

Aberdeen Heat and Power

Sector	Combined Heat and Power
Level of ACC Control/Influence	ACC is the sole guarantor of the company
ACC Funding 2017-18	AHP receives grant funding on a project by project basis
Service Designate	Communities, Housing and Infrastructure

The Hub requested assurance in the following areas:-

1. Governance Assurance Received

1.1 Recent changes made to Constitutional Documents – Aberdeen Heat and Power (AHP) confirmed that no changes had been made to their constitutional documents in the last 12 months.

1.2 Methods used to review Board competencies and identify skills gaps - AHP provided a copy of their Director Appointments Procedure that provided an overview of how prospective external directors are assessed against a skills specification criteria and thereafter interviewed. AHP noted that elected members were nominated by Council to serve as Directors on the Board. AHP confirmed that all Board members undergo the same induction training.

1.3 Composition of the Board and gender representation– AHP confirmed that there was a gender balance on the Board and the Council had nominated one male and one female Councillor to serve on the Board in June 2017. AHP also highlighted that there were opportunities for community groups to be represented on the Board and noted that multi-storey community groups had previously been represented on the Board.

1.4 Council representation at Board meetings – AHP advised that nominated Council officers from Energy and Housing are welcome to attend Board and Developmental Sub Group meetings and are encouraged to actively participate in meetings.

1.5 Transparency of Board decision making – AHP confirmed that Board papers, meetings and minutes are not publicly accessible. AHP advised that to provide additional assurance to Council, all Board and sub-group papers are cascaded to relevant elected members and Council officers.

Governance Assessment – The Hub noted that AHP’s constitutional documents had not been amended over the previous 12 months and was satisfied with the process of how AHP identified skill and competency gaps amongst Board members and how new directors were recruited. The Hub particularly welcomed AHP’s openness to appoint community representatives to the Board as this would promote transparency. The Hub noted that meetings and papers were not accessible to the public for reasons of commercial sensitivity. Overall, based on the assurance provided, the Hub assessed AHP’s governance arrangements to be **very low risk**.

2. Risk Management Assurance Received

- 2.1 Risk management strategy or policy** – AHP provided a copy of their risk register which was treated as a living document and reviewed regularly by the Board and sub-groups. The register documented the controls in place to mitigate identified risks and used the RAG traffic light system.
- 2.2 Maintenance of risk register and identification of biggest risks** - AHP identified rising maintenance costs; utility interruption; security and safety of energy centres compromised; and personnel succession as the company’s biggest risks.
- 2.3 Mitigation of risk** – AHP reiterated that controls to mitigate risk had been included in their risk register and they provided the minute of their Policy and Operations Sub-Group from 26 September 2017 to evidence that risk and mitigation were fully discussed by the sub-group.
- 2.4 Business continuity planning** – AHP submitted a recently reviewed copy of their Business Continuity Plan.
- 2.5 How the Board receives assurance on the organisation’s management of risk** – AHP advised that the risk register was reviewed regularly by the Board and sub-groups and highlighted that internal audit processes were in place. AHP added that specialist external bodies had been commissioned to provide support on legal; financial; HR; health and safety; and technical issues. This specialist support provided guidance to management and the Board which informed decision making and helped to minimise risk to the company.

Risk Management Assessment – The Hub took the view that AHP’s approach towards risk management was comprehensive based on the assurance provided. The Hub found that the risk register was in a suitable format and a satisfactory approach towards risk identification had been adopted, with reasonable controls in place to mitigate risk. The Hub welcomed AHP’s provision of Board minutes to provide additional assurance that risk was satisfactorily considered at meetings.

Officers noted that AHP's risk register referred to the Council's bond issue as projects were financed from the Council's Housing Capital Programme and AHP's Service Lead (Mai Muhammad, Energy Manager) advised that AHP financed new equipment from Scottish Government loans and explained that some pieces of equipment cost in excess of £1m. The Hub noted that AHP and all other ALEOs were due to receive training on the Council's bond issue and this would help to mitigate risk in this area. The Hub also welcomed AHP's identification of risk in relation to disturbing underground pipes during works and it was an area the Hub may consider reviewing in greater detail at a future meeting to assess the level and likelihood of risk; as well as controls in place to mitigate risk. Overall, based on the assurance provided, AHP's risk management approach was assessed as **low risk**.

3. Financial Management Assurance Received

- 3.1 Quarterly management trading accounts –** AHP provided their management trading accounts as at August 2017.
- 3.2 Annual audited accounts -** AHP provided their audited annual accounts prepared by Anderson, Anderson and Brown LLP for AHP and its wholly owned subsidiary District Energy Aberdeen Limited.
- 3.3 Financial procedures and scheme of delegation –** AHP provided a copy of their financial procedures. AHP highlighted that there was a governance section within the financial procedures that set out delegated roles for the Development Sub-Group in relation to capital projects and the Policy and Operations Sub-Group for financials controls; whilst noting that overall responsibility for financial management and governance rested with the AHP Board.
- 3.4 Discussion of financial management and performance at Board level –** AHP advised that all reports to the Board take account of financial implications to inform decision making. AHP provided copies of recent minutes and reports to the Board on revisions to the Business Plan and Budget to provide additional assurance on how the Board exercised financial control over the company and how it considered financial implications and risk. AHP explained that management trading accounts were presented on a monthly basis to the Policy and Operations Sub-Group and was a standing item on Board agendas.
- 3.5 Business Planning –** AHP had provided a copy of their Five Year Business Plan and noted that it was a living document in which updates on risk and financial projections were regularly reported to sub-groups and the Board.

- 3.6 Internal Audit** – AHP provided copies of its 2016-17 internal audit outcomes and its 2017-18 internal audit plan. AHP explained that as per their financial procedures, the Policy and Operations Sub-Group had delegated responsibility for the internal audit function and confirmed that all 2016-17 internal audit recommendations had been implemented timeously.
- 3.7 External Audit** - AHP provided copies of their audited annual accounts prepared by Anderson, Anderson and Brown (AA&B) LLP and a copy of the report AA&B prepared for the Board which issued AHP and DEAL with clean audit certificates. AHP advised that no recommendations for improvement had been made by AA&B for either AHP or DEAL accounts.

Financial Management Assessment – The Hub assessed AHP’s management trading accounts and audited annual accounts to be satisfactory and agreed to request further information on reserves policy at a future Hub meeting. The Hub was assured that day to day financial procedures were reviewed on a regular basis as AHP had provided a recently reviewed copy of their Financial Procedures but officers agreed to request additional information on whether AHP had an overarching set of financial regulations and if they had an approved scheme of delegation.

The Hub noted that AHP had previously submitted its five year business plan to the Governance Hub and agreed to request an update on business planning and whether targets set out in the Business Plan were being met at a future meeting. The Hub also agreed to request copies of recent internal audit reports to provide additional assurance in this area. Overall, based on the assurance provided, AHP’s financial management was assessed as **low-medium risk**.

- 4. Future Oversight Arrangements** - The Hub found that AHP had presented assurance that provided evidence of good understanding and compliance although further detail would be requested at a future meeting on items such as AHP’s reserves policy; business planning; and internal audit arrangements. The Hub also took into account the level of funding that had been provided to AHP on a project by project basis by the Council; and the Council’s position as the sole guarantor of the company. Overall, the Hub assessed AHP to be **low risk** to the Council and will request that AHP report to the Hub’s next meeting in February 2018 which would focus on items such as reserves policy; business planning; and internal audit arrangements to provide further assurance to the Committee.

Assurance Standard	Risk Rating
Unambiguous responses demonstrating clear understanding and comprehensive ability to fulfil ACC requirements, giving full detail as how these are achieved.	Very Low
Responses provide evidence of good understanding and compliance although limited detail provided for some areas.	Low
Responses provide some indication of understanding and compliance.	Medium
Minimal or poor responses providing little evidence of understanding or compliance.	High
Nil or inadequate responses with little or no understanding of requirement or evidence of compliance.	Very High