

Internal Audit Report

Value for Money

26 February 2025

CD2405

**Overall
Assessment**

Advisory

Contents

Executive Summary 3

Background and scope..... 4

Findings and Management Action Plan..... 5

This Internal Audit review is conducted for the City of Edinburgh Council under the auspices of the 2024/25 internal audit plan approved by the Governance, Risk and Best Value Committee in March 2024. The review is designed to help the City of Edinburgh Council assess and refine its internal control environment. It is not designed or intended to be suitable for any other purpose and should not be relied upon for any other purpose. The City of Edinburgh Council accepts no responsibility for any such reliance and disclaims all liability in relation thereto.

The internal audit work and reporting has been performed in line with the requirements of the Global Internal Audit Standards (GIAS) and as a result is not designed or intended to comply with any other auditing standards.

Although there are specific recommendations included in this report to strengthen internal control, it is management's responsibility to design, implement and maintain an effective control framework, and for the prevention and detection of irregularities and fraud. This is an essential part of the efficient management of the City of Edinburgh Council. Communication of the issues and weaknesses arising from this audit does not absolve management of this responsibility. High and Critical risk findings will be raised with senior management and elected members as appropriate.

Executive Summary

Engagement conclusion and summary of findings

The revenue budget paper to the Council’s Finance and Resources Committee in [February 2025](#), advised that the Council expects to face a budget gap of over £90m by 2029/30. The Council’s Budget Strategy aims to recognise the extent of the challenges faced and the radical change required to achieve organisational financial sustainability. The strategy focuses on short and medium term change and improvement, with the short term approach seeking enhanced senior management accountability.

The Budget Support & Accountability Board (BSAB) was established in October 2024 with an overarching aim to protect the financial sustainability of the Council by ensuring that approved budgets are met through increased grip and control; assurance and insight; and effective ownership and accountability.

As the BSAB has met twice (October 2024 and January 2025), it is too soon for Internal Audit to conclude on the effectiveness of the Board and the Council’s overall approach. In addition, following the Corporate Leadership Team governance review, the BSAB will be replaced by a new Finance Assurance Board. Therefore, audit work has been performed on an advisory basis and aims to identify improvement actions to strengthen the ongoing approach and development of the new Board across the following 3 key areas:

- 1. the Council’s strategic approach to value for money
- 2. operational approach to value for money
- 3. identifying and managing value for money risks.

A further review of the effectiveness of the key controls and processes will be completed as part of the 2025/26 Internal Audit plan.

Areas of effective practice identified

- the creation of the BSAB demonstrates a proactive approach to financial governance and its clear remit to monitor budget adherence, review overspending, and promote accountability is a positive step towards achieving financial stability which should continue in the new Board
- the establishment of a dedicated Financial Strategy and Best Value team highlights the Council’s commitment to improving financial management and driving best value across services
- membership of the BSAB was established at an appropriate level, chaired by the Service Director of Finance & Procurement with Service Directors and Head of Service as members and support provided by the Financial Strategy and Best Value team
- the BSAB focused on specific areas of expenditure with good engagement from relevant services evident including completion of an action plan template and supporting materials ahead of meetings to enable focused and constructive discussions.

Overall Management Response

The findings in this report are welcome as Council management seeks to improve value-for-money arrangements in the context of significant budget challenges and the implementation of a refreshed Budget Strategy.

These findings will inform future governance arrangements (through the Finance Assurance Board) and will direct efforts to improve delivery of value for money through business as usual operations and risk management going into 2025/26.

Background and scope

The City of Edinburgh Council (the Council) provides a wide range of public services to the city’s residents, businesses, and visitors. A commitment to delivering best value is a key requirement set out in the [Local Government in Scotland Act 2003](#) which establishes principles of economy, efficiency, and effectiveness, alongside duties to secure continuous improvement, demonstrate value for money, and coordinate services efficiently.

The Council’s [2023/24 Annual Audit Report](#) issued by Audit Scotland in September 2024 highlighted that due to the significant financial pressures facing the Council, the organisation’s financial sustainability is at risk. Addressing this challenge requires robust financial management and an enhanced focus on performance and accountability.

The Council has implemented initiatives to enhance its financial resilience, including the establishment of the Budget Support & Accountability Board (BSAB) which aimed to increase senior officer grip and control on financial and operational performance and to provide a constructive forum in which to discuss potential mitigating actions and facilitate effective ownership and accountability.

An update paper on the revenue budget presented to the Finance and Resources Committee in November 2024, set out the Council’s ‘Priorities for Change’ highlighting the launch of the BSAB as a key measure to strengthen financial governance and assurance. This emphasised the importance of demonstrating good value for money and ensuring that colleagues have the necessary tools to perform their roles effectively.

Scope

The objective of this review was to assess the design of the Council’s approach ensuring delivery of value for money and alignment to the principles of economy, efficiency, and effectiveness.

Alignment to Risk Categories and Business Plan Outcomes

The review aims to provide assurance in relation to the following Corporate Leadership Team (CLT) risk categories:

- Strategic Delivery
- Financial and Budget Management
- Governance and Decision Making
- Service Delivery

[Business Plan Outcomes:](#)

The Council has the capacity, skills, and resources to deliver our priorities efficiently, effectively and at lower cost.

Limitations of Scope

The audit recognises that the Council’s approach including the BSAB is newly established. Therefore, an agile approach, which considers the initial design will be reported in March 2025, followed by further audit work in 2025/26.

Reporting Date

Testing was undertaken between 28 November 2024 to 31 January 2025

Our audit work concluded on 31 January 2025, and our findings and opinion are based on the conclusion of our work as at that date.

Findings and Recommendations

Finding 1 – Strategic approach to value for money

A review of the Budget Support & Accountability Board (BSAB) initial governance structure and supporting processes identified a number of opportunities to strengthen the effectiveness of similar governance forums in the future.

The terms of reference for the BSAB outline its key objectives which are to increase grip and control, to provide assurance and insight on financial performance and budget initiatives, as well as facilitating ownership and accountability. However, they do not clearly define the roles and responsibilities of members and other participants. Additionally, it is unclear how the work of the BSAB aligns with achieving the Best Value Principles – the 3 Es (Economy, Efficiency, and Effectiveness) – which are key to measuring value for money.

The terms of reference (ToR) states the BSAB will meet within one month after each Finance & Resources Committee and services should submit relevant materials one week in advance of the Board meeting, however, a formal timetable has not been established for meetings.

The ToR also state that the BSAB will report to the Corporate Leadership Team (CLT) after each meeting, providing updates on progress against agreed actions and any associated delivery risks. Whilst an update was not provided to the CLT after the first meeting, one was submitted after the second meeting. Management have given assurance this first instance was due to the Board and approach being in early development and that this will continue going forward.

Finding Rating

Advisory

Risks

- **Strategy Delivery** – lack of a clear alignment to the principles of best value may result in unclear and mismatched objectives and a focus on short term results rather than longer term sustainment
- **Financial and Budget Management** – lack of clear roles and responsibilities may result in inefficient resource allocation, budget mismanagement and ineffective use of public funds
- **Governance and Decision Making** – lack of a clear reporting timetable and structured reporting requirements may lead to a lack of transparency and accountability and failure to overall objectives.

Recommendations

Ref.	Recommendation
1.1	<p>Development of the Finance Assurance Board which will supersede the BSAB should consider:</p> <ul style="list-style-type: none">• incorporating the principles of best value and delivering value for money (the 3 Es - Economy, Efficiency, and Effectiveness) into the overall approach with a clear methodology and metrics to demonstrate how value for money will be measured and evidenced• establishing a robust governance structure with clearly defined roles and responsibilities, a formal timetable of regular meetings supported by a reporting timetable and a clearly established timetable for reporting outcomes and risks to the Corporate Leadership Team (CLT)• regular review and evaluation of the accuracy and suitability of information required by the Board to fulfil its role• regular review and discussion of current and emerging value for money risks as a core element• regular review and evaluation of the Board composition, skills and experience to ensure it remains effective and aligned to objectives• development of a structured training programme for members and participants on the principles of best value and demonstrating value for money.

Finding 2 – Operational approach to value for money

Finding Rating

Advisory

There is long standing duty on the Council to obtain best value and to deliver value for money across services and contracts, however, as a result of the increasing financial challenges and the requirement to achieve longer term financial sustainability and sustained value for money over time, the Council needs to strengthen its operational processes to ensure it obtains the maximum benefit from the goods and services it both acquires and provides, within the resources available to it.

While senior officers are accountable for the Council's overall achievement of best value, colleagues in key roles such as commissioning, contract managers and service planning play an essential part in this, and should understand how their role, key processes, quality, controls and performance contributes to the overall delivery of value for money.

Management has advised that, as part of the new approach, a training needs analysis will be performed to identify training and knowledge gaps. Following this, management will consider how these gaps could be addressed and what guidance can be provided to support the embedding of the approach.

Risks

- **Service Delivery** – lack of understanding on the concepts of value for money and how it contributes to key roles may result in continued delivery of ineffective services
- **Financial and Budget management** – lack of understanding on the concepts of value for money and how to assess the achievement of this may result in ineffective use of public funds
- **Governance and Decision Making** - services may lack the insight needed for informed decision-making, reducing transparency, accountability, and long-term financial sustainability.

Recommendations

Ref.	Recommendation
2.1	<p>As part of the development of the overall programme, the Council should complete a training needs analysis which considers the various roles which will contribute to the Council achieving and sustaining value for money.</p> <p>Tailored training and guidance based on key roles including but not limited to commissioning, contract managers and service planning should be provided and include the application of value for money principles (economy, efficiency, and effectiveness) and consider the various elements such as assessment of cost, quality and performance monitoring to enable a wider understanding to identify opportunities for improvement.</p>

Finding 3 – Identifying and managing value for money risks

Finding
Rating

Advisory

Failure to achieve and /or demonstrating poor value for money is included in the risk descriptions for the financial and budget management and service delivery risk categories in the Council's risk management framework.

Identifying, capturing and managing risks associated with value for money is not a core aspect of risk management within services, with no service level or divisional level risk registers currently including any value for money risks. As a result, there is limited discussion and understanding on the potential areas where the Council is at risk of failing to achieve and /or demonstrating poor value for money. This is likely due to a lack of understanding and training on best value and the value for money principles as highlighted at Finding 2.

This in turn impacts the effectiveness of the Council's overall approach and its ability to manage value for money risks and budget pressures effectively.

Risks

- **Financial and Budget Management** – a lack of understanding of value for money risks may result in ineffective use of public funds
- **Governance and Decision Making** – lack of identification and discussion on the risks associated with value for money may result in uninformed decisions or insufficient actions to manage financial pressures.

Recommendations

Ref.	Recommendation
3.1	<p>The Financial Strategy and Best Value team should engage with the Corporate Risk Team (CRT) to support development of a focussed programme aimed at identifying and understanding value for money risks across the Council including where there may be a failure to achieve value for money or where poor value for money is currently being demonstrated for example within a contract for provision of, or delivery of services.</p> <p>In addition, it is recommended that the training programme outlined in Finding 2, includes a focus on risk management to enable colleagues to develop the necessary knowledge to identify and address value for money risks associated with service delivery.</p> <p>Once established, review and discussion of value for money risks should be a core element of the work of the Finance Assurance Board as per Finding 1.</p>