APPENDIX A

INTERNAL AUDIT REPORT 2022/25

Client	**Corporate**
Subject	**Tay Cities Region Deal**

Executive Summary

Conclusion

Substantial Assurance
Governance Structures and processes for the Tay Cities Region Deal are robust and well-designed. However, the failure of projects to present business cases in line with their originally agreed timescales presents a risk to the delivery of the Deal programme. We can observe that the Partnership is taking action to address this and other developing risks, such as the impact of inflation on the viability of proposed and ongoing projects. We have raised recommendations with a view to strengthening arrangements for monitoring, reporting, and risk management.

Introduction

The Tay Cities Region Deal Grant Offer terms for 2022-23 were issued by the Scottish Government on 1 July 2022 and signed by the Chief Executive of Dundee City Council, as Accountable Body, on behalf of the Tay Cities Region Deal.

The terms require that the Tay Cities Region Deal "should be subject to an audit, forming part of the Accountable Body's Risk Based Internal Audit Plan every second year as a minimum." This report is presented to the Tay Cities Region Joint Committee in fulfilment of that remit.

Background

The Tay Cities Region Deal (the Deal) is a programme of investment to deliver economic growth across the region. The Tay Cities Region Partnership (the Partnership) comprises Angus, Dundee City, Fife, and Perth & Kinross councils; the Higher and Further Education sectors; the business sector; the region's third sector interface bodies; Scottish Enterprise, Skills Development Scotland, Tactran, and Visit Scotland.

The Scottish and UK governments have each agreed to invest up to £150 million in the Deal. This investment has the potential to secure over 6,000 jobs and generate £400 million of investment over 15 years. It will enable the region to "empower and promote inclusion", "innovate and internationalise" and "connect". The Deal was signed on 17 December 2020.

An internal audit was carried out in 2020/21 (Year 1), which considered the developing governance structures, and processes for approval of business cases and monitoring of project implementation. Responsibility for administering these rests with the Project Management Office (PMO) which comprises a group of officers employed by Dundee City Council as Lead Authority and Accountable Body for the Deal. Two projects had progressed to the stage of drawing down funds at the time of the previous audit.

There is an agreed Governance Structure set out in the signed Deal Document (https://www.taycities.co.uk/sites/default/files/tay_cities_deal_doc_feb_8.pdf). This includes the Tay Cities Region Joint Committee (the Joint Committee) which was established by Local Authority Partners in 2017. It is governed by the Joint Committee Governance Agreement. It has two roles: to lead economic regional collaboration and be the ultimate regional decision making body for the Deal.

The Joint Committee is the decision making body for the release of any funding. It is supported by a broad range of boards, groups and forums. These include three advisory groups, two forums to provide an interface with the Education and Business Sectors, and five Thematic Boards with remits aligned to the Regional Economic Strategy priorities. Going forward, the Joint Committee will continue to have a role in considering and approving business cases. In addition to this, it will have a key role in monitoring and evaluation of delivery of the commitments within the Deal.

At the time the review was planned in September 2022, 17 projects, 2 programmes, and 1 fund had received approval from the Joint Committee, and the programme was forecasting a £0.75m underspend against a draw down profile of £38m in capital and revenue funding for Year 3.

Since the outset of the review, the Partnership has reported that a total of £33.9m acceleration has been awarded by the Scottish Government, and just over £100m of funding has been released. £231m of Investment has been approved by Joint Committee and £123m of leverage secured. The Deal has thus far created 677 jobs. These are set out in more detail in the Annual Performance Report (https://www.taycities.co.uk/sites/default/files/2023-03/Annual%20Performance%20Report%20Oct%202021%20-%20Sep%202022.pdf)

The Partnership have stated that they have undertaken two Annual Conversations with the Scottish and UK Governments, in which they have been complimented on their progress of delivering the Deal, and recognised as an exemplar, developing and leading the national PMO networking group and sharing best practice with other Deals.

Scope

High level review of progress with Tay Cities Region Deal projects and compliance with grant offer guidance.

The overall objective is to confirm that there are adequate controls in place to ensure that projects are approved in a timely manner, and that compliance with grant award conditions and project progress is monitored and reported.

Objectives

		Action Priority and No.			
		C	H	M	L
1 Review the effectiveness and efficiency of arrangements for the submission, scrutiny, approval, and change of business cases, including alignment with the timing requirements of the funding agreement.	**Substantial Assurance**	-	1	-	-
2 Confirm that projects are required, through governance and grant conditions, to apply adequately robust project management to support monitoring and reporting.	**Comprehensive Assurance**	-	-	-	-
3 Review the arrangements for the monitoring and reporting of project progress, and escalation procedures where projects do not achieve planned milestones or deliver planned objectives.	**Substantial Assurance**	-	1	-	2
4 Confirm that funding is only drawn down from Scottish Government on submission of a complete, timely drawdown request in compliance with a clearly defined procedure.	**Comprehensive Assurance**	-	-	-	-
TOTAL		-	2	-	2

Definitions of levels of Assurance and Action Priorities are set out at Appendix B.

Key Findings

We identified a number of areas of good practice:

- There is a clearly articulated and well-established approval pathway for Tay Cities Region Deal Business Cases, supported by a coordinated forward plan for committee work.
- Grant Conditions require that funded projects establish, monitor, and communicate their progress, in terms of adherence to financial plans and achievement of planned milestones.
- Drawdown requests are submitted to the Scottish Government through a well documented process which includes multiple levels of approval, assessment of eligibility of claimed spend, and appropriate segregation of duties.
- A structured approach to Benefits Realisation management is in development, with good progress on developing reporting on project benefits and commitments. A Benefits Realisation Plan is in place, and a reporting cycle for reporting has been agreed with both Governments.
- The Project Management Office (PMO) has successfully advertised and filled two of its three vacant posts during the completion of fieldwork. Fully staffing the PMO

will take pressure off the current team, maintaining its existing high level of delivery and reducing overall delivery risk to the Deal programme.

We have identified the following areas for improvement:

- No funding can be claimed without an approved Business Case. Projects are requested to secure approval ahead of the financial year in which they are profiled to drawdown funding. This requirement has been in place since Heads of Terms were agreed and is to ensure that funding can be drawn down from government in line with the agreed Deal funding profile. The Deal is now in Year 4 of Delivery. Some Projects are failing to present Business Cases in line with these timescales, with the result that they are not securing approval ahead of their awarded funding profile. Failure to achieve planned timetables and financial profiles on the part of individual projects places risk on both the Project Owner and the Partnership's management and delivery of the Programme. This has to date been primarily managed through acceleration of drawdown for those projects which are able to spend ahead of their planned profile, however the programme is entering a period in which there are fewer options to accelerate funding in this way. It is therefore important that the Partnership address the issue of late submission of business cases as a matter of urgency. Partnership Sponsors should reiterate to Project Owners the requirement to adhere to business case deadlines, and the consequences of failing to do so.
- A risk register reporting process has been agreed with the Partnership and both Governments. While there is good evidence of action to quantify and put in place mitigations for new and emerging risks, these actions and their impact is not always clearly reflected in the programme risk register. Where risk scores are persistently high, the risk register does not clearly distinguish whether this is a result of external factors or if there are required enhancements to internal control.
- The form and content of reporting to the Management Group, Joint Committee and both Governments has been developed from Heads of Terms. There is not currently a formal review process of this. Putting in place a mechanism to confirm that the content of reporting meets the needs of the Partnership would enhance scrutiny.
- There is limited visibility of issues of compliance with monitoring requirements. Overall project governance would be enhanced by regular reporting to the Management Group of the extent to which projects are providing, on a timely basis, the monitoring information set out in their grant terms.
- A small number of housekeeping matters were also discussed and resolved during the audit.

In some areas, we found that changes to processes were already under development which addressed matters which may otherwise have been raised as findings:

- There is an agreed change control process developed by the Partnership with both Governments. However, it is recognised by both Governments and the Partnership that due to the impact of inflation, the process requires a review and refresh. This is underway with a target completion date of 31 December 2023.
- The PMO has recently developed an early warning process to highlight any significant risks around the delivery of a Project or commitments to the Management Group.

Impact on risk register

The Tay Cities Region Deal risk register included, as at July 2023, multiple red-rated risks:

- **Global Supply Chain Issues. Combined effect of Brexit / Covid / Ukraine Conflict** (residual risk score 25) (note that this risk encapsulates the impact of inflation arising from these factors)
- **Programme Management** (residual risk score 25)
- **PMO resource and capacity issues** (residual risk score 25)
- **Delays in development and approval of business cases** (residual risk score 16)
- **Failure to deliver individual projects within the TCD programme** (residual risk score 16)

The risk titled "Global Supply Chain" brings together a number of existing pressures impacting upon the viability of individual projects. The maximum scoring (impact 5, likelihood 5) reflects that these risks are not yet fully quantified, and not yet mitigated. In particular, the impact of Inflation has been discussed in detail by the Partnership since spring 2022, and is reflected in standing items on both the Management Group and Joint Committee agendas. The Tay Cities Region Deal PMO has also led a discussion through the PMO network, with contributions from both Governments.

Since the completion of audit fieldwork, we have been provided with additional evidence outlining the work that the Partnership has undertaken to assess the impact on business case assumptions and the viability of projects. The present inflationary environment means that financial assumptions may no longer hold, or will need to be revised, and as noted above the change process is being reviewed to take account of the impact of inflation. It is likely that within the medium term either a project will indicate, or the Partnership will determine, that a project or projects is either no longer viable or no longer capable of delivering its planned benefits.

Recommendation 2 notes that risks linked to inflation arise as a consequence of factors that are outwith the control of projects or the Partnership, meaning that it may not be possible to fully mitigate their impact. This can present a reporting issue as it may be deemed appropriate for residual risk scoring to remain high, potentially obscuring the effect of those controls which can be applied within the scope of the Partnership's influence. We have proposed a means of factoring this into the Programme risk register to better support scrutiny of risk management.

Delays in the submission of business cases exacerbate the risk that a project's viability will be threatened by increasing costs. We have made recommendations which relate to the controls around the management of business case presentation.

The majority of mitigations for these risks relate to the management of the timetable for business case approval, management of project expenditure against the Deal funding drawdown profile, and monitoring of project progress. Our findings indicate that there is scope for more proactive management of these issues.

Projects themselves must, under the terms of their grant agreements, monitor and report on delivery risk to the PMO. Recommendation 4 relates to the controls which enable the Partnership to gain additional assurance that these arrangements are operating effectively and that these risks are being managed.

Definitions of Levels of Assurance

Comprehensive Assurance	The system of controls is essentially sound and supports the achievement of objectives and management of risk. Controls are consistently applied. Some improvement in relatively minor areas may be identified.
Substantial Assurance	Systems of control are generally sound, however there are instances in which controls can be strengthened, or where controls have not been effectively applied giving rise to increased risk.
Limited Assurance	Some satisfactory elements of control are present, however weaknesses exist in the system of control, and / or their application, which give rise to significant risk.
No Assurance	Minimal or no satisfactory elements of control are present. Major weaknesses or gaps exist in the system of control, and / or the implementation of established controls, resulting in areas of unmanaged risk.

Definitions of Action Priorities

Critical	**Very High risk exposure to potentially major negative impact** on resources, security, records, compliance or reputation from absence of or failure of a fundamental control. Immediate attention is required.
High	**High risk exposure to potentially significant negative impact** on resources, security, records, compliance or reputation from absence of or non-compliance with a key control. Prompt attention is required.
Medium	**Moderate risk exposure to potentially medium negative impact** on resources, security, records, compliance or reputation from absence or non-compliance with an important supporting control, or isolated non-compliance with a key control. Attention is required within a reasonable timescale.
Low	**Low risk exposure to potentially minor negative impact** on resources, security, records, compliance or reputation from absence of or non-compliance with a lower level control**, or areas without risk exposure but which are inefficient, or inconsistent with best practice.** Attention is required within a reasonable timescale.