Midlothian Council

2025/26 Annual Audit Report



AUDIT SCOTLAND

Prepared for Midlothian Council and the Controller of Audit
September 2026

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Summary of audit opinions and conclusions

Audit of the annual accounts

1 All audit opinions stated that the annual accounts were free from material misstatement.

2 One audit adjustment and one uncorrected error were identified during the audit; neither was material and neither affected the overall financial position or the audit opinion.

Wider scope audit

3 The Council has relied on reserves and one-off measures, including service concession flexibilities, to manage financial pressures in recent years. In 2025/26, the General Fund balance decreased to £24 million, of which £17.4 million is earmarked. This leaves only £6.6 million of uncommitted funds available to cover future unplanned overspends. The Council's latest financial projections are forecasting an unplanned overspend of £4.8 million in 2026/27 and the latest medium-term financial plan is forecasting a cumulative funding gap of £14.9 million by 2028/29, highlighting that without urgent and significant remedial action the council will face increasing challenges in maintaining financial sustainability.

4 Midlothian Council’s budget setting and financial management arrangements operated effectively during 2025/26.

5 There is a significant risk of overspend by Midlothian Integration Joint Board on adult social care in 2026/27.

6 Midlothian Council continues to have appropriate and effective arrangements to support its Vision, Leadership and Governance.

7 The council has appropriate arrangements in place for its use of resources to improve outcomes, and these arrangements were found to be appropriate.

Best Value audit

8 The council has well established and effective governance arrangements in place, with Best Value being a key aspect of the governance arrangements.

9 Midlothian Council has effective and appropriate arrangements in place for preparing and publishing statutory performance information.

10 Overall, the council is making good progress in implementing the previous recommendations made, with seven of the previous recommendations made being implemented in 2025/26 and progress being made with five further recommendations.

11 The Management Report on themes prescribed by the Accounts Commission reported the council does not have an overarching asset management strategy, which creates a potential risk around fragmented decision making in relation to its assets. The council is now developing an overarching asset management strategy to address this risk.

12 The council is part of the fifth year of the programme for Controller of Audit reports to the Accounts Commission on the council's performance in meeting its Best Value duties.

Introduction

Purpose of the Annual Audit Report

1. The purpose of this Annual Audit Report is to report the significant matters identified from the 2025/26 audit of Midlothian Council's annual accounts and the wider scope areas specified in the Code of Audit Practice (2021).

2. The Annual Audit Report is addressed to Midlothian Council, hereafter referred to as 'the council' and the Controller of Audit and will be published on Audit Scotland's website in due course.

Appointed auditor and independence

3. Claire Gardiner of Audit Scotland has been appointed as external auditor of the council for the period from 2022/23 until 2026/27. As reported in the Annual Audit Plan, Claire Gardiner as engagement lead and the audit team are independent of the council in accordance with relevant ethical requirements, including the Financial Reporting Council's Ethical Standard. There have been no developments since the issue of the Annual Audit Plan that impact on the continued independence of the engagement lead or the rest of the audit team from the council, including no provision of non-audit services.

Acknowledgements

4. We would like to thank the council and its staff, particularly those involved in preparation of the annual accounts, for their cooperation and assistance during the audit. We look forward to working together constructively over the remainder of the five-year audit appointment.

Audit scope, responsibilities, and fee

Scope of the audit

5. The audit is performed in accordance with the Code of Audit Practice, including supplementary guidance, International Standards on Auditing (ISA) (UK), and relevant legislation. These set out the requirements for the scope of the audit which includes:

- An audit of the financial statements and an opinion on whether they give a true and fair view and are free from material misstatement.
- An opinion on statutory other information published with the financial statements in the annual accounts, namely the Management Commentary and Annual Governance Statement.
- An opinion on the audited part of the Remuneration Report.
- Conclusions on the council's arrangements in relation to the wider scope areas: Financial Management; Financial Sustainability; Vision, Leadership and Governance; and Use of Resources to Improve Outcomes.
- Reporting on the council's arrangements for securing Best Value.
- Providing assurance on the Housing Benefit Subsidy Claim, Non-Domestic Rates Return, and Whole of Government Accounts return.
- A review of the council's arrangements for preparing and publishing statutory performance information.
- Provision of this Annual Audit Report.

Responsibilities and reporting

6. The Code of Audit Practice sets out the respective responsibilities of the council and the auditor. A summary of the key responsibilities is outlined below.

Auditor's responsibilities

7. The responsibilities of auditors in the public sector are established in the Local Government (Scotland) Act 1973. These include providing an

independent opinion on the financial statements and other information reported within the annual accounts and concluding on the council's arrangements in place for the wider scope areas and Best Value.

8. The matters reported in the Annual Audit Report are only those that have been identified by the audit team during normal audit work and may not be all that exist. Communicating these does not absolve the council from its responsibilities outlined below.

9. The Annual Audit Report includes an agreed action plan at Appendix 1 setting out specific recommendations to address matters identified and includes details of the responsible officer and dates for implementation.

The council's responsibilities

10. The council has primary responsibility for ensuring proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety, and regularity that enables it to successfully deliver its objectives. The features of proper financial stewardship include:

- Establishing arrangements to ensure the proper conduct of its affairs.
- Preparation of annual accounts, comprising financial statements for the council and its group that gives a true and fair view and other specified information.
- Establishing arrangements for the prevention and detection of fraud, error and irregularities, and bribery and corruption.
- Implementing arrangements to ensure its financial position is soundly based.
- Making arrangements to secure Best Value.
- Establishing an internal audit function.

Audit Fee

11. The audit fee for the 2025/26 audit was reported in the Annual Audit Plan and was set at £308,310 (2024/25: £295,490). There have been no developments that impact on planned audit work required, therefore the audit fee reported in the Annual Audit Plan remains unchanged.

National performance audit reporting

12. The Auditor General for Scotland and the Accounts Commission regularly publish performance audit reports. These cover a range of matters, many of which may be of interest to the council and the audit committee. Details of national and performance audit reports published over the last year can be seen in Appendix 3.

Audit of the annual accounts

Main judgements

All audit opinions stated that the annual accounts were free from material misstatement.

One audit adjustment and one uncorrected error were identified during the audit; neither was material and neither affected the overall financial position or the audit opinion.

Audit opinions on the annual accounts

13. The council and its group's annual accounts were approved by Audit Committee on 30 September 2026. The Independent Auditor's Report is included in the council's annual accounts, and this reports that, in the appointed auditor's opinion, these were free from material misstatement.

Audit timetable

14. The unaudited annual accounts and the majority of working papers were received on 24 June 2026 in accordance with the agreed audit timetable.

Materiality

15. Materiality is applied by auditors in planning and performing an audit, and in evaluating the effect of any uncorrected misstatements on the financial statements or other information reported in the annual accounts.

16. The concept of materiality is to determine whether misstatements identified during the audit could reasonably be expected to influence the decisions of users of the annual accounts. Auditors set a monetary threshold when determining materiality, although some issues may be considered material by their nature. Therefore, materiality is ultimately a matter of the auditor's professional judgement.

17. Materiality levels for the audit of the council and its group were determined at the risk assessment phase of the audit and were reported in the Annual Audit Plan, which also reported the judgements made in determining materiality levels. These were reassessed on receipt of the unaudited annual accounts and can be seen in Exhibit 1.

Exhibit 1

2025/26 Materiality levels for the council and its group

Materiality	Council	Group
Materiality: Set at 2% of gross expenditure.	£11.8 million	£11.8 million
Performance materiality: Set at 70% of materiality. As outlined in the Annual Audit Plan, this acts as a trigger point. If the aggregate of misstatements identified during the audit exceeds performance materiality, this could indicate further audit procedures are required.	£8.2 million	£8.2 million
Reporting threshold: All items greater than the reporting threshold will be reported.	£0.59 million	£0.59 million

Source: Audit Scotland

Significant findings and key audit matters

18. ISA (UK) 260 requires auditors to communicate significant findings from the audit to those charged with governance, which for the council is the Audit Committee.

19. The Code of Audit Practice also requires public sector auditors to communicate key audit matters. These are the matters that, in the auditor's professional judgement, are of most significance to the audit of the financial statements and require most attention when performing the audit.

20. In determining key audit matters, auditors consider:

- Areas of higher or significant risk of material misstatement.
- Areas where significant judgement is required, including accounting estimates that are subject to a high degree of estimation uncertainty.
- Significant events or transactions that occurred during the year.

21. The significant findings and key audit matters to report are outlined in Exhibit 2.

Exhibit 2

Significant findings and key audit matters

Significant findings and key audit matters	Outcome
Public inspection notice Section 195(b) of the Local Government (Scotland) Act 1973 requires the public inspection notice to be displayed in a conspicuous place within the authority's area or published in a newspaper circulating within that area. During our review, we noted that Midlothian Council published the public inspection notice solely on its website. While this supports public accessibility, it does not fully comply with the requirements of Section 195(b) of the Local Government (Scotland) Act 1973.	Management should ensure that future public inspection notices are published in accordance with the requirements of Section 195(b) of the Local Government (Scotland) Act 1973. This should include displaying the notice in one or more conspicuous places within the authority's area or publishing the notice in a newspaper circulating within the area, in addition to any publication on the council's website. **Recommendation 1 (refer Appendix 1)**
Non–current assets - Indexation Changes to the Code in 2025/26 required local authorities to apply indexation to land and buildings not valued in year. Midlothian Council revalued all schools and updated the discount factor for council dwellings in 2025/26. Indexation was applied to other land and buildings and while we are satisfied that methodology is reasonable, we have been unable to corroborate the indices applied.	We considered the methodology adopted by the council and considered it to be reasonable and unlikely to result in a material misstatement of other land and buildings. We are satisfied that the net book value of other land and buildings in the audited accounts of £609 million is not materially misstated. However, we recommend that management should establish a documented process for selecting, reviewing, and approving indexation factors each year, including retaining externally sourced indices or valuation advice used to support the calculations applied to land and building assets. **Recommendation 2 (refer Appendix 1)**
Management Commentary Statutory guidance set out in Local Government Finance Circular 5/2015 requires Management Commentaries to include both financial and non-financial key performance indicators, together with a balanced and fair review of the council's performance during the year. We found that the Management Commentary included within the unaudited annual accounts complies with the minimum reporting requirements	The Management Commentary complies with the minimum reporting requirements, and this matter did not affect our audit opinion. Management should enhance future Management Commentaries to provide a clear and balanced assessment of the council's performance during the year. This should include meaningful analysis of both financial and non-financial key performance indicators, progress

Significant findings and key audit matters	Outcome
but provides limited information on the council's performance during the year. In particular, the commentary lacks meaningful analysis of key performance indicators, outcomes and trends. As a result, readers are unable to gain a clear understanding of the council's overall performance or assess whether public resources have been used effectively and delivered the intended outcomes.	against strategic objectives, and an explanation of significant variances, trends and outcomes. This would better demonstrate how the council's activities and use of resources have contributed to the achievement of its priorities. **Recommendation 3 (refer Appendix 1)**
Misclassifications Audit testing identified several areas where transactions or balances were incorrectly disclosed within the notes to the accounts: • Within note 13 to the accounts, £16 million was reclassified between employee expenses and interest & investment Income. • Within Note 16 to the accounts, £7 million was reclassified between debtors defined as financial instruments and debtors not defined as financial instruments. • Similarly, within Note 16, £4.5 million was reclassified between creditors defined as financial instruments and creditors not defined as financial instruments. • Within Note 16, £5 million was reclassified between lender option / borrower option (LOBO) loans and loans from commercial banks & other local authorities. • Within Note 28, PPP liability disclosures were amended to reflect IFRS 16 adjustments. • Within Note 28, PPP liabilities were reclassified to reflect the correct allocation between long-term and short-term liabilities.	Management has updated the relevant notes to ensure compliance with accounting and disclosure requirements. These issues did not affect the overall reported financial position or financial performance.

Source: Audit Scotland

Qualitative aspects of accounting practices

22. ISA (UK) 260 also requires auditors to communicate their view about qualitative aspects of the council's accounting practices, including accounting policies, accounting estimates, and disclosures in the financial statements.

Accounting policies

23. The appropriateness of accounting policies adopted by the council was assessed as part of the audit. These were considered to be appropriate to the circumstances of the council, and there were no significant departures from the accounting policies set out in the Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

Accounting estimates

24. Accounting estimates are used in number of areas in the council's financial statements, including the valuation of land and buildings assets and the valuation of the pension balance. Audit work considered the process management of the council has in place around making accounting estimates, including the assumptions and data used in making the estimates, and the use of any management experts. Audit work concluded:

- There were no issues with the selection or application of methods, assumptions, and data used to make the accounting estimates, and these were considered to be reasonable, although we have recommended that Management establish a documented process for selecting, reviewing, and approving indexation factors each year, including retaining externally sourced indices or valuation advice used to support the calculations applied to land and building assets. **Recommendation 2 (refer Appendix 1).**

- There was no evidence of management bias in making the accounting estimates.

25. Details of the audit work performed and the outcome of the work on accounting estimates that gave rise to significant risks of material misstatement are outlined in Exhibit 4.

Disclosures in the financial statements

26. The adequacy of disclosures in the financial statements was assessed as part of the audit. The quality of disclosures was adequate, with additional levels of detail provided for disclosures around areas of greater sensitivity, such as financial instruments and valuation of the pension liability.

27. In accordance with normal audit practice, presentational and disclosure amendments were discussed and agreed with management. The disclosure changes were satisfactory. There is scope to improve disclosures relating to non-financial performance in the Management Commentary. **Recommendation 3 (refer Appendix 1**).

Group audit

28. The council prepares group financial statements comprising six components. The council is the parent entity and the audit work performed on the components is summarised in Exhibit 3.

Exhibit 3

Summary of audit work on the group's components

Group component	Auditor and audit work required	Summary of audit work performed
Midlothian Council	Audit Scotland Full scope audit of the council's annual accounts.	The outcome of audit work performed is reported within the Annual Audit Report, with details of significant findings and key audit matters reported in Exhibit 2.
Trusts, bequests, common good community funds	Audit Scotland Analytical procedures at the group level.	Analytical procedures at the group level were performed by the audit team, and no significant issues were identified.
Lothian Valuation Joint Board (Associate)	Audit Scotland Analytical procedures at the group level.	Analytical procedures at the group level were performed by the audit team, and no significant issues were identified.
Midlothian Integration Joint Board (Joint Venture)	Audit Scotland Analytical procedures at the group level.	Analytical procedures at the group level were performed by the audit team, and no significant issues were identified.
Midlothian Energy Ltd (Joint Venture)	PWC Analytical procedures at the group level.	Analytical procedures at the group level were performed by the audit team, and no significant issues were identified.

Source: Audit Scotland

Audit adjustments

29. Audit adjustments were required to the financial statements to correct misstatements that were identified from the audit. Details of all audit adjustments greater than the reporting threshold of £0.59 million are outlined in Appendix 2.

30. We also identified one misstatement greater than the reporting threshold, which was not adjusted by management. The value, nature, and circumstances of the uncorrected misstatement was considered by the

audit team. It was concluded the misstatement was not material to the financial statements and did not have any impact on the audit opinion.

31. While auditors are required to request the correction of all misstatements above the reporting threshold, management has elected not to process an adjustment in this case. The Audit Committee, as those charged with governance, is asked to consider the nature and impact of the uncorrected misstatement and whether it agrees with management's decision not to amend the financial statements.

32. Details of the uncorrected misstatement can be seen in Appendix 2.

Significant risks of material misstatement identified in the Annual Audit Plan

33. Audit work has been performed in response to the significant risks of material misstatement identified in the Annual Audit Plan. The outcome of audit work performed is summarised in Exhibit 4.

Exhibit 4

Significant risks of material misstatement to the financial statements

Risk of material misstatement	Planned audit response	Outcome of audit work
Fraud caused by management override of controls Management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.	The audit team will: • Evaluate the design and implementation of controls over journal entry processing. • Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries. • Test journal entries, focusing on those that are assessed as higher risk, such as those affecting revenue and expenditure recognition around the year-end. • Evaluate significant transactions outside the normal course of business.	Audit work performed found: • The design and implementation of controls over journal processing were generally appropriate, however, we identified a number of officers who had the ability to approve their own journals increasing the risk that invalid, erroneous or fraudulent journals could be posted to the financial ledger. • No inappropriate or unusual activity relating to the processing of journal entries was identified from discussions with individuals involved in financial reporting.

Risk of material misstatement	Planned audit response	Outcome of audit work
	• Carry out substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year. • Conduct focussed testing of accounting accruals and prepayments. • Assess the adequacy of controls in place for identifying and disclosing related party relationships and transactions in the financial statements. • Assess changes to the methods and underlying assumptions used to prepare accounting estimates and assess these for evidence of management bias.	• No significant issues were identified from testing of journal entries. • No significant issues were identified from transactions outside the normal course of business. • The controls in place for identifying and disclosing related party relationships and transactions were adequate. • No significant issues were identified with changes to methods and underlying assumptions used to prepare accounting estimates and there was no evidence of management bias. **Conclusion:** We found no evidence of fraud caused by management override of controls.
Valuation of property, plant and equipment The council is required to value land and building assets at existing use value where an active market exists for these assets. Where there is no active market, these assets are valued on a depreciated cost replacement (DRC) basis. As a result, there is a significant degree of subjectivity in these valuations which are based on specialist assumptions, and changes in the assumptions can result in material changes to valuations.	The audit team will: • Evaluate the design and implementation of controls over the valuation process. • Review the information provided to the valuer and assess this for completeness and accuracy. • Evaluate the competence, capabilities, and objectivity of the valuer. • Obtain an understanding of management's involvement in the valuation process to assess if appropriate oversight has occurred.	Audit work performed found: • The design and implementation of controls over the valuation process were appropriate. • The information provided to the valuer was accurate and complete. • The valuer had sufficient competence, capability, and objectivity to perform their work. • Management is involved in the valuation process and have an appropriate level of oversight. • The data and assumptions used in the 2025/26 valuation process were appropriate.

Risk of material misstatement	Planned audit response	Outcome of audit work
From 2025/26, CIPFA/LASAAC's revised Code introduces HM Treasury's reforms, moving local authorities to quinquennial valuations with annual indexation applied in intervening years. The first year of implementation brings an increased risk of material misstatement due to the change in accounting treatment and the new judgements required, particularly when selecting appropriate indices to apply.	• Review the appropriateness of the key data and assumptions used in the 2025/26 valuation process, and challenge these where required. • Review the indices applied by management to assets not subject to valuation in 2025/26 and assess if these are reasonable and have been correctly applied.	• Management applied a £0.1 million de minimis threshold and did not adjust assets where indexation movements were below this level. We concluded this was reasonable and consistent with guidance; however, management should consider the cumulative impact of unadjusted indexation movements in future years. • The indices applied by management to assets not subject to valuation in 2025/26 were reasonable and had been correctly applied, however we were unable to corroborate the indices applied (refer to **Recommendation 2 Appendix 1**) **Conclusion:** the valuation of PPE is not materially misstated.

Source: Audit Scotland

34. In addition to the significant risks of material misstatement, the following key audit matters were identified as part of our planning process:

Valuation of Pension Asset or Liability: The calculation of the pension asset or liability requires the use of an actuarial methodology based on a range of assumptions including financial and demographic assumptions. We assessed the scope, independence and competence of the professionals engaged in providing estimates for pensions and reviewed the appropriateness of actuarial assumptions and results including comparison with other councils.

We also confirmed the arrangements for ensuring the reasonableness of the professional estimations and the accuracy of information provided to the actuary by the council. For 2025/26, the actuary calculated a pension asset. The actuary applied an asset ceiling as required by accounting

standards which resulted in only the unfunded liability being recognised in the annual accounts.

Prior year recommendations

35. Overall, the council is making good progress in implementing the previous recommendations made, with seven of the previous recommendations made being implemented in 2025/26 and progress being made with five further recommendations. For actions not yet implemented, revised responses and timescales have been agreed with the council and are outlined in Appendix 1.

Wider scope audit

Conclusions

Midlothian Council's budget setting and financial management arrangements operated effectively during 2025/26.

There is a significant risk of overspend by Midlothian Integration Joint Board on adult social care in 2026/27.

The Council has relied on reserves and one-off measures, including service concession flexibilities, to manage financial pressures in recent years. In 2025/26, the General Fund balance decreased to £24 million, of which £17.4 million is earmarked. This leaves only £6.6 million of uncommitted funds available to cover future unplanned overspends. The Council's latest financial projections are forecasting an unplanned overspend of £4.8 million in 2026/27 and the latest medium-term financial plan is forecasting a cumulative funding gap of £14.9 million by 2028/29, highlighting that without urgent and significant remedial action the council will face increasing challenges in maintaining financial sustainability.

Midlothian Council continues to have appropriate and effective arrangements to support its Vision, Leadership and Governance.

The council has appropriate arrangements in place for its use of resources to improve outcomes, and these arrangements were found to be appropriate.

Audit approach to wider scope

Wider scope

36. As reported in the Annual Audit Plan, the wider scope audit areas are:

- Financial Management.
- Financial Sustainability.
- Vision, Leadership and Governance.
- Use of Resources to Improve Outcomes.

37. Audit work is performed on these four areas and a conclusion on the effectiveness and appropriateness of arrangements the council has in place for each of these is reported in this chapter.

Financial Management

The council has appropriate budget setting and monitoring arrangements

38. The council's budget-setting process is well established, with clearly defined roles, responsibilities and timescales. The finance team and Finance Business Partners demonstrated an appropriate level of knowledge, experience and capacity to support the process and provide effective financial advice throughout the year.

39. The process involves appropriate governance and scrutiny arrangements, with the Council and the Business Transformation Steering Group both having opportunities to scrutinise and consider proposed actions to reduce any emerging budget gap.

40. Through our attendance at Audit Committee meetings, we observed appropriate member scrutiny of the annual financial statements and other key financial reports and strategies.

41. The budget setting document includes an overview of financial assumptions and provides explanations and context setting as appropriate. Audit Scotland's Local Government financial bulletins and budget briefing papers have been circulated to elected members, and the council's budget documentation and processes are broadly aligned with the principles and good practice set out within that guidance.

The council ended the year with a net overspend of £1 million

42. The council approved its 2025/26 revenue budget in February 2025, initially setting a balanced budget of £321 million. This included a £4.1 million utilisation of reserves specifically relating to service concession retrospection, and a 10% increase in council tax.

43. During 2024/25, in response to financial pressures, the Chief Executive Officer introduced a moratorium on non-essential expenditure. This was extended into 2025/26, alongside strengthened and formal scrutiny arrangements to monitor Directors' progress in delivering required recovery actions. The Council ended 2025/26 with an unplanned net overspend of £1 million. In light of continuing financial pressures, the moratorium, supported by these oversight arrangements, has also been carried forward into the 2026/27 financial year.

44. The unplanned net overspend of £1 million was funded through additional utilisation of reserves. The most significant service overspends related to external residential placements for children (£1.9 million), pupil transport (£1.1 million), maternity cover and temporary staffing within

schools (£0.6 million), increased insurance claims and premiums (£0.7 million), and higher waste disposal costs (£0.5 million).

45. These pressures were partly offset by favourable variances, including a £3.8 million underspend on loan charges, additional income from the Alpine Coaster (£1 million), and lower-than-budgeted costs across learning settings for children and young people (£0.7 million).

46. Exhibit 5 shows that over the past three years the council has found it increasingly challenging to deliver its agreed savings targets. While 94% of the target was achieved in 2023/24, this fell to 60% in 2025/26, leading to a growing reliance on reserves to balance the budget. Approved savings measures have reduced significantly in 2026/27 to £0.6 million.

Exhibit 5
Key financial information

Budget setting	2023/24 (£m)	2024/25 (£m)	2025/26 (£m)	2026/27 (£m)
Budget gap	7.8	5.5	7.3	9.3
Additional funding approved as part of budget setting:	0.1	3.5	5.8	2.7
Total base budget gap	9.7	7.9	13.1	12.0
Base budget gap planned to be balanced by:	7.9	9.0	13.1	12.0
Approved savings measures	3.6	2.0	2.0	0.6
Utilisation/(Enhancement) of reserves	1.0	6.8	4.1	4.1
Financial flexibilities	0.0	0.0	0.0	0.0
Council tax increase	3.0	0.0	6.6	6.7
Council tax on second homes	0.1	0.1	0.0	0.0
Fees and charges	0.2	0.1	0.4	0.4
Total funding of base budget gap	7.9	9.0	13.1	11.8
Savings delivered (relative to value agreed in setting the budget)	3.4	1.7	1.2	*N/A*
Actual in-year utilisation of reserves	9.1	19.8	7.6	*N/A*

Source: Midlothian Council audited annual accounts and budget documents

There is a significant risk of overspend by Midlothian Integration Joint Board on adult social care in 2026/27

47. Midlothian Council provide Midlothian Integration Joint Board (MIJB) an annual sum for services managed by the Midlothian Health and Social Care Partnership. This sum is adjusted in-year in accordance with the integration scheme. In 2025/26 MIJB spend on adult social care services exceeded the agreed budget of £71.7 million by £2.8 million. In accordance with the Integration Scheme, a further allocation of £2.8 million was approved to address the shortfall.

48. Current projections are showing an unplanned overspend of £3 million relative to budget in 2026/27. Until budgeted savings and recovery actions are delivered to address this overspend it remains an area of significant risk.

Usable reserves continue to reduce and non-earmarked balances are only marginally above the approved minimum level

49. One of the key measures of the financial health of a body is the level of reserves held. The level of usable reserves held by the council decreased from £85 million in 2024/25 to £77.4 million in 2025/26, £70.8 million of which has been earmarked for specific purposes.

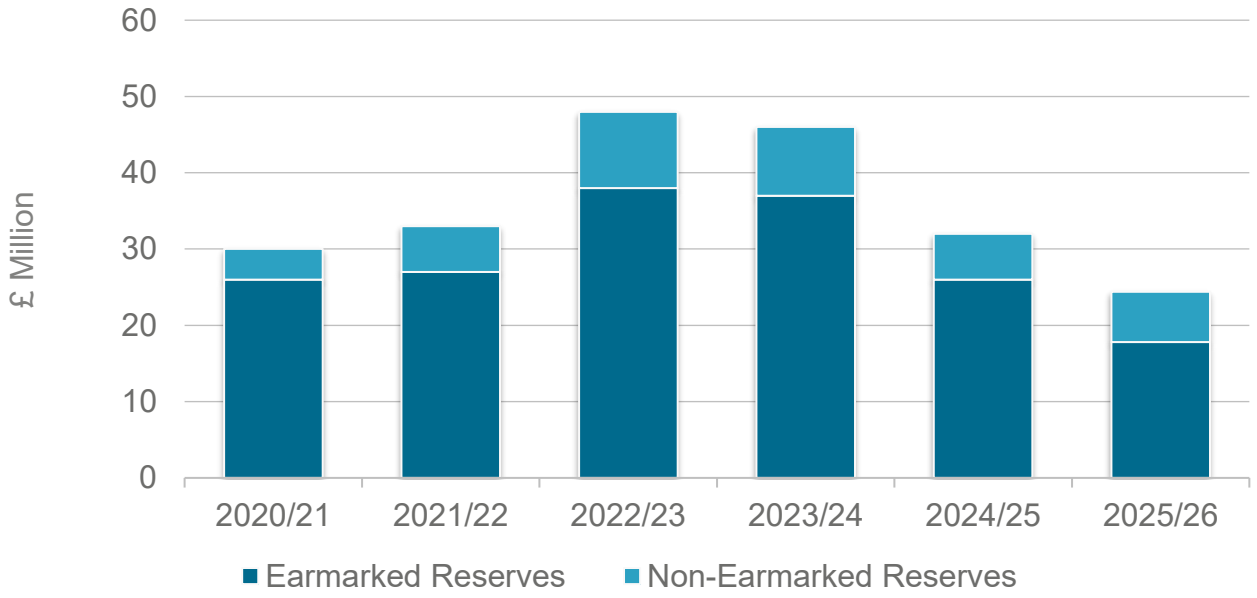
50. The usable reserves balance of £77.4 million includes:

- £17.8 million of General Fund earmarked reserves
- £53 million of ring-fenced reserves (Housing Revenue Account, Capital Fund, and Repairs and Renewals Fund)
- £6.6 million of General Fund non-earmarked reserves.

51. Exhibit 6 provides an analysis of the general fund over the last five years split between earmarked and non-earmarked reserves. The graph illustrates a downward trend in reserve levels, with non-earmarked reserves of £6.6 million remaining just above the approved minimum level of £5.2 million.

Exhibit 6

Analysis of General Fund balance



Source: Midlothian Council audited accounts

52. In recent years the council has been able to use reserves and other one-off measures such as service concession flexibilities to address budget pressures.

53. However, looking forward, continued reliance on reserves and other one-off measures to balance the budget is unsustainable. The council therefore faces increasing financial risk unless it can deliver sustainable recurring savings and reduce its dependence on reserves to support future revenue budgets.

The Housing Revenue Account reported an overspend of £1.7 million in 2025/26 against budget

54. The council has a statutory obligation to maintain a separate housing revenue account (HRA) and to ensure that rents are set at a level which will at least cover the costs of its social housing provision.

55. Overall, the HRA is showing an overspend of £1.7 million against budget at 31 March 2026 (2024/25: overspend £3.2 million) due to additional spend on repairs and maintenance costs. Additional spend of £3 million was offset by early repayment of long-term loans and a reduction in the overall borrowing requirement which resulted in an underspend in capital financing costs by £1.3 million.

56. Reserve balances decreased from £31.9 million at 31 March 2025 to £30.2 million at 31 March 2026. While reserve levels remain substantial, continued overspends reduce the resources available to support future investment in existing homes and increase the importance of delivering a financially sustainable HRA over the medium term.

Financial systems of control

57. From our review of the design and implementation of systems of internal control (including those relating to IT) relevant to our audit approach, we did not identify any issues with the design of the controls which would increase the risk of a material misstatement in the financial statements. However, we identified six areas where controls could be improved as set out in Exhibit 7.

Exhibit 7

Key findings from review of key controls

Audit findings	Additional audit procedures
1. Journals The council's financial ledger is the system for recording all transactions and preparing the financial statements. Journal entries are how the council's financial ledger is manually updated. To minimise the risk of error and fraud we would expect each journal entry to be prepared and authorised by different members of staff. We identified a number of officers who had the ability to approve their own journals increasing the risk that invalid, erroneous or fraudulent journals could be posted to the financial ledger. We reported this control weakness in our 2024/25 Annual Audit Report and the council has confirmed they are accepting of the associated risks.	Our journal entry testing throughout the year was tailored to reflect the increased risk arising from the lack of segregation of duties, specifically the ability for specific individuals to self-approve journals. No issues were identified as a result of this testing.
2. Ledger access Access to the ledger should be tightly controlled to mitigate the risk of unauthorised access and fraudulent postings. Officers advised that user access reviews are performed twice monthly to identify inactive users and remove access for leavers. However, no evidence is retained to demonstrate that these reviews have been completed.	We performed focussed review and testing of journals. We did not identify any errors from this review and testing. **Recommendation 4 (refer Appendix 1)** We recommend implementing procedures to ensure the user access list is reviewed and formally approved on a regular basis.

Audit findings	Additional audit procedures
3. Council tax – user access Access to the council tax system requires to be tightly controlled to mitigate the risk of fraudulent mis-postings. Officers were unable to provide a list of new users that were granted access to Open Revenues for 25/26. Furthermore, officers confirmed that no checks were carried out during 2025/26 to confirm the appropriateness of users with access to the system.	We performed focussed review and testing of council tax income to ensure transactions were complete, valid and accurate. We did not identify any errors from this review and testing. **Recommendation 5 (refer Appendix 1)** We recommend implementing procedures to ensure that user access is reviewed and formally approved on a regular basis.
4. Council tax – secondary checks Council procedures require the council tax processing team to perform at least 10 samples checks per year of the exemptions, discounts, reductions and refunds applied to council tax. Our testing found that no checks had been performed during 2025/26.	We performed additional testing of council tax exemptions, discounts, reductions and refunds processed during 2025/26. We did not identify any issues. **Recommendation 6 (refer Appendix 1)** We recommend that secondary checks of council tax exemptions, discounts, reductions and refunds are performed by officers to obtain assurance over the data processed.
5. Housing rents system– user access The user list detailing access permissions to the MRI One Housing system is not subject to regular review. While we found that monthly checks of leavers are carried out and the user list is updated as appropriate, there is no documented evidence to support that these reviews have taken place.	We performed a focussed review of housing rental income to ensure transactions were complete, valid and accurate. We did not identify any errors from this review and testing. **Recommendation 7 (refer Appendix 1)** We recommend implementing procedures to ensure that user access is reviewed and formally approved on a regular basis.
6. IT control weaknesses Audit testing identified some weaknesses in IT controls with regard to: • Business continuity and emergency response planning. • Backup recovery.	We discussed IT control weaknesses with officers who confirmed that work is ongoing to address the control weaknesses with some improvement actions noted as complete from April 2026.

Standards of conduct and arrangement for the prevention and detection of fraud and error were appropriate

58. In the public sector there are specific fraud risks, including those relating to tax receipts, welfare benefits, grants, and other claims made by individuals and organisations. Public sector bodies are responsible for

implementing effective systems of internal control, including internal audit, which safeguard public assets and prevent and detect fraud, error and irregularities, bribery, and corruption.

59. Midlothian Council continues to participate in the National Fraud Initiative (NFI) 2024/2025 which is a UK wide counter-fraud exercise led by the Cabinet Office and Audit Scotland.

60. We concluded that the council has adequate arrangements in place to prevent and detect fraud or other irregularities.

Financial Sustainability

Long-term financial sustainability depends on successful delivery of transformation and savings plans

61. The Council continues to operate within a challenging financial environment, with funding pressures affecting the wider public sector. As Scotland's fastest-growing local authority, Midlothian faces additional demand-led cost pressures arising from sustained population growth.

62. The Medium-Term Financial Strategy (MTFS) provides a multi-year framework to support delivery of the Council's strategic priorities while meeting the statutory requirement to set a balanced budget. The strategy aims to achieve financial sustainability by ensuring that recurring expenditure is supported by recurring sources of income.

63. The Council approved its latest MTFS alongside the 2026/27 budget in February 2026. A balanced budget was achieved through a combination of a 9% Council Tax increase and the planned use of £4.1 million of reserves relating to service concession retrospection.

64. The Council's latest medium-term financial forecasts identify an underlying funding gap of £15.3 million in 2027/28, increasing to £25.9 million by 2028/29. After taking account of planned Council Tax increases and the planned use of reserves, a residual funding gap of £6.2 million remains in 2027/28, rising to £14.9 million by 2028/29.

65. While the Council has established plans to mitigate part of the projected shortfall, significant funding gaps remain. The council has reported that closing these gaps will require the delivery of substantial recurring savings through service reprioritisation, transformation and redesign.

66. The Council has established a Transformation Blueprint and consulted on savings proposals as part of its financial planning arrangements. The level of savings and transformation benefits achieved to date is modest compared with the scale of the projected funding gap. The council will therefore need to accelerate the pace and scale of transformation activity if it is to achieve long-term financial sustainability.

Vision, Leadership and Governance

Strategic planning arrangements support delivery of the council's vision and priorities

67. The council has a well-developed strategic planning framework comprising the Corporate Plan, Single Midlothian Plan and supporting operational plans. Together, these documents set out the council's vision, priorities and intended outcomes and provide a clear basis for planning and delivering services.

68. The council has established arrangements to engage with service users, community planning partners and other stakeholders in the development of its vision, strategy and priorities. This helps ensure that strategic objectives reflect local needs and support collaborative delivery of outcomes across Midlothian.

Governance, performance and reporting arrangements are effective

69. The council has established governance arrangements that support effective decision-making, accountability and oversight. These arrangements are reflected in the Annual Governance Statement included within the annual accounts.

70. Comprehensive financial and performance reporting arrangements are in place and are linked to the council's strategic and operational plans. Elected members receive regular information on financial and service performance, with scrutiny and challenge provided through the council's committee structure, including the Performance Review and Scrutiny Committee.

71. Based on our audit work, we concluded that the council's arrangements for vision, leadership and governance were effective and appropriate.

Use of Resources to Improve Outcomes

Performance management arrangements support oversight of outcomes and service delivery

72. The council has appropriate arrangements in place for its use of resources to improve outcomes. This is supported by its Planning and Performance Management Framework (PPMF), which was published in 2023 and refreshed in 2025. The framework provides a structured approach to monitoring performance and supporting delivery of outcomes.

73. The council also has a Local Outcomes Improvement Plan (the Single Midlothian Plan), which sets out shared priorities and outcomes for Midlothian. Performance against the plan is monitored regularly by the Community Planning Partnership Board, with annual reporting highlighting progress and achievements. In addition, the council uses a balanced scorecard to monitor the performance of services for which it is directly responsible.

Annual performance results demonstrate both areas of strength and continuing challenges

74. Our review of the annual scorecard results indicates that overall performance in 2025/26 was mixed, with strong achievements in community engagement, environmental sustainability, housing quality and support for disadvantaged residents.

75. The Council significantly increased the proportion of its green fleet, almost achieved full compliance with the Scottish Housing Quality Standard, exceeded targets for community learning and engagement activity, and maintained positive destinations for school leavers overall. There was also strong performance in adult carer support planning and several health and social care operational measures.

76. However, a number of important challenges remain. Performance declined in several areas relating to children and young people, particularly secondary school attendance, outcomes for care experienced school leavers and timeliness of child protection processes. These measures highlight areas where further improvement is required to support positive outcomes for some of the council's most vulnerable residents.

Best Value audit

Conclusion

The council has well established and effective governance arrangements in place, with Best Value being a key aspect of the governance arrangements.

Midlothian Council has established effective and appropriate arrangements for preparing and publishing Statutory Performance information.

Overall, the council is making good progress in implementing the previous recommendations made, with seven of the previous recommendations made being implemented in 2025/26 and progress being made with five further recommendations.

The Management Report on themes prescribed by the Accounts Commission reported the council does not have an overarching asset management strategy, which creates a potential risk around fragmented decision making in relation to its assets. The council is now developing an overarching asset management strategy to address this risk.

The council is part of the fifth year of the programme for Controller of Audit reports to the Accounts Commission on the council's performance in meeting its Best Value duties.

Audit approach to Best Value

77. Under the Code of Audit Practice, the audit of Best Value in councils is fully integrated within the annual audit. As part of the annual audit, auditors are required to take a risk-based approach to assessing and reporting on whether the council has made proper arrangements for securing Best Value in accordance with statutory guidance, including follow up of findings previously reported in relation to Best Value.

78. The Accounts Commission also reports nationally on thematic aspects of councils' approaches to, and performance in, meeting their Best Value duties. As part of the annual audit, thematic reviews, as directed by the Accounts Commission, are conducted on the council. The thematic review for 2025/26 is on the subject of asset management and involved considering how councils are managing their assets to ensure high quality services while also responding to challenges around financial

sustainability and climate change. Conclusions and judgements on the thematic review are reported in a separate Management Report and summarised in this chapter.

Conclusions on Best Value

The council has well established and effective governance arrangements in place, with Best Value being a key aspect of the governance arrangements.

79. The council has well established and effective governance arrangements in place, with Best Value being a key aspect of the governance arrangements.

80. The audit work performed on the arrangements the council has in place for securing Best Value and its community planning arrangements found these were effective and appropriate.

The council is part of the fifth year of the programme for Controller of Audit reports to the Accounts Commission on the council's performance in meeting its Best Value duties.

81. At least once every five years, the Controller of Audit will report to the Accounts Commission on Midlothian Council's performance in meeting its Best Value Duties. The council is part of the fifth year of the programme with the report scheduled to be considered at the Accounts Commission meeting on 5 November 2026.

Themes prescribed by the Accounts Commission

82. As previously outlined, the Accounts Commission reports nationally on thematic aspects of council's approaches to, and performance in, meeting their Best Value duties, with the thematic review for 2025/26 on the subject of asset management. Conclusions and judgements on the council's approach to asset management are outlined in a separate Management Report which is available on the Audit Scotland website. A summary of the conclusions and judgments made in the report is outlined below.

- Midlothian Council's strategic approach to asset management is captured across a number of strategies, including its Learning Estate Strategy, Capital Investment Strategy 2018—28, Transformation Blueprint 2023—28 and, more recently, the Property and Estates Asset Management Plan. The council does not have an overarching asset management strategy, which creates a potential risk around fragmented decision making in relation to its assets. The Management Report on themes prescribed by the Accounts Commission reported the council does not have an overarching asset management strategy, which creates a potential risk around fragmented decision making in relation to its assets. We have noted that the council is now developing an overarching asset management strategy to address this risk.

- There is clear alignment between the council's General Services Capital Plan and its asset management plans. The council demonstrates a strong commitment to affordability in its capital programme, which requires careful ongoing monitoring.

- The council has established clear governance arrangements for monitoring progress with its capital programme and asset management plans through the Capital Plan and Asset Management Boards and Programme Boards. There are also clear governance arrangements in place for elected members to scrutinise progress with the capital plan. The council monitors progress with its capital plan regularly. This is experiencing significant slippage, with inflationary pressures and market conditions leading to increased development costs.

- The council's performance has declined over time in relation to three out of four relevant LGBF asset management indicators. Performance reporting in relation to the council's own asset management indicators is fragmented, therefore it is difficult to see how this is informing strategic decision making.

- The council is working with partners to explore collaborative ways of using assets. The council has engaged with communities in relation to its assets and can demonstrate how it has used feedback to inform decisions.

- The council has a clear approach to supporting and assessing community asset transfer requests. The Community Asset Transfer Committee provides governance arrangements with detailed papers on decision-making that are publicly available.

Statutory performance information (SPI) and service performance

83. The Accounts Commission has issued a Statutory Performance Information Direction which requires the council to publish information that will:

- enable comparisons of performance between councils and over time

- show how well it is improving local outcomes with community planning partners in their area.

84. Auditors have a statutory duty to satisfy themselves that the council has made proper arrangements for preparing and publishing SPI in accordance with the Direction and report a conclusion in the Annual Audit Report.

85. The arrangements the council has in place for preparing and publishing SPI were assessed by considering:

- whether information reported allowed comparison of performance between councils and over time
- the indicators it uses for reporting and whether it maximises use of the Local Government Benchmarking Framework (LGBF) indicators (and explaining the rationale when the LGBF is not used)
- whether information reported was balanced, timely, and accessible
- whether information reported covered the four key areas set out in the Schedule to the Direction.

86. Audit work on the arrangements the council has in place for preparing and publishing SPI concluded the arrangements in place were effective and appropriate.

87. The Accounts Commission also requires auditors to report a summary of the LGBF indicators the council has reported, which can be seen in Exhibit 9.

Exhibit 9

Summary of LGBF indicators the council has reported

	Cost indicators %	Performance indicators %	Satisfaction indicators %	All indicators %
Movement in last year				
Improved	42%	46%	18%	43%
Stayed the same	11%	24%	9%	20%
Declined	47%	30%	73%	37%
Movement since base year				
Improved	42%	64%	9%	54%
Stayed the same	5%	5%	9%	6%
Declined	53%	31%	82%	40%
Indicators in the top two quartiles				
Most recent year	47%	55%	27%	50%
Base year	63%	45%	18%	45%

Source: LGBF at 4 September 2026

88. Performance against Local Government Benchmarking Framework indicators presents a mixed picture. As shown in Exhibit 9, 43 per cent of all indicators improved in the most recent year, while 37 per cent declined. Looking over the longer term, performance has generally strengthened, with 54 per cent of indicators improving since the base year and the proportion of indicators in the top two quartiles increasing from 45 per cent to 50 per cent. However, this improvement has not been consistent across all service areas.

89. The council's strongest long-term improvements are evident in educational outcomes and aspects of financial inclusion. Literacy and numeracy attainment gaps have narrowed significantly over time, alongside improvements in Curriculum for Excellence attainment measures. The council also continues to perform well compared with the Scottish average in making crisis grant and community care grant decisions. In addition, the proportion of children living in poverty has reduced over time.

90. Notwithstanding these improvements, the benchmarking data highlights areas where performance has weakened and where further management focus may be required. Satisfaction indicators are a particular concern, with 82 per cent showing a decline since the base year and only 27 per cent currently sitting in the top two quartiles. This includes a reduction in public satisfaction with culture and leisure services relative to the Scottish average. Housing performance also presents a mixed picture: while compliance with the Scottish Housing Quality Standard has improved and is now broadly in line with the Scottish average, the average time taken to complete non-emergency housing repairs has increased significantly and remains amongst the weakest-performing councils in Scotland.

91. The council should continue to analyse the drivers behind declining satisfaction measures and weaker housing performance, while seeking to sustain the improvements achieved in educational attainment, poverty reduction and benefits administration.

Progress against previous Best Value findings and recommendations

92. Best Value findings and recommendations have been made in previous years' Annual Audit Reports, Management Reports on themes prescribed by the Accounts Commission, and in Best Value reports published by the Accounts Commission, which are based on Controller of Audit reports.

93. The council has made good progress in implementing previous Best Value recommendations. Of the 13 recommendations reported in 2023/24 and 2024/25, 10 have been fully implemented. Improvements delivered include:

- strengthening transformation planning arrangements through the identification and development of priority transformation projects
- enhancing governance and oversight of transformation activity through improved reporting to senior leaders and elected members
- improving public reporting of the impact of transformation activity and strengthening integrated impact assessment arrangements
- assessing the organisational impact of hybrid and flexible working arrangements
- formalising aspects of workforce planning, including approaches to recruitment, skills development and organisational capacity
- improving the council's understanding of the benefits arising from shared service arrangements.

94. These improvements demonstrate a positive response to audit scrutiny and a commitment to addressing areas identified for development. Many of the actions have been implemented within a relatively short period following the recommendations being made.

95. Three recommendations remain in progress and are included in Appendix 1. These relate to arrangements for resourcing future transformation activity beyond the current Project Management Office, development of a staff engagement approach and staff survey programme and strengthening workforce performance management arrangements. The council has agreed revised actions and target dates for each recommendation. We will continue to monitor progress as part of future audits.

Appendix 1: Action plan 2025/26

2025/26 recommendations

Matter giving rise to recommendation	Recommendation	Agreed action, officer and timing
1. Public inspection notice Section 195(b) of the Local Government (Scotland) Act 1973 requires the public inspection notice to be displayed in a conspicuous place within the authority's area or published in a newspaper circulating within that area. During our review, we noted that Midlothian Council published the public inspection notice solely on its website. While this supports public accessibility, it does not fully comply with the requirements of Section 195(b) of the Local Government (Scotland) Act 1973.	Management should ensure that future public inspection notices are published in accordance with the requirements of Section 195(b) of the Local Government (Scotland) Act 1973. This should include displaying the notice in one or more conspicuous places within the authority's area or publishing the notice in a newspaper circulating within the area, in addition to any publication on the council's website.	**Agreed action:** Accepted. To supplement existing practice a notice will be placed in a conspicuous place in the Council's main office. **Responsible officer:** Chief Financial Officer & Section 95 Officer. **Date:** 30 June 2027.
2. Non-current assets - indexation Changes to the Code in 2025/26 required local authorities to apply indexation to land and buildings not valued in year. Midlothian Council revalued all schools and updated the discount factor for council dwellings in 2025/26. Indexation was applied to other land and buildings and we are satisfied with the methodology applied,	Management should establish a documented process for selecting, reviewing, and approving indexation factors each year, including retaining externally sourced indices or valuation advice used to support the calculations applied to land and building assets.	**Agreed action:** Accepted. Suitable published indicators will be identified for use in annual indexation of assets with the approach being documented in the annual instruction for valuers. **Responsible officer:** Chief Financial Officer & Section 95 Officer. **Agreed date:** 31 March 2027.

Matter giving rise to recommendation	Recommendation	Agreed action, officer and timing
however, we have been unable to corroborate the indices applied.		
3. Management Commentary Statutory guidance set out in Local Government Finance Circular 5/2015 requires Management Commentaries to include both financial and non-financial key performance indicators, together with a balanced and fair review of the council's performance during the year. We found that the Management Commentary included within the unaudited annual accounts does not provide sufficient performance information to demonstrate the extent to which the council has delivered its strategic objectives during the year. In particular, the commentary lacks meaningful analysis of key performance indicators, outcomes and trends. As a result, readers are unable to gain a clear understanding of the council's overall performance or assess whether public resources have been used effectively and delivered the intended outcomes.	Management should enhance the Management Commentary to provide a clear and balanced assessment of the council's performance during the year. This should include meaningful analysis of both financial and non-financial key performance indicators, progress against strategic objectives, and an explanation of significant variances, trends and outcomes. The commentary should clearly demonstrate how the council's activities and use of resources have contributed to the achievement of its priorities	**Agreed action:** Accepted. More detailed Council performance information will be added to the Management Commentary in the 2026/27 accounts. **Responsible officer:** Chief Financial Officer & Section 95 Officer. **Agreed date:** 30 June 2027.
4. Ledger access Access to the ledger requires to be tightly controlled to mitigate the risk of fraudulent mis-postings. Officers have advised that they perform two user access reviews each month;	We recommend implementing procedures to ensure the user access list is reviewed and formally approved on a regular basis.	**Agreed action:** Accepted. A formal record template will be developed and used to record. **Responsible officer:** Chief Financial Officer & Section 95 Officer.

Matter giving rise to recommendation	Recommendation	Agreed action, officer and timing
however, documentation of these checks is not retained. The checks are as follows: • a review of all active users, with a filter applied to identify any users who have not signed into the system within the last six months. Any such users identified have their access deactivated. No formal evidence of this review is retained. • a review of the monthly report from the iTrent system, which lists all users who have notified the Council that they are leaving. All leavers who had access to the ledger are deactivated following the monthly review. No documentation of this review is retained.		**Agreed date:** 31 December 2026.
5. Council tax – user access Access to the council tax system requires to be tightly controlled to mitigate the risk of fraudulent mis-postings. Officers were unable to provide a list of new users that were granted access to Open Revenues for 25/26. Furthermore, officers confirmed that no checks were carried out during 2025/26 to confirm the appropriateness of users with access to the system.	We recommend implementing procedures to ensure that user access is reviewed and formally approved on a regular basis.	**Agreed action:** Accepted. Procedures will be implemented. **Responsible officer:** Chief Officer Corporate Solutions. **Agreed date:** 31 December 2026.
6. Council tax – secondary checks Council procedures require the council tax processing	We recommend that secondary checks of council tax exemptions, discounts, reductions and refunds are performed by officers to	**Agreed action:** Accepted. All changes to an account (i.e. application of a discount, exemption or reduction) that result in a credit are always

Matter giving rise to recommendation	Recommendation	Agreed action, officer and timing
team to perform at least 10 samples checks per year of the exemptions, discounts, reductions and refunds applied to council tax. Our testing found that no checks had been performed during 2025/26.	obtain assurance over the data processed.	secondary checked to ensure that they are correct before refunding this to the customer however this not formally recorded. A formal record template will be developed. **Responsible officer:** Chief Officer Corporate Solutions. **Agreed date:** 31 December 2026.
7. Housing rents system– user access The user list detailing access permissions to the MRI One Housing system is not subject to regular review. While we found that monthly checks of leavers are carried out and the user list is updated as appropriate, there is no documented evidence to support that these reviews have taken place.	We recommend implementing procedures to ensure that user access is reviewed and formally approved on a regular basis.	**Agreed action:** Accepted. Procedures will be implemented. **Responsible officer:** Chief Officer Corporate Solutions. **Agreed date:** 31 December 2026.

Follow-up of prior year recommendations, including any previous Best Value report findings and recommendations

Matter giving rise to recommendation	Recommendation	Agreed action, officer and timing
1. Non-current assets council dwellings The council undertook a full valuation of its council dwellings stock in 2024/25. Council dwellings require to be valued on an Existing Use Value – Social Housing (EUV-SH) basis. The Beacon Method is the methodology which estimates this.	To fully comply with RICS guidance, Management should apply the Beacon Method when performing a full valuation of its council dwelling stock.	**In progress** **Revised action**: The Council's valuation basis in this was reviewed but not amended due to management concerns over the availability of useable data to fully comply with guidance. This remains under consideration. **Responsible officers:** Chief Financial Officer & Section 95 Officer.

Matter giving rise to recommendation	Recommendation	Agreed action, officer and timing
We found that the valuation approach used for council houses in 2024/25 did not fully align with the Beacon Method. Specifically, actual physical beacon properties were not used to value each property archetype. The Beacon Method relies on the market value of a representative property assuming vacant possession, with an adjustment to reflect occupation by a secure tenant. However, the valuer identified a hypothetical beacon for each archetype and utilised sales comparables to derive the valuation, rather than basing it on actual beacon properties.		Head of Development. **Agreed date.** 31 March 2027.
2. Ledger access Access to the ledger requires to be tightly controlled to mitigate the risk of fraudulent mis-postings. Midlothian Council has provided a number of officers with superuser access which permits enhanced access to the ledger for IT support requirements. A list of superusers is held and monitored on a regular basis but the reviews are not documented.	We recommend implementing procedures to ensure the superuser access list is reviewed and formally approved on a regular basis.	**Not implemented** **Revised action:** A formal record template will be developed and used to record. **Responsible officer:** Chief Officer Corporate Solutions. Agreed date: 31 December 2026.
3. Council tax – secondary checks Council procedures require the council tax processing team to perform at least 10 samples checks per year of the exemptions, discounts,	We recommend that secondary checks of council tax exemptions, discounts, reductions and refunds are performed by officers to obtain assurance over the data processed.	**Superseded** Refer Action Plan – 2025/26 Recommendations.

Matter giving rise to recommendation	Recommendation	Agreed action, officer and timing
reductions and refunds applied to council tax. Our testing identified that only 3 out of the 10 checks had been performed during 2024/25.		
Follow up of recommendations brought forward from 2023/24		
4. Non-current assets condition surveys In 2023/24 the council performed a full valuation of other buildings in line with its revaluation policy. The condition survey ratings held on the non-current asset register were considered in preparing the valuation estimates. We found that a number of condition surveys were updated during 2023/24 and were allocated reduced ratings. Although the surveys were not finalised until after the year end, the revised condition ratings applied to the relevant buildings at 31 March 2024 and should have been considered in calculating the valuation estimates. This resulted in an estimation error of £19 million in the unaudited accounts. Risk: There is a risk of error in the valuation of buildings.	The most up to date condition ratings should be applied to all buildings at the date of valuation.	**Implemented** The council have identified all buildings with an older condition survey and have undertaken condition surveys in 2025/26. The council have allocated budget to ensure that a five-year cyclical condition survey programme is maintained.
5. Bank accounts At the year-end we identified over 20 bank accounts (mainly imprest accounts) with small balances which	The council should consider the bank accounts held and if they are still required.	**In progress** Progress has been made during 2025/26. This is an ongoing exercise and is a standing agenda point in the

Matter giving rise to recommendation	Recommendation	Agreed action, officer and timing
were not reconciled to the ledger on a regular basis. Risk: There is a risk that errors may not be picked up and corrected timeously. There is also a risk that the council is operating a number of bank accounts which are no longer required.		council's service review meetings with the bank. **Responsible officer:** Chief Financial Officer & S95 Officer. **Agreed date:** Ongoing
6. Performance reporting We reviewed a sample of service performance reports and concluded that the reports provide a good mix of narrative, visual and target information and there is a lot of detail outlining details of achievements in 2023/24, but key messages are not explicit, and it is unclear how the achievements translate to improvement in outcomes. Where areas of underperformance are reported it is not always clear how the council is addressing these areas. Risk: Performance reports are not providing clear information to enable monitoring of performance against key Council objectives.	The council should review and streamline service performance reports. Key messages should be clear, and performance should be mapped to outcomes.	**Implemented** Service performance reports provide clear details on overall performance and actions in place to address areas of underperformance.
Follow up Best Value Findings from 2024/25		
Resources for transformation The council faces challenges with recruitment and capacity in some service areas and reports that it is working to address these. It has used its Transformation Fund to develop a fixed-term Project Management Office to	The council should consider how it will resource its transformation work after the current three-year term for its Project Management Office ends.	**Ongoing** This will be progressed as part of the development of the next phase of the Council's transformation programme and budget setting for 2027/28. **Responsible officer:** Chief Officer Corporate Solutions.

Matter giving rise to recommendation	Recommendation	Agreed action, officer and timing
support implementation of the Transformation Blueprint. The council should consider how it will resource its transformation work after the current three-year term for its Project Management Office ends.		**Revised date:** 31 March 2027.
Follow up Best Value Findings from 2023/24		
Staff survey The council has not carried out a staff survey for a few years although it is something they are considering doing again. This makes it difficult to identify and monitor trends in how staff are feeling. Risk: The council has no measure of how staff are feeling or the impact across the workforce of any new workforce policies or initiatives.	The council should carry out regular staff surveys to identify and monitor trends in how staff are feeling. This will enable the Council to measure the impact of any new workforce policies or initiatives.	**Ongoing** **Revised action:** A staff engagement approach is in development, with the intention to present this to CMT in early 2027, coinciding with a new staff survey, focus group sessions and other engagement methods. **Revised Date:** 31 March 2027. **Responsible Officer**: Chief Officer Corporate Solutions.
Performance management framework To ensure the success of the workforce plan the council needs to develop a high-quality performance management framework linked to the strategy. Risk: Without the use of robust data the council will not be able to make informed decisions about staffing levels, skills requirements and resource allocation which would help build a sustainable workforce.	The council should ensure that organisational and service level workforce strategies are supported by appropriate performance management information including quantifiable metrics.	**Ongoing** **Revised action:** This will be actioned through the review of the Workforce Strategy in late 2026 as part of a performance report on delivery of the strategy. **Revised date:** 31 December 2026. **Responsible Officer:** Chief Officer Corporate Solutions.

Appendix 2: Summary of misstatements

Details	Comprehensive Income and Expenditure Statement (CIES)		Balance Sheet	
Corrected misstatements	**Dr**	**Cr**	**Dr**	**Cr**
	£000	**£000**	**£000**	**£000**
1. Error in investment figures upon group consolidation				
Surplus or Deficit on Provision of Services (Group)	1,485			
Other comprehensive income (Group)		(1,485)		
Investments in Associates and Joint Ventures (Group)			1,485	
Long term investments (Group)				(1,485)
PPP long term liability			3,936	
Short term creditors				(3,936)
	1,485	**(1,485)**	**5,421**	**(5,421)**
Uncorrected misstatements	**Dr**	**Cr**	**Dr**	**Cr**
	£000	**£000**	**£000**	**£000**
2. **Capital accrual not recognised in the financial statements**				
Property, Plant and Equipment			1,264	
Short term creditors				(1,264)
			1,264	**(1,264)**

Appendix 3: National and performance audit reports

Report name	Date published
Transforming the approach to climate change: Lessons from public audit	19 March 2026
Annual Assurance and Risks Report: A review of 2024/25 local government audits in Scotland	12 March 2026
Integration Joint Boards: Finance bulletin 2024/25	26 February 2026
The Scottish Budget 2026/24: Supplement to the Financial bulletin 2024/25	12 February 2026
Local Government in Scotland: Financial bulletin 2024/25	29 January 2026
Administration of Scottish income tax 2024/25	16 January 2026
Community health and social care: Performance 2025	8 January 2026
Delayed discharges: A symptom of the challenges facing health and social care	8 January 2026
NHS in Scotland 2025: Finance and performance	4 December 2025
Financial sustainability and taxes	13 November 2025
Local government performance: Spotlight on culture and leisure services	23 October 2025
Improving care experience: Delivering The Promise	8 October 2025
Flooding in communities: Moving towards flood resilience	28 August 2025
Local government budgets 2025/26	22 May 2025
NHS in Scotland: Spotlight on governance	28 May 2025

Midlothian Council

2025/26 Annual Audit Report

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