Internal Audit Report

City Region Deal: Governance and Financial Management

11 August 2026

CRD2601

Overall Assessment	Reasonable Assurance

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This Internal Audit review is conducted for the Edinburgh and South East Scotland City Region Deal by the City of Edinburgh Council under the auspices of the 2026/27 internal audit plan approved by the Governance, Risk and Best Value Committee in March 2026. The review is designed to help the Edinburgh and South East Scotland City Region Deal assess and refine its internal control environment. It is not designed or intended to be suitable for any other purpose and should not be relied upon for any other purpose. The City of Edinburgh Council accepts no responsibility for any such reliance and disclaims all liability in relation thereto.

The internal audit work and reporting has been performed in line with the requirements of the Global Internal Audit Standards (UK Public Sector) and as a result is not designed or intended to comply with any other auditing standards.

Although there are specific recommendations included in this report to strengthen internal control, it is management's responsibility to design, implement and maintain an effective control framework, and for the prevention and detection of irregularities and fraud. This is an essential part of the efficient management of the Edinburgh and South East Scotland City Region Deal. Communication of the issues and weaknesses arising from this audit does not absolve management of this responsibility. High and Critical risk findings will be raised with senior management and committee members as appropriate.

Overall Assessment	Reasonable Assurance

Executive Summary

Engagement conclusion and summary of findings

There is a generally sound system of governance, risk management and control in place across the governance and financial management arrangements of the City Region Deal (CRD) programme. The following areas for improvement were identified, which provide opportunities to further strengthen governance, financial stewardship, compliance and oversight arrangements:

- risk management arrangements should be strengthened through identification and monitoring of fraud and Serious Organised Crime risks, clearer time-bound mitigating actions within the programme risk register, and formalised fraud incident reporting and oversight arrangements
- governance arrangements should be reviewed with standardised and regularly reviewed Terms of Reference, more formalised action tracking and work programme arrangements, and the maintenance of accurate and up-to-date governance documentation
- programme financial governance requires moderate improvements to ensure robust oversight and reporting of in-year project funding movements, the implementation of a programme-wide change control register, independent review of financial returns prior to submission to funding partners, and effective data validation controls over grant claim processing
- programme compliance and grant administration require more robust controls including the establishment of a centralised issue register, strengthened independent quality assurance reviews over compliance declarations, and the consistent documentation and approval of grant amendments.

Areas of effective practice

- ✓ financial, delivery, and compliance risks were identified, recorded, and monitored through a programme risk register, supported by regular reviews and updates
- ✓ standardised reporting arrangements and reporting timetables were in place to support the timely provision of financial, risk, governance, and performance information to programme governance bodies
- ✓ arrangements were in place to review and challenge financial and performance information submitted by the delivery partners
- ✓ sufficient validation, reconciliation, and approval controls were applied to grant claims received from delivery partners prior to submission to funders, supporting the accuracy of grant claims and compliance with funding conditions
- ✓ appropriate reporting arrangements, supported by standardised reporting templates and timetables, were in place to promote consistency, completeness, and timely submission of returns to funders.

Audit Assessment

Audit Area	Control Design	Control Operation	Findings	Priority Rating
Risk Management			Finding 1 – Risk Management and Fraud Prevention	Medium Priority
Governance and Decision Making			Finding 2 – Terms of Reference, Action Tracking, and Governance Hierarchy	Medium Priority
Financial Management and Reporting			Finding 3 – Financial Reporting, Data Validation, and Change Control	High Priority
Grant Compliance and Eligibility of Expenditure			Finding 4 – Issue Log, Annual Compliance, and Grant Amendments	Medium Priority
External Reporting and Accountability			See Finding 3 and Finding 4	See Findings 3 and 4

See Appendix 1 for Control Assessment and Assurance Definitions

Background and scope

The Edinburgh and South East Scotland City Region Deal (CRD) is a long-term regional partnership involving multiple local authorities, universities and public sector partners, delivering a portfolio of projects supported by significant investment from the UK and Scottish Governments. The deal represents a total investment of approximately £1.7 billion over a 15-year period, including up to £600 million jointly funded by the UK and Scottish governments.

The CRD is supported by a formal governance framework designed to enable transparent, region-wide decision making and effective programme oversight. The governance structure comprises a Joint Committee as the primary decision-making body, supported by an Executive Board, Advisory Boards and Groups, Thematic Advisory Boards, and project-level groups.

The City of Edinburgh Council (CEC) acts as the Accountable Body and is responsible for the stewardship of all grant funding. This includes ensuring compliance with grant conditions, maintaining effective financial management, and exercising appropriate oversight of delivery partners. A dedicated Programme Management Office (PMO) within the Council supports delivery of the Accountable Body role, including coordination of financial reporting, monitoring, and engagement with partners. Funding from the UK and Scottish Government is administered through the Accountable Body, with grant payments made quarterly in arrears where applicable, and supported by grant claims and evidence of expenditure from partners.

Given the scale, complexity and partnership nature of the programme, there are inherent risks relating to governance, financial management, compliance with grant conditions, and the quality of information supporting decision-making and accountability across partner organisations.

Scope

The objective of this review was to assess the adequacy of design and operating effectiveness of the key controls established to ensure effective programme-level governance and financial management arrangements are in place for the CRD including how CEC, in its role as Accountable Body, exercises oversight, stewardship, and accountability for programme funds.

Alignment to Risk

The review also considered assurance in relation to the following City of Edinburgh Council risk categories:

- Regulatory and Legislative Compliance
- Governance and Decision Making
- Financial and Budget Management
- Strategic Delivery
- Programme and Project Delivery
- Fraud and Serious Organised Crime.

Limitations of Scope

The following areas were excluded from scope:

- detailed project management arrangements at individual project level (except where required to support sample testing)
- detailed benefits realisation frameworks and outcomes tracking (covered in previous Internal Audit work in 2025/26).

Reporting Date

Testing was undertaken between 18 May 2026 and 19 June 2026.

Audit work concluded on 24 June 2026, and the findings and opinion are based on the conclusion of work as at that date.

Findings and Management Actions

Finding 1 – Risk Management and Fraud Prevention

Finding Rating	Medium Priority

Risk management actions

Risk management actions should be defined in line with SMART principles (Specific, Measurable, Achievable, Relevant, and Time-bound), enabling effective monitoring, accountability, and timely risk mitigation.

Review of the City Region Deal (CRD) Programme Risk Register identified that completion due dates for 3 of the 13 mitigating actions reviewed were incomplete or inconsistently recorded. Specifically, some mitigating actions were noted as 'In Progress', while others included only partial due date information, resulting in ambiguity regarding the intended completion timescales.

Fraud and Serious Organised Crime (SOC) risks

The CRD programme follows the City of Edinburgh Council's Risk Management Framework for the management of programme-level risks, which requires fraud risks to be addressed through the risk management methodology, with specific fraud risks captured and monitored within service or team risk registers.

The March 2026 CRD Programme Risk Register had only one fraud-related risk recorded, primarily focused on financial fraud associated with programme activities. The Risk Register does not indicate a broader identification and assessment of other non-financial fraud and SOC risks, relevant to the programme environment such as operational fraud, procurement and contractor fraud, conflicts of interest, and manipulation of performance reporting. As a result, it doesn't fully demonstrate alignment with the requirements of the Economic Crime and Corporate Transparency Act 2023 (ECCTA) introduced a failure to prevent fraud offence in September 2025.

In addition, the recorded fraud risk was categorised under the Financial and Budget Management category instead of the Fraud and SOC category set out in the CEC Risk Management Framework.

Fraud reporting arrangements

The Internal Audit report City Region Deal - Managing Cost Inflation (July 2024) included a recommendation for the PMO to establish a CRD programme fraud register to record any fraud attempts, actual fraud incidents, and related matters. The agreed management action was to implement a fraud register, introduce a process to obtain fraud related updates from delivery partners, and report these to the Chief Financial Officer (CFO) Group on a six-monthly basis.

Testing confirmed that a fraud register was implemented. However, the PMO did not circulate email communication periodically to the delivery partner seeking confirmation of fraud related incidents during 2025-26. In addition, no fraud updates, including nil-returns, were reported to the CFO Group during the period.

Following audit inquiry, the PMO circulated emails to delivery partners to obtain confirmation of any incidents, including nil returns, and updated the fraud register based on the responses received.

Risks

- **Fraud and SOC –** failure to appropriately identify and categorise fraud and SOC risks may result in inadequate risk assessment mitigating actions increasing the risk of fraud-related threats to the programme
- **Governance and Decision Making** - incomplete risk information and reporting may limit management's ability to make informed decisions and provide effective oversight of programme risks

- **Programme and Project Delivery** - weakness in risk management, monitoring, and action tracking may result in identified risks not being managed effectively, impacting the successful delivery of programme objectives.

Recommendations and Management Actions: Risk Management and Fraud Prevention

Ref.	Recommendation	Agreed Management Action	Action Owner	Lead Officers	Timeframe
1.1	The PMO should ensure that all risk mitigation actions are recorded consistently within the risk register. Actions should be specific, measurable, achievable, relevant, and time bound.	This recommendation will be incorporated into the next quarterly risk register update.	Head of the City Region Deal PMO	Senior Programme Officer	04/09/2026
1.2	The PMO should undertake a comprehensive Fraud and Serious Organised Crime (SOC) risk assessment relevant to programme activities, including non-financial fraud risks such as operational fraud, procurement and contractor fraud, conflicts of interest, manipulation of performance reporting, bribery and corruption, supply chain-related risks and other relevant SOC risks. This should include consideration of the requirements of the Economic Crime and Corporate Transparency Act 2023 (ECCTA) failure to prevent fraud offence. Advice in this specific area should be sought from the CEC Risk Management team.	This will be undertaken.	Head of the City Region Deal PMO	Senior Programme Officer	31/01/2027
1.3	Identified Fraud or Serious Organised Crime (SOC) risks should be recorded under the 'Fraud and Serious Organised Crime' (SOC) enterprise risk category within the programme risks registers and assessed, rated, monitored and supported by appropriate mitigating actions in line with the Council's Risk Management Framework.	This will be undertaken.	Head of the City Region Deal PMO	Senior Programme Officer	31/01/2027
1.4	The PMO should fully implement the agreed management actions in relation to the fraud register by establishing a periodic process to obtain fraud-	Agreed. Confirmation now received from partners for 25/26 period. Fraud Register will be taken to next CFO	Head of the City Region Deal PMO	Programme Accountant	31/03/2027

Ref.	Recommendation	Agreed Management Action	Action Owner	Lead Officers	Timeframe
	related updates from delivery partners and reporting these, including nil returns, to the CFO Group in accordance with the agreed reporting frequency.	Group Meeting and at the agreed intervals thereafter. The PMO Accountant will seek updates from partners at the agreed intervals.			

Finding 2 – Terms of Reference, Action Tracking, and Governance Hierarchy

Finding Rating	Medium Priority

Terms of Reference

The City Region Deal (CRD) Deal Document sets out the governance structure for the programme, including the Joint committee, Advisory Boards / Groups, Thematic Advisory Boards, and Project Groups. Annex to the Deal Document provides a summary of the key elements that should be included within the Terms of Reference (ToR) for the CRD governance bodies, and states that the governance structure should be reviewed annually by the Joint Committee as part of the Annual Report process. To support effective governance, each active governance body should have a clearly documented and formally approved ToR that is periodically reviewed and updated as required.

Review of a sample of 11 CRD governance bodies, consisting of the Joint Committee, Elected Member Oversight Committee, five Advisory Boards / Groups, and four Thematic Advisory Boards, identified the following:

- for 7 of the 11 governance bodies sampled, no separate ToRs were in place, including the Joint Committee. The PMO advised that these bodies instead rely on the 'Summaries of Terms of Reference', included within the Annex to the CRD Deal Document (2018). However, the Deal Document provides only a high-level summary and does not provide the level of detail that would typically be expected within a standalone ToR
- for the 4 ToRs that are in place, only 1 had been reviewed recently (in 2025). The other 3 had not been reviewed following their original approval, with one dated to 2018
- none of the 4 ToRs included document version control information
- review frequency was specified for only 2 of the 4 ToRs.

Appendix 3 provides a summary of the exceptions identified.

Additionally, ToRs were not prepared using a standardised template or format across the CRD governance bodies, resulting in inconsistent presentation, structure, and coverage. For example, the Elected Member Oversight Committee's ToR covers basic membership and remit arrangements but does not clearly set out reporting and escalation arrangements, review frequency requirements, conflicts of interest, and how actions and decisions will be recorded and followed up. Similarly, the Regional Enterprise Council's ToR does not clearly cover quorum, reporting requirements, escalation arrangements, or review requirements.

A separate ToR document is not in place for the PMO in its role as the programme management function. Although, any changes made to the PMO and resourcing costs are reported annually to the Executive Board, there is no up-to-date ToR setting out the PMO's current remit, reporting lines, and authority and accountability arrangements.

Action tracking and work programme arrangements

Good governance practise requires actions arising from governance meetings to be formally recorded, monitored, and tracked to completion, typically through a Rolling Action Log or Outstanding Action Tracker, presented as a standing item within meeting papers. Governance bodies should also maintain a work programme to provide visibility of future reports, agenda items, and key decisions.

Review of a sample of 16 governance papers across 10 governance bodies identified that a dedicated Rolling Action Log or Outstanding Action Tracker was not included as a standing agenda item within the samples reviewed. Actions arising from meetings are recorded within the meeting minutes which are issued with the agenda and papers for the following meeting. However, actions are not separately captured or clearly distinguished from the wider matters discussed in the minutes.

In addition, the minutes do not consistently include action owner, expected completion dates, current status updates, progress against previous outstanding actions, explanation for delays or formal closure of completed actions.

The PMO confirmed that a Rolling Action Log had previously been presented to the Joint Committee (up to 2019), however, the practice of including the

log within committee papers was subsequently discontinued. Instead, actions were recorded in the meeting minutes.

Work programmes were not in place across the governance bodies reviewed, with exceptions identified in 7 of the 16 governance papers sampled including sub-committee, some Advisory Boards and Thematic Groups either not including or only partially reflecting them within meeting papers.

Governance hierarchy within CRD publications

The published governance hierarchy includes governance bodies that have either not been established or are no longer operational. The Culture Board (a Thematic Advisory Board) was never established, although it was planned when the Deal document was signed in 2018. In addition, the DDI Operational Board ceased operating in September 2024, following the progression of projects into the delivery phase.

However, both governance body are still presented within the governance hierarchy published on the CRD website and other governance publications, including the CRD Annual Report 2024-26.

Risks

- **Governance and Decision Making** – governance arrangements may not operate effectively due to unclear governance documentation, incomplete action tracking arrangements, and inaccurate governance information, limiting effective oversight and informed decision-making
- **Programme and Project Delivery** – weaknesses in action tracking and forward work programme may results in delays in progressing governance actions and key activities, affecting the effective delivery of programme objectives
- **Strategic Delivery**– outdated or inaccurate governance information may result in stakeholders relying on governance arrangements that do not reflect current structures, roles, and responsibilities

Recommendations and Management Actions: Terms of Reference, Action Tracking, and Governance Hierarchy

Ref.	Recommendation	Agreed Management Action	Action Owner	Lead Officers	Timeframe
2.1	The PMO should review, update, or develop Terms of Reference for all CRD Programme governance bodies, as appropriate, to ensure they are complete, current, and aligned with governance requirements. A standardised template or format should be adopted across all governance bodies to ensure consistency in content, structure, and presentation of Terms of Reference.	This will be undertaken within this financial year and will be updated for each Board every year thereafter.	Head of the City Region Deal PMO	Senior Programme Officer	31/03/2027
2.2	Terms of Reference should clearly define the key governance arrangements, including roles and responsibilities, membership arrangements,	This will be done as part of the annual Terms of Reference updates.	Head of the City Region Deal PMO	Senior Programme Officer	31/03/2027

Ref.	Recommendation	Agreed Management Action	Action Owner	Lead Officers	Timeframe
	delegated authority, quorum requirements, reporting and escalation arrangements, conflict of interest requirements, review arrangements, and any other information necessary to support the effective operation of governance bodies.				
2.3	PMO should reintroduce and maintain a formal Rolling Action Log or Outstanding Action Tracker for governance bodies across the CRD programme and include it as a standing agenda item within governance meeting papers. The action log should record action owners, target completion dates, progress updates, reasons for delays, and the closure of completed actions.	This is currently being rolled out for all the main Boards and Groups.	Head of the City Region Deal PMO	Senior Programme Officer	31/01/2027
2.4	A work programme should be maintained and included within the governance papers for all governance bodies to support effective planning, provide visibility of forthcoming reports, agenda items, and key decisions.	This will be undertaken for Boards and Groups where it is considered helpful. Where appropriate the Joint Committee work programme will be shared for Boards and Groups.	Head of the City Region Deal PMO	Senior Programme Officer	31/01/2027
2.5	The PMO should periodically review governance information published on the programme website and within governance publications (e.g. the Annual Report) to ensure governance structures, hierarchy diagrams, and related documentation accurately reflect current governance arrangements.	This has been done for 2027 and will be updated annually as part of the Annual Report process. The updated governance structure will be incorporated within the Annual Report and updated on the City Region Deal website.	Head of the City Region Deal PMO	Senior Programme Officer	31/01/2027

Finding 3 – Financial Reporting, Data Validation, and Change Control

Finding Rating	High Priority

Reporting of in-year project funding movements, and change control arrangements

To support effective governance and oversight, in-year budget amendments, project-level funding movements and inter-project budget transfers should be formally documented, assessed and reported through the appropriate governance route, particularly where they affect approved annual project allocations. The CRD Change Control process also identifies project underspend as a potential change scenario requiring consideration through the appropriate governance route.

During 2025-26, an in-year funding transfer of £49.8k was made from the forecast underspend on the Easter Bush Link Road project to Borders Innovation Park project, which was forecast to exceed its original annual grant allocation. Although the transfer did not increase the overall programme funding allocation, it changed the approved annual allocations at project level and resulted in an amendment to the original grant offer letter for the fund receiving partner (Borders Innovation Park). However, the budget transfer and associated grant amendments were not reported to the relevant governance bodies, including the Joint Committee.

The PMO confirmed that such in-year grant movements are reported to Scottish Government through financial returns and during their regular meetings but are not typically reported formally to CRD programme governance bodies including Joint Committee. However, this practice did not comply with the CRD Change Control process, which requires projected underspend to be identified as potential change scenarios and assessed and reported through the appropriate governance route.

Programme change control log

Significant project and programme changes should be recorded within a change control log or register, in order to provide a clear and consistent record of changes, enhance transparency and visibility, and support effective oversight and monitoring by PMO and relevant governance bodies.

A central change control log/ register is not maintained for the CRD programme. While individual change control documentation is prepared for specific changes, there is no central record capturing all project / programme changes and their approval or implementation status. Instead. changes are managed through individual change control papers and governance reporting.

Independent review of financial returns submitted to funders

Financial information submitted to funders should be subject to appropriate review and quality assurance prior to submission to ensure it is accurate, complete, and supported by underlying financial records.

The Monthly Financial Forecast, Quarterly Financial Report, and Bi-annual Financial Forecast submissions to the Scottish and UK Governments are collated, consolidated, prepared, and submitted by the PMO Accountant. However, these submissions are not subject to an independent review by a senior finance colleague before submission. This differs from the quarterly grant claim process, where grant claims and expenditure are subject to an independent review by the Senior Accountant prior to submission.

Invoice validation controls

Processes for recording and reviewing grant claims should include effective controls to identify duplicate invoice claims and data entry errors. The PMO currently uses a manual spreadsheet-based process to record and validate grant claims submitted by delivery partners. As part of this process, a master invoice record is maintained in a spreadsheet, and invoice details are used to identify whether an invoice has previously been claimed.

Review of 4,933 invoices during 2025-26, identified 4 instances during 2025-26 where the same invoice number had been recorded more than once within the master record. These included:

- 2 instances where the same invoice number was recorded across multiple claim periods (Quarters 3 and 4)
- 1 instance where the same invoice number was recorded more than once within a single claim submission
- 1 instance where a data entry error resulted in a duplicate invoice number being recorded within the master spreadsheet.

While review confirmed that these instances related to legitimate claims and did not result in duplicate payments, the exceptions identified highlight limitations in the design of the current spreadsheet-based control. The PMO Accountant currently uses manual validation techniques, including pivot tables and data filtering to identify potential duplicate entries. However, the spreadsheet does not include automated validation checks or warning prompts to identify duplicate invoice numbers or distinguish legitimate repeat invoice references from potential duplicate or erroneous entries.

Risks

- **Governance and Decision Making –** lack of governance reporting, and weaknesses in change control and review arrangements may result in incomplete oversight, reducing management's ability to make informed and timely decisions
- **Programme and Project Delivery** - inconsistent programme management, governance, oversight, and manual control processes may reduce the effective programme management and monitoring arrangements
- **Financial and Budget Management** - inadequate financial controls, including a manual review process, may increase the risk of errors in claim processing, financial reporting, budget management, and financial decision-making.

Recommendations and Management Actions: Financial Reporting, Data Validation, and Change Control

Ref.	Recommendation	Agreed Management Action	Action Owner	Lead Officers	Timeframe
3.1	The PMO should follow the CRD Change Control process when managing in-year project-level budget amendments, funding allocations, or inter-project budget transfers. Where the PMO determines the formal change control approval is not required, the rationale should be clearly documented, and the matter should be reported to the relevant governance forum for transparency and oversight.	The Change Control Process document will be updated to clarify that in-year budget reallocations do not require a change control. A short summary of any in-year funding movements will be taken to the relevant boards following the end of the financial year.	Head of the City Region Deal PMO	Senior Programme Officer PMO Accountant	30/06/2027
3.2	The PMO should establish and maintain a central change control log / register to record significant	A change control document will be developed and taken to the Directors' Group for approval. When there is a proposed change, it will be shared with	Head of the City Region Deal PMO	Senior Programme Officer PMO Accountant	31/01/2027

Ref.	Recommendation	Agreed Management Action	Action Owner	Lead Officers	Timeframe
	programme changes, associated approvals, implementation statuses, and follow-up actions.	the Directors, Executive Board and Joint Committee as appropriate (depending on the significance of the change)			
3.3	Financial returns submitted to funders should be subject to an independent review by an appropriate senior finance officer prior to submission, to verify the accuracy, completeness, and consistency with supporting records.	Grant Claims are currently scrutinised by a Senior Accountant prior to submission. The Financial Forecasts are prepared by partners and submitted to the PMO Accountant for scrutiny and oversight prior to submission to SG. The PMO therefore feels that this is the appropriate level of scrutiny for each submission, therefore accepts the risks without further action.	Head of the City Region Deal PMO	PMO Accountant	N/A
3.4	The PMO should consider enhancing the master invoice spreadsheet by implementing automated validation controls such as duplicate invoice alerts, conditional formatting, and data validation warning prompts to identify duplicate or potentially erroneous invoice entries at the point of data entry. Where an invoice is legitimately claimed across multiple claim periods or claim lines, a consistent reference convention (e.g., “Part 1 of 2”, “Part 2 of 2” or similar) should be applied to clearly distinguish valid repeat invoice references from potential duplicate entries. This would improve the transparency of claim record, strengthen the effectiveness of duplicate invoice checks, and reduce reliance on manual review.	The PMO Accountant will consider implementation of automated validation controls and alternative naming conventions to improve the effectiveness of the master evidence spreadsheet.	Head of the City Region Deal PMO	PMO Accountant	31/01/2027

Finding 4 – Issue Log, Annual Compliance, and Grant Amendments

Finding Rating	Medium Priority

Central programme-level issue log / register

Effective programme governance requires significant programme issues, exceptions, and compliance breaches to be recorded and monitored through a centralised Issue Log or Register which enables to monitor progress, oversee corrective actions, and ensure issues are addressed in a timely manner.

Significant programme issues, exceptions, and potential compliance breaches are currently managed through existing arrangements, including partner correspondence (e.g., Annual Compliance Statement), grand claim reviews, risk registers, progress reporting and governance papers. However, these arrangements are not supported by a programme-level compliance breach and issue log / register. As a result, there is no single mechanism to consistently capture and monitor programme issues and compliance breaches, including their ownership status, escalation and resolution

Annual Statement of Compliance confirmations

The terms set out in the Grant Offer Letter, require the delivery partners and PMO to submit an Annual Statement of Compliance signed by the Section 95 officer or equivalent, together with annual financial returns, to the Scottish Government. This provides formal annual assurance from delivery partners over compliance with grant conditions. Review of the Annual Statements of Compliance for 2025-26 identified the following issues with the documentation:

- the CFO's approval of the Annual Statement of Compliance 2025-26 from the Council (as the Accountable Body) was incorrectly obtained for the 2024-25 version of the documentation. Following audit enquiry, the error was corrected and the CFO's approval was subsequently obtained for the correct 2025-26 version.
- for the Edinburgh Innovation Hub project's 2025-26 Statement of Compliance issued to the delivery partner (East Lothian Council), the reporting period was incorrectly stated as the year ended 31 March 2025, rather than 31 March 2026. This was identified during the audit testing, and the PMO confirmed that it was a typographic error.

These exceptions indicate that the Annual Statement of Compliance documentations were not subject to sufficient quality review prior to submission to the Scottish government.

Acceptance of Grant Amendment letter

Subsequent changes to grant funding arrangements should be formally documented and accepted by the relevant delivery partner, to provide clear evidence of agreement to revised funding terms and conditions.

The Grant Offer letter issued to the Scottish Borders Council for the Borders Innovation Park project was amended following an in-year transfer of £49.8k from Easter Bush Link Road project, as outlined in Finding 3. To implement this change, a Grant Amendment letter was issued to the delivery partner. However, the Amendment letter had not been formally signed by the delivery partner, and acceptance was instead confirmed through email correspondence. While the email provided evidence of agreement to the amended funding arrangements, this was not consistent with the formal acceptance process applied to the original grant offer letter and provided less robust evidence of approval of the revised funding terms.

Risks

- **Governance and Decision Making** - weaknesses in issue management, and document review and approval processes may reduce management oversight and limit the availability of reliable information to support informed decision making
- **Regulatory and Legislative compliance** - inadequate monitoring of programme issues, compliance documentation, and funding approvals may increase the risk of non-compliance with funding, governance, and reporting requirements
- **Programme and Project Delivery** - weaknesses in governance controls, issue tracking, and document management arrangements may reduce accountability and affect the effective management and delivery of programme activities.

Recommendations and Management Actions: Issue Log, Annual Compliance, and Grant Amendments

Ref.	Recommendation	Agreed Management Action	Action Owner	Lead Officers	Timeframe
4.1	The PMO should establish and maintain a central programme-level Issue Log / Register to record significant programme issues, material exceptions, and actual or potential compliance breaches. As a minimum, the log / register should capture the issue description, date identified, source of issue, responsible officer, risk / impact assessment, escalation route, action required, target completion date, current status, resolution outcome, closure date, and whether the matter was reported to funders or relevant governance bodies. The log / register should be embedded within the CRD governance arrangements and be subject to regular review by an appropriate governance forum.	This will be incorporated as part of the next Risk Register update for approval by the Directors' Group and Executive Board.	Head of the City Region Deal PMO	Senior Programme Officer PMO Accountant	31/01/2027
4.2	The PMO should introduce a formal quality review process for all the government reporting, including the annual Statement of Compliance, before they are submitted to Scottish Government. This review should verify the accuracy and completeness of the information included in the documents and confirm that all documents have been signed by the appropriate authorised officer before submission.	The PMO Accountant will explore with the PMO and Finance officers which of the government returns require a quality review before submission. Any quality review process implemented will be documented in the Financial Procedure notes.	Head of the City Region Deal PMO	PMO Accountant	30/06/2027
4.3	The PMO should ensure that all grant amendments are formally approved and accepted by the relevant delivery partners in the accordance with the process applied to the original Grant Offer letter. Where funding arrangements are amended, signed acceptance should be obtained and retained to provide clear evidence of agreement to the revised funding terms and conditions.	Recommendation accepted and agreed with Legal to include a signature block on any Grant Amendment Letters for partners to acknowledge acceptance of amendment.	Head of the City Region Deal PMO	Senior Accountant PMO Accountant	30/06/2027

Appendix 1 – Control Assessment and Assurance Definitions

Control Assessment Rating	Control Design Adequacy	Control Operation Effectiveness
Well managed	Well-structured design efficiently achieves fit-for purpose control objectives	Controls consistently applied and operating at optimum level of effectiveness.
Generally Satisfactory	Sound design achieves control objectives	Controls consistently applied
Some Improvement Opportunity	Design is generally sound, with some opportunity to introduce control improvements	Conformance generally sound, with some opportunity to enhance level of conformance
Major Improvement Opportunity	Design is not optimum and may put control objectives at risk	Non-conformance may put control objectives at risk
N/A Control Not Tested	Not applicable for control design assessments	Control not tested, either due to ineffective design or due to design only audit

Overall Assurance Ratings	
Substantial Assurance	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.
Reasonable Assurance	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.
Limited Assurance	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.
No Assurance	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.

Finding Priority Ratings	
Advisory	A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.
Low Priority	An issue that results in a small impact to the achievement of objectives in the area audited.
Medium Priority	An issue that results in a moderate impact to the achievement of objectives in the area audited.
High Priority	An issue that results in a severe impact to the achievement of objectives in the area audited.
Critical Priority	An issue that results in a critical impact to the achievement of objectives in the area audited. The issue needs to be resolved as a matter of urgency.

Appendix 2 – Areas of Audit Focus and Control Objectives

Audit Areas	Control Objectives
Risk Management	• financial, delivery and compliance risks related to the City Region Deal are identified, recorded, and managed within a programme risk register, and regularly reviewed to ensure appropriate mitigating actions are in place and remain effective, with escalation where required. This includes consideration of fraud and serious organised crime related risks
Governance and Decision Making	• clear governance structures, terms of reference, roles, and responsibilities are established and approved by Deal partners • programme boards and committees receive timely, accurate, and relevant information to support effective decision making, with appropriate challenge and scrutiny • arrangements are in place to enable the Council, as Accountable Body, to oversee delivery and, where required, challenge partner performance and decision making • changes to project scope, funding, or timelines are subject to appropriate review and approval, including funder approval where required
Financial Management and Reporting	• robust financial management arrangements are in place across the programme, including budget setting, monitoring, and forecasting • financial information from partners is appropriately validated, consolidated, reconciled, and reported, and provides a reliable basis for decision making and oversight by the Council in its Accountable Body role.

Grant Compliance and Eligibility of Expenditure	• effective controls are in place to ensure compliance with grant offer conditions across the programme, including:
	  ○ expenditure is eligible, properly authorised, and supported by appropriate evidence
	  ○ grant claims are complete, accurate, valid, and supported by a clear audit trail
	  ○ funding is applied only for approved purposes and within agreed timeframes
	• effective governance arrangements are in place to oversee programme-level compliance with grant conditions, including mechanisms to identify, escalate, and address any compliance breaches.

External Reporting and Accountability	• arrangements are in place to ensure accurate, complete, and timely reporting to funders and governance bodies, including formal monitoring returns to the UK and Scottish Governments, as required • reported financial and performance information is consistent with underlying records, supported by appropriate evidence, and subject to robust review and approval processes prior to submission • the Council can demonstrate effective accountability arrangements for the programme, including the accuracy and timeliness of returns submitted in its role as Accountable Body.

Appendix 3 – Summary of Governance audit observations for Finding 2

Legend

✅	Available
❌	Not available / no evidence
⚠️	Not applicable/ no longer exists
🔵	Specific information
🔴	Exceptions noted

Checklist Item	Committee		Advisory Boards/Groups					Thematic advisory boards			
	Joint Committee	Elected Member Oversight Committee	Regional Enterprise Council	Executive Board	Finance Directors' / CFO Group	Directors' Group	HE/FE Group	Transport Appraisal Board	IRES Board	DDI Operational Board*	Housing Board
Exceptions relating to Finding 2: Terms of Reference are not consistently maintained, reviewed or standardised											
Terms of Reference	❌	✅	✅	❌	❌	❌	❌	✅	❌	❌	✅
Approved date	❌	19/02/2021	20/09/2018	❌	❌	❌	❌	Not mentioned	❌	❌	05/04/2019
Latest review date	❌	Not reviewed	Not reviewed	❌	❌	❌	❌	17/11/2025	❌	❌	Not reviewed
Review frequency	❌	Not specified	Not specified	❌	❌	❌	❌	Annually	❌	❌	18 months
Version control	❌	❌	❌	❌	❌	❌	❌	❌	❌	❌	❌
Exceptions relating to Finding 2: Action tracking and forward work programme arrangements are not consistently formalised											
Outstanding/ Rolling Action Log	❌	❌	❌	❌	❌	❌	❌	❌	❌	⚠️	❌
Work programme	✅	❌	❌	✅	❌	✅	❌	❌	❌		❌

* *DDI Operational Board was discontinued in September 2024.*