

Internal Audit Final Report

Depute Chief Executive

Inverness and Highland City Region Deal

| Description | Priority | No. |
|---|----------|-----|
| Major issues that managers need to address as a matter of urgency. | High | 0 |
| Important issues that managers should address and will benefit the Organisation if implemented. | Medium | 3 |
| Minor issues that are not critical but managers should address. | Low | 0 |

Distribution:

Depute Chief Executive
Head of Development and Regeneration, Infrastructure, Environment and Economy
Programme Manager (City Deal), Infrastructure, Environment and Economy

Audit Opinion

The opinion is based upon, and limited to, the work performed in respect of the subject under review. Internal Audit cannot provide total assurance that control weaknesses or irregularities do not exist. It is the opinion that **Substantial Assurance** can be given in that while there is generally a sound system, there are minor areas of weakness which put some of the system objectives at risk, and/ or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.

Report Ref: HIE19/001
Draft Date: 28/06/2023
Final Date: 09/08/2023

1. Introduction

- 1.1 The previous audit review of the Inverness and Highland City-Region Deal (CRD) (Reference HEE03/003 reported on 27 March 2019) assessed whether the CRD was being managed in accordance with the agreed governance arrangements. We provided a "limited assurance" opinion and concluded that "there were some elements which should be strengthened to ensure that there is an appropriate level of governance in place".
- 1.2 The objective of this review was to ensure that the arrangements for the delivery of the CRD are effective in terms of financial probity and governance and reporting. The CRD sets out a series of projects and programmes which aim to boost the long-term productivity and economic growth of the region. The UK Government, the Scottish Government (SG), the Council and its regional partners agreed a total funding package of up to £315m.
- 1.3 The audit involved the testing of individual project claims to ensure that they have been made timeously, included only allowable expenditure and had been promptly paid. Additionally, the financial information reported for the programme/projects was assessed for accuracy and completeness, including the reporting of the CRD's overall financial position. It assessed if reimbursement claims were being submitted promptly to SG.
- 1.4 CRD projects were reviewed to ensure they were being managed in accordance with project management principles. It assessed if delivery partners provided timely information on the progression of projects, which were reviewed by the Council's CRD Team before reporting to the Council and SG. The review considered the following projects:

| Project | To 2021/22 £000s | 2022/23 £000s |
|---------------------------------|---------------------|------------------|
| Life Sciences Innovation Centre | 3,194 | 3,020 |
| Northern Innovation Hub | 4,099 | 1,248 |
| Science Skills Academy | 2,258 | 433 |
| Inverness Castle | 7,222 | 7,613 |
| Affordable Housing | 2,268 | 390 |
| Total | 19,041 | 12,704 |

2. Main Findings

2.1 *Financial Probity*

This objective was fully achieved. CRD project funding was agreed through the signing of an undertaking between each delivery partner and the Council (as accountable body). All delivery partners submitted quarterly financial reimbursement claims (with appropriate evidence), which had been signed by their Chief Financial Officer to declare that expenditure had been incurred in accordance with the signed undertaking. For external delivery partners an annual independent accounting certificate was also provided to confirm the validity of expenditure claimed. All claims had been approved by the CRD Team before being promptly paid to each delivery partner. The Council promptly submitted claims to the SG for the reimbursement of actual expenditure.

Project Boards (chaired by each delivery partner) and the CRD Programme Board (chaired by the Council) were held quarterly. Accurate and timely financial statements within Dashboard reports showed that planned, actual and forecast expenditure was presented at each Board meeting.

For the Northern Innovation Hub and Affordable Housing, the actual expenditure to 31/03/23 represented only 45% and 48% of total planned expenditure. This may mean that full spend is not achievable by end of the CRD programme (31/03/2027). The Council along with other City-Region Deals is having conversations with SG and UK Government to possibly extend the CRD programme to allow for the delays that resulted from COVID and Brexit.

2.2 *Governance and Reporting*

This objective was substantially achieved. There were full business cases for each project but 4 (80%) were not supported by evidence of approval from the Council/Programme Board or the SG/UK Government. (See Action Plan Reference: M1)

The presentation of dashboard reports to Project/Programme Boards demonstrates that both project risks and the delivery of milestones are being managed. The following risks were not included in the dashboard reports for Q3 and Q4:

- Life Sciences Innovation Centre – 2 Risks (Governances and project management structure is not able to respond to project demands and risk: residual risk score 12 “Amber” and Failure to access technical capabilities unavailable at UHI: residual risk score 6 “Amber”);
- Science Skills Academy – 1 Risk (Confusion over owner of Inverness Newton Room -Score 2 “Orange”);
- Inverness Castle – 4 Risks (IC001 - Impact of COVID-19: Post Mitigated Score 8 “Orange”, IC002 - Impact of Brexit: Post Mitigated Score 8 “Orange”, IC007 - Council's capital funding reduces or is removed: Post Mitigated Score 8 “Orange”, and IC025 - Main contractor goes into liquidation: Post Mitigated Score 12 “Red”); and
- Affordable Housing- 1 Risk (Legal Delays: “Amber”).

For 4 projects the milestones detailed in the Annual Implementations Plan (2022/23) have been fully reflected and are being monitored through the provision of dashboard reports to the CRD Programme Board. The only exception is the Inverness Castle Project where the 9 milestones have not been accurately and completely recorded. (See Action Plan Reference: M2)

CRD reports/briefings to members together with regular reporting to SG help to demonstrate effective governance. The (now) Depute Chief Executive chairs the CRD Programme Board and the CRD Team attend project board meetings. Boards are held to manage the risks, finances and providing technical assurance for all projects except for Affordable Housing. (See Action Plan Reference: M3)

3. Conclusion

- 3.1 The arrangements for the delivery of the City-Region Deal (CRD) are effective in terms of Financial Probity. The arrangements for Governance and Reporting are also broadly effective but could be improved through the implementation of the audit recommendations in section 4.

4. Action Plan

| Ref | Priority | Finding | Recommendation | Management Response | Implementation | |
|-----|----------|--|---|--|--|--------------------------|
| | | | | | Responsible Officer | Target Date |
| M1 | Medium | <p>4 (80%) projects had their business cases approved between 5 and 7 years ago. These projects are ongoing and have not reached project close. The CRD Team was unable to access records to evidence that they had been approved by the Council/Programme Board and reviewed/approved by the UK/SG Governments.</p> <p>The Council's Records Retention Schedule 20 (Management) requires for project management that "All documentation relating to the project: Specifications, plans, reports, correspondence, consultations etc," should be retained for a minimum period of 6 years from project closure.</p> | <p>Management should maintain evidence (e.g. a SharePoint site that is accessible to the whole CRD Team) to demonstrate that CRD projects have been approved by the Council/Programme Board and the UK/SG Governments. These records should be retained for a minimum period of 6 years from project closure.</p> | <p>Following additional resources being provided to this Programme there has been substantial review of existing process and file retention to ensure better practices are in place going forward.</p> | DEAL SRO /Programme Manager | 30/12/23 |
| M2 | Medium | <p>8 (11%) live red/amber risks (from project risk registers) and 9 (27%) milestones (from the Annual Implementation Plan) had not been included within the Q3 and Q4 Dashboard reports.</p> | <p>Management should ensure that all required risks and milestones are included in the dashboard reports so that the Programme Board has full oversight, is assured that projects are being properly managed and project benefits are being delivered.</p> | <p>All projects will be instructed on requirement for an audit trail of risks and that these should be included in their quarterly report.</p> <p>This year all projects have provided an update on 22/23 Milestones within the 2023/24 Implementation Plan as a one-off update. Projects will be reminded of the need to ensure all current year milestones are reported on within quarterly reports.</p> | DEAL SRO/ Programme Manager Programme Manager | 30/09/23 Complete |

| Ref | Priority | Finding | Recommendation | Management Response | Implementation | |
|-----|----------|--|---|--|--------------------------------|-------------|
| | | | | | Responsible Officer | Target Date |
| M3 | Medium | Boards were being held to manage the risks, finances and providing technical assurance for all projects except for Affordable Housing. | Management should ensure that in the absence of a formal board appropriate governance is being provided to manage the risks, finances and delivery of the Affordable Housing project. | <p>The Affordable Housing project forms part of the wider affordable housing programme which is jointly managed by The Highland Council and Scottish Government. The joint management team meets weekly and the affordable housing programme is reported to committee.</p> <p>Monthly meetings are held with the project team to discuss finances with risks and delivery reported quarterly to the CRD Programme Board.</p> | Affordable Housing Project SRO | Complete |