

ABERDEEN CITY REGION DEAL:

Powering Tomorrow's World

Report Name	Internal Audit Report 2024
Lead Officer	Julie Wood
Report Author(s)	Stuart Bews
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1:	Purpose of the Report
<p>To inform the Joint Committee of the recommendations of the 2024 Internal Audit report which considers the internal processes of the Local Authorities supporting delivery of the Deal, and provide an update on the matters already resolved and wider control and governance framework embedded within each project.</p>	

2:	Recommendations for Action
<p>2.1 To note the update that an Internal Audit has been concluded by the Internal Audit Team and will be reported to both Councils Audit Committees at their next meeting.</p> <p>2.2 To note the progress already made by both Local Authorities to implement in full recommendations of the Internal Audit report in the areas of Delegated Powers, Mitigation of Variances and Project closure reports.</p> <p>2.3 To note the wider control environment in place for each project which sits outwith the Local Authorities and provides additional assurance over the control of public funds.</p> <p>2.4 To Instruct the Chief Officer City Development & Regeneration, Aberdeen City Council, to report to Joint Committee with an update on progress made in respect of any action plan agreed by Aberdeen City and Aberdeenshire Council in relation to the internal audit report.</p>	

3: Summary of Key Information

3.1 Since 2022/23 the UK & Scottish Government’s annual grant offer letter has included their expectation that the Deal be included in the Internal Audit Plan at least every two years.

3.2 On 20th July 2023, a City Region Deal Audit Scope was shared from Internal Audit to Programme Management Office (PMO). The audit scope identified the following specific internal control areas for review:

- 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

3.3 Upon completion of all fieldwork the internal audit team circulated their draft audit report to the PMO who prepared and submitted management responses and had dialogue with the Internal Audit team to seek to fully understand their position on all matters. In some areas agreement has been reached on both the individual risk rating and the recommended actions to provide greater assurance and mitigate the perceived risk. However, there are some areas where City Deal Local Authority Management were not in agreement with the risk rating, and this is explained within the table below and stated within the Internal Audit report (Appendix A).

A summary of the individual net risk ratings is provided below:

Area	Internal Audit Risk Rating & Recommendations	Risk Agreed by Local Authorities Management	Comments
Funding Agreements	Moderate <i>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.</i>	Yes	PMO cannot update these until the 24/25 Grant Offer letter from the Scottish Government has been received and accepted. Expected this to be actioned late summer 2024 and will require resource from both legal and finance teams.

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Delegated Powers	Major <i>Delegations should be reviewed and where appropriate confirmed by the Joint Committee and/or all partners. The scope of such delegations should be documented.</i>	Yes – and implemented already	Recommendations of Internal Audit Report were already implemented in February 2024 by Joint Committee approving an explicit delegation to Chief Officer City Growth of Aberdeen City Council.
Progress Reporting	Moderate <i>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.</i>	Yes	PMO will amend the reporting template for the quarterly programme update to a dashboard style. To be effective from Q1 24/25 reporting periods.
Performance and Benefits Reporting	Major <i>All agreed measures should be reflected in the benefits tracker promptly following project approval, with variations (e.g. following approved changes) clearly recorded. 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. Data provided by delivery partners should be reviewed and</i>	No	Risk not agreed.

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	<i>challenged or independently verified where appropriate. The basis and level of assurance over figures included in returns should be clearly disclosed. Progress on delivery of benefits against those planned should be reported to the Joint Committee regularly.</i>		
Expenditure Records	<i>Major 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.</i>	Yes	PMO have created a new template to document all information reviewed for audit purposes, but this will have resource implications to implement fully.
Mitigation of Variances	<i>Moderate Variances 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. 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</i>	Yes – and implemented already	Recommendations of Internal Audit Report were already implemented in February 2024 by Joint Committee
Project Closure Reports	<i>Moderate 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</i>	Yes – and implemented already	Recommendations of Internal Audit Report were already incorporated into the project closure report template in March 2024.

3.4 As shown in the table above, Local Authority Programme Management Office have rejected the major risk rating against “Performance and

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Benefits reporting.” The findings relate to the Benefits Realisation Plan, which was a recent requirement of the Governments. ACRD Joint Committee approved the plan in January 2023, and feedback from both Governments confirmed their support for the Benefits Realisation Plan.

3.4.1 The Benefits Realisation Plan (BRP) sets out that its reporting frequency shall be annually, and that the data will be captured annually for activity indicators through the benefits reporting template. This is separate from the monthly progress status reports, because it measures different targets – a consequence of the BRP being a new ask of Governments. There is little purpose of the PMO requesting Benefits information on a frequency more regular than annually since the majority of the benefits being measured within the BRP only are to be realised over a number of years and the Governments were in agreement on the annual reporting cycle. The resource implication on the PMO, and also on partners, to report this more frequently would be disproportionate since the BRP is only published annually. The frequency of the reporting is set out in the grant offer letter from UK/Scottish Government annually and is complied with.

3.4.2 The internal audit report also makes recommendations around data and there are two areas where the PMO does not agree with the recommended actions. The reports states “Decisions on sensitivity (of data) should be determined at the reporting stage rather than by individual reporting partners.” The PMO disagree with this on the basis that it relates to data on protected characteristics of individuals and that we should accept that reporting partners may not be able to provide us with data on protected characteristics (retrospective and/or future reporting) where they consider it to be in breach of General Data Protection Regulations. The PMO is part of a wider City & Growth Deals PMO network and working with a Benefits Realisation sub-group to find resolutions and a consistent approach in protected characteristics reporting. PMO informed Internal Audit of this, and had sought guidance from Government on the matter, but there does not appear to be a ready-made solution that is compliant with GDPR. This is a national challenge, not specific to ACRD and on that basis the PMO rejected the risk rating of major.

3.4.3 The matrix for internal audit risk rating is provided below. The PMO are firmly of the view that the definition of a major risk has not been met in this instance. The report does not substantiate on the “The absence of, or failure to comply with, an appropriate internal control, such as those

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described in the Council’s Scheme of Governance. This could result in, for example, a material financial loss, a breach of legislative requirements or reputational damage to the Council. Action should be taken within three months.” The PMO informed Internal Audit we could accept a moderate rating because of the ongoing work across the country to find a solution to this challenge. This was rejected by Internal Audit, and the major risk rating was retained in their report.

Individual issue / risk	Definitions
Minor	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.
Moderate	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.
Major	The absence of, or failure to comply with, an appropriate internal control, such as those described in the Council’s Scheme of Governance. This could result in, for example, a material financial loss, a breach of legislative requirements or reputational damage to the Council. Action should be taken within three months.
Severe	This is an issue / risk that is likely to 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. Examples include a material recurring breach of legislative requirements or actions that will likely result in a material financial loss or significant reputational damage to the Council. Action is considered imperative to ensure that the Council is not exposed to severe risks and should be taken immediately.

3.5 The Internal Audit report will be presented to both Local Authority Internal Audit Committees by the Internal Audit Team. Aberdeen City Council’s Audit, Risk and Scrutiny Committee meet on 27th June and Aberdeenshire Council’s Audit Committee meet on 23rd May.

3.6 The Internal Audit Report is being shared with the Joint Committee by the Programme Management Office in line with the Aberdeen City Region Deal Partners Communication Protocol.

4: Wider Control Environment

4.1 Having reviewed the summary of the Internal Audit Report, the Programme Board has identified that the restriction of scope to internal processes within the Local Authorities means that key external controls in place within individual projects have not been recognised, and that therefore the compensating controls to mitigate the internal risks identified have not been considered in arriving at the audit conclusions set out in the Internal Audit Report.

4.2 The Aberdeen City Region Deal governance structure is somewhat unique within the two Local Authorities, being a partnership with the private sector which embeds that relationship within the governance structure, and provides funding directly to not for profit organisations set up specifically for the purpose of delivering ACRD projects.

4.3 Governance arrangements for significant projects within the Deal were set out and agreed by Joint Committee and UK and Scottish Governments through the approval of the Deal Heads of Terms and individual business cases. These business cases require that projects within the Innovation theme are delivered directly by not for profit partners. These companies have each established governance procedures and internal controls which are cognisant of the significant public sector funding which they receive, however this is not referenced within the audit report.

4.4 There are independent external audit requirements on projects which have a significant effect of mitigating the risk associated with the control and use of public funding. These independent external audits review and verify the utilisation of public funds in accordance with the funding agreements between Aberdeenshire Council and the projects in place for ACRD projects. The governance and controls over project expenditure within the external projects were not part of the scope of audit and therefore not considered. The external projects have robust and strict controls in place to control expenditure which follow public sector procurement practices when committing ACRD funds and comply with UK Subsidy Control legislation.

4.5 Programme Board is therefore unable to agree that there is a major risk in respect of expenditure records. Programme Board is of the opinion that the mitigating action recommended in the audit report does not take into account that these external controls in place within projects already provide a significant additional mitigation of risk. The recommendations of action required by Aberdeenshire Council is only provided by only examining the internal controls of Aberdeenshire Council. Programme Board would also note that the internal control risk for the Council arises

from the retroactive application of changes in the information requirements as part of the Government grant conditions beyond the governance and control arrangements that were agreed at the inception of the Deal.

4.6 Programme Board are surprised at the increased level of risk identified in this report in comparison to the most recent External Audit conducted by Audit Scotland in 2022 and Internal Audit conducted by Internal Audit in 2020 since neither of the earlier audits raised concerns on many of the areas now being identified as moderate or even major risk levels, when substantively the processes which were audited in 2020 and 2022 remain unchanged.

4.7 Programme Board consider that the level of expectation set out in the recommendations of the Internal Audit Report will lead to a duplication of effort to review information that is already subject to independent external audit and internal governance and controls within project organisations. This would not be the most effective use of public funds, and greater understanding of the existing mitigating external controls would have helped to ensure that the Internal Audit Report recommendations took these external controls into account when setting the expectation of assurance and review to be undertaken internally by Aberdeenshire Council.

4.8 Programme Board has arrived at the same conclusion as Local Authority Management that the risk regarding Performance and Measurement Reporting cannot be agreed for the reasons set out in section 3.4 above.

5: Financial and Risk Implications

Financial Implications

5.1 The financial implications of the Internal Audit will not be identified until after both Local Authority Audit Committees have determined the outcome of the Internal Audit Report. An Action plan will come back to Joint Committee and outline the financial implications to ensure full compliance with approved recommendations.

Risk Implications

5.2 Government(s) may seek to intervene if they are of the view that the PMO is under resourced and unable to provide the level of assurance expected.