the 2023/24 financial statements for the council and its group and provided positive comment on the standard of the accounts. Some areas for adjustment were identified during the audit process. None of these impact on cash reserves.

The draft audited accounts are included at Appendix 1 to this report. Final review processes continue and any material change to the appended copy will be highlighted to Audit Committee before asking for approval.

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. A calculation error in the draft accounts has been identified and corrected. The following correcting entries have been made to the financial statements:

- Debit (Dr) Comprehensive Income and Expenditure Account - £2.797 million
- Credit (Cr) Adjustments between accounting basis and funding bases – Accumulated Absences - £2.797 million
- Cr Short-term Creditors - £2.797 million
- Dr Accumulated Absence Account - £2.797 million.

3.2.2 Property, Plant and Equipment Valuations

There is acceptance across the sector of a significant element of professional judgement and interpretation made by surveyors in valuing non-current assets. Asset valuation has been an area of detailed and sustained focus during the 2023/24 audit. Audit findings resulting in adjustments to the accounts are summarised below.

Asset Condition Surveys

The Council have been carrying out asset condition surveys for many of its assets as part of ongoing work to assess ongoing maintenance

needs and priorities. These surveys also provide support for any decisions that elected members may consider relating to the continued use of assets whether in the ongoing re-fresh of the General Services Capital Plan or as budget savings measures. Completing survey work has been a priority.

The timing of finalising condition survey results and the timing of work necessary to complete valuation information for inclusion in the Councils accounts has overlapped for 2023/24. As a consequence a number of assets, primarily schools, have been valued in the draft accounts using older condition ratings rather than up to date ratings which were finalised once the draft accounts had been prepared. Accounting practice requires the accounts to be adjusted for any material factors coming to light after the Balance Sheet date and survey findings of worsened condition in some assets triggered a necessary adjustment.

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

- Cr Property, Plant and Equipment - £19.476 million
- Dr Revaluation Reserves - £19.476 million.

Mixed Use Properties

It is necessary for each distinct functional area of a building to be considered separately when valuing the overall asset. An example is a building that combines a frontline service with an administrative area like Stobhill Depot. Two buildings were identified for which split valuation bases should have applied. Correcting this generated the following entries:

- Cr Property, Plant and Equipment - £1.061 million
- Dr Revaluation Reserve - £1.061 million.

Housing Stock Discount Factor

Council house stock is valued on a current value basis determined using the basis of existing use value for social housing. Gross valuations are reduced by applying a discount factor which is designed to reflect that houses are only available for social use. The discount factor is recalculated annually. For context, the discount factor applied in 2023/24 reduced the value of Housing Stock by 66.64%. An error in one of the indices used to calculate the discount factor gave rise to an adjustment as shown below:

- Dr Comprehensive Income and Expenditure Account (HRA) - £1.069 million
- Cr Adjustments between accounting basis and funding basis – Depreciation and Impairment - £1.069 million
- Cr Property, Plant and Equipment - £1.228 million
- Dr Revaluation Reserve - £0.159 million
- Dr Capital Adjustment Account - £1.069 million.

3.2.3 *Group Accounts – Midlothian Energy Ltd (MEL)*

At the Balance Sheet date the Council had an investment in Midlothian Energy Ltd of £5.610 million. As the Council own 50% of MEL they

form part of the Council's group accounts and the investment value is replaced by a 50% share of the MEL's net assets. The calculation of figures contained in the group accounts did not remove the £5.610 million investment correctly thus overstated the share of associates and joint ventures. The adjustment made to the group accounts is shown below. There is no adjustment required to the Council's single entity accounts.

- Cr Group Balance Sheet – Share of Net Assets of Associates and Joint Ventures - £5.610 million
- Dr Group other comprehensive income and expenditure - £5.610 million

3.2.4 *Non-Domestic Rate Account*

The creditor held in the accounts in respect of the difference between the expected Non-Domestic Rate (NDR) income between the Provisional Contributable Amount NDR return and the Notified return was incorrect, resulting in the following adjustment to the accounts.

- Dr Short-term Creditors - £2.837 million
- Cr Short-term Debtors - £2.837 million

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

As indicated by Audit Scotland the unaudited annual accounts were prepared to a good standard and were 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.

In addition, some helpful feedback was also received from users of the accounts and this has been reflected in the draft audited accounts.

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 2023/24