

## **Item: 3**

**Monitoring and Audit Committee: 8 February 2024.**

**Internal Audit Report: Islands Growth Deal Governance Arrangements.**

**Report by Chief Internal Auditor.**

### **1. Purpose of Report**

To present the internal audit report on procedures and controls relating to the Governance of the Islands Growth Deal.

### **2. Recommendations**

The Committee is invited to scrutinise:

#### **2.1.**

The findings contained in the internal audit report, attached as Appendix 1 to this report, reviewing governance arrangements in place for the Islands Growth Deal, in order to obtain assurance that action has been taken or agreed where necessary.

### **3. Background**

#### **3.1.**

The UK and Scottish Governments have each committed to invest £50 million over a ten-year period in the Islands Growth Deal. The Deal was developed by Orkney Islands Council, Shetland Islands Council and Comhairle nan Eilean Siar in conjunction with various partners from the public, academic, business and community sectors.

#### **3.2.**

Comhairle nan Eilean Siar is the Lead Authority and there is a joint governance agreement between the three authorities to manage the Deal.

#### **3.3.**

The objective of this audit was to ensure that there are appropriate controls in place relating to the governance of Islands Growth Deal projects within Orkney Islands Council.

## **4. Audit Findings**

### **4.1.**

The audit provides substantial assurance that controls relating to the Islands Growth Deal Governance Arrangements are well controlled and managed.

### **4.2.**

The internal audit report, attached as Appendix 1 to this report, includes two low priority recommendations regarding risk management and procedural notes. There are no medium or high priority recommendations made as a result of this audit.

### **4.3.**

The Committee is invited to scrutinise the audit findings to obtain assurance that action has been taken or agreed where necessary.

## **5. Corporate Governance**

This report relates to the Council complying with governance and scrutiny and therefore does not directly support and contribute to improved outcomes for communities as outlined in the Council Plan and the Local Outcomes Improvement Plan.

## **6. Financial Implications**

There are no financial implications associated directly with the recommendations in this report.

## **7. Legal Aspects**

Complying with recommendations made by the internal auditors helps the Council meet its statutory obligations to secure best value.

## **8. Contact Officer**

Andrew Paterson, Chief Internal Auditor, extension 2107, email [andrew.paterson@orkney.gov.uk](mailto:andrew.paterson@orkney.gov.uk).

## **9. Appendix**

Appendix 1: Internal Audit Report: Islands Growth Deal Governance Arrangements.



## Internal Audit

### Audit Report

### Islands Growth Deal Governance Arrangements

Draft issue date: 1 December 2023

Final issue date: 17 January 2024

<b>Distribution list:</b>	<p><b>Corporate Director for Enterprise and Sustainable Regeneration</b></p> <p><b>Head of Enterprise and Economic Growth</b></p> <p><b>Head of Legal and Governance</b></p> <p><b>Service Manager (Sustainable Regeneration and Arctic)</b></p>
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## Audit Opinion

Based on our findings in this review we have given the following audit opinion.

### Substantial

**The framework of governance, risk management and control were found to be comprehensive and effective.**

A key to our audit opinions and level of recommendations is shown at the end of this report.

## Executive Summary

The Islands Growth Deal is a £100 million programme jointly funded by the UK and Scottish Governments. It is a 10-year package of investment that will seek to drive economic growth and the creation of sustainable jobs across Orkney, Shetland and the Outer Hebrides. The Islands Deal was developed by Orkney Islands Council, Comhairle nan Eilean Siar and Shetland Islands Council together with their partners in the public, academic, business and community sectors.

Following the signing of the Heads of Terms Agreement in March 2021 an appropriate governance framework was established within the Islands Deal Programme Management Office.

The Full Deal Agreement for the Islands Growth Deal was signed in Orkney on 20 January 2023 by the three Islands Councils and both Governments. The deal will provide capital investment to sixteen projects across the island regions, including three pan-island programmes. Projects are aligned to three themes: Leading the way to a Low Carbon Future; Supporting Growth and Future Industries; and Thriving, Sustainable Communities.

Investment in the approved projects will be over 10 years and is subject to approval of full business cases by the Islands Growth Deal Joint Committee, and acceptance by the UK and Scottish Governments.

The report includes 2 recommendations which have arisen from the audit. The number and priority of the recommendations are set out in the table below. The priority headings assist management in assessing the significance of the issues raised.

Responsible officers will be required to update progress on the agreed actions via Pentana Risk.

Total	High	Medium	Low
2	0	0	2

## Introduction

The UK and Scottish Governments have each committed to invest £50 million over a ten-year period in the Islands Growth Deal (the Deal). It is hoped that this will attract a further £293 million of investment.

The Deal was developed by Orkney Islands Council, Shetland Islands Council and Comhairle nan Eilean Siar in conjunction with various partners from the public, academic, business and community sectors. Comhairle nan Eilean Siar is the Lead Authority and there is a joint governance agreement between the three authorities to manage the Deal.

The Deal will invest in sixteen projects and programmes built around three themes of low carbon, supporting growth and future industries, and thriving sustainable communities.

A local Programme Board has been established to bring together lead officers involved in the Deal to support progression of the Deal and maximise local benefit and impact.

This review was conducted in conformance with the Public Sector Internal Audit Standards.

This audit was undertaken at the request of the Service Manager for Sustainable Regeneration and Arctic and assistance provided by officers contacted during this audit is gratefully acknowledged.

## Audit Scope

The objective of this audit was to ensure that there are appropriate controls in place relating to the governance of Islands Growth Deal projects within Orkney Islands Council. The scope of the audit includes:

- Ensuring that governance arrangements have been clearly defined and documented.
- Ensuring that key roles and responsibilities have been clearly defined and understood.
- Confirming that appropriate policies and procedures were in place for developing and appraising business cases.
- Confirming that the Council's business cases were produced, appraised and submitted for approval in line with agreed protocols.
- Ensuring plans are in place for the implementation of approved business cases and there are processes for ongoing monitoring and scrutiny.
- Confirming that there is adequate monitoring and scrutiny of funding received and that any returns required are submitted on a timely basis.

# Audit Findings

## 1.0 Governance Arrangements

- 1.1 A joint governance structure has been put in place to manage the Islands Growth Deal, this includes the following bodies: Joint Committee, Programme Management Board, Advisory Forum, Local Programme Boards, Finance Directors Group and the Legal and Governance Group. Membership and terms of reference have been agreed and documented for these bodies. OIC representatives have been appointed to the various governance bodies mentioned above.
- 1.2 The purpose of the Orkney Local Programme Board has been defined as “To bring together lead officers involved in the development and implementation of the Islands Deal in Orkney to support successful progression of all aspects of the Islands Deal for Orkney, maximising local benefit and impact”. The Terms of Reference for the Local Programme Board detailing the remit, focus and membership have been agreed. The Local Programme Board meets on a monthly basis in accordance with its Terms of Reference.
- 1.3 A Microsoft Teams channel has been set up by the Service Manager (Sustainable Regeneration and Arctic) to share background information, guidance documents, individual project documents and documents from Local Programme Board meetings.
- 1.4 Outline business cases for all of the projects led by the Council have been developed in line with the Treasury Green Book, work is ongoing to finalise the outline business cases.
- 1.5 Drawdown of funding can only commence once a full business case for a project has been approved. To date none of the ‘Orkney’ projects have reached this stage and no funds have been drawn down.
- 1.6 There is an overall risk register for the programme which is reviewed by the Programme Board and Joint Committee quarterly. To ensure that local risks are identified and managed appropriately the local risks and issues from a project and Orkney level should be incorporated within the local register and reported to the Local Programme Board monthly meetings.

### Recommendation 1

- 1.7 Although no issues were identified with the administration of the Orkney Programme, formal detailed written process and procedural notes covering all aspects of the administration of the Orkney Programme were being proposed and should be developed to ensure consistency of approach and continuity in the event of staff changes.

### Recommendation 2

## Action Plan

Recommendation	Priority	Management Comments	Responsible Officer	Agreed Completion Date
<p>1 To ensure that local risks are identified and managed appropriately the local risks and issues from a project and Orkney level should be incorporated within the local register and reported to the Local Programme Board monthly meetings.</p>	<p>Low</p>	<p>Agreed</p>	<p>Service Manager Sustainable Regeneration and Arctic</p>	<p>31 July 2024</p>
<p>2 Formal detailed written process and procedural notes covering all aspects of the administration of the Orkney Programme should be developed to ensure consistency of approach and continuity in the event of staff changes.</p>	<p>Low</p>	<p>Agreed</p>	<p>Service Manager Sustainable Regeneration and Arctic</p>	<p>31 July 2024</p>

## Key to Opinion and Priorities

### Audit Opinion

Opinion	Definition
<b>Substantial</b>	The framework of governance, risk management and control were found to be comprehensive and effective.
<b>Adequate</b>	Some improvements are required to enhance the effectiveness of the framework of governance, risk management and control.
<b>Limited</b>	There are significant weaknesses in the framework of governance, risk management and control such that it could be or become inadequate and ineffective.
<b>Unsatisfactory</b>	There are fundamental weaknesses in the framework of governance, risk management and control such that it is inadequate and ineffective or is likely to fail.

### Recommendations

Priority	Definition	Action Required
<b>High</b>	Significant weakness in governance, risk management and control that if unresolved exposes the organisation to an unacceptable level of residual risk.	Remedial action must be taken urgently and within an agreed timescale.
<b>Medium</b>	Weakness in governance, risk management and control that if unresolved exposes the organisation to a significant level of residual risk.	Remedial action should be taken at the earliest opportunity and within an agreed timescale.
<b>Low</b>	Scope for improvement in governance, risk management and control.	Remedial action should be prioritised and undertaken within an agreed timescale.