

## ABERDEEN CITY COUNCIL

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<b>COMMITTEE</b>	Audit, Risk and Scrutiny Committee
<b>DATE</b>	11 September 2025
<b>EXEMPT</b>	No
<b>CONFIDENTIAL</b>	No
<b>REPORT TITLE</b>	Internal Audit Report AC2606 – Bond Governance
<b>REPORT NUMBER</b>	IA/AC2606
<b>DIRECTOR</b>	N/A
<b>REPORT AUTHOR</b>	Jamie Dale
<b>TERMS OF REFERENCE</b>	2.2

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### **1. PURPOSE OF REPORT**

- 1.1 The purpose of this report is to present the planned Internal Audit report on Bond Governance.

### **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 Bond Governance.

### **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**

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- 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**

<b>Assessment</b>	<b>Outcome</b>
<b>Impact Assessment</b>	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.
<b>Privacy Impact Assessment</b>	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 AC2606 – Bond Governance

## **12. REPORT AUTHOR CONTACT DETAILS**

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## Internal Audit

### Assurance Review of Bond Governance

**Status:** Final

**Date:** 6 August 2025

**Risk Level:** Function

**Report No:** AC2606

**Assurance Year:** 2025/26

Net Risk Rating	Description	Assurance Assessment
<b>Moderate</b>	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified, which may put at risk the achievement of objectives in the area audited.	<b>Reasonable</b>

Report Tracking	Planned Date	Actual Date
Scope issued	08-May-2025	08-May-2025
Scope agreed	15-May-2025	14-May-2025
Fieldwork commenced	26-May-2025	26-May-2025
Fieldwork completed	20-Jun-2025	01-Jul-2025
Draft report issued	11-Jul-2025	11-Jul-2025
Process owner response	01-Aug-2025	30-Jul-2025
Director response	08-Aug-2025	06-Aug-2025
Final report issued	15-Aug-2025	06-Aug-2025
Audit Committee	11-Sep-2025	

Distribution	
Document type	Assurance Report
Director	Andy MacDonald, Executive Director – Corporate Services
Process Owner	Bernie Bularan, Deputy Chief Finance Officer
Stakeholder	Jonathan Belford, Chief Officer – Finance
	Jenni Lawson, Chief Officer – Governance
	Lesley Fullerton, Finance Operations Manager
	Neil Stewart, Accountant
	Alan Thomson, Legal Services Manager
	Jess Anderson, Team Leader Governance
	Steven Inglis, Team Leader, Regulatory & Compliance
	Deirdre Nicolson, Solicitor
	*Final only
	External Audit*
Lead auditor	Kostas Minas, Auditor

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# 1 Introduction

## 1.1 Area subject to review

In October 2016, the Council obtained its first credit rating, prior to issuing £370m of bonds in November 2016, on the London Stock Exchange, to finance the Council's capital investment programme.

The Bond Trust Deed (Deed) is a legal agreement made on 8 November 2016, between the Council and the Bond Trustee (BNY Mellon Corporate Trustee Services Limited), detailing the rights and obligations of both parties, in respect of bonds. In addition, there is an Agency Agreement dated 8 November 2016 between Aberdeen City Council (as Issuer), The Bank of New York Mellon (as Calculation Agent) and BNY Mellon Corporate Trustee Services Limited (as Bond Trustee).

These require the Council to:

- Settle Bond principal and interest payments owed<sup>1</sup>
- Maintain a Calculation Agent<sup>2</sup> and Paying Agent to calculate bond interest and principal payments owed and to make these payments on behalf of the Council to Bondholders.
- Withhold tax<sup>3</sup> on interest payments as required and make payments to HMRC<sup>4</sup>.
- Send to the Bond Trustee a copy of the Audited financial statements no later than 180 days<sup>5</sup> after the end of the financial year and a certificate covering any Events of Default<sup>6</sup>.

In addition, the Council is required to use reasonable endeavours to maintain a credit rating<sup>7</sup> during the term of the bonds, until the final instalment redemption date of 28 February 2054, when the outstanding principal will be repaid by the Council, and to do so the Council has appointed a credit rating agency who conduct credit rating reviews as required. The Aberdeen Economic Policy Panel produce an annual economic report on the Aberdeen and regional economic performance, with a view to providing constructive challenge and related recommendations on any wider interventions that could inform the Council's annual credit rating assessment.

The Council must also comply with the UK Market Abuse Regulation (UK MAR)<sup>8</sup>; the Financial Conduct Authority's Disclosure and Transparency Rules and Listing Rules (FCA Rules)<sup>9</sup> and the requirements of the London Stock Exchange (LSE) Admission and Disclosure Standards<sup>10</sup>. This means the Council must manage inside information, which is likely to have a significant effect on the price of issued bonds or on related derivative financial instruments, correctly to avoid insider dealing and misleading investors.

Sanctions imposed by the FCA for failing to comply with relevant legislation and regulations include suspension of trading on the LSE; unlimited fines; a statement published censuring the individuals concerned; and/or imprisonment.

## 1.2 Rationale for review

The objective of this audit is to obtain assurance over the governance arrangements in relation to the Council's bonds.

This has been included in the agreed Internal Audit plan due to the material value of the bonds, and the ongoing need to ensure payments and tax deductions are accurately calculated and related listing regulations and rules are complied with, to avoid financial loss, or sanctions as described above.

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<sup>1</sup> Bond Trust Deed: Promise to Pay on the day the money is due (Clause 2).

<sup>2</sup> Bond Trust Deed: Obligation to maintain a Paying Agent and Calculation Agent (Clause 15.2.1). See also Clause 1 for definitions of both phrases and refer to the Agency Agreement. Clause 2.2 of the Agency Agreement indicates that the Calculation Agent is appointed for the purpose of determining the interest and principal payable in respect of the bonds.

<sup>3</sup> Bond Trust Deed: Reference to FATCA (US withholding tax legislation) (Clause 23). Agency Agreement: The issuer (ACC) has responsibility for determining whether any deductions/withholdings are required (Clause 10) and Tax Certification Procedure (Clause 11).

<sup>4</sup> Bond Trust Deed: see Clause 5 and Schedule 2, paragraph 8 of the Agency Agreement.

<sup>5</sup> Bond Trust Deed: see Clause 15.1.5.

<sup>6</sup> Bond Trust Deed: see Clause 15.1.7.

<sup>7</sup> Bond Trust Deed: see Clause 15.3.3.

<sup>8</sup> [Market Abuse Regulation | FCA](#)

<sup>9</sup> [FCA Handbook - FCA Handbook](#)

<sup>10</sup> [LSEG Admission and Disclosure Standards | Effective July 2024](#)

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These areas were last reviewed in report AC1824 Bond Governance in February 2018 and report AC1921 Bond Trust Deed in January 2019 when compliance with arrangements was found to be generally adequate. Recommendations were however made to enhance the framework of control.

### **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
<b>Moderate</b>	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified, which may put at risk the achievement of objectives in the area audited.	<b>Reasonable</b>

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

Risk Level	Definition
<b>Function</b>	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.

### 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 Bond Governance.

Reasonable assurance was available over the following areas reviewed:

- **Payment Accuracy and Timeliness** – A sample of four payment runs between August 2023 and February 2025 was reviewed. Principal repayments and interest payments were accurately verified by Finance in line with the Bond Trust Deed and tax withheld and reported to HMRC was adequately supported.
- **Bond Trustee Year-End Compliance** – The Council complied with Bond Trust Deed obligations to the Bond Trustee to send a copy of the audited financial statements no later than 180 days after the end of the financial year and a certificate confirming there had been no Events of Default.

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

- **Governance and Written Procedures** – The Scheme of Governance and the Council's Bond Governance Protocol are generally fit for purpose. However, the review identified obsolete references in the Bond Governance Protocol and a lack of detailed Finance procedures for verifying principal repayment, interest and taxation, risking clarity and business continuity.
- **Training, Insider List and PDMR List** – There was no record of mandatory training being delivered to three (15%) of 20 Chief Officers and four (9%) of 45 Councillors required to be on the Council's Insider List<sup>11</sup>. Also, in breach of the UK Market Abuse Regulation (UK MAR) no acknowledgement letters were available during the review for these individuals to confirm they were aware of their duties and sanctions for unauthorised disclosure of inside information. Also, the Council's Persons Discharging Managerial Responsibilities (PDMR) list did not include one (5%) of 20 required Chief Officers and this Chief Officer had not been notified of their obligations in writing, in breach of UK MAR. These breaches risk potential unlawful disclosure of inside

<sup>11</sup> Under the UK Market Abuse Regulation (UK MAR), an Insider List is a record maintained by the Council (or any relevant entity) that includes the names of individuals who have access to information of a precise nature that is not public and, if made public, would likely have a significant effect on the price of financial instruments.

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information, FCA sanctions and reputational damage, however no actual instances were identified.

- **Credit Rating Risks** – In line with the Bond Trust Deed, the Council is required to use reasonable endeavours to maintain a credit rating and the Chief Officer – Finance has responsibility for ensuring this. The Aberdeen Economic Policy Panel (EPP) should meet biannually, and the annual economic reports are intended to support the Council's credit rating. In addition, the Council's credit rating agency produces an annual credit opinion when issuing the Council's credit rating, with the most recent report in October 2024 highlighting factors that could lead to a credit rating downgrade. However annual EPP report recommendations and annual credit opinion risks are not being monitored, risking absent or inadequate controls, economic outcomes for Aberdeen, Best Value, and potentially an unfavourable downgrade in the Council's credit rating, resulting in a default event and reputational damage.
- **London Stock Exchange Disclosures** – UK MAR requires an issuer to inform the public as soon as possible of inside information that directly concerns that issuer. In addition, UK MAR requires the Council as a bond issuer to post and maintain on its website for a period of at least five years, all inside information it is required to disclose publicly. However, it was noted one (5%) of the 19 Council announcements going back to August 2023 present on the London Stock Exchange (LSE) news webpage, relating to quarter one financial results for 2024/25 appeared on the Council's website showing a date 10 days prior to its publication on the LSE news website – this was in fact a Council website posting error rather than an LSE reporting delay. Also, six (32%) announcements going back to August 2023 were absent from the Council's dedicated Bond website, albeit all announcements were available at different areas of the website (e.g. committee reports, budget consultation etc.). These Bond webpage issues risk reputational damage. Also, a more minor matter was noted that three (60%) of five LSE announcements reviewed were approved by an officer without the necessary delegated authority, in breach of the Council's Scheme of Governance, albeit the Chief Officer – Finance was copied into the related emails.

Payment control arrangements are operating well. However, the various UK MAR compliance breaches risk mismanagement of inside information and FCA sanctions, whilst gaps in credit rating risk mismanagement, risk investor confidence, default events, and financial sustainability.

Recommendations have been made to address the above risks, including reviewing and updating policies and procedures; improving the system of control over bond training and the Council's Insider List and PDMR List; improving bond risk management arrangements; monitoring a SMART (specific, measurable, achievable, relevant and time-bound) action plan for Economic Policy Panel recommendations; and enhancing control over London Stock Exchange announcements.

## 2.3 Management response

*Observations and recommendations are duly noted as the Council aims to further improve on its overall Bond governance inclusive of all risks mitigations, reporting and settlement compliance, and credit rating stabilisation.*

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

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

Ref	Description	Risk Rating	Minor
1.1	<p><b>Written Policies and Procedures</b> – Comprehensive written policies and procedures, which are easily accessible, can reduce the risk of errors and inconsistency. They provide management with assurance correct and consistent instructions are available, especially in the event of an experienced employee being absent or leaving.</p> <p>In general, bond governance policies and procedures are fit for purpose. The Scheme of Governance covers some bond governance matters, including Chief Officer – Governance responsibilities to maintain Insider Lists and Chief Officer – Finance obligations to maintain a credit rating and cover London Stock Exchange (LSE) reporting requirements.</p> <p><u>Bond Governance Protocol</u></p> <p>The Council's Bond Governance Protocol adequately specifying requirements to help ensure compliance with UK MAR in relation to training and the management of inside information and the Council's Insider List.</p> <p>However, the Bond Governance Protocol was overdue review, scheduled for January 2023 and some minor updates are required in relation to an obsolete job titles and Committee reference and an incorrect Chief Officer – Finance delegation number reference (delegation 13 instead of 14).</p> <p>In addition, it was noted a regulation was referred to that is no longer in force (Commission Implementing Regulation (EU) 2016/347), albeit it was an easy process to identify the related regulation which superseded this.</p> <p><u>Treasury Manual</u></p> <p>Finance verifies interest and principal repayment values supplied by the Bond Calculation Agent based on calculations requirements specified in the Bond Offer Circular document. Whilst the spreadsheet used could be followed by Internal Audit with reference to the Bond Offer Circular, it was noted the Treasury Manual does not refer to the basis of the calculations or where the basis can be found i.e. the Bond Offer Circular. Similarly, the approach to verifying tax to be withheld based on tax certificates is not documented.</p> <p>In the interests of business continuity, the Treasury Manual should be updated to cover bond principal, interest and taxation checks undertaken by Finance.</p>		
<b>IA Recommended Mitigating Actions</b>			
<p>a) The Bond Governance Protocol should be reviewed and updated where necessary and arrangements established to adequately schedule future reviews.</p> <p>b) The Treasury Manual should document bond principal repayment, interest and taxation checks undertaken by Finance for business continuity purposes.</p>			
<b>Management Actions to Address Issues/Risks</b>			
<i>Recommended mitigating actions duly considered and will be actioned accordingly.</i>			
<b>Risk Agreed</b>		<b>Person(s)</b>	<b>Due Date</b>
a) Yes		a) Solicitor	a) March 2026
b) Yes		b) Accountant	b) October 2025



Ref	Description	Risk Rating	Minor

Ref	Description	Risk Rating	Moderate
1.2	<p><b>Training</b> – As detailed in the Bond Governance Protocol, training is available to staff and Councillors to provide guidance on:</p> <ul style="list-style-type: none"> <li>• What the bonds are.</li> <li>• Why the Council has issued them.</li> <li>• What a credit rating is.</li> <li>• The implications of the bonds and credit rating on how ACC operates.</li> <li>• Who should be on an insider list.</li> <li>• The implications of being on an insider list.</li> <li>• Where to go for further help and guidance.</li> </ul> <p>Section nine of the Bond Governance Protocol also states:</p> <p><i>“Training is <b>mandatory</b> for all individuals identified as being on the Permanent Insider List or on any Deal or Event Specific List and training records are maintained in ACC Learn for employees.”</i></p> <p>Furthermore, as detailed in section five of the Bond Governance Protocol, and to comply with the requirements of the Market Abuse Regulations 596/2014 Article 18 and EU Withdrawal Act 2020:</p> <p><i>“The Chief Officer - Governance is responsible for issuing a letter to all persons on the Insider List advising them of the legal and regulatory duties of being on the Insider List and making them aware of the sanctions involved...The Chief Officer - Governance will keep all letters issued and acknowledgment for a minimum of five years not otherwise retained by HR after the individual's last entry on the Insider List. All reasonable steps must be taken to ensure that an acknowledgment is received. Reasonable steps includes ensuring that training has been undertaken”.</i></p> <p>The Insider List is split into two sections – a Permanent section and a Deal Specific or Event Driven section. Section three of the Bond Governance Protocol states:</p> <p><i>“The Permanent Section of the list shall comprise of all persons who, due to their nature or function, have access at all times to all inside information. From an ACC perspective this will include:</i></p> <ul style="list-style-type: none"> <li>• <i>all Councillors</i></li> <li>• <i>the Chief Executive and all Directors</i></li> <li>• <i>all Chief Officers and</i></li> <li>• <i>any staff identified by a Chief Officer”.</i></li> </ul> <p>However, there was no record of mandatory training being delivered to three (15%) of 20 officers required to be on the Insider List and four (9%) of 45 Councillors and no acknowledgement letters were available during the course of this review from these individuals.</p> <p>Where individuals on the Council's Insider List are not adequately trained and do not acknowledge in writing the legal and regulatory duties entailed and that they are aware of the sanctions applicable to insider dealing and unlawful disclosure of inside information, this is a breach of UK MAR and risks potential unlawful disclosure of inside information and insider dealing, FCA sanctions and reputational damage.</p>		

Ref	Description	Risk Rating	Moderate
	<p><u>Persons Discharging Managerial Responsibilities</u></p> <p>In addition, in accordance with Article 19 of Regulation (EU) 596/2014 and the EU Withdrawal Act 2018, the Council's Bond Governance Protocol states:</p> <p><i>"Persons discharging managerial responsibilities (PDMRs), as well as persons closely associated with them, shall notify the issuer or the emission allowance market participant and the competent authority (Financial Conduct Authority):</i></p> <ul style="list-style-type: none"><li><i>a) in respect of issuers, of every transaction conducted on their own account relating to the shares or debt instruments of that issuer or to derivatives or other financial instruments linked thereto;</i></li><li><i>b) in respect of emission allowance market participants, of every transaction conducted on their own account relating to emission allowances, to auction products based thereon or to derivatives relating thereto...</i></li></ul> <p><i>Issuers and emission allowance market participants shall notify the person discharging managerial responsibilities of their obligations under this Article in writing. Issuers and emission allowance market participants shall draw up a list of all persons discharging managerial responsibilities and persons closely associated with them".</i></p> <p>However, the Council's PDMR list did not include one (5%) of 20 required Chief Officers as required and this Chief Officer had not been notified of their obligations in writing, in breach of UK MAR</p> <p>Similarly, where PDMRs are not adequately trained and notified of their obligations this is also a breach of UK MAR, and risks disclosure failures by PDMR or persons closely associated by PDMRs, again risking FCA sanctions and reputational damage.</p>		
IA Recommended Mitigating Actions			
	<ul style="list-style-type: none"><li>a) Governance should ensure mandatory training in relation to the Bond is completed as required and establish an adequate system of control to ensure this in future.</li><li>b) Governance should establish an adequate system of control to ensure individuals on the Council's Insider List acknowledge in writing the legal and regulatory duties entailed as a result of being on the Council's Insider List and that they are aware of the sanctions applicable to insider dealing and unlawful disclosure of inside information.</li><li>c) PDMRs should be notified in writing of their responsibilities relating to transactions in Council bonds by PDMRs and those closely associated to PDMRs.</li></ul>		
Management Actions to Address Issues/Risks			
Mitigating actions discussed with the Governance Team and will be actioned on accordingly.			
Risk Agreed	Person(s)	Due Date	
Yes	Solicitor	March 2026	

Ref	Description	Risk Rating	Moderate
1.3	<p><b>Credit Rating Risks</b> – In line with the Bond Trust Deed, the Council is required to use reasonable endeavours to maintain a credit rating and the Chief Officer – Finance has responsibility for ensuring this.</p>		

Ref	Description	Risk Rating	Moderate
	<p><u>Economic Policy Panel (EPP)</u></p> <p>The Council established the EPP in 2017 – as per the EPP’s Terms of Reference the scope of the panel’s work is to:</p> <ul style="list-style-type: none"> <li>• <i>“Produce an annual “state of the nation” economic report on the Aberdeen and regional economic performance.</i></li> <li>• <i>Undertake site visits twice a year to consult with business in key sectors on the issues, challenges and opportunities in Aberdeen and the wider North East region to inform that report.</i></li> <li>• <i>Provide constructive challenge on any widen interventions that could inform the Council’s annual credit rating assessment.”</i></li> </ul> <p>The EPP should meet biannually, and the annual economic reports are intended to support the Council’s credit rating, with the view that it will not be <i>“withdrawn or downgraded to a rating that is three notches (or more) lower than the long-term rating for sovereign bonds of the UK at that time”</i> which would trigger a Default Event giving Bondholders the option to redeem their bonds if so desired.</p> <p>The EPP has published six annual reports to date however it was noted a report was not published by the EPP in 2024, albeit Governance has advised annual reports will resume from 2025.</p> <p>Previous annual reports have considered various national and local economic indicators as well as sector specific matters, with related recommendations made to improve the economic prospects of Aberdeen and ensure the Council’s strategic priorities, capital plans and financial sustainability are achieved.</p> <p>However, there was no evidence that EPP recommendations have been considered, and a related SMART plan developed and monitored to ensure their implementation.</p> <p>This risks economic outcomes for Aberdeen, Best Value in terms of use of the work of the EPP, and potentially an unfavourable downgrade in the Council’s credit rating as a result, as well as a default event in line with the Bond Trust Deed, should the Council’s credit rating fall to three notches (or more) lower than the long-term rating for sovereign bonds of the UK.</p> <p><u>Credit Rating Agency Annual Report</u></p> <p>In addition, Council’s credit rating agency produces an annual credit opinion when issuing the Council’s credit rating. The most recent report in October 2024 highlighted factors that could lead to a credit rating downgrade, including a sustained deterioration in Council operating performance and a material depletion of useable reserves or a material increase in debt levels.</p> <p>Furthermore, the report highlighted the high and increasing debt levels affecting debt affordability, with an expectation that debt affordability will deteriorate further. Also, inflation risks were highlighted since the outstanding bond is linked to inflation and a limited proportion of the Council’s income is linked to inflation.</p> <p>Whilst risks relating to the Bond or Bond Governance are not specifically identified in the Council’s risk registers, the Risk Board does receive annual “three-minute brief” updates on the annual credit rating. However, these are high level focussing on the key dates of the review rather than the credit opinion risks and associated control actions.</p> <p>Where risks to the Council’s credit rating are not monitored and mitigating actions implemented, this again increases risks to the Council’s financial sustainability, future credit rating outcomes, a default event, and reputational damage.</p>		
	<b>IA Recommended Mitigating Actions</b>		

Ref	Description	Risk Rating	Moderate
	<p>a) Bond governance risks and associated controls should be assessed and monitored including those risking credit rating outcomes.</p> <p>b) A SMART action plan should be formalised and monitored to ensure implementation of Economic Policy Panel recommendations.</p>		
	<b>Management Actions to Address Issues/Risks</b>		
	<p><i>Mitigating actions duly noted.</i></p> <p><i>Recognizing these, collaboration between Finance (financial resilience monitoring), City Development (strategic advancement), and Governance (regulatory compliance in reference to financial obligations) to further identify and strengthen credit rating guardianship will continue.</i></p>		
	<b>Risk Agreed</b>	<b>Person(s)</b>	<b>Due Date</b>
	Yes	Deputy Chief Finance Officer	March 2026

Ref	Description	Risk Rating	Minor
1.5	<p><b>London Stock Exchange Disclosures</b> – Article 17(1) of the Market Abuse Regulations 596/2014, onboarded into UK law by the EU Withdrawal Act 2018 states:</p> <p><i>“An issuer shall inform the public as soon as possible of inside information which directly concerns that issuer.”</i></p> <p>The Bond Governance Protocol reiterates this requirement as it relates to the Council and contains a useful decision tree for determining what is and is not inside information, with examples of required London Stock Exchange (LSE) announcements.</p> <p>The Council's Powers Delegated to Officers delegates authority to the Chief Officer – Finance to approve notifications to the London Stock Exchange through a Regulatory Information Service (RNS Submit), with the Communications and Marketing Manager responsible for making the announcement on instruction by the Chief Officer - Finance.</p> <p>Whilst notifications were all present on the Council's website as required, issues were noted in relation to the accuracy and completeness of the dedicated Aberdeen City Council Bond page, which indicates it records all LSE announcements since 1 December 2016.</p> <p><u>Reporting Delay</u></p> <p>As stated in the Council's Bond Governance Protocol, in line with the Market Abuse Regulation Article 17 and EU Withdrawal Act 2020:</p> <p><i>“Where there has been a delay in disclosing inside information, the Chief Officer - Finance must notify the Financial Conduct Authority (FCA) of the delay immediately after publicly disclosing the information. Any decision to delay disclosure will be taken by the Chief Officer – Finance”.</i></p> <p>However, it was noted one (5%) of the 19 Council announcements present on the London Stock Exchange (LSE) news webpage, relating to quarter one financial results for 2024/25 appeared on the Council's website showing a date 10 days prior to its publication on the LSE news website, and there was no evidence the Council notified the FCA. The People and Citizen Service and Finance provided evidence that this had in fact been posted on time, but the recorded publication date was typed incorrectly – this was resolved during the course of this review.</p>		

Ref	Description	Risk Rating	Minor
	<p><u>Announcement Retention</u></p> <p>Article 17(1) of the Market Abuse Regulations 596/2014, onboarded into UK law by the EU Withdrawal Act 2018 also states:</p> <p><i>"The issuer shall post and maintain on its website for a period of at least five years, all inside information it is required to disclose publicly."</i></p> <p>However, six (32%) announcements going back to August 2023 were absent from the Council's dedicated Bond website, however all announcements were available at different areas of the website (e.g. committee reports, budget consultation etc.).</p> <p><u>Delegated Authority</u></p> <p>In addition, a relatively minor risk was noted that three (60%) of five LSE announcements reviewed were approved by the Finance Operations Manager between, albeit the Chief Officer – Finance was copied into the related emails.</p> <p>The Chief Officer – Finance has since sub-delegated the power to approve LSE notifications to the Finance Operations Manager on 22 May 2025.</p>		
	<b>IA Recommended Mitigating Actions</b>		
	<p>The system of control over LSE announcements should be reviewed and enhanced ensure accuracy of Bond related notifications and to ensure LSE announcements are maintained on the Council's website in line with UK MAR retention requirements.</p>		
	<b>Management Actions to Address Issues/Risks</b>		
	<p><i>Observations and recommendations duly noted. Most aptly implemented.</i></p> <p><i>Documented checks on published reports to be put in place immediately ensuring their timely release across the mandated mediums.</i></p> <p><i>People and Citizen Services - The instruction to post to the ACC website after the LSE announcement has been made is contained in guidance already held on the External Comms Teams site. Relevant staff have been reminded of its existence and the need to comply with it.</i></p>		
	<b>Risk Agreed</b>	<b>Person(s)</b>	<b>Due Date</b>
	Yes	Finance Operations Manager	Implemented

## 4 Appendix 1 – Assurance Terms and Rating Scales

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

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

Risk level	Definition
<b>Corporate</b>	This issue / risk level impacts the Council as a whole. Mitigating actions should be taken at the Senior Leadership level.
<b>Function</b>	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.
<b>Cluster</b>	This issue / risk level impacts a particular Service or Cluster. Mitigating actions should be implemented by the responsible Chief Officer.
<b>Programme and Project</b>	This issue / risk level impacts the programme or project that has been reviewed. Mitigating actions should be taken at the level of the programme or project concerned.

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

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

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

### 5.1 Area subject to review

In October 2016, the Council obtained its first credit rating, prior to issuing £370m of bonds in November 2016, on the London Stock Exchange, to finance the Council's capital investment programme.

The Bond Trust Deed (Deed) is a legal agreement made on 8 November 2016, between the Council and the Bond Trustee (BNY Mellon Corporate Trustee Services Limited), detailing the rights and obligations of both parties, in respect of bonds. In addition, there is an Agency Agreement dated 8 November 2016 between Aberdeen City Council (as Issuer), The Bank of New York Mellon (as Calculation Agent) and BNY Mellon Corporate Trustee Services Limited (as Bond Trustee).

These require the Council to:

- Settle Bond principal and interest payments owed<sup>12</sup>
- Maintain a Calculation Agent<sup>13</sup> and Paying Agent to calculate bond interest and principal payments owed and to make these payments on behalf of the Council to Bondholders.
- Withhold tax<sup>14</sup> on interest payments as required and make payments to HMRC<sup>15</sup>.
- Send to the Bond Trustee a copy of the Audited financial statements no later than 180 days<sup>16</sup> after the end of the financial year and a certificate covering any Events of Default<sup>17</sup>.

In addition, the Council is required to use reasonable endeavours to maintain a credit rating<sup>18</sup> during the term of the bonds, until the final instalment redemption date of 28 February 2054, when the outstanding principal will be repaid by the Council, and to do so the Council has appointed a credit rating agency who conduct credit rating reviews as required. The Aberdeen Economic Policy Panel produce an annual economic report on the Aberdeen and regional economic performance, with a view to providing constructive challenge and related recommendations on any wider interventions that could inform the Council's annual credit rating assessment.

The Council must also comply with the UK Market Abuse Regulation (UK MAR)<sup>19</sup>; the Financial Conduct Authority's Disclosure and Transparency Rules and Listing Rules (FCA Rules)<sup>20</sup> and the requirements of the London Stock Exchange (LSE) Admission and Disclosure Standards<sup>21</sup>. This means the Council must manage inside information, that is likely to have a significant effect on the price of issued bonds or on related derivative financial instruments, correctly to avoid insider dealing and misleading investors.

Sanctions imposed by the FCA for failing to comply with relevant legislation and regulations include suspension of trading on the LSE; unlimited fines; a statement published censuring the individuals concerned; and/or imprisonment.

### 5.2 Rationale for review

The objective of this audit is to obtain assurance over the governance arrangements in relation to the Council's bonds.

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<sup>12</sup> Bond Trust Deed: Promise to Pay on the day the money is due (Clause 2).

<sup>13</sup> Bond Trust Deed: Obligation to maintain a Paying Agent and Calculation Agent (Clause 15.2.1). See also Clause 1 for definitions of both phrases and refer to the Agency Agreement. Clause 2.2 of the Agency Agreement indicates that the Calculation Agent is appointed for the purpose of determining the interest and principal payable in respect of the bonds.

<sup>14</sup> Bond Trust Deed: Reference to FATCA (US withholding tax legislation) (Clause 23). Agency Agreement: The issuer (ACC) has responsibility for determining whether any deductions/withholdings are required (Clause 10) and Tax Certification Procedure (Clause 11).

<sup>15</sup> Bond Trust Deed: see Clause 5 and Schedule 2, paragraph 8 of the Agency Agreement.

<sup>16</sup> Bond Trust Deed: see Clause 15.1.5.

<sup>17</sup> Bond Trust Deed: see Clause 15.1.7.

<sup>18</sup> Bond Trust Deed: see Clause 15.3.3.

<sup>19</sup> [Market Abuse Regulation | FCA](#)

<sup>20</sup> [FCA Handbook - FCA Handbook](#)

<sup>21</sup> [LSEG Admission and Disclosure Standards | Effective July 2024](#)



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This has been included in the agreed Internal Audit plan due to the material value of the bonds, and the ongoing need to ensure payments and tax deductions are accurately calculated and related listing regulations and rules are complied with, to avoid financial loss, or sanctions as described above.

These areas were last reviewed in report AC1824 Bond Governance in February 2018 and report AC1921 Bond Trust Deed in January 2019 when compliance with arrangements was found to be generally adequate. Recommendations were however made to enhance the framework of control.

### 5.3 Scope and risk level of review

This review will offer the following judgements:

- An overall **net risk** rating at the **Function** 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 during the visits are:

- Governance, including Written Policies, Procedures and Training
- Risk Management
- Payment Accuracy and Timeliness
- Economic Policy Panel
- Regulatory Compliance including Management of Inside Information
- Bond Trustee Year End Compliance
- Registers of Interests
- Reporting and Monitoring Arrangements

### 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, Internal Audit will review relevant legislation, codes of practice, policies, procedures, and guidance.

This review will also encompass an evaluation of the governance, risk management and controls in place to achieve Best Value and to detect, prevent, and mitigate instances of fraud.

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 Committee (final only)
  - External Audit (final only)

### 5.6 IA staff

The IA staff assigned to this review are:

- Kostas Minas, 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
- Jonathan Belford, Chief Officer – Finance
- Bernie Bularan, Deputy Chief Finance Officer (**process owner**)
- Alan Thomson, Legal Services Manager
- Jess Anderson, Team Leader, Regulatory & Compliance
- Steven Inglis, Team Leader, Regulatory & Compliance
- Deirdre Nicolson, Solicitor, Regulatory & Compliance
- Neil Stewart, Accountant
- Lesley Fullerton, Finance Operations Manager

## 5.8 Delivery plan and milestones

The key delivery plan and milestones are:

Milestone	Planned date
Scope issued	08-May-25
Scope agreed	15-May-25
Fieldwork commences	26-May-25
Fieldwork completed	20-Jun-25
Draft report issued	11-Jul-25
Process owner response	01-Aug-25
Director response	08-Aug-25
Final report issued	15-Aug-25