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Audit Committee

25 November 2024

Midlothian Council Audit of 2023/24 annual accounts

Independent auditor's report

1. My audit work on the 2023/24 annual accounts is now substantially complete. Subject to receipt of a revised set of annual accounts for final review, I anticipate being able to issue unmodified audit opinions in the independent auditor's report on 25 November 2024 (the proposed report is attached at [Appendix A](#)).

Annual Audit Report

2. Under International Standards on Auditing in the UK, I report specific matters arising from the audit of the annual accounts to those charged with governance of Midlothian Council in sufficient time to enable appropriate action. For Midlothian Council, those charged with governance is the Audit Committee. I present for the committee's consideration my draft Annual Audit Report on the 2023/24 audit. The section headed "Significant findings and key audit matters" sets out the issues identified in respect of the annual accounts.

3. The report also sets out conclusions on the wider scope areas that frame public audit as set out in the Code of Audit Practice.

4. This report will be issued in final form after the audit of the annual accounts has been completed.

Unadjusted misstatements

5. I also report to those charged with governance all unadjusted misstatements in the annual accounts which I have identified during the course of my audit, other than those of a trivial nature, and request that these misstatements be corrected.

6. I have no unadjusted misstatements to be corrected.

Fraud, subsequent events, and compliance with laws and regulations

7. In presenting this report to the Audit Committee I seek confirmation from those charged with governance of any instances of any actual, suspected, or alleged fraud; any subsequent events that have occurred since the date of the financial statements; or material non-compliance with laws and regulations affecting the entity that should be brought to my attention.

Representations from Section 95 Officer

8. As part of the completion of our audit, I am seeking written representations from the Section 95 Officer on aspects of the annual accounts, including the judgements and estimates made.

Audit Committee

Monday 25 November 2024

Item No 5.1

9. A draft letter of representation is attached at [Appendix B](#). This should be signed and returned to me by the Section 95 Officer with the signed annual accounts prior to the independent auditor's report being signed.

Appendix A: Proposed Independent Auditor's Report

Independent auditor's report to the members of Midlothian Council and the Accounts Commission

Reporting on the audit of the financial statements

Opinion on financial statements

I certify that I have audited the financial statements in the annual accounts of Midlothian Council and its group for the year ended 31 March 2024 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Group and Council Comprehensive Income and Expenditure Statement, Movement in Reserves Statement, Balance Sheet, and Cash Flow Statement, the council-only Housing Revenue Account, the Movement in the Housing Revenue Account, the Council Tax Income Account, and the Non-Domestic Rate Account and notes to the financial statements, including material accounting policy information. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards, as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2023/24 (the 2023/24 Code).

In my opinion the accompanying financial statements:

- give a true and fair view of the state of affairs of the council and its group as at 31 March 2024 and of the income and expenditure of the council and its group for the year then ended;
- have been properly prepared in accordance with UK adopted international accounting standards, as interpreted and adapted by the 2023/24 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

Basis for opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)), as required by the [Code of Audit Practice](#) approved by the Accounts Commission for Scotland. My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report. I was appointed by the Accounts Commission on 5 June 2023. My period of appointment is five years, covering 2022/23 to 2026/27. I am independent of the council and its group in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. Non-audit services prohibited by the Ethical Standard were not provided to the council. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern basis of accounting

I have concluded that the use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work I have performed, I have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the ability of the council and its group to continue to adopt the going concern basis of accounting for a period of at least twelve months from when the financial statements are authorised for issue.

These conclusions are not intended to, nor do they, provide assurance on the current or future financial sustainability of the council and its group. However, I report on the council's arrangements for financial sustainability in a separate Annual Audit Report available from the [Audit Scotland website](#).

Risks of material misstatement

I report in my Annual Audit Report the most significant assessed risks of material misstatement that I identified and my judgements thereon.

Responsibilities of the Chief Financial Officer and Audit Committee for the financial statements

As explained more fully in the Statement of Responsibilities, the Chief Financial Officer is responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal control as the Chief Financial Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Financial Officer is responsible for assessing the ability of the council and its group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention to discontinue the operations of the council and its group.

The audit committee is responsible for overseeing the financial reporting process.

Auditor's responsibilities for the audit of the financial statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. I design procedures in line with my responsibilities outlined above to detect material misstatements in respect of irregularities, including fraud. Procedures include:

- using my understanding of the local government sector to identify that the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003 are significant in the context of the council and its group;
- inquiring of the Chief Financial Officer as to other laws or regulations that may be expected to have a fundamental effect on the operations of the council and its group;
- inquiring of the Chief Financial Officer concerning the policies and procedures of the councils and its group regarding compliance with the applicable legal and regulatory framework;
- discussions among my audit team on the susceptibility of the financial statements to material misstatement, including how fraud might occur; and
- considering whether the audit team collectively has the appropriate competence and capabilities to identify or recognise non-compliance with laws and regulations.

The extent to which my procedures are capable of detecting irregularities, including fraud, is affected by the inherent difficulty in detecting irregularities, the effectiveness of the council's controls, and the nature, timing and extent of the audit procedures performed.

Irregularities that result from fraud are inherently more difficult to detect than irregularities that result from error as fraud may involve collusion, intentional omissions, misrepresentations, or the override of internal control. The capability of the audit to detect fraud and other irregularities depends on factors such as the skilfulness of the perpetrator, the frequency and extent of manipulation, the degree of collusion involved, the relative size of individual amounts manipulated, and the seniority of those individuals involved.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of my auditor's report.

Reporting on other requirements

Opinion prescribed by the Accounts Commission on the audited parts of the Remuneration Report

I have audited the parts of the Remuneration Report described as audited. In my opinion, the audited parts of the Remuneration Report have been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014.

Other information

The Chief Financial Officer is responsible for the other information in the annual accounts. The other information comprises the Management Commentary, Annual Governance Statement, Statement of Responsibilities and the unaudited parts of the Remuneration Report.

My responsibility is to read all the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon except on the Management Commentary and Annual Governance Statement to the extent explicitly stated in the following opinions prescribed by the Accounts Commission.

Opinions prescribed by the Accounts Commission on the Management Commentary and Annual Governance Statement

In my opinion, based on the work undertaken in the course of the audit:

- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003; and
- the information given in the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016).

Matters on which I am required to report by exception

I am required by the Accounts Commission to report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements and the audited parts of the Remuneration Report are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit.

I have nothing to report in respect of these matters.

Conclusions on wider scope responsibilities

In addition to my responsibilities for the annual accounts, my conclusions on the wider scope responsibilities specified in the Code of Audit Practice, including those in respect of Best Value, are set out in my Annual Audit Report.

Use of my report

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 108 of the Code of Audit Practice, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Claire Gardiner CPFA
Audit Director
Audit Scotland
102 West Port
Edinburgh
EH3 9DN

Appendix B: Letter of Representation (ISA 580) - to be reproduced on client's letterhead

Claire Gardiner CPFA, Audit Director
Audit Scotland
4th Floor
102 West Port

Edinburgh
EH3 9DN

Dear Claire,

Midlothian Council Annual Accounts 2023/24

1. This representation letter is provided about your audit of the annual accounts of Midlothian Council and its group, for the year ended 31 March 2024 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view and have been properly prepared, and for expressing other opinions on the Remuneration Report, Management Commentary, and Annual Governance Statement.
2. I confirm to the best of my knowledge and belief and having made appropriate enquiries of the Chief Executive and Corporate Management Team, the following representations given to you in connection with your audit of Midlothian Council's annual accounts for the year ended 31 March 2024.

General

3. Midlothian Council and I have fulfilled our statutory responsibilities for the preparation of the 2023/24 annual accounts. All the accounting records, documentation, and other matters which I am aware are relevant to the preparation of the annual accounts have been made available to you for the purposes of your audit. All transactions undertaken by Midlothian Council have been recorded in the accounting records and are properly reflected in the financial statements.

Financial Reporting Framework

4. The annual accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2023/24 (2023/24 accounting code), and the requirements of the Local Government (Scotland) Act 1973, the Local Government in Scotland Act 2003, and The Local Authority Accounts (Scotland) Regulations 2014.
5. In accordance with the 2014 Regulations, I have ensured that the financial statements give a true and fair view of the financial position of the Midlothian Council and its Group at 31 March 2024 and the transactions for 2023/24.

Accounting Policies and Estimates

6. All material accounting policies applied are as shown in the notes to the financial statements. The accounting policies are determined by the 2023/24 accounting code where applicable. All accounting policies applied are appropriate to Midlothian Council's circumstances and have been consistently applied.
7. The significant assumptions used in making accounting estimates are reasonable and properly reflected in the financial statements. Judgements used in making estimates have been based on the latest available, reliable information. Estimates have been revised where there are changes in the circumstances on which the original estimate was based or as a result of new information or experience.

Going Concern Basis of Accounting

8. I have assessed Midlothian Council's ability to continue to use the going concern basis of accounting and have concluded that it is appropriate. I am not aware of any material uncertainties that may cast significant doubt on Midlothian Council's ability to continue to adopt the going concern basis of accounting.

Assets

9. Where a rolling programme of asset valuations has been used, I have satisfied myself that the carrying amount of assets at 31 March 2024 does not differ materially from that which would be determined if a revaluation had been carried out at that date.

10. I carried out an assessment at 31 March 2024 as to whether there is any indication that an asset may be impaired and have recognised any impairment losses identified.

11. I have provided you with all information of which I am aware regarding any valuation exercises carried out after 31 March 2024.

12. There are no plans or intentions that are likely to affect the carrying value or classification of the assets recognised within the financial statements.

13. Owned assets are free from any lien, encumbrance or charge except as disclosed in the financial statements.

Liabilities

14. All liabilities at 31 March 2024 of which I am aware have been reported in the financial statements.

15. Provisions have been recognised in the financial statements for all liabilities of uncertain timing or amount at 31 March 2024 of which I am aware where the conditions specified in the 2023/24 accounting code have been met. The amount recognised as a provision is the best estimate of the expenditure likely to be required to settle the obligation at 31 March 2024. Where the effect of the time value of money is material, the amount of the provision has been discounted to the present value of the expected payments.

16. Provisions recognised in previous years have been reviewed and adjusted, where appropriate, to reflect the best estimate at 31 March 2024 or to reflect material changes in the assumptions underlying the calculations of the cash flows.

17. The accrual recognised in the financial statements for annual leave untaken by 31 March 2024 has been estimated on a reasonable basis.

18. The pension assumptions made by the actuary in the IAS 19 report for Midlothian Council have been reviewed and I confirm that they are consistent with management's own view.

19. There are no plans or intentions that are likely to affect the carrying value or classification of the liabilities recognised in the financial statements.

Contingent Liabilities

20. There are no significant contingent liabilities, other than those disclosed in Note 36 to the financial statements, arising either under formal agreement or through formal undertakings requiring disclosure in the accounts. All known contingent liabilities have been fully and properly disclosed in accordance with the 2023/24 accounting code and IAS 37.

Litigation and Claims

21. All known actual or possible legal claims have been disclosed to you and have been accounted for and disclosed in the financial statements in accordance with the 2023/24 accounting code.

Fraud

22. I understand my responsibilities for the design, implementation, and maintenance of internal control to prevent fraud and I believe I have appropriately fulfilled those responsibilities.

23. I have provided you with all information in relation to:

- my assessment of the risk that the financial statements may be materially misstated because of fraud,
- any allegations of fraud or suspected fraud affecting the financial statements, and
- fraud or suspected fraud that I am aware of involving management, employees who have a significant role in internal control, or others that could have a material effect on the financial statements.

Laws and Regulations

24. I have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

Related Party Transactions

25. All material transactions with related parties have been appropriately accounted for and disclosed in the financial statements in accordance with the 2023/24 accounting code. I have made available to you the identity of all the Midlothian Council's related parties and all the related party relationships and transactions of which I am aware.

Remuneration Report

26. The Remuneration Report has been prepared in accordance with the Local Authority Accounts (Scotland) Regulations 2014, and all required information of which I am aware has been provided to you.

Management Commentary

27. I confirm that the Management Commentary has been prepared in accordance with the statutory guidance and the information is consistent with the financial statements.

Corporate Governance

28. I confirm that Midlothian Council has undertaken a review of the system of internal control during 2023/24 to establish the extent to which it complies with proper practices set out in the Delivering Good Governance in Local Government: Framework 2016. I have disclosed to you all deficiencies in internal control identified from this review or of which I am otherwise aware.

29. I confirm that the Annual Governance Statement has been prepared in accordance with the Delivering Good Governance in Local Government: Framework 2016 and the information is consistent with the financial statements. There have been no changes in the corporate governance arrangements or issues identified, since 31 March 2024, which require to be reflected.

Group Accounts

30. I have identified all the other entities in which Midlothian Council has a material interest and have classified and accounted for them in accordance with the 2023/24 accounting code. Any significant issues with the financial statements of group entities, including any qualified audit opinions, have been advised to you.

Events Subsequent to the Date of the Balance Sheet

31. All events subsequent to 31 March 2024 for which the 2023/24 accounting code requires adjustment or disclosure have been adjusted or disclosed.

Yours sincerely

David Gladwin

Section 95 Officer

Midlothian Council

2023/24 Annual Audit Report



Prepared for the Members of Midlothian Council and the Controller of Audit
November 2024

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Key messages

2023/24 annual accounts

- 1 Audit opinions on the annual accounts of the council and its group are unmodified, i.e. the financial statements and related reports are free from material misstatement.
- 2 The unaudited annual accounts were provided within the agreed timetable and were of a good standard.
- 3 Management made adjustments of £33 million to the annual accounts. The most significant adjustments related to the re-measurement of the value of other buildings (£22 million) and Midlothian Energy Limited Shareholding in Group Share of net assets (£6 million) within the Group accounts.

Financial management

- 4 Midlothian Council has effective and appropriate arrangements to secure sound financial management.
- 5 During 2023/24 the Council managed its budget and ended the year with a net underspend of £0.1 million.
- 6 The level of usable reserves held by Midlothian Council decreased from £112 million in 2022/23 (including the service concessions opening balance adjustment of £20 million) to £101 million in 2023/24. The usable reserves balance of £101 million includes General Fund earmarked reserves of £37 million and ring fenced HRA, Capital Fund and Repairs and Renewals Fund reserves of £55 million, leaving only £9 million of non-earmarked reserves.
- 7 Total General Services capital expenditure in 2023/24 was £47 million representing an increase of £24 million on 2022/23 capital spend.

Financial sustainability

- 8 The latest 2024/25 budget monitoring report reported to the Council in October 2024 is projecting an overspend of £2.2 million against a revised budget of £316 million, and a General Fund reserve balance of £21.5 million of which £6.8 million is non-earmarked.
- 9 The Council recently, considered the five-year Medium Term Financial Strategy which is showing a budget gap of £21 million to 2028/29.

- 10** The Council is aware that it faces heightened financial challenges, and transformation is essential in delivering balanced budgets and financially sustainable services.

Vision, leadership and governance

- 11** Midlothian Council continues to have governance arrangements that are appropriate and operating effectively, that support effective scrutiny, challenge and informed decision making.

Best Value

- 12** Midlothian Council has an appropriate and effective best value framework in place.
- 13** Our thematic review of Workforce Innovation found the development of an organisational workforce strategy is ongoing and this will align with the council's priorities as set out in the Transformation Blueprint. Our full Best Value thematic report was presented to the Council in September 2024 and identified examples of good practice and areas for improvement.
- 14** The Council has made good progress against Best Value improvement actions reported in our Best Value Assurance Report 2019 with only one action remaining outstanding.

Use of resources to improve outcomes

- 15** The Best Value framework supports the delivery of continuous improvements in priority services.
- 16** Midlothian Council has a Performance Management Framework in place and reports on performance utilising balanced scorecard, quarterly and annual reporting, progress reports and local government benchmarks. There is scope for improvement to ensure key messages are clear and performance is mapped to outcomes.
- 17** Midlothian Council has satisfactory arrangements for the preparation and publication of Statutory Performance Information (SPIs).

Introduction

1. This report summarises the findings from the 2023/24 annual audit of Midlothian Council (the Council). The scope of the audit was set out in an Annual Audit Plan presented to the 18 March 2024 meeting of the Audit Committee. This Annual Audit Report comprises:

- significant matters arising from the audit of Midlothian Council's annual accounts
- conclusions on Midlothian Council's performance in meeting its Best Value duties
- conclusions on the following wider scope areas that frame public audit as set out in the [*Code of Audit Practice 2021*](#):
 - Financial Management
 - Financial Sustainability
 - Vision, Leadership, and Governance
 - Use of Resources to Improve Outcomes.

2. This report is addressed to the board of Midlothian Council and the Controller of Audit and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.

Audit appointment

3. Claire Gardiner has been appointed by the Accounts Commission as auditor of the Council for the period from 2022/23 until 2026/27.

4. We would like to thank Councillors, Audit Committee members, senior management, and other staff, particularly those in finance and estates, for their cooperation and assistance in this year's audit and we look forward to working together constructively over the remainder of the five-year appointment.

Responsibilities and reporting

5. The Council has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual accounts that are in accordance with proper accounting practices. The Council is also responsible for compliance with legislation and putting arrangements in place for governance and propriety that enable it to successfully deliver its objectives.

6. My responsibilities as the independent auditor are established by the Local Government (Scotland) Act 1973, the [Code of Audit Practice 2021](#) and supplementary guidance, and International Standards on Auditing in the UK.

7. Weaknesses or risks identified are only those which have come to my attention during my team's normal audit work and may not be all that exist. Communicating these does not absolve management of the Council from its responsibility to address the issues raised and to maintain adequate systems of control.

8. This report contains an agreed action plan at [Appendix 1](#). It sets out specific recommendations, the responsible officers, and dates for implementation.

Auditor Independence

9. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2023/24 audit fee of £289,950 as set out in our 2023/24 Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

10. The annual audit adds value to Midlothian Council by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations
- providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, arrangements to ensure the best use of resources and financial sustainability.
- sharing intelligence and good practice identified.

1. Audit of 2023/24 annual accounts

Public bodies are required to prepare annual accounts comprising financial statements and other related reports. These are principal means of accounting for the stewardship public funds.

Main judgements

Audit opinions on the annual accounts of the council and its group are unmodified, i.e. the financial statements and related reports are free from material misstatement.

The unaudited annual accounts were provided within the agreed timetable and were of a good standard.

Management made adjustments of £33 million to the annual accounts. The most significant adjustments related to the re-measurement of the value of other buildings (£22 million) and Midlothian Energy Limited Shareholding in Group Share of net assets (£6 million) within the Group accounts.

Audit opinions on the annual accounts are unmodified

11. The Audit Committee approved the annual accounts for the Council and its group for the year ended 31 March 2024 on 25 November 2024. As reported in the independent auditor's report, in my opinion as the appointed auditor:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework
- the audited part of the remuneration report was prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014.
- the management commentary and annual governance statement were consistent with the financial statements and properly prepared in accordance with the applicable requirements.

The unaudited annual accounts were received in line with the agreed audit timetable

12. The unaudited annual accounts were received in line with the agreed audit timetable on 25 June 2024. Management and finance staff provided good

support to the audit team enabling the audit to be completed by the agreed deadline of 25 November 2024.

Overall materiality was assessed on receipt of the unaudited annual accounts as £11 million

13. The concept of materiality is applied by auditors to determine whether misstatements identified during the audit could reasonably be expected to influence the economic decisions of users of the financial statements, and hence impact their opinion set out in the independent auditor's report. Auditors set a monetary threshold when considering materiality, although some issues may be considered material by their nature. It is ultimately a matter of the auditor's professional judgement.

14. Our initial assessment of materiality was carried out during the risk assessment phase of the audit. This was reviewed and revised on receipt of the unaudited annual accounts and is summarised in [Exhibit 1](#).

Exhibit 1 Materiality values

Materiality level	Revised Amount
Overall materiality	£11 million
Performance materiality	£6.6 million
Reporting threshold	£0.40 million

Source: Audit Scotland

15. The overall materiality threshold for the audit of the annual accounts of the Council was set with reference to gross expenditure, which was judged as the figure most relevant to the users of the financial statements.

16. Performance materiality is used by auditors when undertaking work on individual areas of the financial statements. It is a lower materiality threshold, set to reduce the probability of aggregated misstatements exceeding overall materiality. Performance materiality was set at 60% of overall materiality, reflecting our risk assessment which was informed by the level of errors in prior years and the control environment in place at the Council.

17. It is my responsibility to request that all misstatements, other than those below the reporting threshold are corrected, although the final decision on making the correction lies with those charged with governance.

Significant findings and key audit matters

18. Under ISA (UK) 260, we communicate significant findings from the audit to the council, including our view about the qualitative aspects of the Council's accounting practices.

19. The Code of Audit Practice also requires me to highlight key audit matters, which are defined in ISA (UK) 701 as those matters judged to be of most significance.

20. The significant findings including key audit matters, are summarised in [Exhibit 2](#).

Exhibit 2

Significant findings and key audit matters from the audit of the annual accounts

Issue	Resolution
<p>1.Non- current assets condition surveys</p> <p>In 2023/24 the Council performed a full valuation of schools and miscellaneous depreciated replacement cost properties in line with its revaluation policy.</p> <p>The condition survey ratings for buildings held on the non- current asset register were considered in preparing the valuation estimates.</p> <p>Several condition surveys were updated during 2023/24 and were allocated reduced ratings. The surveys were not finalised until after the year end and provided further evidence of the condition of the revalued buildings at 31 March 2024.</p> <p>The revised condition ratings should have been considered by the valuer and the 2023/24 calculations updated to ensure the values included in the financial statements reflected the conditions and were materially correct.</p> <p>This resulted in an estimation error of £19 million in the unaudited accounts.</p>	<p>Management revised the valuation of other buildings and we are satisfied that the net book value of £557 million included in the audited accounts is not materially misstated.</p> <p>Recommendation 1 (refer Appendix 1)</p> <p>The most up to date condition ratings should be applied to all buildings at the date of valuation.</p>
<p>2.Non-current assets council dwellings</p> <p>The Council undertook a full valuation of its council dwellings stock in 2020/21. The next full valuation is already underway and will be completed in 2024/25 in line with its revaluation policy. This valuation is based on specialist and management assumptions using the 'beacon method' in accordance with mandatory guidance from the</p>	<p>In 2023/24 the discount factor applied was 67%. We considered the discount factor against guidance, practices in place at other councils and discount factors in comparable locations. We found the estimated discount factor to be reasonable.</p>

Issue	Resolution
<p>Local Authority (Scotland) Accounts Advisory Committee (LASAAC).</p> <p>In accordance with good practice, the Council has updated the valuation in the intervening years where it has been estimated to increase or decrease significantly.</p> <p>Determining the valuation estimates involved applying discount factors to reflect the difference between social and market rents.</p> <p>However, guidance for valuers – ‘stock valuation for resource accounting’ published in 2016 by department for communities and local government highlights that the discount factor for social housing should be determined with reference to the relationship between rents and yield in the private residential sector and the public / socially rented sector.</p> <p>We found that the rent yield factor had not been considered when valuing council dwellings in Midlothian. From discussion with the valuer this is due to a lack of evidence from property sales in the area to inform the estimate.</p> <p>We also identified an error of £1 million in the calculation of the valuation of council dwellings due to applying the incorrect Building Cost Information Service index.</p>	<p>We are satisfied that the Net book value of council dwellings in the audited accounts of £496 million is not materially misstated.</p> <p>Management have agreed to consider the rent yield factor for the 2024/25 valuation.</p> <p>Recommendation 2 (refer Appendix 1)</p> <p>To fully comply with Guidance for valuers – ‘stock valuation for resource accounting’ published in 2016 by department for communities and local government, Management should consider the rent yield adjustment in valuations of council dwellings.</p>
<p>3. Non- current assets – mixed use properties</p> <p>The Council holds multiple buildings which are multi-purpose e.g. a building is used as an office and a store. Where there is a mixed use building it adds complexities to valuations. BCIS codes vary depending on the use of the building and the Council base the BCIS code applied on the primary function of the building.</p> <p>As part of our testing in 2023/24 we identified two mixed use properties which had been allocated BCIS codes based on the secondary function which resulted in an over valuation.</p>	<p>We have tested a significant proportion of mixed use properties and identified an overstatement of £1 million. The untested balance is below materiality and therefore we are satisfied that the amounts in the accounts are not materially misstated</p>
<p>4. Holiday pay accrual</p> <p>Audit testing identified an error in the calculation of the accumulated absences accrual.</p> <p>Expenditure in the CIES and short-term creditors in the balance sheet were understated by £3 million.</p>	<p>Management revised the calculation and the correct figure of £9 million is included in the audited accounts.</p>

Issue	Resolution
<p>5. Group accounts</p> <p>The share of associates and joint ventures in the group balance sheet in the unaudited accounts includes the total value of £6 million of long-term investments in MEL in addition to the council's share of the investments of £4 million.</p> <p>IFRS11 requires the value of the investment to be included at initial cost and then to be adjusted by the change in Midlothian Council's share of the associates and joint venture's net assets.</p> <p>The share of associates and joint ventures in the group balance sheet is therefore overstated by £6 million. Net expenditure in the CIES is understated by £6 million. The value of the investment the Council holds in the Single Entity Balance Sheet is accurate and unadjusted.</p>	<p>Management revised the group balance sheet and the audited accounts correctly show the Council's share of investments in MEL as £4 million.</p>
<p>6. Non-domestic rate account</p> <p>Within the non-domestic rate account the amount distributed to Midlothian Council from the non-domestic rate pool was incorrectly disclosed at £32 million due to a typing error. The figure should have been £35 million.</p> <p>Debtors and creditors are both understated by £3 million.</p>	<p>We are satisfied that management adjusted for this error in the audited accounts.</p>
<p>7. CIES– classification and presentational errors</p> <p>Our audit work identified some areas where transactions or balances were incorrectly disclosed within the primary financial statements and notes to the accounts:</p> <ul style="list-style-type: none"> • Within the notes to the accounts capital commitments were understated by £30 million. The figure has been revised to £70 million. • Within the CIES £5 million net expenditure was reclassified between Corporate solutions and other services. • Within note 23 to the accounts £1 million was reclassified between other trade debtors and other public sector bodies debtors. • Within note 19 to the accounts £1 million was reclassified between financial instruments and non-financial instruments. 	<p>We are satisfied that management have addressed all significant misclassifications and presentational errors within the primary financial statements and notes to the accounts.</p>

Issue	Resolution
<ul style="list-style-type: none"> • Within note 34 to the accounts, transactions relating to post-employment benefits, £9 million was transferred between actuarial losses and other post-employment benefits charged to the surplus or deficit on the provision of services. 	

Source: Audit Scotland

Audit work responded to the risks of material misstatement we identified in the annual accounts

21. We obtained audit assurances over the identified significant risks of material misstatement in the annual accounts. [Exhibit 3](#) sets out the significant risks of material misstatement to the financial statements identified in my 2023/24 Annual Audit Plan. It also summarises the further audit procedures performed during the year to obtain assurances over these risks and the conclusions from the work completed.

Exhibit 3

Significant risks of material misstatement in the annual accounts

Audit risk	Assurance procedure	Results and conclusions
<p>1. Risk of material misstatement due to fraud caused by management override of controls</p> <p>As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p>	<ul style="list-style-type: none"> • Assess the design and implementation of controls over journal entry processing. • Make enquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments. • Test journals at the year-end and post-closing entries and focus on significant risk areas. • Consider the need to test journal entries and other adjustments during the period. • Evaluate significant transactions outside the normal course of business. 	<p>Our testing of journals, year-end transactions, accruals and prepayments did not identify any incidents of management override of controls.</p> <p>We did not identify any unusual journal activity.</p> <p>Our assessment of the adequacy of controls in place for identifying and disclosing related party relationships and transactions in the financial statements did not highlight any weaknesses.</p> <p>The methods and assumptions used to prepare accounting estimates were confirmed to be consistent with prior years.</p>

Audit risk	Assurance procedure	Results and conclusions
	<ul style="list-style-type: none"> Assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year. Substantively test income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year. Test accounting accruals and prepayments focusing on significant risk areas. 	<p>As a result of the above work we are satisfied that there is no material misstatement arising from this risk.</p>
<p>2. Estimation in the valuation of land and buildings</p> <p>There is a significant degree of subjectivity in the valuation of land and buildings. Valuations are based on specialist and management assumptions, and changes in these can result in material changes to valuations.</p> <p>All non-current assets are revalued on a five-year rolling basis. Values may also change year on year, and it is important that the Midlothian Council ensures the financial statements accurately reflect the value of the land and buildings.</p> <p>Due to the inherent complexity and subjectivity risks regarding land, buildings and dwellings' valuations, a significant risk of material misstatement in the 2023/24 valuations has been identified.</p>	<ul style="list-style-type: none"> Review the information provided to the external valuer to assess for completeness. Evaluate the competence, capabilities, and objectivity of the professional valuer. Complete a walkthrough of the valuation process for Other Land and Buildings to obtain an understanding of the process, including the methodologies and assumptions applied. Obtain an understanding of the management's involvement in the valuation process to assess if appropriate oversight has occurred. Test the asset register records against the annual valuation report to ensure asset valuations and useful lives are accurately reflected. Sample testing of valuations and lives of individual assets revalued during 2023/24, and agreement of related accounting entries. 	<p>We did not identify any issues with the information provided to the valuer and we found that management have an appropriate level of involvement and oversight of the valuation process.</p> <p>However, we found that the methodology used to value council dwellings did not fully comply with the principles of the Beacon principle. The Beacon principle requires a rent yield factor to be considered in the market value of housing and this had not been taken into account. We outlined our response to this in Exhibit 2.</p> <p>As outlined in Exhibit 2, we identified that further information on the condition of revalued assets was obtained post year end. As this had a material impact on the value of assets we requested that management adjust the accounts.</p> <p>We did not identify any non-compliance with RICS guidance.</p>

Audit risk	Assurance procedure	Results and conclusions
	<ul style="list-style-type: none"> Examine management's assessment of fair value of assets not subject to full revaluation in 2023/24. We will critically assess if this is based on expert valuer's opinion/ and assess the appropriateness of any assumptions. 	<p>We concluded that management's assessment of land and buildings not revalued in 2022/23 is not materially misstated but have identified areas for improvement in the methodology for valuing properties and in the assumptions used. Exhibit 2</p> <p>We found that appropriate disclosures have been made regarding the assumptions in relation to the valuation of land and buildings.</p>

Source: 2023/24 Midlothian Council Annual Audit Plan

22. In addition, we identified "areas of audit focus" in our 2023/24 Annual Audit Plan where we considered there to be risks of material misstatement to the financial statements. The results of our audit procedures and conclusions are set out in [Exhibit 4](#).

Exhibit 4

Identified areas of audit focus

Audit risk	Results and conclusion
<p>1.Valuation of pension liability</p> <p>The liability requires the use of an actuarial methodology based on a range of assumptions including financial and demographic assumptions. Small movements in these can result in material changes to valuations.</p> <p>We assessed the scope, independence and competence of the professionals engaged in providing estimates for pensions and reviewed appropriateness of actuarial assumptions and results including comparison with other councils.</p> <p>We established officer's arrangements for ensuring the reasonableness of professional</p>	<p>We are satisfied that the pension liability is correctly recognised on the balance sheet at 31 March 2024 and has been accounted for and disclosed correctly in line with International Accounting Standard (IAS) 19 Retirement benefits.</p> <p>We use an auditor's expert to inform our review of the assumptions used in calculating this estimate and management's judgements. We concluded the assumptions are appropriate and within a range which we consider to be acceptable.</p> <p>We are also satisfied the controls in place over the provision of information to the actuary are appropriate.</p>

Audit risk**Results and conclusion**

estimations and the accuracy of information provided to the actuary by Midlothian Council.

Source: 2023/24 Midlothian Council Annual Audit Plan

23. As part of our risk assessment in our Annual Audit Plan, we also identified the following areas where further work would be performed. These were not audit risks but areas we kept under review:

- Implementation of IFRS 16 (International Financial Reporting Standard 16, Leases) takes effect for local government bodies from 2024/25- This will change the way in which the Council accounts for operating leases, including recognising assets and liabilities for the rights and obligations arising from leases previously classified as operating leases. The council will implement IFRS 16 from 1 April 2024.

The council has undertaken work to identify the changes required in relation to its relevant operating leases and has confirmed they will be fully compliant in 2024/25.

- The statutory override relating to valuation of infrastructure assets- In 2021/22, across the UK, a technical accounting issue was identified covering infrastructure assets. Two temporary statutory overrides have been permitted since 2021/22 financial year but these were due to end at 31 March 2024.

Infrastructure assets are inalienable assets, expenditure on which is only recoverable by continued use of the asset created. They include carriageways, structures, street lighting, street furniture and traffic management systems, and are measured in the accounting code at historical cost. A replaced component of an asset has to be derecognised and council records of additions do not permit compliance with the accounting code. A failure to derecognise assets correctly results in potential double-counting and an overstatement of the gross book value, accumulated depreciation and net book value of the assets.

The Scottish Government originally issued a temporary statutory override in Finance Circular 9/2022 which applied to the 2022/23 and 2023/24 financial years. However, as a permanent solution has not yet been agreed, Finance Circular 8/2024 extends the applicable period to include 2024/25. The council continued to apply both statutory overrides in its 2023/24 annual accounts. We will continue to monitor and consider any actions required by the council once a resolution has been agreed and implemented.

24. We kept these areas under review throughout our audit. Based on the findings of the audit procedures performed, there are no matters which we need to bring to your attention.

Identified misstatements of £33 million were adjusted in the annual audited accounts

25. Total monetary errors of £33 million were identified in the annual audited accounts. The most significant errors related to the use of out of date condition reports in the council's buildings' valuations (£22 million) and the double counting of the Midlothian Energy Limited Shareholding in Group Share of net assets (£6 million).

The inspection notice was placed in accordance with the required regulations and no objections were raised to the 2023/24 annual accounts

26. Regulation 9 of the Local Authority Accounts (Scotland) Regulations 2014 requires a local authority to give public notice on its website of the right to inspect its annual accounts. This must remain on the website throughout the inspection period. As part of our audit we confirmed that the 2023/24 annual accounts inspection notice published on the council's website in accordance with the regulations.

27. The regulations also require a local authority to give the right of interested persons to inspect and object to its accounts, as provided for by section 101(a) (rights of interested persons to inspect and copy documents and to object to accounts) of the 1973 Act.

28. No objections were raised to the 2023/24 annual accounts.

Good progress was made on prior year recommendations

29. Midlothian Council has made good progress in implementing the agreed prior year audit recommendations with one action outstanding. For the action not yet implemented, revised responses and timescales have been agreed with management and are set out in [Appendix 1](#).

2. Financial management

Financial management means having sound budgetary processes, and the ability to understand the financial environment and whether internal controls are operating effectively.

Conclusion

Midlothian Council has effective and appropriate arrangements to secure sound financial management.

During 2023/24 the Council managed its revenue budget and ended the year with a net underspend of £0.1 million.

The level of usable reserves held by Midlothian Council decreased from £112 million in 2022/23 (including the service concessions opening balance adjustment of £20 million) to £101 million in 2023/24. The usable reserves balance of £101 million includes General Fund earmarked reserves of £37 million and ring fenced HRA, Capital Fund and Repairs and Renewals Fund reserves of £55 million, leaving only £9 million of General Fund non-earmarked reserves.

Total General Services capital expenditure in 2023/24 was £47 million representing an increase of £24 million on 2022/23 capital spend.

The council operated within budget in 2023/24

30. The council approved its 2023/24 revenue budget in February 2023. The revenue budget was set at £264 million and revised during the year to £276 million mainly due to cross-year flexibility.

31. During 2023/24 the Council managed its revenue budget and ended the year with a net underspend of £0.1 million. The General Fund Balance increased from £32 million at 31 March 2023 to £46 million at 31 March 2024, only £9 million of which was not earmarked for specific use. £16 million of the increase related to the retrospective application of service concessions.

32. Overall, the Council reported an underspend against the revenue budget of £0.1 million for the year, however there are significant variations in how different services have performed. The more significant under and overspends are summarised in [Exhibit 5](#).

Exhibit 5**Summary of significant under/overspends against revenue budget**

Area	£m	Reason for variance
Underspends		
Loan Charges	£2.8 million	Primarily related to the timing of capital expenditure and higher interest rates
Children & Young People	£0.9 million	Savings were reported across the range of learning settings for children and young people, except for additional support needs, mainly due to lower pupil numbers because of primary 1 deferrals and a lower than estimated number of children in council run Early Years settings.
Non-critical vacant posts	£0.8 million	Management are continuing to review each vacancy before approval of recruitment, a policy put in place partly to mitigate delivery of planned saving and partly as a financial discipline measure.
Overspends		
Pupil Transport Costs	£1.2 million	The volume and value of school transport invoices were higher than budgeted. A review of Council Transport is underway as part of the Transformation Blueprint and actions to start work to address findings in the Pupil Transport Update have been approved by the Business Transformation Steering Group.
Fleet	£0.9 million	Due to ageing vehicles, higher than planned use of external contracting as well as external vehicle hire to support service continuity.

Source: Midlothian Council 2023/24 Annual Accounts

Housing revenue account reported an overspend of £1.5 million in 2023/24

33. The council is required by legislation to maintain a separate housing revenue account and to ensure that rents are set a level which will at least cover the costs of its social housing provision.

34. Overall, the HRA is showing an overspend of £1.5 million for 2023/24 against budget (2022/23: underspend £0.2 million) due to additional spend on repairs and maintenance, increased administration and management costs, and increased insurance liabilities resulting from the volume of claims for winter and fire damage. There have also been lower than budgeted rental income of £0.5 million in the year due to the social housing delivery programme and increased levels of outstanding rent debt. This has been offset by savings of £1.1 million from lower overall borrowing requirements and reduced debt costs. Reserves increased by £1 million, which was £1.5 million lower than when the budget was set as a consequence of overspends.

The Council has appropriate budget setting and monitoring arrangements

35. We performed a review of the Council's annual budget setting arrangements. The budget process implemented by the Council is well established and officers and Finance Business Partners are very clear about their responsibilities and time frames. The process involves appropriate scrutiny arrangements, with the Business Transformation Steering Group and Council both having opportunities to scrutinise the budget and consider opportunities to reduce any emerging budget gap.

36. The budget setting document includes an overview of financial assumptions and it offers good information regarding where there are projected over and underspends. It also gives brief explanations and context setting as appropriate.

37. We observed that senior management and members receive regular and accurate financial information on the Council's performance against budgets.

The level of usable reserves held by Midlothian Council decreased from £112 million in 2022/23 (including the service concessions opening balance adjustment of £20 million) to £101 million in 2023/24.

38. 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 Midlothian Council decreased from £112 million in 2022/23 (including the service concessions opening balance adjustment of £20 million) to £101 million in 2023/24. The usable reserves balance of £101 million includes General Fund earmarked reserves of £37 million and ring fenced HRA, Capital Fund and Repairs and Renewals Fund reserves of £55 million, leaving only £9 million of General Fund non-earmarked reserves.

39. The Scottish Government introduced a series of enhanced financial flexibility arrangements to enable local authorities to vary proper accounting practice and help mitigate the financial impact of Covid-19. Finance Circular 10/2022 included a temporary flexibility which permitted a local authority to recognise the principal repayments for a service concession arrangement over the asset life rather than contractual term.

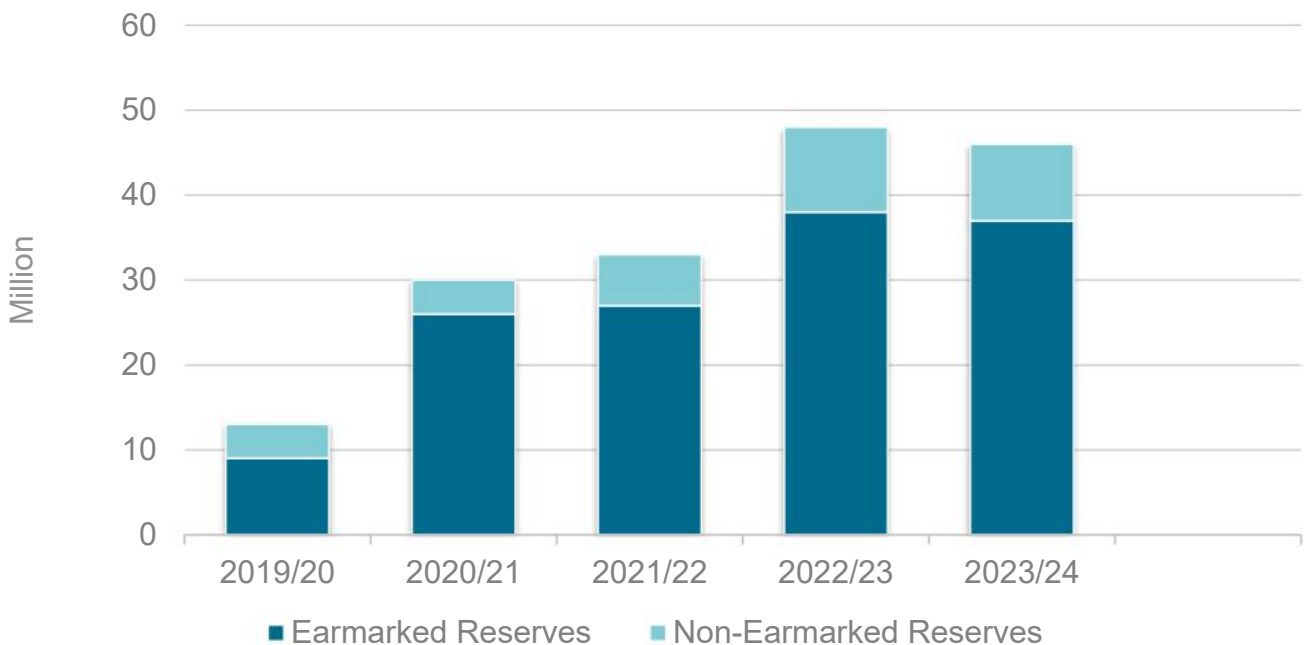
40. Midlothian Council approved the use of this financial flexibility in February 2023. 2023/24 was the first year of accounting for this financial flexibility with the full value of retrospection of £20 million added to the opening General Fund Balance.

41. [Exhibit 6](#) provides an analysis of the general fund over the last five years split between earmarked and non-earmarked reserves.

42. The balance of earmarked reserves in 2023/24 includes £16 million service concessions flexibility, £15 million of devolved revenue budget management carry forwards, £3m set aside to balance the 2024/25 revenue budget and £2m committed to support transformation work. As mentioned in [paragraph 39.](#) above, the Council has only £9 million of non -earmarked reserves in the General Fund in 2023/24.

Exhibit 6

Analysis of General Fund balance



Source: Midlothian Council audited accounts

43. In recent years the Council has been able to use reserves and other one-off measures such as service concession flexibilities to focus on immediate budget pressures. However, looking forward if recurring savings cannot be identified and achieved to balance the annual revenue budget over the medium-

term, and the Council continues to use general fund reserves to bridge identified funding gaps, the non-earmarked reserves balance will be depleted fairly quickly.

44. The purpose of the earmarked reserves could be re-examined by elected Members should there be a need to release some of these balances to support financial pressures.

45. From 2025/26 onwards the Council will need to make increasingly difficult choices about spending priorities and levels of service provided. We have explored the challenges regarding creating a balanced revenue budget in section 3 of this report.

General Services capital expenditure increased in 2023/24

46. Total General Services capital expenditure in 2023/24 was £47 million (2022/23: £23 million), £26 million of which was spent on the council's children, young people and estates programme, £13 million was spent on digital expenditure; roads and street lighting; replacement of council fleet vehicles and transport and £6 million was spent on the destination Hillend programme.

47. The Council has initiated a capital plan prioritisation exercise which is reviewing all areas of uncommitted spend in the context of the Medium -Term Financial Strategy. During 2023/24 the Council rephased £53 million of planned capital expenditure to 2024/25, however, the Council has reported that there is a risk that the rephased projects will now cost more than originally planned which could result in higher borrowing costs. The Council has also reported that monitoring procedures are in place to ensure that any additional costs will be reported as early as possible to enable remedial action to be taken.

48. During 2023/24 the Council completed the first phase of destination Hillend project and the Alpine Coaster opened in September 2024. The project experienced delays outwith the Council's control and the Alpine Coaster opened a few months later than planned. Destination Hillend project, on completion, will provide a year round family oriented multi activity leisure attraction to improve and safeguard the future of Midlothian Snowsports centre.

The Council makes use of financial indicators to demonstrate that its capital plans are affordable, prudent and sustainable

49. The Council can regulate its own capital spending limits within a prudential framework recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA) and endorsed by Scottish Government, provided it operates within a series of indicators.

50. The Council's capital expenditure is a key driver of treasury management activity, and the following indicators included in the audited accounts demonstrate that the Council's capital investment plans are affordable, prudent and sustainable.

Exhibit 7 Financial Indicators

Financial Indicator	2022/23	2023/24	Commentary
Capital financing requirement – underlying need to borrow (excl. PFI/PPP/DBFM)	£339 million	£402 million	Reflects the Council’s underlying need to borrow to finance capital expenditure incurred historically by the Council that has yet to be financed.
Authorised Debt Limit	£473 million	£534 million	This represents the maximum amount that the authority may borrow and is set at a level that reflects capital expenditure plans but includes headroom to allow for unusual cash movements.
Actual external borrowing	£322 million	£341 million	The actual external debt and long-term liabilities position of the Council. The actual figures should never exceed the Council’s Authorised Debt Limits, which are calculated in line with the requirements of the Prudential Code for Capital Finance in local authorities.
Under / (Over) Borrowed	£17 million	£61 million	This demonstrates that the Council’s capital borrowing requirement has not been fully funded by loan debt and is using cash from working capital to support capital programmes whilst interest rates on long-term fixed rate borrowing are high.
Ratio of finance costs to net revenue stream – General Fund	0.4%	0.6%	This is a measure of how affordable the Council’s capital plans are. It takes actual finance costs as a % of net revenue spend.
External Loans Fund Interest Rate	3%	3%	Average rate of interest paid on external debt.
Internal Loans Fund Interest Rate	2%	2%	This combines the interest paid by the Council on money borrowed, with the interest earned by the Council on money invested, along with other charges to arrive at a weighted average ‘loans fund rate’ figure for the council.

Source: Midlothian Council Annual Accounts 2023/24

51. The Council makes good use of prudential indicators. There is scope to extend the use of indicators to incorporate budgeting indicators included in the

Local Government Benchmark Framework published by the Improvement Service and additional indicators included in the Prudential Code by CIPFA.

Financial systems of control

52. 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 two areas where controls could be improved as set out in [Exhibit 8](#).

Exhibit 8

Key findings from review of key controls

Audit findings	Additional audit procedures
<p>1. Journals</p> <p>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.</p> <p>To minimise the risk of error and fraud we would expect each journal entry to be prepared and authorised by different members of staff. This control is not in operation for a small number of staff within the finance team. The ability of officers to approve their own journals increases the risk that invalid, erroneous or fraudulent journals could be posted to the financial ledger.</p> <p>We reported this control weakness in our 2022/23 Annual Audit Report and the Council has confirmed they are accepting of the associated risks.</p>	<p>Our journals testing across the year reflected the increased risk arising from self-approval of journals and we did not identify any issues.</p>
<p>2. Ledger access</p> <p>Access to the ledger requires to be tightly controlled to mitigate the risk of fraudulent mis-postings.</p> <p>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 but it is not currently monitored on a regular or formal basis.</p>	<p>We performed a focussed review and testing of journals posted by Superusers.</p> <p>We did not identify any errors from this review and testing.</p> <p>Recommendation 3 (refer Appendix 1)</p> <p>We recommend that the Superuser list is subject to a formal and regular review process.</p>

Audit findings**Additional audit procedures**

53. The control deficiencies reported here are limited to those identified while completing audit work for these purposes.

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

54. 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.

55. The Council's counter fraud activity during 2023/24 included completion of all planned Counter Fraud work as set out in the Counter Fraud Annual Plan 2023/24, relating to activities such as contract management, corporate fraud enquiries, social housing and council tax. On top of the savings noted below under NFI, the Council calculates that a further saving value of £393k has been identified during 2023/24 as a result of this counter fraud activity.

National Fraud Initiative

56. Midlothian Council continues to participate in the National Fraud Initiative (NFI) 2022/2023 which is a UK wide counter-fraud exercise led by the Cabinet Office and Audit Scotland. It uses data analytic techniques to compare information about individuals held by different public bodies, and on different systems, to identify circumstances (data matches) that might suggest the existence of fraud or error.

57. The Principal Internal Auditor of the Council acts as the Key Contact for NFI and the Corporate Fraud Team has coordinated the submission of the required data sets from various Council systems and responded to the data matches received with input from relevant Services across the Council.

58. We consider that the Council has adequate arrangements in place to prevent and detect fraud or other irregularities.

3. Financial sustainability

Financial Sustainability means being able to meet the needs of the present without compromising the ability of future generations to meet their own needs.

Conclusion

The latest 2024/25 budget monitoring report reported to the Council in October 2024 is projecting an overspend of £2.2 million against a revised budget of £316 million, and a General Fund reserve balance of £21.5 million of which £6.8 million is non-ear marked.

The Council recently considered the five-year Medium Term Financial Strategy which is showing a budget gap of £21 million to 2028/29.

The Council is aware that it faces heightened financial challenges, and transformation is essential in delivering balanced budgets and financially sustainable services.

Audit work has addressed the wider scope risks identified in the Annual Audit Plan

59. As part of our planning work we identified a risk around financial sustainability and the ongoing need to balance the short term budgetary pressures with long term priorities. Our work in this section provides an overview of our work and the Council's position.

The latest 2024/25 budget monitoring report reported to the Council in October 2024 is projecting an overspend of £2.2 million against a revised budget of £316 million, and a General Fund reserve balance of £21.5 million of which £6.8 million is non-ear marked.

60. In February 2024 the Council approved a revenue budget for 2024/25 with total planned expenditure of £301 million.

61. The latest 2024/25 budget monitoring report reported to the Council in October 2024 is projecting an overspend of £2.2 million against a revised budget of £316 million, and a General Fund reserve balance of £21.5 million of which £6.8 million is non-ear marked.

62. While the projected general fund reserve balance is above the approved minimum level of reserve balance of £4.7 million, at quarter two, the planned

use of reserves over the medium term will significantly reduce scope for reserves to be used to balance the longer-term budget gaps. We have highlighted in our briefing on Local Government Budgets 2024/25 that the financial challenges are sector wide and that councils will be required to make tough choices regarding service cuts, increases to charges and prioritising the needs of vulnerable groups.

The five-year revenue budget strategy agreed in October 2024 is projecting a budget gap of £21 million to 2028/29

63. The Council updated the five-year revenue budget strategy in October 2024 and is projecting a cumulative budget gap of £21 million to 2028/29. The medium-term financial plan includes a number of assumptions which are reviewed on a frequent basis and sensitivity projections have been forecast across several budget areas.

64. As illustrated in recently published Census results and also in National Records of Scotland population projections, Midlothian has been and is expected to remain, the fastest growing council area in Scotland and by some margin. This provides real and ongoing challenge to the council in terms of fast-increasing service demand with associated costs significantly outstripping changes in funding provided on an annual basis through the Local Government Finance Settlement. The Council have raised detailed concerns with government at meetings and also through formal letters exploring options like a Growth Fund discussing the impact of the funding floor on a fast-growing council.

The Council is aware that it faces heightened financial challenges, and transformation is essential in delivering balanced budgets and financially sustainable services

65. Transformation is essential to protect the delivery of vital public services. Audit Scotland recently published the national report [Transformation in Councils](#) in October 2024. The overarching key message is that “faster reform is needed to protect key services.” The report notes that councils have been transforming how they operate and deliver services for many years and now reform is increasingly urgent. Councils and key partners must significantly increase the pace and scale of major changes if they are to protect vital public services.

66. The Council recognises that transformation is essential to ensure service delivery remains financially sustainable and has published a Transformation Blueprint for Midlothian which aligns with the five-year revenue budget strategy to 2028/29. Transformation will be reviewed in 2024/25 as part of our best value work.

The pensions’ triennial funding valuation as at 31 March 2023 has provided a potential positive impact on finances

67. The most recent triennial funding valuation took place across Local Government Pension Scheme pension funds at 31 March 2023. The main purpose of the valuation is to review the financial position of each fund and to

set appropriate contribution rates for each employer for the upcoming three-year period as part of the fund's overall funding strategy.

68. The Council is a scheduled member of Lothian Pension Fund (LPF), the second largest local Government Pension Scheme in Scotland. The LPF has communicated that its March 2023 Valuation has been finalised by and employer contribution rates from 1 April 2024 are now confirmed. The valuation dated 31 March 2023 for LPF showed a funding level of 157%, a significant increase from 106% in 2020.

69. Reducing employer contributions will reduce the costs associated with pensions, thereby reducing some of the cost pressures faced by the council in 2024/25. From April 2024, the employer rate has been reduced from 22.2% to 17.6%. This change to employer contributions has been built into the council's financial budget plans for 2024/25 and overall budget gap identified for that year, and budget projections for future years.

4. Vision, leadership and governance

Public sector bodies must have a clear vision and strategy and set priorities for improvement within this vision and strategy. They work together with partners and communities to improve outcomes and foster a culture of innovation.

Conclusion

Midlothian Council has appropriate governance arrangements in place to support effective scrutiny, challenge and informed decision making.

Midlothian Council has appropriate governance arrangements in place to support effective scrutiny, challenge and informed decision making

70. The governance and transparency arrangements we consider in reaching our conclusions include:

- Council and committee structure and conduct
- overall arrangements and standards of conduct including those for the prevention and detection of fraud, error, bribery and corruption. This includes action in response to the National Fraud Initiative
- openness of Council and committees
- reporting of performance and whether this is fair, balanced and understandable.

71. The Council's governance arrangements have been set out in the annual governance statement in the annual accounts. We have reviewed these arrangements and concluded that they are appropriate and effective. Our observations at committee meetings have found that these are conducted in a professional manner and there is a reasonable level of scrutiny and challenge by members.

72. We consider that governance arrangements remain appropriate and support effective scrutiny, challenge and decision making.

Climate change arrangements

73. The Scottish Parliament has set a legally binding target of becoming net zero by 2045. The public sector in Scotland has a key role to play in ensuring these targets are met and in adapting to the impacts of climate change.

74. Midlothian Council has reported its commitment to achieving net zero by 2030.

75. The Council recognises the strategic risks of fulfilling the requirements of the Climate Change Act including staffing and significant financial investment and began actively managing the risks in 2019. We reported in our 2022/23 Annual Audit Report that the Council declared a climate emergency in December 2019 and published its Climate Change Strategy and action plan in August 2020. In November 2024 the Council approved an updated Climate Strategy and agreed to move the target date for achieving net zero to 2045.

76. A Carbon Charter and action plan for Midlothian Businesses has been created and includes local, national and international resources to support businesses to become more energy and carbon efficient.

77. A Climate Emergency Group has been established to monitor progress of the Council's ambitious targets. The group consists of elected members, individuals and representatives of the community councils and community groups, national government agencies, third sector organisations, the local chamber of commerce, landowners and Midlothian Energy Ltd.

78. Failure to adapt to climate change is included in the Council's corporate risk register and is actively monitored through the corporate risk management process. We will continue to review progress against actions identified to mitigate the risks.

79. The Auditor General for Scotland and Accounts Commission are developing a programme of work on climate change. This involves a blend of climate change-specific outputs that focus on key issues and challenges as well as moving towards integrating climate change considerations into all aspects of audit work.

IT control environment

80. As part of our planning, we recognised the ongoing risks across the public sector around the use of digital technology.

81. The use of digital technology and its links to workforce planning was considered as part of our Best Value work outlined in section 5. The Council published an updated Digital Strategy in October 2024 and we will monitor implementation of the digital strategy and the IT control environment as part of our work in 2024/25.

5. Best Value

Councils have a statutory duty to make arrangements to secure continuous improvement in the performance of their functions.

Conclusions

Midlothian Council has an appropriate and effective best value framework in place.

Our thematic review of Workforce Innovation found the development of an organisational workforce strategy is ongoing and this will align with the council's priorities as set out in the Transformation Blueprint. Our full Best Value thematic report was presented to the Council in September 2024 and identified examples of good practice and areas for improvement.

The Council has made good progress against Best Value improvement actions reported in our Best Value Assurance Report 2019 with only one action remaining outstanding and both of these actions are progressing.

Best Value work in 2023/24

82. As set out in the [Code of Audit Practice 2021](#), the audit of Best Value in councils is fully integrated within the annual audit work performed by appointed auditors and their teams. Auditors are required to evaluate and report on the performance of councils in meeting their Best Value duties.

83. For 2023/24, the scope of Best Value work included conclusions on:

- Effectiveness of council performance reporting
- Best value thematic work covering Workforce Innovation
- Progress made against Best Value improvement actions made in previous years.

Midlothian Council has a framework in place to measure and monitor service performance and progress against the Council's priorities

84. The Best Value: Revised Statutory Guidance 2020 sets out that:

- performance management arrangements should be in place to promote the effective use of the local authority's resource, which includes effective performance reporting.
- councils should be able to demonstrate a trend of improvement over time in delivering its strategic priorities.

85. The Best Value Assurance Report (BVAR, published in 2019) highlighted that the Council is committed to using evidence and provides comprehensive performance information to elected members and the public. In response to the BVAR, the Council implemented a digital dashboard performance management system, Pentana Browser, where elected members can access up-to-date performance data.

86. Further information on performance is included in section 6 of this report

Workforce Innovation: how councils are responding to workforce challenges

87. Annual thematic Best Value work is set by the Accounts Commission. For the 2023/24 financial year, auditors were asked to focus on workforce innovation within the council. The results of this work were reported to elected members at the September 2024 Audit Committee. The key findings from this work are noted in [Exhibit 9](#) and the action plan is included in [Appendix 1](#). The full report will be published on [Audit Scotland's website](#) in due course.

Exhibit 9

Workforce innovation: key findings

Workforce innovation topic	Key messages
Workforce strategy and priorities	<p>In 2022, the Council approved a new Transformation Blueprint which defines what services the Council will provide in the future, where these services will be delivered and by whom. The Blueprint is divided into five main themes of which theme 2 focuses on the creation of a 21st Century workforce.</p> <p>The Council is currently developing an organisational workforce strategy and plan for a ten- year period from 2024 to 3034 and is expecting to have this approved by committee in December 2024. Work is ongoing to ensure the strategy and plan support delivery of the council's priorities which are set out in the Transformation Blueprint.</p>
Digital technology and the workforce	<p>The new digital strategy was presented to Council in November 2024. The Council has already realised workforce benefits through its successful implementation of Microsoft 365 and the use of digital technology in education services. The council is continuing to explore how the use of digital initiatives can further improve processes.</p> <p>The council has launched a new customer services platform to promote channel shift. Key benefits of this include an improved</p>

Workforce innovation topic	Key messages
	<p>customer journey, faster response times for service requests, helping to reduce complaints and duplication of work. The Customer Service Platform project is a 4-year programme which commenced in 2022. Nine modules were live by June 2024, with a number of modules in planning and test phase (over 40) to go live in the remainder of 2024/25.</p> <p>Update – the new Digital Strategy was presented to the Council in November 2024.</p>
<p>Flexible working and other innovative staff deployment</p>	<p>The council's Hybrid Working Policy was approved in 2023. Hybrid working provides flexibility for staff and is promoted by the council as a non-financial benefit for employees. It is worth noting that most of the Council's workforce are front facing but for those who have a role that can be delivered in a hybrid way, the Council recommends and supports this way of working. As the policy is embedded and hybrid working practices are fully adopted, supported by the rollout of digital tools such as M365, then the council will be able to assess the overall impact of hybrid working at an organisational level.</p>
<p>Developing future skills and capacity</p>	<p>Capacity and recruitment issues are significant challenges for the council with shortages being experienced in several key services including education, digital, procurement and social care and social work. The council and the Health and Social Care Partnership have introduced a number of initiatives to improve capacity and skills for their existing and future workforce. Careful consideration has been given to providing opportunities for young people and the unemployed and Employment/Job Fairs are delivered by the People and Partnerships Directorate to promote work opportunities available at the Council and with local partners.</p>
<p>Joint workforce arrangements</p>	<p>The Council shares services with and roles with other councils. The workforce benefits of these arrangements have still to be captured or quantified.</p>
<p>Measuring the impact of workforce planning</p>	<p>The council monitors a range of workforce data as part of performance reporting. As part of the development of a workforce strategy the council should consider how performance information can support the achievement of objectives.</p>

The audit recommendations made in this report, with the management responses, are included in [Appendix 1](#) of this report.

The Council has made good progress against Best Value improvement actions reported in our Best Value Assurance Report 2019

88. We reported in our 2022/23 Annual Audit Report that Midlothian Council has demonstrated ongoing commitment to best value since our Best Value Annual Report 2019. We have noted improvements in performance reporting and medium-term financial planning as well as the strengthening of officer member relationships.

89. The Council has made good progress against Best Value improvement actions from 2019 with only one action remaining outstanding and this action is in progress.

Exhibit 10

Outstanding Best Value improvement action from 2019

Action	Status
The council needs to ensure that workforce planning reflects the medium-term financial strategy.	Outstanding – refer to Exhibit 9 above

Source: Midlothian Council Best Value Assurance Report 2019

6. Use of resources to improve outcomes

Public sector bodies need to make best use of their resources to meet stated outcomes and improvement objectives, through effective planning and working with strategic partners and communities.

Conclusions

The Best Value framework supports the delivery of continuous improvements in priority services.

Midlothian Council has a Performance Management Framework in place and reports on performance utilising balanced scorecard, quarterly and annual reporting, progress reports and local government benchmarks. There is scope for improvement to ensure key messages are clear and performance is mapped to outcomes.

Midlothian Council has satisfactory arrangements for the preparation and publication of Statutory Performance Information (SPIs).

Midlothian Council has a Planning and Performance Management Framework in place which provides a good base for supporting delivery of outcomes and improving performance

90. The Council published a revised Planning and Performance Management Framework (PPMF) in 2023. The framework sets out arrangements to ensure the Council can demonstrate a focus on outcomes while continuing to reflect statutory performance reporting requirements set out in the Statutory Performance Information Direction 2021.

91. The Community Planning Partnership Board monitors performance of the Single Midlothian Plan every six months with the annual report highlighting success stories arising from the achievement of outcomes. The Council use a separate balanced scorecard to track the performance indicators for the services it is directly responsible for.

92. The PPMF delivers a range of performance reports including the Single Midlothian Plan Performance Reports, quarterly and annual performance reports, benchmarking reviews and balanced scorecard reports.

93. Officers and members should continue to review these revised arrangements to assess their effectiveness and should be able to demonstrate that they have been used to drive improvement. It is important that performance reporting is timely, fair and balanced, and should clearly and easily highlight where underperformance or weaknesses exist so that timely, targeted action can be taken.

Midlothian Council has reported that they made significant improvements across a range of service areas

94. The Council reported in June 2024 that they made significant improvements across a range of service areas despite facing pressures caused by budget constraints, the impacts of a global pandemic, growing demographic pressures and cost of living crisis which places increased demand for its services.

95. As detailed in para 98 above, one tool the Council uses to monitor and report performance is the Balanced Scorecard. The Balanced Scorecard is a tool intended to capture the outcome indicators from the SMP as well as providing Council specific targets on financial health, internal processes and learning and growth. These performance indicators for 2023/24 are published on the Council's website and the 2023/24 Scorecard was considered by the June 2024 PRS Committee.

Balanced Scorecard results show stable performance

96. Our review of the Balanced Scorecard results found the number of objectives which are on-target are at a similar level to the previous year. We also noted that there was no significant decline in performance of services.

97. We identified areas from the balanced scorecard, where performance has been off- target for a number of years and it was not always evident what actions had been put in place to address these areas. However, there were some good examples of measures to improve performance in or education services. One example, was actions put in place to address poor school attendance with the launch of attendance procedures in January 2024, establishing a research team of children and young people to research the factors influencing attendance and the establishment of The Attendance Partnership Network (APN).

98. The PPMF provides a range of performance reports including the Single Midlothian Plan Performance Reports, quarterly performance reports, annual performance reports, benchmarking review and balanced scorecard. Scrutiny is conducted by the Performance Review and Scrutiny (PRS) Committee and the Audit Committee.

Service 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.

99. We reviewed a sample of performance reports and concluded that the service 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.

Recommendation 4

The Council should review and streamline service performance reports. Key messages should be clear, and performance should be mapped to outcomes.

100. The Council moved to a four-year Single Midlothian Plan from 2023-27. The top priorities and stated outcomes for this period are summarised as Individuals and Communities have Improved Health and Learning Outcomes; No Child or Household Living in Poverty; and Progress is made towards Net Zero Carbon Emissions.

101. The Community Planning Partnership (CPP) Board, made up of a number of organisations, monitors performance of the SMP every six months with the annual report highlighting examples of success stories. 2023/24 was a transition period for the SMP and the report for this period was for the 6 months to 31 March 2024. This was reported to the CPP Board in May 2024. The report publishes headline achievements in 2023/24 with progress on outcomes in each thematic area detailed.

102. The 7 thematic areas of the 2023-27 Plan are:

- Midlothian will be healthier
- Midlothian will be safer
- Midlothian will get it right for every child
- Midlothian will support residents to improve employability and outcomes for our communities
- Midlothian will be greener
- Midlothian will have a wellbeing economy and be better connected
- Midlothian will work towards reducing poverty.

The Single Midlothian Plan Report 2023/24 demonstrates progress across the thematic areas is broadly on plan.

103. The Single Midlothian Plan Report 2023/24 provides an update on progress towards the actions in the plan and reports on a Red/Amber/Green status for each action. The report demonstrates progress across the thematic areas is broadly on plan. There are areas where progress is shown as off target within the themes of “Midlothian will Supporting Residents to Improve Employability and Outcomes in our Communities” and key challenges in this area include cuts to Foundation Apprenticeship funding and delayed notification of employability funding awards, issues which are being raised at a national level. In addition, the Wellbeing Economy theme also shows some targets missed as time is taken for developments to materialise in this area, which are being progressed in 2024/25.

Benchmarking against other councils in Scotland shows some improvement but shows challenges at Midlothian for financial sustainability and children’s services.

104. Midlothian Council participates in the Local Government Benchmarking Framework (LGBF). The framework brings together a wide range of information about how all Scottish councils perform in delivery services, including the cost of services and how satisfied citizens are with them. The tool is designed to support senior management teams and elected members to ask questions about key council services and focus on variations between similar Councils. Information is managed and monitored by the Corporate Solutions team and is available to citizens on the Midlothian Council website.

105. The most recent National Benchmarking Overview Report 2022/23 was published in June 2024. This shows overall that 56 of 104 available performance indicators had improved or stayed the same nationally since the prior year. 48 of 104 available performance indicators had deteriorated when assessed against the previous year. This is an overall position, and certain indicators, such as financial sustainability and children’s services have shown deterioration of 60% or more at Midlothian Council in this time period.

106. The 2022/23 report notes that the data reflects a period when communities and council services were managing unprecedented financial challenges due to high inflationary pressures and the cost-of-living crisis against a backdrop of deepening fiscal, demand and workforce pressures, including those resulting from the ongoing effects of the Covid pandemic.

107. There is use of LGBF data within Council service area reporting and within the Transformation Blueprint. Community Planning Outcomes Profile benchmarking is used within Community planning and features in the SMP.

108. The Council has stated that there will be a significant focus on making shift happen by moving the number of LGBF Quartile 3 and 4 indicators of the Council into the top two measures to deliver better outcomes.

Recommendation 5

The Council should prioritise the focus on those indicators which will link to the SMP or Transformation Blueprint priorities so that focus on indicators and targets is meaningful.

Midlothian Council has satisfactory arrangements for the preparation and publication of Statutory performance information (SPIs)

109. The [Accounts Commission's 2021 Statutory Performance Direction](#) defines the performance information that councils must publish. The commission does not prescribe how councils should report this information but expects them to provide the public with fair, balanced, and engaging performance information.

110. The Statutory Performance Direction (December 2021) details two indicators on which councils are required to publish information:

Indicator 1: Improving local services and local outcomes

- its performance in improving local public services, both provided by itself and in conjunction with its partners and communities and progress against these agreed desired outcomes.

Indicator 2: Demonstrating Best Value

- its assessment of performing against its duty of Best Value, including audit assessment and those from other scrutiny bodies and how it has responded to the assessments.

111. In addressing these two indicators, information provided has to be balanced and addressing areas of both good and poorer performance, present information in a timely manner and make it accessible for all the community.

112. We have evaluated Midlothian Council's arrangements for fulfilling the above requirements in 2023/24 and concluded that the Council's performance reporting arrangements were satisfactory. The Council covers the requirements set out in the SPI direction issued by the Accounts Commission. We consider appropriate arrangements are in place for improving services and monitoring desired outcomes through the Planning and Performance Management Framework suite of reporting with scope for improvement as noted in [paragraph 105](#).

Appendix 1. Action plan 2023/24

2023/24 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>1. Non- current assets condition surveys</p> <p>In 2023/24 the Council performed a full valuation of other buildings in line with its revaluation policy.</p> <p>The condition survey ratings held on the non- current asset register were considered in preparing the valuation estimates.</p> <p>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.</p> <p>This resulted in an estimation error of £19 million in the unaudited accounts.</p> <p>Risk – There is a risk of error in the valuation of buildings.</p>	<p>The most up to date condition ratings should be applied to all buildings at the date of valuation. Paragraph 20.</p>	<p>Accepted</p> <p>Chief Officer Place 31 March 2025</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>2. Non-current assets council dwellings</p> <p>Determining the valuation of council dwellings involved applying discount factors to reflect the difference between social and market rents. In 2023/24 the discount factor applied was 33% which we found to be reasonable in comparison to a number of similar authorities.</p> <p>However, guidance for valuers – ‘stock valuation for resource accounting’ published in 2016 by department for communities and local government highlights that the discount factor for social housing should be determined with reference to the relationship between rents and yield in the private residential sector and the public / socially rented sector.</p> <p>We found that the rent yield factor had not been considered when valuing council dwellings in Midlothian.</p> <p>Risk – there is a risk that the valuation of council dwellings does not fully comply with guidance.</p>	<p>To fully comply with Guidance for valuers – ‘stock valuation for resource accounting’ published in 2016 by department for communities and local government, Management should consider the rent yield adjustment in valuations of council dwellings.</p> <p>Paragraph 20</p>	<p>Accepted</p> <p>The Council’s valuation basis in this area will be reviewed with reference to guidance for Valuers and updated if deemed appropriate.</p> <p>Chief Officer Place, Chief Financial Officer</p> <p>31 March 2025</p>
<p>3. Ledger access</p> <p>Access to the ledger requires to be tightly controlled to mitigate the risk of fraudulent mis-postings.</p> <p>The Superuser list, which is small group of users with enhanced access to ledger for IT support requirements,</p>	<p>We recommend that the Superuser list is subject to a formal and regular review process.</p> <p>Paragraph 52.</p>	<p>Accepted</p> <p>Chief Officer Corporate Solutions, Chief Financial Officer.</p> <p>31 December 2024</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>is not currently monitored on a regular or formal basis.</p> <p>Risk – there is an increased risk of fraud or error.</p>		
<p>4. Performance reporting</p> <p>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.</p> <p>Where areas of underperformance are reported it is not always clear how the Council is addressing these areas.</p> <p>Risk: Performance reports are not providing clear information to enable monitoring of performance against key Council objectives.</p>	<p>The Council should review and streamline service performance reports. Key messages should be clear, and performance should be mapped to outcomes.</p> <p>Paragraph 99.</p>	Accepted
<p>5. Local Government Benchmark Framework</p> <p>There is use of LGBF data within Council service area reporting and within the Transformation Blueprint. Community Planning Outcomes Profile benchmarking is used within Community planning and features in the SMP.</p> <p>The Council has stated that there will be a significant focus on making shift happen by moving the number of LGBF Quartile 3 and 4</p>	<p>The Council should prioritise the focus on those indicators which will link to the SMP or Transformation Blueprint priorities so that focus on indicators and targets is meaningful.</p> <p>Paragraph 108.</p>	Accepted

Issue/risk	Recommendation	Agreed management action/timing
<p>indicators of the Council into the top two measures to deliver better outcomes.</p> <p>Risk: Resources are focussed on indicators which do not link to corporate priorities.</p>		
<p>b/f 1 Bank accounts</p> <p>At the year-end we identified over 20 bank accounts (mainly imprest accounts) with small balances which were not reconciled to the ledger on a regular basis.</p> <p>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</p>	<p>The Council should consider the bank accounts held and if they are still required</p>	<p>A full review of all bank accounts will be performed in 2024/25.</p> <p>Responsible officer: Chief Financial Officer</p> <p>Revised date: 31 March 2025</p>

2023/24 recommendations from the BV thematic report

Issue/risk	Recommendation	Agreed management action/timing
<p>1. Capacity of human resources team</p> <p>The human resources team is small with four members of staff, each allocated to a directorate with an overall council workforce of around 4,000 full time equivalent. Discussion with officers highlighted that finding capacity for strategic workforce planning alongside business as usual is challenging and could affect the delivery of objectives within timescales.</p>	<p>It is critical that the Council ensures it has sufficient capacity and to deliver its corporate workforce strategy and detailed plans within agreed timescales.</p>	<p>Accepted</p> <p>The Council is currently developing its refreshed Workforce Strategy 2024-2034 which will be presented to Council in December 2024.</p> <p>The strategy will be accompanied with an implementation plan for the first two years, and within this a resourcing plan to deliver the work programmes within.</p> <p>Chief Officer Corporate Solutions</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>Risk – Workforce planning is not being progressed in line with corporate objectives.</p>		
<p>2. Organisational impact of hybrid and flexible working</p> <p>The Council has not assessed the overall impact of hybrid and flexible working at an organisational level for example on performance, budget savings and efficiencies. Discussions are ongoing about the impact of hybrid working on the estate; while the Council has data on the use of their offices there are no current proposals on changing the estate.</p> <p>Risk: Employees and the council may not be securing planned benefits and efficiencies from adopting hybrid and flexible working.</p>	<p>The Council should assess the impact of hybrid working at an organisational level to ensure this way of working is generating organisational benefits as well as benefits for employees on an individual level.</p>	<p>A follow up report on the impact of hybrid working will be developed in early 2025.</p>
<p>3. Staff survey</p> <p>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.</p> <p>Risk: The Council has no measure of how staff are feeling or the impact across the workforce of any new workforce policies or initiatives.</p>	<p>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.</p>	<p>This work is ongoing to inform the workforce strategy development. A summary report of L&L sessions, actions and responses will be developed and presented to Corporate Management Team in early 2025.</p> <p>An all staff survey was issued in late August 2024, which is the first since 2019. This is to primarily inform the development of the workforce strategy but will also be the first of actions to adopt a staff engagement programme for the organisation – the staff engagement programme will be developed and presented</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>4. Developing future skills and capacity</p> <p>Capacity and recruitment issues are significant challenges for the council. Some good employment initiatives are in place and there are some examples of succession planning but this is not being done in a formalised or consistent way.</p> <p>Risk: Capacity and recruitment issues are not being addressed consistently or in line with corporate objectives.</p>	<p>The Council needs to formalise its overall approach to recruitment and developing future skills and capacity.</p>	<p>to Corporate Management Team in early 2025.</p> <p>This work programme will be part of the ten-year Workforce Strategy to be presented to Council in December 2024.</p>
<p>5. Shared services</p> <p>Midlothian Council shares several services with other councils across the Lothian region. The Council has not captured the extent to which there have been workforce benefits resulting from these shared roles. These might include reduced workforce, costs, or service benefits</p> <p>Risk: The Council is unable to demonstrate workforce benefits resulting from shared roles. This information would help with workforce planning and budgeting.</p>	<p>The Council should consider capturing the extent to which there have been workforce benefits resulting from shared services.</p>	<p>Work is required to develop a benefits realisation approach to shared services. This will be looked at as part of the review of the existing shared services in Q3/4 2024/25.</p>
<p>6. Performance management framework</p> <p>To ensure the success of the workforce plan the Council needs to develop a high-quality performance</p>	<p>The Council should ensure that organisational and service level workforce strategies are supported by appropriate performance management information including quantifiable metrics.</p>	<p>KPIs will be developed for the delivery of the Workforce Strategy and integrated into the quarterly performance reporting which is presented to Cabinet and Performance, Review and Scrutiny</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>management framework linked to the strategy.</p> <p>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.</p>		<p>Committee. This will be implemented for Q3/Q4 2024/25 reporting.</p>

Follow-up of prior year recommendations

Issue/risk	Recommendation and Agreed Action	Progress
<p>1. Review of control accounts for classifications</p> <p>Our audit work identified some areas where the classification of transactions or balances was incorrectly disclosed within the notes to the accounts.</p> <p>Risk – the notes to the accounts do not reflect the underlying categories of the transactions.</p>	<p>The Council should ensure going forward that control accounts such as trade debtors are reviewed to ensure balances with central government and other public sector bodies are classified appropriately at the year-end (refer Exhibit 2 and Exhibit 4).</p> <p>March 2024</p>	<p>Complete</p>
<p>2. Journals</p> <p>We reviewed the journals across the year to identify those which had been posted by those with a higher level of access. We identified some journals which relate to former employees, however, they relate to interfaces with the ledger which are not actually posted but are automatic journals.</p> <p>Risk – there is a risk of fraud or error.</p>	<p>Journals procedures should be reviewed to minimise the risk with the ability of members of the finance team to approve their own journals (refer Exhibit 8, point 1).</p> <p>October 2023</p>	<p>Not implemented</p> <p>A few senior officers are able to approve their own journals and the Council has accepted the risk this practice presents. We performed additional focussed audit testing to address the increased risk arising from this control weakness. No issues were identified in our detailed testing.</p>

Issue/risk	Recommendation and Agreed Action	Progress
<p>3. Bank reconciliations Bank reconciliations were performed for each month of the year but the reconciliations completed for periods 10 to 12 were not completed timeously. In addition, at the year-end we identified over 20 bank accounts (mainly imprest accounts) with small balances which were not reconciled to the ledger on a regular basis.</p> <p>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.</p>	<p>The Council should ensure bank reconciliations are performed and reviewed in a timely manner. The Council should also consider the bank accounts held and if they are still required (refer Exhibit 8, point 2).</p> <p>October 2023</p>	<p>Partially implemented</p> <p>Revised action A full review of all bank accounts will be performed in 2024/25. Responsible officer: Chief Financial Officer Revised date: 31 March 2025</p>
<p>4. Payroll reconciliations</p> <p>The Council undertakes a reconciliation between the ledger and the payroll system on a monthly basis in line with good practice. We reviewed an example of one month's reconciliation in 2022/23 and found limited evidence that the discrepancies between the ledger and payroll were being followed up or investigated on a timely basis.</p>	<p>The Council should ensure any work conducted in reconciling the ledger to payroll is appropriately evidenced.</p>	<p>Implemented</p>

Midlothian Council

2023/24 Annual Audit Report

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