

## Internal Audit

### Assurance Review of City Region Deal

**Status:** Final

**Date:** 25 March 2024

**Risk Level:** Strategic

**Report No:** 2422

**Assurance Year:** 2023/24

Net Risk Rating	Description	Assurance Assessment
Major	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.	Limited

Report Tracking	Planned Date	Actual Date
Scope issued	20-Jul-23	20-Jul-23
Scope agreed	27-Jul-23	26-Jul-23
Fieldwork commenced	4-Aug-23	9-Oct-23
Fieldwork completed	1-Dec-23	8-Dec-23
Draft report issued	15-Dec-23	21-Dec-23
Process owner response	12-Jan-24	15-Jan-24
Director response	19-Jan-24	25-Mar-24
Final report issued	26-Jan-24	25-Mar-24

Distribution	
Document type	Assurance Report
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# 1 Introduction

## 1.1 Area subject to review

The Aberdeen City Region Deal (the Deal), agreed in November 2016, is a three-way, ten-year agreement between the UK Government, the Scottish Government and regional partners including Aberdeen City and Aberdeenshire councils, and other organisations including universities and Opportunity North East (ONE) - the private sector partner that leads on innovation projects within the Deal. The total allocations of funding for the capital projects is £826.2m.

The Deal's aim is to significantly advance economic and infrastructure development in the area, addressing the challenges that business and industry face in the North East of Scotland whilst grasping opportunities through projects that can enable Aberdeenshire and Aberdeen City to continue to be an attractive and productive area for organisations to locate and develop. Key projects include the Net Zero Technology Centre (formerly Oil and Gas Technology Centre), Food and Drink and Life Science Innovation Hubs, a Digital Infrastructure Fund, expansion of Aberdeen Harbour, and development of a Strategic Transport Appraisal (STAG).

The councils' jointly fund £20m of activity relating to the Digital (£7m), STAG (£2m) and Harbour Expansion (£11m) elements of the Programme. The Digital and Transport themes are led by Council based working groups whilst the other project themes, Innovation, and Internationalisation, are led by external project boards with which the Council has a Funding Agreement. The councils are responsible for ensuring projects are appropriately planned and managed and for monitoring their progress and finances. They also host the Aberdeen City Region Deal Joint Committee, which includes representation from each stakeholder.

Aberdeenshire Council acts as a conduit for Government and Council funding in accordance with the signed Deal Agreement and the terms of the Scottish Government's annual Aberdeen City Region Deal Grant Offer. Drawdowns and grant payments to projects are dependent on the Accountable Body receiving evidence of projects' spend and progress.

## 1.2 Rationale for the review

The objective of this audit is to provide assurance over the governance and financial spend of the City Region Deal<sup>1</sup>. The Deal is managed on behalf of various partners; each stakeholder will have an interest in assurance over the governance arrangements. Aberdeen City Council supports programme management for delivery of the Deal's projects and outcomes. Aberdeenshire Council is the Accountable Body for project funding drawdowns and payments. They therefore have lead responsibility for programme delivery and stewardship of funds<sup>2</sup>.

Since 2022-23 the UK and Scottish Governments' funding letter, setting out the terms of their annual grant offer, includes an expectation for the Deal to be included in the Internal Audit Plan at least every two years.

Governance of the Deal was last reviewed in 2020 (Internal Audit Report 2101). Whilst the main focus of the review was financial governance – over which positive assurance was obtained, areas of improvement were recommended relating to project change management controls, benefits measurement and associated action plans and reporting, and demonstrating project sustainability following the end of the funding period.

## 1.3 How to use this report

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<sup>1</sup> This review has been undertaken by the Internal Audit Service of Aberdeenshire Council, who also provides such services to Aberdeen City Council. This report will be presented to both councils' respective audit committees (in whichever form they take) and will be made available to other stakeholders, such as the UK and Scottish governments, as appropriate. It should be noted that the primary reason for this review is to gain assurances for both councils and to satisfy the overall funding requirements. Any other assurances taken by stakeholders is based on their own judgement and does not place any responsibility or liability on the Internal Audit Service of Aberdeenshire Council.

<sup>2</sup> The audit methodology used across both councils is similar, with the only difference being slightly different assurance terms e.g. a Strategic review for Aberdeenshire is considered a Corporate Review for Aberdeen City. For ease of reporting and consistency, the Aberdeenshire terms have been used.

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This report has several sections and is designed for different stakeholders. The executive summary (section 2) is designed for senior staff and is cross referenced to the more detailed narrative in later sections (3 onwards) of the report should the reader require it. Section 3 contains the detailed narrative for risks and issues we identified in our work.

## 2 Executive Summary

### 2.1 Overall opinion

The full chart of net risk and assurance assessment definitions can be found in Appendix 1 – Assurance Scope and Terms. We have assessed the net risk (risk arising after controls and risk mitigation actions have been applied) as:

Net Risk Rating	Description	Assurance Assessment
Major	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.	Limited

The organisational risk level at which this risk assessment applies is:

Risk Level	Definition
Strategic	This issue / risk level impacts the Council as a whole. Mitigating actions should be taken at the Senior Leadership level.

### 2.2 Assurance assessment

Internal Audit has identified an overall net risk rating of **MAJOR**, with **LIMITED** assurance obtained over the governance and financial spend of the City Region Deal. The Deal planned to utilise in excess of £290m of public funds, leveraging over £530m from private sector and other contributions. This audit sought to determine whether suitable and proportionate controls, data, and checks, are in place to provide assurance over reported project delivery and grant disbursement. Partners to the arrangement are working together in the spirit of the agreement to deliver against the agreed aims and objectives. The level of progress with actions and spend are reported regularly, and this meets the current reporting requirements for the Councils, the UK, and Scottish Government. However, weaknesses have been identified in governance arrangements, review of the supporting audit trail for expenditure, and delivery of outcomes.

It is noted that as an early adopter of the City Region Deal model, Aberdeenshire and Aberdeen City have had to continuously develop governance and reporting arrangements, and their work in this area has been recognised by the governments – which continue to develop their own requirements, reflected in variations to terms and conditions included in annual grant offer letters. Partners have adapted to meet changing demands, to meet funders' expectations.

However, these changes have not been fully reflected throughout the Deal's governance arrangements (e.g. by updating funding agreements), and there is a need for more transparency and challenge in respect of financial and progress data provided by project delivery partners. Project status, expenditure claims, financial forecasts, and the realisation of benefits is declared, collated, and reported, but detailed supporting evidence is not always provided and reviewed in sufficient detail to confirm their accuracy. Data required for the measurement of benefits realised is being withheld due to partners' concerns over the release of commercially and personally sensitive information.

Internal Audit requested project board minutes and transactional data, and where available this provided a level of assurance; however, full data was not provided in every case. If delivery partners are not comfortable sharing information, this limits the level of assurance that can be taken and drives up the level of risk. Explanations for variances, delays, and mitigating actions, are limited. There is limited scrutiny of financial and progress data provided from delivery partners by the councils as part of their programme management and financial accountable body roles, and where this takes place it is not well evidenced. It is important to demonstrate appropriate checks and challenge are being applied to provide assurance that the grant is only being paid out to cover eligible spend. Conditions and requirements of the UK and Scottish governments have varied over the life of the Deal. Partners and delivery of the programme and project outcomes may be at risk if required information cannot be obtained to satisfy changing funders' requirements.

The delivery of benefits and conclusion of projects to date has been reported in summary or through selected highlights and case studies as part of the Deal Annual Report, rather than detailed comparisons of actual outcomes and costs against planned. It may be difficult to ensure this data is obtained, given requirements had not been determined and agreed in advance, and flexibility has not been incorporated into existing agreements. In the absence of this data, it may not be possible to fully determine the successful delivery of the intended Deal outcomes.

An assumption is being made by project delivery partners that funds committed but not spent in the financial year can be rephased to future years, however few projects in this situation have submitted formal change requests to date. The governments have stated in grant offer letters that although the totality of funds remains available (within the Deal funding period – to 2027), requests to move funding between specific years may not be possible. It cannot therefore be assumed that all requests to rephase budgets will be agreed, or can be accommodated within the funding period.

Approval of project changes is reserved to the City Region Deal Joint Committee. However, this has been delegated to an Officer on its behalf by one of the partners and there is no record of other partners having agreed this. It is essential that decision making on governance and controls is planned and transparent.

Recommendations have been made to address the noted points, specifically around strengthening the governance and reporting arrangements within the councils and from partners. These include updating and securing flexibility in funding agreements, and reviewing delegations. Further work has been recommended to develop and expand the level of data obtained, and its critical appraisal, in respect of use of funding, performance against plans, and realisation of benefits, at a more detailed level proportionate with the level of funds being managed through the City Region Deal.

### 2.3 Severe or major issues / risks

Issues and risks identified are categorised according to their impact on the Council. The following are summaries of higher rated issues / risks that have been identified as part of this review:

Ref	Severe or Major Issues / Risks	Risk Agreed	Risk Rating	Page No.
1.2	<p><b>Delegated Powers</b> – Some project changes (e.g. the carry forward of £337k budget on a project) are being approved by the Aberdeen City Chief Officer - City Growth, in consultation with the Joint Programme Board, on the basis of authority delegated by Aberdeen City Council. Such changes are being subsequently reported in appendices to quarterly progress updates provided to the City Region Deal Joint Committee. The Committee is asked to note the document, and not the exercise of delegated powers. More substantial changes are being put to the Committee for a decision (e.g. a change of scope to extend another project for £2,671k), but there is currently no guidance on the level or type of change requiring Joint Committee approval.</p> <p>There are no requests for approval or ratification of these decisions, and the Joint Programme Board (which is being consulted as part of this delegation) does not have delegated powers from the Committee to approve changes. The Joint Committee is not directly controlled by a single partner - therefore whilst Aberdeen City Council has</p>	Yes	Major	11

Ref	Severe or Major Issues / Risks	Risk Agreed	Risk Rating	Page No.
	<p>the power to delegate a part of the Committee's powers to one of its officers, it would require formal agreement from the partners or the Joint Committee itself. There is no record of Aberdeenshire Council having agreed this delegation.</p>			
1.4	<p><b>Performance and Benefits Reporting</b> – A Benefits Realisation Plan was agreed in February 2023, for the 2016-2026 programme, though performance and benefits reporting has been carried out annually with highlights and case studies presented in the annual report. To date there has been no formal reporting of a detailed comparison of actual compared with planned benefits.</p> <p>The majority of identified benefits do not have clear targets – there are measures of project level outputs, activities, or indicators used as proxies for the impact of project activity on the overall Deal outcomes, but only a small number of measures were set in project business cases (an average of 20% of measures across three workstreams reviewed by Internal Audit had specific targets).</p> <p>Benefits are tracked in a benefits tracker spreadsheet, which is updated annually and used to support reporting to the Joint Committee and governments. Elements of the tracker varied from the originally agreed targets set out in project business cases. Satisfactory explanations were provided, however improved tracking of revisions would provide greater assurance that outcomes are being compared and reported against agreed targets.</p> <p>Processes for data collection and reporting are still developing. Whilst some data is produced nationally, or by the PMO applying standardised calculations, generally delivery partners submit their own data into the tracker, and data is not typically subject to challenge or independent verification.</p> <p>Some of the data is not currently available, particularly where it is retrospective and baselines were not established, relates to 'personal data', or is considered 'commercially sensitive' by delivery partners. Selective presentation of data presents a risk in terms of completeness. It may be difficult to ensure this data is obtained, given</p>	No		14

Ref	Severe or Major Issues / Risks	Risk Agreed	Risk Rating	Page No.
	<p>requirements had not been determined and agreed in advance, and flexibility has not been incorporated into existing agreements. In the absence of this data, it may not be possible to fully determine the successful delivery of the intended Deal outcomes and benefits.</p>			
1.5	<p><b>Expenditure Records</b> – Whilst there are records provided to Aberdeenshire Council Finance to support grant drawdowns by partners, there is currently insufficient detail to demonstrate that only grant eligible spend is included in each claim.</p> <p>Reliance is being placed on delivery partners' project leads to provide accurate figures on current spend and forecasts for use of funding. Aberdeenshire Council Finance collates this information from Project Status Reports and puts it into the relevant formats for reporting to the Joint Committee and UK/Scottish governments.</p> <p>Whilst Aberdeenshire Council Finance will challenge material variations and request explanations, which are then included within grant returns to the governments, they are not receiving or reviewing detailed supporting records of spend, or forecast calculations and assumptions, from each partner to obtain assurance they have a reasonable basis.</p> <p>Aberdeenshire Council Finance officers have confirmed they are able to request further information/review accounts on an 'open book' basis, and they have received satisfactory explanations, including viewing additional evidence on calls. However, they are not recording that they have done so, and there is limited documentary evidence held by the Council to support the claims (e.g. one project provides information covering only up to 50% of each claim, and certification required under the funding agreement is not on file). Arrangements for obtaining further supporting evidence have not been formally documented – therefore it is not clear if this is a conscious decision to restrict the level of review based on e.g. other sources of assurance.</p> <p>Transaction level data was sought by Internal Audit from delivery partners to confirm accuracy. Full supporting records were not provided in every case. For</p>	Yes		15



Ref	Severe or Major Issues / Risks	Risk Agreed	Risk Rating	Page No.
	<p>example, one project provided a selection of invoices supporting approximately 73% of a £1.2m claim, and there was not always sufficient information to demonstrate that the costs included related to a specific activity referenced in the business cases or funding agreements. In another case, amounts (£40k out of a £714k claim – 6%) were being claimed that were committed but had not yet been paid out (retentions), contrary to terms in the funding agreement. Recoverable VAT was also being claimed on the basis of an informal agreement that it would be repaid, following its recovery, at a later date. As this level of detail is not typically obtained by the Council, these potential anomalies had not been reviewed and addressed.</p> <p>The Deal utilises in excess of £290m of public funds, leveraging over £530m of private sector contributions. In the absence of appropriate and proportionate checks and challenge where necessary, there is limited assurance that grant funding is only being paid out to cover eligible spend. Conditions and requirements of the UK / Scottish Governments have varied over the life of the Deal. Partners and delivery of the programme and project outcomes may be at risk if the required information cannot be obtained to satisfy changing funders' requirements.</p>			

## 2.4 Management response

*Whilst we accept there are areas of improvement outlined in this report, we do not agree with the Net Risk Rating as - Major and the Assurance Assessment - Limited.*

*It should be noted that an audit was undertaken in 2020/21, where the same governance and procedures were in place, agreed by UK/SG and ACRD JC a positive assurance was obtained– all recommendations from that audit have been completed.*

*This audit report recognises that “the Deal has continuously developed reporting arrangements, in line with new requests from government and partners have adapted to meet the changing demands, to meet funders’ expectations”. It should be noted that formal Annual Reviews and 18 month Check point reviews between UK/SG and each project covering finances, milestones and benefits have taken place since inception and all actions from these reviews have been completed.*

*The audit recommends further checks and challenge is given to the information that projects submit to the PMO, UK/SG Government and Joint Committee, specifically Benefits and Finance information.*

*The management would like to highlight the controls that are in place:*

### **Legal Agreement**

*Legal agreement exists between Aberdeenshire Council and projects, the terms and conditions of this agreement give the Council access to information, as well as the power to suspend payments where*

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appropriate. To date, projects have provided all information required of them in line with the grant agreement.

### **Progress Status Reports**

These are provided monthly for review by the PMO. They report on actual monthly spend and provide a forecast for future months. Aberdeenshire Council reviews the costs claimed and can request for supporting information to support costs claimed.

### **Project Internal Governance**

Each private company has its own Board, in which, a member of the Aberdeen City Region Deal Programme Board sits as an “observer”. This board is made up of private and public sector professionals which have a duty to monitor the financial reporting of the organisation. Part of the annual financial compliance of private organisations includes an external auditor’s examination of their accounts prior to reporting via Companies house which is accessible to the public. Annual Accounts are signed off by their own board and updated to ACRD Programme Board.

The CRD model was designed to be lighter touch supporting effective delivery. It is acknowledged that we are responding to an increasing level of scrutiny by Government(s) who have increased the resource in their Deal teams. We have responded to this changing approach to Government scrutiny and now have weekly meetings, as well as monthly, quarterly, and annual meetings. Individual projects have reviews, and checkpoints as well. The interaction between PMO and SG/UKG is significant and requires a lot of time to meet this demand. In general, we are compliant with UK/SG requirements, including reporting and change controls, and this has been confirmed through our regular reporting and meetings. There is no funding within the Deal for the Programme Management Office (PMO) to administer the Deal and therefore existing resources have been utilised which has been satisfactory to both Governments throughout the Deal period. There needs to be a balance between the resource we have, and the expectations we/others have from that resource – including the extent to which internal audit recommendations can be met.

We will undertake an annual review of funding agreements’ terms and conditions to ensure Deal programmes remain aligned with terms specified in the annual grant offer letter and will seek further documentary evidence in support of claims where this is required.

In February 2024, Aberdeen City Region Deal Joint Committee approved a governance framework document which further clarifies processes, definitions (e.g. material changes and material financial variances), delegations, and will promote even greater transparency in decision making.

Performance data is being obtained, however there remain challenges over ‘sensitive’ data, which will need to be obtained to demonstrate delivery of outcomes in line with the Benefits Realisation Plan. The Programme Board will be asked to identify mutually acceptable options for delivering assurance over these areas, to take forward to the Joint Committee for approval.

Revisions to the Quarterly reporting template, and project closure report template, are underway. A proposal will be taken to the Programme Board in respect of developing a dashboard style approach which will better set out progress against plan, in the context of expenditure against budgets. This would further improve the level of assurance provided to the Joint Committee and support further scrutiny of project delivery where required.

In summary, the financial management and scrutiny of all ACRD resources have been reported through ACRD Joint Committee and to both Governments on a regular basis as set out by Government. Improvements can be made and will be actioned in line with and adding to the current approach.

## 3 Issues / Risks, Recommendations, and Management Response

### 3.1 Issues / Risks, recommendations, and management response

Ref	Description	Risk Rating	Moderate
1.1	<p><b>Funding Agreements</b> – Aberdeenshire Council, as Accountable Body, is responsible for ensuring appropriate stewardship and accountability over use of the City Region Deal’s funding. For two out of three workstreams reviewed, funding agreements were in place with the delivery partners: setting out terms and conditions for payment including e.g. what constitutes eligible expenditure, and the level of supporting information required before a grant claim will be paid.</p> <p>However, not all arrangements have signed agreements in place, and changes (including names, timing of payments, and requirements for supporting documentation) have not all been formally documented. In the absence of complete and up to date agreements covering every workstream there is a risk to progress and continued receipt of Deal funding in the event of any dispute over terms, or unanticipated variations in practice.</p> <p>The UK / Scottish Governments issue grant offer letters annually, which have included changes to previously agreed terms and conditions. There is currently limited flexibility in existing funding agreements (where these are in place) to incorporate such changes, though in practice partners are working together to address requirements for e.g. additional documentation, scrutiny, and changes to payment schedules. Without explicit commitment in writing there may be risks to the application of any further new requirements.</p> <p>Whilst the Governments can ultimately withhold payment until conditions are met, and this is reflected in existing agreements, there are risks to partners and project delivery if there is not mutual agreement. There needs to be both clarity over the need to fulfil funders’ expectations, and flexibility to adapt to future requirements.</p>		
<b>IA Recommended Mitigating Actions</b>			
The City Region Deal partners should ensure up to date agreements are in place with all delivery partners, and are maintained up to date to provide assurance over continued compliance with changes to UK/SG requirements.			
<b>Management Actions to Address Issues/Risks</b>			
<i>We recognise that the legal agreements created in 2016/17 are high level and that grant offer letters are agreed at Programme Board each year. We will undertake an annual review of agreements’ terms and conditions to ensure Deal programmes remain aligned with terms specified in the annual grant offer letter.</i>			
<i>We note that this will involve additional resource, and as such will require agreement by Joint Committee.</i>			
<b>Risk Agreed</b>		<b>Person(s)</b>	<b>Due Date</b>
Yes		Interim City Region Deal Programme Manager	July 2024 (and annually)

Ref	Description	Risk Rating	Major
1.2	<p><b>Delegated Powers</b> – Some project changes (e.g. carry forward of £337k underspend against £1,361k budget (25%) on a project) are being approved by the Aberdeen City Chief Officer - City Growth, in consultation with the Joint Programme Board, on the basis of authority</p>		

Ref	Description	Risk Rating	Major
	<p>delegated by Aberdeen City Council in 2019. Such changes are being subsequently reported in appendices to quarterly progress updates provided to the City Region Deal Joint Committee. The Committee is asked to note the progress update document, and not the exercise of delegated powers. More substantial changes are being put to the Committee for a decision (e.g. a change of scope to extend another project utilising an underspend of £2,671k (53%)), but there is currently no guidance on the level or type of change requiring Joint Committee approval.</p> <p>There are no requests for approval or ratification of these decisions, and the Joint Programme Board (which is being consulted as part of this delegation) does not have delegated powers from the Committee to approve changes. The Joint Committee is not directly controlled by a single partner - therefore whilst Aberdeen City Council has the power to delegate a part of the Committee's powers to one of its officers, it would require formal agreement from the partners or the Joint Committee itself. There is no record of Aberdeenshire Council having agreed this delegation. The Councils' legal teams are working on proposals to confirm delegation from the Joint Committee.</p>		
	<b>IA Recommended Mitigating Actions</b>		
	Delegations should be reviewed and where appropriate confirmed by the Joint Committee and/or all partners. The scope of such delegations should be documented.		
	<b>Management Actions to Address Issues/Risks</b>		
	<p><i>The issue of delegation of power is now fully resolved.</i></p> <p><i>At February 2024 Joint Committee a report was unanimously approved that outlined the long-standing Change Request process and clarified delegated powers. While there was no minute of this delegation being explicitly agreed by Joint Committee previously, the change process was documented and in practice by projects with government, since inception, and reported to Joint Committee via the quarterly progress update. The Joint Committee are aware of the secondary control in place, which includes both governments agreeing change requests as part of the monthly reporting to government and follow-up meetings. The application of major risk rating appears to ignore all of the controls that were already in place.</i></p> <p><i>The recommended actions within the audit report have been concluded in full, and were underway at the time of the audit. During follow up conversations during the audit officers had informed of all other controls that were in place, whilst acknowledging that there was no evidence of a specific delegation of power from the Joint Committee to cover the approvals of variances and non material changes. The written procedure agreed by the Joint Committee largely formalises what was existing process relating to primarily operational matters. The major risk rating is accepted with some hesitation as evidence was provided of all other controls in place at the time of audit and a moderate risk rating had been expected on that basis.</i></p>		
	<b>Risk Agreed</b>	<b>Person(s)</b>	<b>Due Date</b>
	Yes	Interim City Region Deal Programme Manager	Implemented <sup>3</sup>

<sup>3</sup> Management provided evidence to confirm implementation of the action during the finalisation of the report after the risk had been highlighted by Internal Audit.

Ref	Description	Risk Rating	Moderate
1.3	<p><b>Progress Reporting</b> – Project progress is updated regularly by project leads, using Project Status Reports (PSR's). These are in a standardised format, and updates are supported and consolidated centrally by the Aberdeen City Project Management Office (PMO).</p> <p>There is variation in the level of detail, and the future extent of milestones detailed in PSR's. Some projects are only tracking current year milestones. Milestones are detailed insufficiently to gauge progress or potential delays in project delivery. Whilst there is generally supporting narrative to explain progress, without SMART measures or additional milestones the degree of progress made, and the impact of any risks, may be difficult to interpret. There is also no status indicator (e.g. Red Amber Green (RAG)) included on the PSR's for tasks or projects to aid interpretation<sup>4</sup>.</p> <p>It is evident from board minutes (where provided) that some projects are reporting more detailed progress, risks, and issues to their own boards, but there is a risk this may not always be translated and escalated as necessary to provide assurance over progress or anticipated impacts. Project boards/working groups vary in the level of detail minuted. It was not possible to obtain assurance over some project board activity, as minutes were not all provided to Internal Audit for review. If delivery partners are not comfortable sharing information, this limits the level of assurance that can be taken and drives up the level of risk. Whilst partners are free to develop their own governance and reporting arrangements, it is important that there is overall assurance that progress, risks and issues, costs, and anticipated requirements for change, are being reviewed and escalated appropriately. Strong and consistent governance at project level would help provide this assurance, and needs to be evidenced.</p> <p>Whilst projects are reporting risks, the impact is not clearly measured. Timescale changes are not clearly attributed to crystallisation of risks. Similarly, although projects may include proposed mitigations, whether or not these are being applied is not recorded - limiting assurance that actions are being taken to avoid or reduce risks impacting on time or budget.</p> <p>Quarterly Joint Committee reports focus on current year spend and milestones without providing context and narrative demonstrating progress, commitment, and utilisation of funding against each project's full plan and for the Deal overall. This could limit opportunities for the Committee to effectively scrutinise progress and activity.</p>		
<b>IA Recommended Mitigating Actions</b>			
Milestones should be sufficiently detailed and separated out for each project to gauge progress with delivery of project deliverables and outcomes, through to final delivery.			
Assurance should be obtained and reported on risks, their impact on delivery, finance and outcomes, and progress with actions to mitigate them.			
Progress on delivery of projects against plans, commitment, and utilisation of funding, should be reported to the Joint Committee regularly.			
<b>Management Actions to Address Issues/Risks</b>			
<i>Revisions to the Quarterly reporting template are underway as this was a request made by Joint Committee in 2023 A proposal will be taken to the Programme Board in respect of developing a dashboard style approach which will set out progress against plan, in the context of expenditure against budgets. This level of assurance will complement the level of scrutiny currently being received at Joint Committee and support further scrutiny of project delivery if required.</i>			
<b>Risk Agreed</b>		<b>Person(s)</b>	<b>Due Date</b>

<sup>4</sup> A RAG status is recorded for projects and associated risks in quarterly returns to the governments, and an indicator for overall project level status by exception is included in Joint Committee updates.

Ref	Description		Risk Rating	Moderate
	Yes	Interim City Region Deal Programme Manager	May 2024	

Ref	Description	Risk Rating	Major
1.4	<p><b>Performance and Benefits Reporting</b> – A Benefits Realisation Plan was agreed in February 2023, for the 2016-2026 programme, though performance and benefits reporting has been conducted annually with highlights and case studies presented in the annual report. To date there has been no formal reporting of a detailed comparison of actual compared with planned benefits.</p> <p>The majority of identified benefits do not have clear targets – there are measures of project level outputs, activities, or indicators used as proxies for the impact of project activity on the overall Deal outcomes, but only a small number of measures were set in project business cases (an average of 20% of measures across three workstreams reviewed by Internal Audit had specific targets).</p> <p>Benefits are tracked in a benefits tracker spreadsheet, which is updated annually and used to support reporting to the Joint Committee and governments. Elements of the tracker varied from the originally agreed targets set out in project business cases. Satisfactory explanations were provided, however improved tracking of revisions would provide greater assurance that outcomes are being compared and reported against agreed targets.</p> <p>Processes for data collection and reporting are still developing. Whilst some data is produced nationally, or by the PMO applying standardised calculations, generally delivery partners submit their own data into the tracker, and data is not typically subject to challenge or independent verification.</p> <p>Some of the data is not currently available, particularly where it is retrospective and baselines were not established, relates to 'personal data', or is considered 'commercially sensitive' by delivery partners. Selective presentation of data presents a risk in terms of completeness. It may be difficult to ensure this data is obtained, given requirements had not been determined and agreed in advance, and flexibility has not been incorporated into existing agreements (see 1.1 above). In the absence of this data, it may not be possible to fully determine the successful delivery of the intended Deal outcomes and benefits.</p> <p><b>IA Recommended Mitigating Actions</b></p> <p>All agreed measures should be reflected in the benefits tracker promptly following project approval, with variations (e.g. following approved changes) clearly recorded.</p> <p>Performance and benefits data should be made available to the PMO in full, on a regular basis, to provide assurance over progress with delivery of the Deal outcomes. Decisions on sensitivity should be determined at the reporting stage rather than by individual delivery partners.</p> <p>Data provided by delivery partners should be reviewed, and challenged or independently verified where appropriate. The basis and level of assurance over figures included in returns should be clearly disclosed.</p> <p>Progress on delivery of benefits against those planned should be reported to the Joint Committee regularly.</p> <p><b>Management Actions to Address Issues/Risks</b></p> <p><i>It was always recognised that many of the Benefits would not be fully realised until after the completion of major projects, some of these projects are still being constructed. Benefits have been reported annually through the published Aberdeen City Region Deal Annual</i></p>		

Ref	Description	Risk Rating	Major
	<p><i>Report and include a mix of data and case studies outlining the benefits agreed at Business Case and additional social benefits.</i></p> <p><i>Since the inception of the Deal, governments have asked Deal projects to consider collation of additional data, including a breakdown of protected characteristics. Collation of this data is challenging across all Deals and doing so retrospectively in most cases will not be possible. The audit report cites “personal data” or “commercially sensitive”, we are still working through GDPR clauses, with legal colleagues on what can be shared. The ACRD PMO is part of a national Growth Deal Benefits sub group to share best practice and learn from each other as we develop processes for this.</i></p> <p><i>Projects are not due to report on the Benefits Realisation Plan until August 2024. The Programme Board has, for a number of years, planned an interim evaluation of the Deal which would be taken once most projects were complete and benefits still were to be realised. A Scope for this work is currently underway, with a view that this work would start in line with the 2024 Benefits Realisation Report.</i></p> <p><i>Independent verification of reported performance and benefits may not be possible or proportionate to the associated risk, however explanations will be sought for variations, and the source of data will be confirmed and subject to sample review.</i></p> <p><i>On the basis that the Benefits Realisation Plan is in place and was endorsed by both Governments, the risk rating of Major is not accepted by management. The ongoing reporting outlined elsewhere in the report at 2.4 provides a level of assurance that there are controls in place as required by Government which significantly mitigate any risk in this area.</i></p>		
	<b>Risk Agreed</b>	<b>Person(s)</b>	<b>Due Date</b>
	No	N/A	N/A

Ref	Description	Risk Rating	Major
1.5	<p><b>Expenditure Records</b> – Whilst there are records provided to Aberdeenshire Council Finance to support grant drawdowns by partners, there is currently insufficient detail to demonstrate that only grant eligible spend is included in each claim.</p> <p>Reliance is being placed on delivery partners’ project leads to provide accurate figures on current spend and forecasts for use of funding. Aberdeenshire Council Finance collates this information from Project Status Reports and puts it into the relevant formats for reporting to the Joint Committee and UK/Scottish governments.</p> <p>Whilst Aberdeenshire Council Finance will challenge material variations and request explanations, which are then included within grant returns to the governments, they are not receiving or reviewing detailed supporting records of spend, or forecast calculations and assumptions, from each partner to obtain assurance they have a reasonable basis.</p> <p>Aberdeenshire Council Finance officers have confirmed they are able to request further information/review accounts on an 'open book' basis, and they have received satisfactory explanations, including viewing additional evidence on calls. However, they are not recording that they have done so, and there is limited documentary evidence held by the Council to support the claims (e.g. one project provides information covering only up to 50% of each claim, and certification required under the funding agreement is not on file). As discussed at 1.1 arrangements for obtaining further supporting evidence have not been formally documented – therefore it is not clear if this is a conscious decision to restrict the level of review based on e.g. other sources of assurance.</p>		

Ref	Description	Risk Rating	Major
	<p>Transaction level data was sought by Internal Audit from delivery partners to confirm accuracy. Full supporting records were not provided in every case. For example, one project provided a selection of invoices supporting approximately 73% of a £1.2m claim, and there was not always sufficient information to demonstrate that the costs included related to a specific activity referenced in the business cases or funding agreements. In another case, amounts (£40k out of a £714k claim – 6%) were being claimed that were committed but had not yet been paid out (retentions), contrary to terms in the funding agreement. Recoverable VAT was also being claimed on the basis of an informal agreement that it would be repaid, following its recovery, at a later date. As this level of detail is not typically obtained by the Council, these potential anomalies had not been reviewed and addressed.</p> <p>The Deal utilises in excess of £290m of public funds, leveraging over £530m of private sector contributions. In the absence of appropriate and proportionate checks and challenge where necessary, there is limited assurance that grant funding is only being paid out to cover eligible spend. As noted at 1.1 conditions and requirements of the UK / Scottish Governments have varied over the life of the Deal. Partners and delivery of the programme and project outcomes may be at risk if the required information cannot be obtained to satisfy changing funders' requirements.</p>		
<b>IA Recommended Mitigating Actions</b>			
Partners should provide, and Aberdeenshire Council Finance should review, detailed spend records to demonstrate that expenditure and forecast figures have a sound basis, and that only grant eligible spend is being drawn down.			
<b>Management Actions to Address Issues/Risks</b>			
<p><i>The financial arrangements supporting the Aberdeenshire City Region deal have evolved throughout its duration. Since the inception of the deal, UKG and SG have cultivated a robust working relationship with private partners, reflecting the trust and confidence in the arrangement, with certain partners even receiving upfront funding. As the deal has advanced, UKG and SG have seen significant changes in staff and a number of new deals being developed, with valuable insights retroactively applied to enhance the ongoing Aberdeen City Region deal. One such change, is a reset with the financial arrangements, with both governments agreeing that all discussions around finance to be held between Partners and Aberdeenshire Council, and for Aberdeenshire Council to discuss with UKG and SG.</i></p> <p><i>In advance of the above reset, we are actively reviewing supporting evidence and taking steps to ensure assurance, although we recognise that reporting consistency has not always been maintained. To address this, a revised template has been crafted to meticulously document Aberdeenshire Council's review and scrutiny of evidence from partner bodies. This ensures that claims are strictly for eligible expenditures and align with the funding agreement. There is unanimous agreement among partner bodies to guarantee the provision of all necessary evidence to support deal submission claims. This refined process has been successfully implemented for the last two claims, with all supporting evidence meeting grant requirements.</i></p>			
<b>Risk Agreed</b>		<b>Person(s)</b>	<b>Due Date</b>
Yes		Head of Finance (Aberdeenshire Council)	September 2024

Ref	Description	Risk Rating	Moderate
1.6	<b>Mitigation of Variances</b> – There are some substantial variances in forecast outturn for the financial year, e.g.:		



Ref	Description	Risk Rating	Moderate
	<ul style="list-style-type: none"> <li>• One project - £5.6m (20%) underspend for 2023/24 projected at September 2023, moving to £9.1m (34%) in November 2023</li> <li>• Another project - £2.2m (40%) underspend for 2023/24 projected at September 2023, moving to £3.1m (56%) in November 2023</li> <li>• A final project - £337k (25%) underspend for 2023/24</li> </ul> <p>The extent of explanations provided in variance notes, included in monthly returns to the governments, varies. Material movements in forecast outturns may arise through unanticipated events, but these should be the exception. There is a risk that increasing forecast variances towards the end of the financial year might indicate issues with forecast accuracy or over-optimistic figures provided by project leads. As noted at 1.5 above, forecasting is not subject to detailed review, though comments from Aberdeenshire Council Finance are included in the monthly returns.</p> <p>Reported action to mitigate anticipated variances (including the above) is generally limited to 're-phasing' of expenditure to future years. Assurance was only provided in one of the three above projects' PSR's that a formal change request had been submitted and approved to move budget (and therefore grant drawdown requests) into future years (however, see 1.2 above).</p> <p>The governments have stated in the grant offer letters that although the totality of funds remains available, requests to move funding between specific years may not be possible (because they effectively operate on a cash basis with a limited budget for distribution). It cannot therefore be assumed that all requests to re-phase budgets will be agreed. If change requests are not being prepared and approved sufficiently in advance, at the right level, there is a greater risk that funds may not be available in the future years when they are required.</p>		
<b>IA Recommended Mitigating Actions</b>			
<p>Variations and action taken to address them should be clearly explained. Forecast accuracy should be reviewed and the risk of over-optimism factored into future forecasting.</p> <p>Where material financial variances are anticipated, and action is not otherwise being taken to mitigate them in-year, change requests should be prepared and agreement sought in advance.</p>			
<b>Management Actions to Address Issues/Risks</b>			
<p><i>In general Aberdeenshire Council Finance, and the UK / Scottish Governments, are satisfied with the reasons provided by delivery partners for forecast in-year financial variances. Such variations are typical of capital projects where moderate changes to scheduling, availability of alternative finance streams, and other unforeseen circumstances, can result in apparently significant changes to cashflow within any given financial year, without a material impact on the overall project cost and timeline. Whilst financial spend is an important factor, and can be a proxy for progress to an extent, the focus needs to be on delivery of the project outputs, and realisation of the intended benefits, within the available resource and timeframe. We therefore support the proposals in response to earlier risks identified in this audit report, to develop progress reporting to facilitate Joint Board and Committee scrutiny.</i></p> <p><i>The Scottish Government issued change request guidance in 2021 and this is being applied. The Governments are being kept aware of anticipated changes through regular progress updates in addition to the financial monitoring reports.</i></p>			
<b>Risk Agreed</b>		<b>Person(s)</b>	<b>Due Date</b>
Yes		Interim City Region Deal Programme Manager	May 2024

Ref	Description	Risk Rating	Moderate
1.7	<p><b>Project Closure Reports</b> – Project closure reports are being presented to the Programme Board and thereafter the Joint Committee for concluded projects. These follow a template, which includes highlights and benefits arising from the project.</p> <p>Whilst closure reports in respect of two recently concluded projects reviewed included relevant information, and commitments to continue to work with partners and capture subsequent benefits in the annual report, neither compared the benefits realised to date against those included in the original business case to provide an indication of progress at the date of conclusion. One of the projects did indicate that two benefits still remained to be achieved, but did not reflect on progress to date or a timescale for full realisation.</p> <p>Only one of the two included a comparison of actual cost with budget, and in this case it was stated the underspend would be carried forward to fund future projects. No request or approval to do so was documented - though a later business case consolidated multiple project underspends within the same workstream and proposed a new project to be delivered from these (£7m), which was agreed by the Joint Committee in November 2022. Lessons learned do not feature in the reports.</p> <p>In the absence of detailed comparisons of planned and actual costs and benefits, limited assurance can be gleaned from project closure reports other than confirmation that work has been completed, and a selection of outcomes delivered.</p>		
<b>IA Recommended Mitigating Actions</b>			
Project closure reports should include a comparison of planned and actual costs and benefits, with a reflection on lessons learned and how these are being applied to ongoing / future projects.			
<b>Management Actions to Address Issues/Risks</b>			
<i>A revised template has been drafted and takes into consideration all of the points made. All projects will make use of the revised template. This action is now considered complete.</i>			
<b>Risk Agreed</b>		<b>Person(s)</b>	<b>Due Date</b>
Yes		Interim City Region Deal Programme Manager	Implemented <sup>5</sup>

<sup>5</sup> Management provided evidence to confirm implementation of the action during the finalisation of the report after the risk had been highlighted by Internal Audit.

## 4 Appendix 1 – Assurance Terms and Rating Scales

### 4.1 Overall report level and net risk rating definitions

The following levels and ratings will be used to assess the risk in this report:

Risk Level	Definition
<b>Strategic</b>	This issue / risk level impacts the Council as a whole. Mitigating actions should be taken at the Senior Leadership level.
<b>Directorate</b>	This issue / risk level has implications at the directorate level and the potential to impact across a range of services. They could be mitigated through the redeployment of resources or a change of policy within a given directorate.
<b>Service</b>	This issue / risk level impacts at the Business Plan level (i.e. individual services or departments as a whole). Mitigating actions should be implemented by the responsible Head of Service.
<b>Programme and Project</b>	This issue / risk level impacts the programme or project that has been reviewed. Mitigating actions should be taken at the level of the programme or project concerned.

Net Risk Rating	Description	Assurance Assessment
<b>Minor</b>	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.	<b>Substantial</b>
<b>Moderate</b>	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified, which may put at risk the achievement of objectives in the area audited.	<b>Reasonable</b>
<b>Major</b>	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.	<b>Limited</b>
<b>Severe</b>	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.	<b>Minimal</b>

Individual Issue / Risk Rating	Definitions
<b>Minor</b>	Although the element of internal control is satisfactory there is scope for improvement. Addressing this issue is considered desirable and should result in enhanced control or better value for money. Action should be taken within a 12 month period.
<b>Moderate</b>	An element of control is missing or only partial in nature. The existence of the weakness identified has an impact on the audited area's adequacy and effectiveness. Action should be taken within a six month period.
<b>Major</b>	The absence of, or failure to comply with, an appropriate internal control, which could result in, for example, a material financial loss. Action should be taken within three months.
<b>Severe</b>	This is an issue / risk that could significantly affect the achievement of one or many of the Council's objectives or could impact the effectiveness or efficiency of the Council's activities or processes. Action is considered imperative to ensure that the Council is not exposed to severe risks and should be taken immediately.

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## 5 Appendix 2 – Assurance Scope and Terms of Reference

### 5.1 Area subject to review

The Aberdeen City Region Deal (the Deal), agreed in November 2016, is a three-way, ten-year agreement between the UK Government, the Scottish Government and regional partners including Aberdeen City and Aberdeenshire councils, and other organisations including universities and Opportunity North East (ONE) - the private sector partner which leads on innovation projects within the Deal. The total allocations of funding for the capital projects is £826.2 million.

The Deal's aim is to significantly advance economic and infrastructure development in the area, addressing the challenges which business and industry face in the North East of Scotland whilst grasping opportunities through projects which can enable Aberdeenshire and Aberdeen City to continue to be an attractive and productive area for organisations to locate and develop. Key projects include the Net Zero Technology Centre (formerly Oil and Gas Technology Centre), Food and Drink and Life Science Innovation Hubs, a Digital Infrastructure Fund, expansion of Aberdeen Harbour, and development of a Strategic Transport Appraisal (STAG).

The councils' jointly fund £20 million of activity relating to the Digital (£7 million), STAG (£2 million) and Harbour Expansion (£11 million) elements of the Programme. The Digital and Transport themes are led by Council based Working Groups whilst the other project themes, Innovation, and Internationalisation, are led by external Project Boards with which the Council has a Funding Agreement. The councils are responsible for ensuring projects are appropriately planned and managed and for monitoring their progress and finances. They also host the Aberdeen City Region Deal Joint Committee, which includes representation from each stakeholder.

Aberdeenshire Council acts as a conduit for Government and Council funding in accordance with the signed Deal Agreement and the terms of the Scottish Government's annual Aberdeen City Region Deal Grant Offer. Drawdowns and grant payments to projects are dependent on the Accountable Body receiving evidence of projects' spend and progress.

### 5.2 Rationale for review

The objective of this audit is to provide assurance over the governance and financial spend of the City Region Deal. The Deal is managed on behalf of various partners; each stakeholder will have an interest in assurance over the governance arrangements. Aberdeen City Council supports programme management for delivery of the Deal's projects and outcomes. Aberdeenshire Council is the Accountable Body for project funding drawdowns and payments. They therefore have lead responsibility for programme delivery and stewardship of funds.

Since 2022-23 the UK and Scottish Governments' funding letter, setting out the terms of their annual grant offer, includes an expectation for the Deal to be included in the Internal Audit Plan at least every two years.

Governance of the Deal was last reviewed in 2020 (Internal Audit Report 2101). Whilst the main focus of the review was financial governance – over which positive assurance was obtained, areas of improvement were recommended relating to project change management controls, benefits measurement and associated action plans and reporting, and demonstrating project sustainability following the end of the funding period.

### 5.3 Scope and risk level of review

This review will offer the following judgements:

- An overall **net risk** rating at the **Strategic** level.
- Individual **net risk** ratings for findings.

#### 5.3.1 Detailed scope areas

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**As a risk-based review this scope is not limited by the specific areas of activity listed below. Where related and other issues / risks are identified in the undertaking of this review these will be reported, as considered appropriate by IA, within the resulting report.**

The specific areas to be covered by this review are:

- Governance arrangements
  - Reporting lines, delegations, and approvals
- Programme management and reporting
  - Business case development, critical appraisal, and approval
  - Monitoring delivery, risks, and issues
  - Change management
  - Performance and benefits realisation
  - Project conclusion, sustainability, and lessons learned
- Expenditure / grant disbursement
- Income / grant drawdown

#### **5.4 Methodology**

This review will be undertaken through interviews with key staff involved in the process(es) under review and analysis and review of supporting data, documentation, and paperwork. To support our work, we will review relevant legislation, codes of practice, policies, procedures, and guidance.

Due to hybrid working across the Council, this review will be undertaken primarily remotely.

#### **5.5 IA outputs**

The IA outputs from this review will be:

- A risk-based report with the results of the review, to be shared with the following:
  - Council Key Contacts (see 1.7 below)
  - Audit Committee (final only)
  - External Audit (final only)

#### **5.6 IA staff**

The IA staff assigned to this review are:

- Colin Harvey, Audit Team Manager (**audit lead**)
- Jamie Dale, Chief Internal Auditor (**oversight only**)

#### **5.7 Council key contacts**

The key contacts for this review across Aberdeenshire Council are:

- Rob Simpson, Director of Business Services
- Alan Wood, Director of Infrastructure and Environment
- Paul Macari, Head of Planning and Economy
- Mary Beattie, Head of Finance
- Alison Alexander, Strategic Finance Manager (Capital) (**process owner**)
- John Lovie, Accountant

The key contacts for this review across Aberdeen City Council are:

- Gale Beattie, Director of Commissioning
- Julie Wood, Interim Chief Officer – City Growth
- Stuart Bews, Interim City Region Deal Programme Manager (**process owner**)
- Aigul Gray, Project Support

#### **5.8 Delivery plan and milestones**

The key delivery plan and milestones are:

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Milestone	Planned date
Scope issued	20-Jul-23
Scope agreed	27-Jul-23
Fieldwork commences	4-Aug-23
Fieldwork completed	1-Dec-23
Draft report issued	15-Dec-23
Process owner response	12-Jan-24
Director response	19-Jan-24
Final report issued	26-Jan-24