



Audit Committee  
Tuesday 27<sup>th</sup> September 2022  
Item No 5.2

## **Annual Accounts for the year ended 31 March 2022**

**Report by Gary Fairley, Chief Officer Corporate Solutions**

### **Report for Decision**

#### **1 Recommendation**

Audit Committee is recommended to approve the 2021/22 audited accounts for signature in light of the appointed auditor's report for 2021/22.

#### **2 Purpose of Report/Executive Summary**

The purpose of this report is to present the Council's audited Financial Statements for 2021/22 to Audit Committee and to provide a brief overview of findings during the audit process.

16<sup>th</sup> September 2022.

**Report Contact:**

**David Gladwin Tel No 0131 271 3113**

**E mail [david.gladwin@midlothian.gov.uk](mailto:david.gladwin@midlothian.gov.uk)**

### 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 Wednesday 29<sup>th</sup> July 2022.

#### 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.*

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

The external auditors report will also be presented to Council on Tuesday 15<sup>th</sup> November 2022 and a copy of the audited accounts will be provided to all members of Council.

### 3.2 Audit findings

EY have issued an unqualified audit opinion on the 2021/22 financial statements for the Council and its Group.

#### Property Plan and Equipment (PPE)

Five changes to the unaudited accounts have been made in respect of the valuation and accounting for assets as outlined below with a net reduction of £5.781 million in the value of PPE shown on the Balance Sheet. This equates to a 0.52% reduction on the figure shown in the unaudited accounts.

- Correction of one of the formulae used to calculate the discount rate applied to gross house values to calculate existing use value for social housing. The carrying value in the balance sheet was overstated by £8.221 million in the unaudited accounts;
- Correction of the treatment of £1.422 million of invoices relating to HRA capital expenditure in 2021/22 but accounted for in 2022/23;
- Omission of the Loanhead Centre from the valuation list. It's carrying value in 2021/22 is £1.682 million;
- Revaluation of the recently completed Danderhall Centre which was valued at cost in the unaudited accounts. Due to the significant difference between cost of build and replacement cost using the most recent Scottish Future Trust metrics the carrying value has been increased by £1.830 million;
- A reduction in the value of Beeslack Community High School of £2.495 million to reflect latest information on estimated useful life and remaining economic benefit of the asset.

#### Cash and Cash Equivalents, Short Term Debtors and Creditors

Three changes to the unaudited accounts have been made relating to the timing of transactions around the financial year end and their treatment in the Council's Balance Sheet. These only result in changes to the classification between Balance Sheet categories. The cumulative impact is a £5.359 million reduction in Cash and Cash Equivalents, a £0.414 million reduction in Short term Creditors and a £4.945 million increase in Short Term Debtors with no net impact on Net Assets.

- Income of £1.422 million that was received on 31<sup>st</sup> March but not matched to the outstanding debtor until 1<sup>st</sup> April thus it was accounted at 31<sup>st</sup> March 2022 as a Short Term Debtor rather than as Cash or Cash Equivalents;
- Income of £6.088 million relating to Non Domestic Rates collection by the City of Edinburgh Council on behalf of Midlothian Council that was paid over in early April rather than in March. This was accounted for as Cash and Cash Equivalents in the unaudited accounts rather than as a Short Term Debtor;

- Incorrect treatment of payments to contractors. Invoices to the value of £0.414 million were paid in 2021/22 but shown in the unaudited accounts as Short Term Creditors.

In addition there is a presentational change in the PPE disclosure note (note 14) reclassifying land held at Stobhill Depot from Buildings to Land. The carrying value is £0.414m.

The combined impact of changes described above is reduction of £7.588 million in the Council's Net Assets matched by movements in Unusable Reserves. There is no impact on the financial outturn for the year or the Useable reserves at 31st March 2022 as reported to Council on 28<sup>th</sup> June 2022.

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

As indicated by EY 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 finance team worked with EY to make amendments and enhancements to the presentation of the financial statements.

In addition enhancements were made to both the Management Commentary and the Annual Governance Statement.

## **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 – Additional Report Implications**

**Appendix B – Draft Audited Annual Accounts 2021/22**

## 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.