

# *Aberdeen City Council*

## Regeneration (governance and project management arrangements)

Internal Audit Report  
2013/2014 for Aberdeen  
City Council

February 2014

Internal Audit KPI Targets	Target Dates	Actual Dates	Red/Amber/ Green	Commentary where applicable
Terms or reference agreed 4 weeks prior to fieldwork	20.12.2013	20.12.2013	Green	
Planned fieldwork start date	13.01.2014	13.01.2014	Green	
Fieldwork completion date	31.01.2014	31.01.2014	Green	
Issuing draft reports for management comment	14.02.2014	14.02.2014	Green	
Received management comments	28.02.2014	13.03.2014/ 03.04.2014	Red	
Report finalised	10.04.2014	03.04.2014	Green	
Final report presented to the Audit and Risk Committee	08.05.2014	08.05.2014	Green	



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Internal audit work will be performed in accordance with Public Sector Internal Audit Standards. As a result, our work and deliverables are not designed or intended to comply with the International Auditing and Assurance Standards Board (IAASB), International Framework for Assurance Engagements (IFAE) and International Standard on Assurance Engagements (ISAE) 3000.

# 1. Executive Summary

Report classification	Total number of findings <span style="float: right;">← Section 3 →</span>				
	Critical	High	Medium	Low	Advisory
<b>Medium</b>	-	-	2	1	-
	-	-	-	-	-
	<b>-</b>	<b>-</b>	<b>2</b>	<b>1</b>	<b>-</b>
Responsible Director: Director of Housing and Environment					
Project Sponsor: Head of Regeneration and Housing Development					

## Summary of findings

- 1.01 Aberdeen City Council is committed to delivering a more cohesive approach to regeneration within the city over the next five years (2013 – 2018). Critical to achieving this is developing a regeneration strategy and ensuring collaboration among directorates in achieving this strategy. To achieve this, the Project Management Office (PMO) has been engaged to help create a framework for managing regeneration programmes and the various projects that are underway or are planned for each neighbourhood. Our review focused on the regeneration programmes for the neighbourhoods of Tillydrone, Middlefield and Torry and assessing the current controls around governance and project management for these programmes.
- 1.02 The governance framework proposed for regeneration across the three neighbourhoods is in a draft stage. Therefore our review has focused on assessing the design of these draft governance proposals to help inform and identify recommendations to help the Council deliver on its governance and project management objectives for regeneration.
- 1.03 Our review identified two medium and one low risk recommendation to help improve the draft governance framework for regeneration:

- It is recommended that the Regeneration Board should develop a process for prioritising projects in each regeneration neighbourhood. These priorities should be captured in the regeneration strategy for each neighbourhood and act as the basis for decision making in determining the priority where directorates propose competing or incompatible projects. The Regeneration Board should act as a forum for discussion between directorates to ensure that they are working towards to the same objectives (**Medium risk**).
- There is currently no overarching risk assessment that looks to assess all risks across individual projects in the context of the overall neighbourhood regeneration programme. It is recommended that the project manager for each neighbourhood, in conjunction with the Regeneration Board, develops a risk register that captures all risks from individual projects and assesses how they will impact on the neighbourhood regeneration programme as a whole. This process will help ensure that all risks that impact interdependent projects are captured and mitigating actions can then be developed. (**Medium risk**)
- The development of a suite of key performance indicators (KPIs) is recommended to help the Regeneration Board and the Council measure its success in achieving its regeneration objectives. These could include KPIs specifically tailored to measure success in achieving neighbourhood specific targets and also more generic KPIs focusing on delivery of projects within agreed timescales and budgets. These KPIs should link through to the strategic priorities identified for each neighbourhood and allow for the Council and Regeneration Board to measure the success in achieving these priorities. (**Low risk**)

#### **Management comments**

Given that the audit is focussing on the Council's draft commitments to design a holistic regeneration process, the audit captures a clear understanding that there is a risk to delivery if interdependent projects in neighbourhoods don't work towards the same objectives.

As a result the recommendation that there be a continuing development of the risk register to help with this process is well noted.

Finally, the audit's recommendation to develop a relevant suite of Key Performance Indicators (KPIs) is also well considered as a means to mitigate against such risks.

## 2. Background and scope

### Background

- 2.01 There has been an increased focus by Aberdeen City Council on regeneration across the city, with the Council committed to delivering a more cohesive approach over the next five years, including the development of an overarching regeneration strategy. In order to assess how this commitment can be delivered we have reviewed the current status of regeneration programmes ongoing in Tillydrone, Middlefield and Torry.
- 2.02 A new governance framework for delivering regeneration is in a draft stage. This governance framework is being developed by the Project Management Office (PMO) in conjunction with Housing and Environment and the other directorates engaged in regeneration.
- 2.03 There is no overarching strategy that has been agreed by Council members for regeneration for those neighbourhoods identified as areas with multiple indicators of deprivation, which includes Tillydrone, Middlefield and Torry. While each directorate has been continuing to address key projects in these neighbourhoods, some of which were identified in the initial delivery plans in 2006, there is no co-ordinated Council-driven strategy that defines the regeneration programme for each neighbourhood and how the Council aims to deliver regeneration as defined by the Scottish Government.

### Governance

- 2.04 The PMO, in conjunction with Housing and Environment, have designed a draft framework for managing the regeneration programmes. This involves the creation of a Regeneration Board, responsible for all regeneration programmes, and assigning project managers, responsible for the regeneration programme in individual neighbourhoods. The Regeneration Board will have oversight of regeneration programmes ongoing in each neighbourhood and will be made up of individuals from across the directorates to ensure interdependencies and competing priorities can be closely monitored and discussed.
- 2.05 Under the framework being proposed by the PMO, individual projects would continue to be monitored by the relevant directorate committees, for example projects on economic regeneration would continue to be overseen by the Enterprise, Planning and Infrastructure committee. This proposed framework has been reflected in the diagram in **Appendix 3**; however this could be subject to change as a result of the Council's planned reorganisation. This would mean that there is no set budget for each regeneration neighbourhood and instead projects would continue to be funded from the budgets agreed by each directorate and committee. Changes to the scope or budget of a project would therefore be approved by the directorate committee, rather than the Regeneration Board.
- 2.06 The role of the project manager is to coordinate with the various directorates working on projects in these neighbourhoods and help identify where there are interdependencies between individual projects. They will also have a role in helping communicate with local communities and external agencies on the regeneration programmes in each neighbourhood. At present a project manager has been assigned for both the Tillydrone and Middlefield regeneration programmes; however a project manager is still to be assigned for Torry.

- 2.07 There is currently no overarching risk assessment for each neighbourhood that consolidates and considers all risks across the individual projects and attempts to measure their impact on the overall regeneration programme. The PMO has developed a risk register tool that would be used at the individual project level to identify risks specific to projects in each neighbourhood, but the framework does not propose to use this for the overall neighbourhood risks.

### **Project management of neighbourhood regeneration sites**

- 2.08 The Housing and Environment directorate has presented to the Housing and Environment committee regeneration plans for Tillydrone and Middlefield that have identified key land development opportunities and projects in these neighbourhoods. A regeneration plan for Torry is currently in development. These regeneration plans have been approved by the committee and include significant projects impacting the city such as the third Don crossing and upgrading the Haudagain roundabout. Although, as stated above, these plans are primarily focused on land development and housing and do not consider wider regeneration issues.
- 2.09 We inspected documents that evidence the existence of a communication strategy for engaging local communities in the regeneration projects. There is also evidence of engagement with local communities in the regeneration plans developed by Housing and Environment through drop-in centres and organised meetings.

### **Project management of individual projects**

- 2.10 We inspected the project plans for two individual projects within the Tillydrone and Middlefield neighbourhoods. For each we could evidence that a project plan was in place that defined the scope, the deliverables and key milestones and that this had been communicated to the appropriate Council committees. The proposal going forward from the PMO is to roll-out the standardised project management tools used by the PMO to all projects in the neighbourhoods to encourage a consistent approach to project management across each regeneration project.
- 2.11 For the individual projects we inspected there were processes in place for communicating to the relevant committees on the status of the projects and any changes in scope or budget. There was also evidence of a communication plan that was developed to engage local communities and communicate to them the ongoing status of the projects and to gain their feedback.

### **Scope and limitations of scope**

- 2.12 The detailed scope of this review is set out in Appendix 2. We have undertaken a review of the design and operating effectiveness of the Council's controls for governance and project management of regeneration. Our work was undertaken using a sample based approach. Our review focused on the Tillydrone, Middlefield and Torry regeneration areas and the governance arrangements surrounding the joint working arrangements.
- 2.13 See agreed terms of reference at **Appendix 2**.

# 3. Detailed findings and recommendations

## 3.01 Development of neighbourhood regeneration programmes – control design

### Finding

The Housing and Environment directorate has presented to the Housing and Environment committee regeneration plans for Tillydrone and Middlefield that have identified key land development opportunities and projects in these neighbourhoods. A regeneration plan for Torry is currently in development. These plans are primarily focused on land development and housing and do not consider wider regeneration issues. Therefore, currently there is no overarching regeneration plan for each neighbourhood that considers the key priorities and timescales for development.

In addition, the proposed framework does not set out how the Regeneration Board should agree on a process for determining how different projects will be prioritised in achieving regeneration. This is relevant where there may be competing priorities among the different directorates as to their targets for each neighbourhood. Part of achieving this is through developing regeneration strategies that define the priorities for each neighbourhood (i.e. new housing or social care provision).

### Risks

With different directorates operating regeneration plans in isolation there is a risk that these plans conflict with each other and may result in inefficient use of resources if plans are put in place that later need to be revised.

<b>Action plan</b>		
<b>Finding rating</b>	<b>Agreed action</b>	<b>Responsible person / title</b>
Medium	<p>A regeneration programme will be developed for each neighbourhood. This will be prepared in collaboration with each directorate to ensure that individual projects do not have conflicting objectives and will be endorsed by the Regeneration Board.</p> <p>The regeneration programme will identify the priorities for regeneration in the neighbourhood and the timescales for achieving these.</p> <p>Going forward, individual projects will require approval to demonstrate that the objectives align with the neighbourhood regeneration programme.</p> <p>The Regeneration Board should help manage communication to avoid directorates proposing projects that are incompatible or that do not achieve the stated priorities.</p>	<p>Head of Regeneration &amp; Housing Investment</p> <hr/> <p><b>Target date:</b></p> <hr/> <p>December 2014</p>



### 3.02 Assessment of risks across regeneration programmes – Control design deficiency

Finding		
<p>In the current framework proposed there is no overarching risk register that assesses risks across the entire regeneration programme for each neighbourhood. In our review we saw evidence of risk assessments being performed for individual projects but these risk assessments are not being analysed as a whole to assess their impact on the overarching neighbourhood regeneration programme.</p> <p>The PMO has proposed to implement a standardised risk assessment process for individual projects and this should be used to feed into an overall risk assessment for the relevant regeneration neighbourhood. A process should be agreed on for assessing these risks as a whole to determine their overall risk rating in the context for the neighbourhood regeneration programme. For example a high risk for an individual project may only be a medium risk in the context of the wider regeneration programme.</p>		
Risks		
<p>Without a risk assessment process that captures all risks relevant to the regeneration neighbourhoods there is the risk that interdependencies between projects may not be identified and risks impacting one project lead to negative impacts on other projects in that neighbourhood. This could lead to failure to deliver the proposed projects and/or significant time and cost overruns.</p>		
Action plan		
Finding rating	Agreed action	Responsible person / title
Medium	<ul style="list-style-type: none"> <li>• An overarching risk register will be developed for each neighbourhood that captures all risks impacting that regeneration neighbourhood. This will include risks identified in individual project risk registers as they relate to the overall strategy.</li> <li>• The risk register should be maintained by the project manager for each neighbourhood and agreed and reviewed by the Regeneration Board on a quarterly basis.</li> <li>• Changes to the risk register should be communicated in a timely manner and new risks updated accordingly.</li> </ul>	<p>Head of Regeneration &amp; Housing Investment</p> <hr/> <p><b>Target date:</b></p> <p>December 2014</p>

### 3.03 KPI development and monitoring – Control design deficiency

<b>Finding</b>		
<p>Key performance indicators (KPIs) should be developed for assessing the effectiveness of the regeneration programmes in each neighbourhood. These KPIs could be developed to measure delivery at both the level of individual projects and at the level of the neighbourhood regeneration programme as a whole.</p> <p>The development of a suite of KPIs could also allow the Council to measure whether it is achieving its commitment to deliver a more cohesive approach to regeneration across the city. In particular there should be KPIs that will measure whether projects are being delivered on time and on budget and whether the regeneration programme as a whole is being delivered on time and on budget.</p>		
<b>Risks</b>		
<p>Without KPIs to measure performance, there is a risk that projects may not be delivered on time or on budget and that key benefits expected to be achieved from the projects will not be captured and measured.</p>		
<b>Action plan</b>		
<b>Finding rating</b>	<b>Agreed action</b>	<b>Responsible person / title</b>
Low	<ul style="list-style-type: none"> <li>The Regeneration Board or Council will develop a suite of KPIs for measuring the effectiveness of the regeneration programmes in each neighbourhood.</li> <li>These KPIs should be tailored to focus on the identified regeneration priorities in each neighbourhood.</li> <li>Generic KPIs should also be implemented that focus on key delivery targets such as time scales and budgets.</li> </ul>	Head of Regeneration & Housing Investment  <hr/> <b>Target date:</b>  December 2014

# Appendix 1 – Basis of our classifications

## Individual finding ratings

Finding rating	Assessment rationale
Critical	<p>A finding that could have a:</p> <ul style="list-style-type: none"> <li>• <b>Critical</b> impact on operational performance; or</li> <li>• <b>Critical</b> monetary or financial statement impact; or</li> <li>• <b>Critical</b> breach in laws and regulations that could result in material fines or consequences; <i>or</i></li> <li>• <b>Critical</b> impact on the reputation or brand of the organisation which could threaten its future viability.</li> </ul>
High	<p>A finding that could have a:</p> <ul style="list-style-type: none"> <li>• <b>Significant</b> impact on operational performance; or</li> <li>• <b>Significant</b> monetary or financial statement impact ; or</li> <li>• <b>Significant</b> breach in laws and regulations resulting in significant fines and consequences ; <i>or</i></li> <li>• <b>Significant</b> impact on the reputation or brand of the organisation.</li> </ul>
Medium	<p>A finding that could have a:</p> <ul style="list-style-type: none"> <li>• <b>Moderate</b> impact on operational performance; or</li> <li>• <b>Moderate</b> monetary or financial statement impact; or</li> <li>• <b>Moderate</b> breach in laws and regulations resulting in fines and consequences; or</li> <li>• <b>Moderate</b> impact on the reputation or brand of the organisation.</li> </ul>
Low	<p>A finding that could have a:</p> <ul style="list-style-type: none"> <li>• <b>Minor</b> impact on the organisation’s operational performance; or</li> <li>• <b>Minor</b> monetary or financial statement impact; or</li> <li>• <b>Minor</b> breach in laws and regulations with limited consequences; or</li> <li>• <b>Minor</b> impact on the reputation of the organisation.</li> </ul>
Advisory	<p>A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.</p>

## Report classifications

Findings rating	Points
Critical	40 points per finding
High	10 points per finding
Medium	3 points per finding
Low	1 point per finding

Report classification	Points
Low risk	6 points or less
Medium risk	7– 15 points
High risk	16– 39 points
Critical risk	40 points and over

# Appendix 2 – Agreed Terms of reference

## **Background**

Aberdeen City Council is committed to delivering a more cohesive approach to regeneration within the city for the next 5 years (2013-2015). As defined by the Scottish Government, regeneration is the holistic process of reversing the economic, social and physical decline of places where market forces alone will not suffice.

The council engaged in an extensive programme of consultation on regeneration in 2006 and produced a delivery plan for each of the neighbourhoods requiring regeneration as per the Scottish Index of Multiple Deprivation. However, due to lack of a delivery focus on these projects and a change in the economic climate, the approach to regeneration within the Council has since changed.

Prior to an organisational restructure in 2010, regeneration was solely under the remit of the Chief Executive's office. However with the creation of Directorates, specific responsibilities for regeneration are now appointed as follows:

- Housing and Environment – Housing and neighbourhood regeneration
- Education, Culture and Sport – Social and community regeneration
- Enterprise, Planning and Infrastructure – Economic regeneration
- Corporate Governance – Community planning and partnership development.

There are currently three cross-directorate regeneration plans underway at Tillydrone, Middlefield and Torry which include individual projects led by the directorates listed above. Due to the complexity of working cross directorate, and the interdependencies this brings, an overall project manager within Housing and Environment has been appointed to coordinate each of the regeneration areas.

## **Scope**

We will review the design and operating effectiveness of the key controls in place over governance and project management for regeneration for each of the three regeneration areas (Tillydrone, Middlefield and Torry). Individual projects within these areas will be reviewed on a sample basis. The sub-processes included in this review are:

Sub-process	Control objectives
Governance	<ul style="list-style-type: none"> <li>• There is an overarching strategy for regeneration in Tillydrone, Middlefield and Torry.</li> <li>• Roles and responsibilities are defined for each regeneration site; including the project manager and lead for individual projects.</li> <li>• The relevant committee monitors progress throughout the regeneration programme and provides challenge and action where required.</li> <li>• Any changes to the scope or budget of a project are reported and approved in line with the scheme of delegation.</li> <li>• There is an assessment of the key risks facing both the neighbourhood site and individual projects, and a plan put in place to implement mitigating actions.</li> </ul>
Project management of neighbourhood regeneration sites	<ul style="list-style-type: none"> <li>• A plan which provides an overview of the neighbourhood regeneration strategy and details the key milestones for each project is available and updated on a regular basis.</li> <li>• Interdependencies between projects in the neighbourhood are documented and managed.</li> <li>• A working group has been initiated and meets on a sufficiently regularly basis to discuss progress and drive delivery. The appropriate people are invited (both internal and external to the Council).</li> <li>• A process is in place to ensure the community is engaged with the neighbourhood regeneration plan and feedback is routed to the appropriate group for consideration/action.</li> </ul>
Project management of individual projects	<ul style="list-style-type: none"> <li>• A project plan which defines the scope, deliverables, and key milestones is available and updated on a regular basis.</li> <li>• Processes are in place to inform individuals dependent on the project of any significant matters e.g. missed deadlines, change in scope.</li> </ul>

**Limitations of scope**

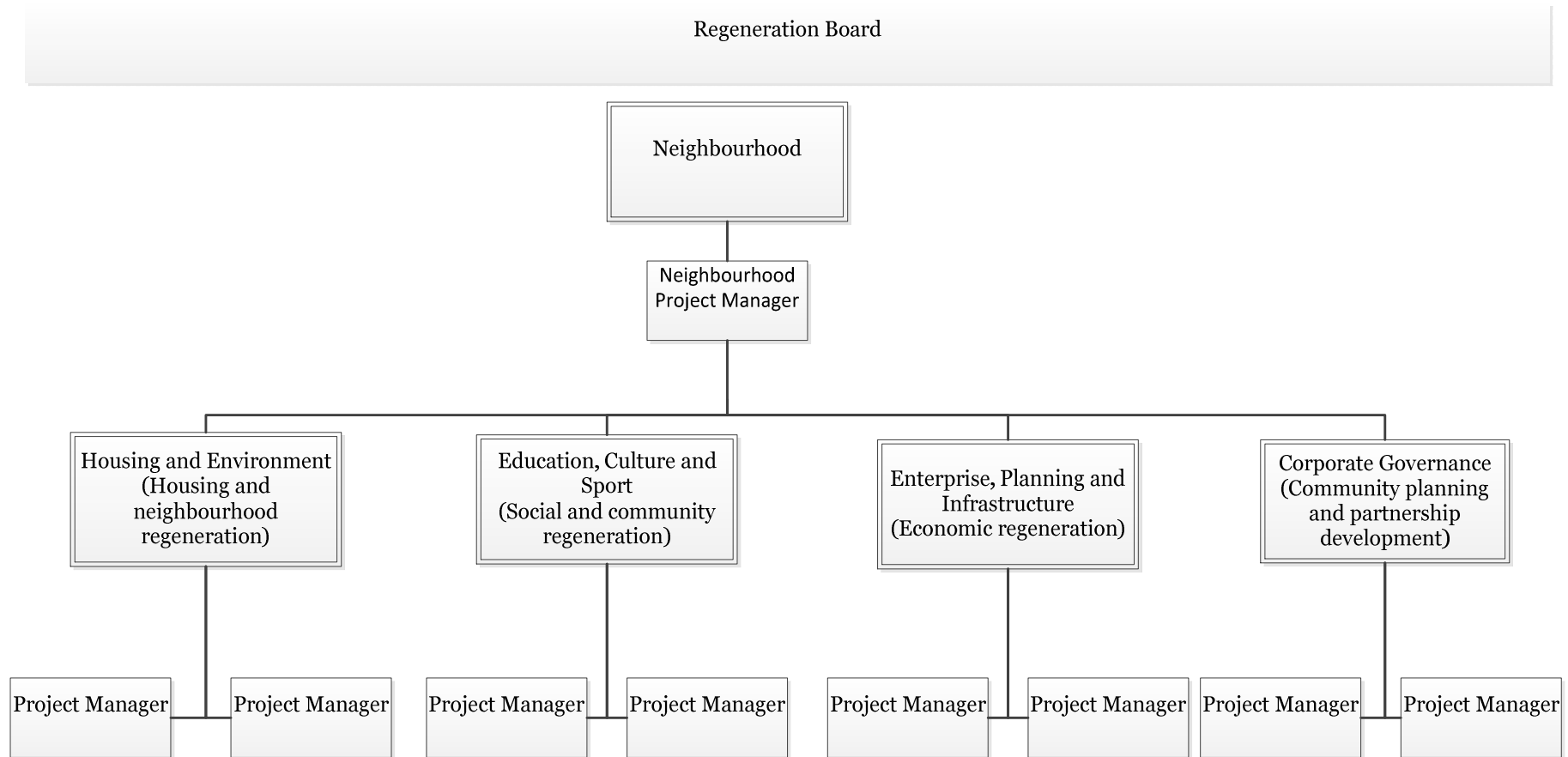
The scope of our review is outlined above. This will be undertaken on a sample basis. Our review will focus on the Tillydrone, Middlefield and Torry regeneration areas and the governance arrangements surrounding the joint working arrangements.

**Audit approach**

Our audit approach is as follows:

- Obtain an understanding of the procedures in place through discussion with key personnel, review of documentation and walkthrough tests where appropriate.
- Identify the key risks in respect of the regeneration programmes
- Evaluate the design of the controls in place to address the key risks.
- Test the operating effectiveness of the key controls on a sample basis.

# Appendix 3 – Proposed governance framework





# Appendix 4 - Limitations and responsibilities

## Limitations inherent to the internal auditor's work

We have undertaken a review of regeneration (governance and project management arrangements), subject to the limitations outlined below.

### Internal control

Internal control, no matter how well designed and operated, can provide only reasonable and not absolute assurance regarding achievement of an organisation's objectives. The likelihood of achievement is affected by limitations inherent in all internal control systems. These include the possibility of poor judgment in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

### Future periods

Our assessment of controls relating to regeneration (governance and project management arrangements) is as at 31 January 2014. Historic evaluation of effectiveness is not relevant to future periods due to the risk that:

- the design of controls may become inadequate because of changes in operating environment, law, regulation or other; or
- The degree of compliance with policies and procedures may deteriorate.

## Responsibilities of management and internal auditors

It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

We endeavour to plan our work so that we have a reasonable expectation of detecting significant control weaknesses and, if detected, we shall carry out additional work directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected.

Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud, defalcations or other irregularities which may exist.

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