

ABERDEEN CITY COUNCIL

COMMITTEE	Audit, Risk and Scrutiny Committee
DATE	26 June 2025
EXEMPT	No
CONFIDENTIAL	No
REPORT TITLE	Internal Audit Report AC2508 – Group Structure Assurance
REPORT NUMBER	IA/AC2508
DIRECTOR	N/A
REPORT AUTHOR	Jamie Dale
TERMS OF REFERENCE	2.2

1. PURPOSE OF REPORT

- 1.1 The purpose of this report is to present the planned Internal Audit report on Group Structure Assurance

2. RECOMMENDATION

- 2.1 It is recommended that the Committee review, discuss and comment on the issues raised within this report and the attached appendix.

3. CURRENT SITUATION

- 3.1 Internal Audit has completed the attached report which relates to an audit of Group Structure Assurance

4. FINANCIAL IMPLICATIONS

- 4.1 There are no direct financial implications arising from the recommendations of this report.

5. LEGAL IMPLICATIONS

- 5.1 There are no direct legal implications arising from the recommendations of this report.

6. ENVIRONMENTAL IMPLICATIONS

- 6.1 There are no direct environmental implications arising from the recommendations of this report.

7. RISK

-
- 7.1 The Internal Audit process considers risks involved in the areas subject to review. Any risk implications identified through the Internal Audit process are detailed in the resultant Internal Audit reports. Recommendations, consistent with the Council's Risk Appetite Statement, are made to address the identified risks and Internal Audit follows up progress with implementing those that are agreed with management. Those not implemented by their agreed due date are detailed in the attached appendices.

8. OUTCOMES

- 8.1 There are no direct impacts, as a result of this report, in relation to the Council Delivery Plan, or the Local Outcome Improvement Plan Themes of Prosperous Economy, People or Place.
- 8.2 However, Internal Audit plays a key role in providing assurance over, and helping to improve, the Council's framework of governance, risk management and control. These arrangements, put in place by the Council, help ensure that the Council achieves its strategic objectives in a well-managed and controlled environment.

9. IMPACT ASSESSMENTS

Assessment	Outcome
Impact Assessment	An assessment is not required because the reason for this report is for Committee to review, discuss and comment on the outcome of an internal audit. As a result, there will be no differential impact, as a result of the proposals in this report, on people with protected characteristics.
Privacy Impact Assessment	Not required

10. BACKGROUND PAPERS

- 10.1 There are no relevant background papers related directly to this report.

11. APPENDICES

- 11.1 Internal Audit report AC2508 – Group Structure Assurance

12. REPORT AUTHOR CONTACT DETAILS

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Internal Audit

Assurance Review of Group Structure Assurance

Status: Final

Date: 29 May 2025

Risk Level: Corporate

Report No: AC2508

Assurance Year: 2024/25

Net Risk Rating	Description	Assurance Assessment
Moderate	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.	Reasonable

Report Tracking	Planned Date	Actual Date
Scope issued	07-Jan-25	07-Jan-25
Scope agreed	14-Jan-25	13-Jan-25
Fieldwork commenced	27-Jan-25	27-Jan-25
Fieldwork completed	21-Feb-25	28-Mar-25
Draft report issued	14-Mar-25	14-Apr-25
Process owner response	04-Apr-25	14-May-25
Director response	11-Apr-25	28-May-25
Final report issued	18-Apr-25	29-May-25
AR&S Committee	26-Jun-25	

Distribution	
Document type	Assurance Report
Directors	Andy MacDonald, Executive Director – Corporate Services
Process Owner	Vikki Cuthbert, Interim Chief Officer – Governance
Stakeholders	Craig Innes, Chief Officer – Commercial and Procurement Services
	Bernie Bularan, Deputy Chief Finance Officer
	Lesley Fullerton, Finance Operations Manager
	Amy Jones, Senior Accountant
	Jonathan Belford, Chief Officer – Finance*
Final Only	External Audit
Lead auditor	Lyndsay Jarvis, Auditor

1 Introduction

1.1 Area subject to review

Arms-Length External Organisations (ALEOs) are companies, charities and other bodies that are separate from the Council but subject to its control or influence. Local authorities may elect to provide services through ALEOs to achieve Best Value. Typically, ALEOs are used to retain greater control and influence when compared with a standard commercial contractual arrangement, while bringing the benefits associated with the use of a separate and independent organisation.

Group Accounts

Where the Council has a material interest in an ALEO, these entities are required to be included within the Council's Group Accounts. Depending on the level of control that the Council exerts over these entities, these are classified as subsidiaries, joint ventures, or associates as follows.

Group Entities	Classification	ACC Control %
Aberdeen Exhibition & Conference Centre Ltd	Subsidiaries ¹	100
Sport Aberdeen Ltd		100
Bon Accord Care Ltd		100
Bon Accord Support Services Ltd		100
Aberdeen Heat & Power Ltd		100
Common Good ²		100
Trust Funds ¹		100
Aberdeen Sports Village Ltd	Joint Ventures ¹	50
BP Aberdeen Hydrogen Energy Ltd		50
Integration Joint Board ³		50
Grampian Valuation Joint Board	Associates ¹	39

ALEO Assurance Hub

The Council's ALEO Assurance Hub (the Hub) forms part of the Council's ALEO Assurance Framework. The Hub provides high level, strategic oversight over six of the Council's higher risk ALEOs (Aberdeen Heat and Power; Aberdeen Performing Arts; Aberdeen Sports Village; Bon Accord Care; Sport Aberdeen; and the BP Joint Venture), all of which are included within the Council's Group Accounts, with the exception of Aberdeen Performing Arts. The Hub's workplan, which is reported annually to Audit, Risk and Scrutiny Committee, covers governance arrangements; risk management; and financial matters.

Other ALEO / Group Entity Oversight and Support Arrangements

¹ Subsidiaries are Group entities where the council has a 'controlling interest' i.e. greater than 50%. Joint Ventures are agreements between two or more entities whereby each "partner" shares equally in the related risks and benefits. Associates are entities the Council has a "significant interest" in but less than controlling or joint interest.

² This review will not cover Common Good or Trust Funds since these were subject to a standalone review in December 2024 as part of Internal Audit report AC2510 Trusts and Common Good Fund.

³ The Aberdeen City IJB will not be covered either as part of this review since the IJB is subject to its own separate agreed Internal Audit plan.

The remaining Assurance Framework elements offering oversight and support to ALEOs / Group entities include:

1. Annual monitoring of the performance of “Tier One” ALEOs by Full Council. Tier One ALEOs are organisations whose annual results are included in the Council’s Group Accounts or receive cumulative funding from the Council greater than £7m.
2. Quarterly financial performance reporting to Finance and Resources Committee covering the financial performance of Group entities.
3. The ALEO Strategic Partnership is scheduled to meet every six weeks to discuss strategic matters, such as business planning and horizon scanning, in line with the Medium-Term Financial Strategy (MTFS).
4. Representatives of the Head of Commercial and Procurement, known as Service Leads, act as the Council’s primary liaison officers with ALEOs and undertake regular contact with ALEOs to discuss strategic, operational and performance matters.
5. The Director of Corporate Services acts as a key strategic liaison for all ALEOs.

1.2 Rationale for review

The objective of this audit is to ensure the Council’s approach to its Group structure provides appropriate assurance and the necessary control framework is in place, both overall and for individual bodies.

This area has been included in the agreed 2024/25 Internal Audit Plan due to the material interest the Council has in its Group entities, financial or otherwise. The Council remains ultimately responsible for the related service provision delivered on its behalf by Group entities. It is therefore essential adequate scrutiny of Group entities’ governance, risk management and financial controls is in place, to avoid mismanagement, financial loss and reputational damage.

Internal Audit AC2306 ALEOs – Performance and Payments, completed in March 2023, covered some related matters. Recommendations were agreed as part of this review to enhance Following the Public Pound compliance oversight; address absent or poorly defined ALEO funding agreements; and establish performance monitoring arrangements over Aberdeen Heat and Power Ltd.

1.3 How to use this report

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
Moderate	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.	Reasonable

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

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

2.2 Assurance assessment

The level of net risk is assessed as **MODERATE**, with the control framework deemed to provide **REASONABLE** assurance over the Council's approach to Group Structure Assurance.

Reasonable assurance was available over the following areas reviewed:

- **Committee Reporting** – Audit, Risk and Scrutiny Committee is receiving reports bi-annually on the adequacy of the Tier One Group entities' governance, risk management, and financial management arrangements, at a strategic level. In addition, Finance and Resources Committee receives quarterly reports on the financial performance of Group entities. Furthermore, except for Aberdeen, Heat and Power Ltd, Full Council is receiving annual performance reports for Tier One Group entities.
- **ALEO Assurance Hub** – The ALEO Assurance Hub's Terms of Reference and workplan are being reviewed annually by Audit, Risk and Scrutiny (AR&S) Committee, most recently in May 2024. In addition, the Hub is meeting regularly and engaging with ALEOs under its remit to inform bi-annual reporting to AR&S Committee on the adequacy of ALEO governance, risk management and financial controls. Also, in the Hub's opinion, the ALEOs under its remit, which includes Tier One Group entities, are in the main managing risks as required, and where risks exceed desired ratings, the Hub has either identified necessary corrective action or described follow up monitoring arrangements.
- **Following the Public Pound (FtPP) Guidance** – The Council's Financial Regulations requires compliance with the Council's FtPP guidance. The FtPP guidance was approved most recently by Finance and Resources Committee in November 2024 and is comprehensive, covering grant application assessment; approval; recording; payment; funding agreement; and monitoring requirements, including for Tier One ALEOs forming part of the Council's Group Structure.

However, the review identified the following areas where enhancements could be made to strengthen the framework of control, specifically:

- **Governance Enhancements** – Whilst the ALEO Assurance Hub (the Hub) is fulfilling its remit under its Terms of Reference, it was noted action notes or minutes are not formalised for Hub meetings, potentially risking clarity over decision making or outstanding actions, such as follow up assurance required from ALEOs. In addition, whilst Finance checks assessed by the Hub are relevant, they did not fully cover the requirements under the Council's FtPP guidance, including for example checks of cash balances; material sources of funding; subsidy control, and outstanding debts. This potentially risks a gap in FtPP compliance being overlooked and related financial loss.

- **Aberdeen Heat and Power (AH&P) Ltd** – AH&P Ltd is a Tier One Group entity, in accordance with the Council's FtPP, since it is an organisation of significant size over which the Council exercises substantial control, with its annual results included in the Council's Group Accounts. As such the Tier One requirements of the Council's FtPP guidance apply. However, unlike the other Tier One Group entities, a detailed annual performance report for AH&P Ltd is not being reported to Full Council, or Finance and Resources Committee, in line with FtPP monitoring and reporting requirements for Tier One Group entities. Also, whilst Service Lead meetings are taking place, the ALEO Strategic Partnership does not cover AH&P Ltd. This reduces the opportunity to identify and scrutinise any poor performance, risking strategic outcomes, Best Value, delay with any necessary corrective action, and potentially reputational damage.
- **Assessment of Fraud Risks** – The Assurance Hub discuss and review ALEO risk reporting but does not specifically consider the risk of fraud or the forthcoming introduction of the corporate offence of failure to prevent fraud, under the Economic Crime and Corporate Transparency Act 2023, due to come into force on 1 September 2025. Under this legislation large organisations may be criminally liable where an employee, agent, subsidiary, or other "associated person", commits a fraud which benefits the organisation (e.g. the Council), and the organisation did not have reasonable fraud prevention procedures in place. "Reasonable procedures" are described in the Act and include top level commitment to fraud prevention; risk assessment; proportionate procedures; due diligence; training and communication; and monitoring and review. In certain circumstances, the offence will also apply where it is committed with the intention of benefitting a client of the organisation. It does not need to be demonstrated that directors or senior managers ordered or knew about the fraud. If the Council is prosecuted under the Act and fails to prove that reasonable prevention procedures were in place, the offence is punishable by a potentially unlimited fine. Working with ALEOs to address this would provide greater assurance that fraud risks are being appropriately mitigated.
- **ALEO Strategic Partnership and Service Leads** – The Council's ALEO Assurance Framework requires senior Council and ALEO representatives to meet every six weeks, via the ALEO Strategic Partnership, to discuss high level strategic issues, such as business planning and horizon scanning. Except for AH&P Ltd, management assurance was provided that meetings are taking place for Tier One ALEOs. However, evidence provided indicated meetings are taking place less frequently than planned in Hub Terms of Reference reported to Audit, Risk and Scrutiny Committee (quarterly rather than six weekly). Also, based on September 2024 meeting notes made available, whilst relevant strategic matters are being discussed, this did not cover all Tier One Group entities and like ALEO Service Lead meetings, SMART actions were not always recorded, increasing the risk strategic, operational and performance issues may not be identified and acted upon as required.

Recommendations have been made to address the above risks including ensuring all aspects of the ALEO Assurance Framework are operational and related meeting actions are documented; enhancing ALEO Assurance Hub checks in relation to FtPP; formalising assurance arrangements concerning AH&P Ltd; and ensuring fraud risks are adequately monitored.

2.3 Management response

The audit has recognised the consistent efforts of the ALEO Assurance Hub in maintaining oversight of the stewardship arrangements in place within each ALEO and the Council's management teams' relationship with ALEOs which remains consistent and supportive. Management are supportive of the improvements identified through this audit and are confident that the timescales will be met.

3 Issues / Risks, Recommendations, and Management Response

3.1 Issues / Risks, recommendations, and management response

Ref	Description	Risk Rating	Minor									
1.1	<p>Governance Documentation – The ALEO Assurance Hub’s Terms of Reference and workplan are being approved annually as required by Audit, Risk and Scrutiny (AR&S) Committee, most recently in May 2024. In addition, areas of assurance which must be covered for each ALEO are clearly documented with commentary on checks undertaken and related outcomes that form the basis of risk rating assessments reported to Audit, Risk and Scrutiny Committee.</p> <p>However, whilst the ALEO Assurance Hub (the Hub) is fulfilling its remit under its Terms of Reference, action notes or minutes are not formalised for Hub meetings, potentially risking clarity over decision making or follow up of outstanding actions, such as assurance required from ALEOs in relation to high-risk scores.</p> <p>In addition, whilst Finance checks assessed by the Hub are relevant, they did not fully cover the requirements under the Council’s FtPP guidance, including checks of cash balances; material sources of funding; subsidy control, and outstanding debts, payment schedules, and the adequacy of funding agreements. This potentially risks a gap in FtPP compliance being overlooked and related financial loss.</p> <p>IA Recommended Mitigating Actions</p> <p>a) Governance should keep formal records of ALEO Assurance Hub meetings and actions arising.</p> <p>b) Finance should align checks of each ALEO with the Council’s Following the Public Pound guidance requirements and report these into the ALEO Assurance Hub</p> <p>Management Actions to Address Issues/Risks</p> <p>a) <i>Records of actions are included in the “action file” which is issued to ALEOs. This is updated based on their returns and the Hub’s assessment. For completeness, Copilot will be used to record a note of the Hub’s discussions and retained as part of our records.</i></p> <p>b) <i>Finance will undertake checks of ALEOs currently reporting to the Council’s ALEO Hub to ensure they are in line with the Following the Public Pound policy requirements, and report these into the ALEO Hub annually.</i></p> <table><tr><th>Risk Agreed</th><th>Person(s)</th><th>Due Date</th></tr><tr><td>a) Yes</td><td>a) Assurance Manager</td><td>a) June 2025</td></tr><tr><td>b) Yes</td><td>b) Finance Operations Manager</td><td>b) October 2025</td></tr></table>	Risk Agreed	Person(s)	Due Date	a) Yes	a) Assurance Manager	a) June 2025	b) Yes	b) Finance Operations Manager	b) October 2025		
Risk Agreed	Person(s)	Due Date										
a) Yes	a) Assurance Manager	a) June 2025										
b) Yes	b) Finance Operations Manager	b) October 2025										

Ref	Description	Risk Rating	Moderate
1.2	<p>Aberdeen Heat and Power Company (AH&P) Ltd – AH&P Ltd is a Tier One Group entity, in accordance with the Council's FtPP guidance, since it is an organisation of significant size over which the Council exercises substantial control, with its annual results included in the Council's Group Accounts. As such the Tier One requirements of the Council's FtPP guidance apply.</p>		

Ref	Description	Risk Rating	Moderate
	<p>As with all Tier One ALEOs under its remit, the ALEO Assurance Hub is monitoring the adequacy of governance, risk management and finance arrangements for AH&P twice annually. In addition, Finance is reporting quarterly to Finance and Resources Committee on AH&P's financial position at a high level, most recently in February 2025 indicating a deficit of £440k is forecast for 2024/25.</p> <p>Management assurance was provided that regular meetings are taking place between the relevant designated Service Lead officer within Corporate Landlord and AH&P Ltd via weekly meetings and attendance at AH&P Board meetings where strategic, operational and performance matters are discussed.</p> <p>However, unlike the other Tier One Group entities, a detailed annual performance report for AH&P is not being reported to Full Council, or Finance and Resources Committee, in line with FtPP monitoring and reporting requirements for Tier One Group entities and ALEO Strategic Partnership meetings do not cover AH&P Ltd.</p> <p>C&PSS advised the reporting arrangements for AH&P Ltd reflects the fact direct funding is not provided to AH&P Ltd as with other ALEOs and there is less need for detailed performance reporting and monitoring based on the nature and extent of operational arrangements.</p> <p>However, AH&P Ltd meets the requirements for performance reporting in line with other Tier One group entities and despite the Council not providing funding by the same means as it does for other ALEOs, it is ultimately liable for any financial losses and should AH&P Ltd fail to deliver for its customers and the Council as expected, this risks reputational damage for the Council.</p>		
IA Recommended Mitigating Actions			
Performance reporting and monitoring arrangements should be established for Aberdeen Heat and Power in line with the Council's Following the Public Pound guidance.			
Management Actions to Address Issues/Risks			
<i>Performance reporting and monitoring arrangements will be established for Aberdeen Heat and Power in line with the Council's Tier 1 ALEOs.</i>			
Risk Agreed		Person(s)	Due Date
Yes		Chief Officer, Commercial & Procurement	October 2025

Ref	Description	Risk Rating	Moderate
1.3	<p>Assessment of Fraud Risks – The Scottish Government has a commitment to protecting public resources from the risk of fraud, bribery and corruption, as set out in its Protecting Public Resources in Scotland strategy. In addition, under the Economic Crime and Corporate Transparency Act 2023, due to come into force on 1 September 2025, large organisations such as the Council, may be criminally liable where an employee, agent, subsidiary, or other “associated person”, commits a fraud intended to benefit the organisation or a client of the organisation, in the absence of reasonable fraud prevention procedures.</p> <p>“Reasonable procedures” are described in the Act and include top level commitment to fraud prevention; risk assessment; proportionate procedures; due diligence; training and communication; and monitoring and review. It does not need to be demonstrated that directors or senior managers ordered or knew about the fraud. If the Council is prosecuted</p>		

Ref	Description	Risk Rating	Moderate
	<p>under the Act and fails to prove that reasonable prevention procedures were in place, the offence is punishable by a potentially unlimited fine.</p> <p>The ALEO Assurance Hub discuss and review ALEO risk reporting but do not specifically consider the risk of fraud or the forthcoming corporate offence under the Economic Crime and Corporate Transparency Act 2023. Working with ALEOs to address this would provide greater assurance that fraud risks are being appropriately mitigated and reduce any potential risks of prosecution for failing to prevent fraud.</p>		
	IA Recommended Mitigating Actions		
	The ALEO Assurance Hub should work with ALEOs to obtain assurance over fraud risks and to help ensure compliance with the incoming Economic Crime and Corporate Transparency Act 2023.		
	Management Actions to Address Issues/Risks		
	<i>Agreed. The ALEO Assurance Hub will report to the Audit, Risk and Scrutiny Committee in June and this will include assurance on levels of fraud risk including the extent to which ALEOs are prepared for this legislation.</i>		
	Risk Agreed	Person(s)	Due Date
	Yes	Assurance Manager	June 25

Ref	Description	Risk Rating	Moderate
1.4	<p>ALEO Strategic Partnership and Service Leads – The ALEO Assurance Framework includes a forum for senior Council and ALEO representatives, known as the ALEO Strategic Partnership, which should meet six weekly to discuss high level strategic issues. In addition, the ALEO Assurance Hub Terms of Reference requires each ALEO to be assigned a Service Lead from C&PSS, to act as primary liaison and to make regular contact to discuss strategic, operational and performance matters.</p> <p><u>ALEO Strategic Partnership</u></p> <p>Summary agendas for what are described as "quarterly" meetings with the Chief Officer - C&PSS, the Executive Director - Corporate Services, the Chief Officer - Finance, and representatives of ALEOs were supplied by email and indicate that relevant high level strategic issues are being discussed, including budgets, charters, delivery models and service level agreements. However, only four of the ALEOs monitored by the Hub were noted as regular attendees, with Aberdeen Heat & Power (AHP) Ltd not covered as described at 1.2 above. In addition, email notes available for the September 2024 meeting were high level, did not cover all Tier One Group entities, and not all actions had a designated responsible officer and implementation due date.</p> <p><u>Service Leads</u></p> <p>Management assurance was provided, that Service Leads have been designated and that necessary meetings are taking place. However, the officers advised as fulfilling the Service Lead role for Tier One group entities are senior managers within the Council, rather than C&PSS representatives as indicated in the ALEO Assurance Hub Terms of Reference reported to Audit, Risk and Scrutiny Committee. In addition, except for AH&P Ltd, it was noted the meetings are not formally recorded or reported.</p> <p><u>Conclusions</u></p>		

	<p>Whilst some assurance is available over the operation of these aspects of the ALEO Assurance Framework, at the time of review it is not clear the ALEO Strategic Partnership meetings, are taking place as frequently as planned and meetings do not include all required attendees (AH&P Ltd). Also, in relation to Service Lead meetings, the use of senior officers, including Chief Officers, to conduct this role, is potentially an inefficient use of senior officer time, when it was originally planned for C&PSS representatives to fulfil this role.</p> <p>In addition, more generally, in the absence of SMART meeting records, there is a greater risk strategic, operational and performance actions will not be adequately identified and progressed as required.</p>		
	IA Recommended Mitigating Actions		
	<p>a) The ALEO Strategic Partnership meetings and Service Leads should be aligned with the ALEO Assurance Hub Terms of Reference, or the Terms of Reference should be revised and Audit, Risk and Scrutiny Committee updated.</p> <p>b) SMART actions should be recorded for ALEO Strategic Partnership and ALEO Service Lead meetings for follow up purposes.</p>		
	Management Actions to Address Issues/Risks		
	<p><i>The ALEO Strategic Partnership meetings and Service Leads should be aligned with the ALEO Assurance Hub Terms of Reference. SMART actions will be recorded for ALEO Strategic Partnership and ALEO Service Lead meetings for follow up purposes.</i></p>		
	Risk Agreed	Person(s)	Due Date
	Yes	Chief Officer, Commercial & Procurement	October 2025

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
Corporate	This issue / risk level impacts the Council as a whole. Mitigating actions should be taken at the Senior Leadership level.
Function	This issue / risk level has implications at the functional 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 function.
Cluster	This issue / risk level impacts a particular Service or Cluster. Mitigating actions should be implemented by the responsible Chief Officer.
Programme and Project	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
Minor	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.	Substantial
Moderate	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.	Reasonable
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
Severe	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.	Minimal

Individual Issue / Risk Rating	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, which could result in, for example, a material financial loss. Action should be taken within three months.
Severe	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.

5 Appendix 2 – Assurance review scoping document

5.1 Area subject to review

Arms-Length External Organisations (ALEOs) are companies, charities and other bodies that are separate from the Council but subject to its control or influence. Local authorities may elect to provide services through ALEOs to achieve Best Value. Typically, ALEOs are used to retain greater control and influence when compared with a standard commercial contractual arrangement, while bringing the benefits associated with the use of a separate and independent organisation.

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Bon Accord Support Services Ltd		100
Aberdeen Heat & Power Ltd		100
Common Good ⁵		100
Trust Funds ¹		100
Aberdeen Sports Village Ltd	Joint Ventures ¹	50
BP Aberdeen Hydrogen Energy Ltd		50
Integration Joint Board ⁶		50
Grampian Valuation Joint Board	Associates ¹	39

ALEO Assurance Hub

The Council's ALEO Assurance Hub (the Hub) forms part of the Council's ALEO Assurance Framework. The Hub provides high level, strategic oversight over six of the Council's higher risk ALEOs (Aberdeen Heat and Power; Aberdeen Performing Arts; Aberdeen Sports Village; Bon Accord Care; Sport Aberdeen; and the BP Joint Venture), all of which are included within the Council's Group Accounts, with the exception of Aberdeen Performing Arts. The Hub's workplan, which is agreed annually by Audit, Risk and Scrutiny Committee, covers governance arrangements; risk management; and financial matters.

Other ALEO / Group Entity Oversight and Support Arrangements

⁴ Subsidiaries are Group entities where the council has a 'controlling interest' i.e. greater than 50%. Joint Ventures are agreements between two or more entities whereby each "partner" shares equally in the related risks and benefits. Associates are entities the Council has a "significant interest" in but less than controlling or joint interest. equal partner in the Glasgow City Integration Joint Board with NHS Greater Glasgow and Clyde, which is termed as a 'joint board'.

⁵ This review will not cover Common Good or Trust Funds since these were subject to a standalone review in December 2024 as part of Internal Audit report AC2510 Trusts and Common Good Fund.

⁶ The Aberdeen City IJB will not be covered either as part of this review since the IJB is subject to its own separate agreed Internal Audit plan.

The remaining Assurance Framework elements offering oversight and support to ALEOs / Group entities include:

1. Annual monitoring of the performance of “Tier One” ALEOs by Full Council. Tier One ALEOs are organisations whose annual results are included in the Council’s Group Accounts or receive cumulative funding from the Council greater than £7m.
2. Quarterly financial performance reporting to Finance and Resources Committee covering the financial performance of Group entities.
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4. Representatives of the Head of Commercial and Procurement, known as Service Leads, act as the Council’s primary liaison officers with ALEOs and undertake regular contact with ALEOs to discuss strategic, operational and performance matters.
5. The Director of Corporate Services acts as a key strategic liaison for all ALEOs.

5.2 Rationale for review

The objective of this audit is to ensure the Council’s approach to its Group structure provides appropriate assurance and the necessary control framework is in place, both overall and for individual bodies.

This area has been included in the agreed 2024/25 Internal Audit Plan due to the material interest the Council has in its Group entities, financial or otherwise. The Council remains ultimately responsible for the related service provision delivered on its behalf by Group entities. It is therefore essential adequate scrutiny of Group entities’ governance, risk management and financial controls is in place, to avoid mismanagement, financial loss and reputational damage.

Internal Audit AC2306 ALEOs – Performance and Payments, completed in March 2023, covered some related matters. Recommendations were agreed as part of this review to enhance Following the Public Pound compliance oversight; address absent or poorly defined ALEO funding agreements; and establish performance monitoring arrangements over Aberdeen Heat and Power Ltd.

5.3 Scope and risk level of review

This review will offer the following judgements:

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

5.3.1 Detailed scope areas

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:

- **ALEO Assurance Hub** – Oversight of ALEOs’ governance arrangements, risk management, and financial matters, in accordance with agreed the Hub’s workplan and Terms of Reference.
- **ALEO Strategic Partnership** – Partnership is meeting six-weekly to undertake its duties in accordance with its Terms of Reference and relevant matters are progressed /escalated where necessary.
- **Commercial and Procurement Service Leads** – Service Leads have regular contact with Group entities to discuss strategic, operational and performance matters.
- **Following the Public Pound Compliance** – Central assurance FtPP Code of Practice requirements are being complied with.
- **Financial and Performance Reporting and Monitoring** – Accurate and informed reporting of Group entities’ financial position to Finance and Resources Committee and performance to Full Council / IJB.

Whilst it understood individual services are responsible for certain elements of the ALEO/Group structure assurance and control framework, this review is focused on the central controls and the second line assurance arrangements. As such, whilst we recognise many different stakeholders are involved in the process, any recommendations made will be directed centrally.

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 practices, this review will primarily be undertaken remotely via electronic meetings and direct access to systems and data, with face to face contact and site visits to premises to obtain and review further records as appropriate.

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, Risk and Scrutiny Committee (final only)
 - External Audit (final only)

5.6 IA staff

The IA staff assigned to this review are:

- Lyndsay Jarvis, Auditor (**audit lead**)
- Andy Johnston, Audit Team Manager
- Jamie Dale, Chief Internal Auditor (**oversight only**)

5.7 Council key contacts

The key contacts for this review across the Council are:

- Andy MacDonald, Executive Director – Corporate Services
- Vikki Cuthbert, Interim Chief Officer – Governance (**process owner**)
- Craig Innes, Chief Officer – Commercial and Procurement Services
- Jonathan Belford, Chief Officer – Finance

5.8 Delivery plan and milestones

The key delivery plan and milestones are:

Milestone	Planned date
Scope issued	07-Jan-25
Scope agreed	14-Jan-25
Fieldwork commences	27-Jan-25
Fieldwork completed	21-Feb-25
Draft report issued	14-Mar-25
Process owner response	04-Apr-25

Milestone	Planned date
Director response	11-Apr-25
Final report issued	18-Apr-25