

Carlisle City Council

Report to Audit Committee

Item
A.4 (iv)

Report details

Meeting Date:	16 March 2023
Portfolio:	Finance, Governance and Resources
Key Decision:	Not applicable
Policy and Budget Framework	YES
Public / Private	Public
Title:	Internal Audit Report – Town Deal (Business Assurance Framework)
Report of:	Corporate Director Finance & Resources
Report Number:	RD71/22

Purpose / Summary:

This report supplements the report considered on Internal Audit Progress 2022/23 and considers the risk-based Internal Audit review of Town Deal (Business Assurance Framework).

Recommendations:

The Committee is requested to

- (i) receive the final audit report outlined in paragraph 1.1;

Tracking

Executive:	Not applicable
Scrutiny:	Not applicable
Council:	Not applicable

1. Background

- 1.1. An audit of Town Deal (Business Assurance Framework) was undertaken by Internal Audit in line with the agreed Internal Audit plan for 2022/23. The audit (Appendix 1) provides reasonable assurances and includes 2 medium-graded recommendations.

2. Risks

- 2.1 Findings from the individual audits will be used to update risk scores within the audit universe. All audit recommendations will be retained on the register of outstanding recommendations until Internal Audit is satisfied the risk exposure is being managed.

3. Consultation

- 3.1 Not applicable

4. Conclusion and reasons for recommendations

- 4.1 The Committee is requested to
i) receive the final audit report outlined in paragraph 1.1

5. Contribution to the Carlisle Plan Priorities

- 5.1 To support the Council in maintaining an effective framework regarding governance, risk management and internal control which underpins the delivery the Council's corporate priorities and helps to ensure efficient use of Council resources

Contact details:

Contact Officer: Michael Roper

Ext: 7520

Appendices attached to report:

- **Internal Audit Report – Town Deal (Business Assurance Framework)– Appendix 1**

Note: in compliance with section 100d of the Local Government Act 1972 the report has been prepared in part from the following papers:

- None

Corporate Implications:

Legal - In accordance with the terms of reference of the Audit Committee, Members must consider summaries of specific internal audit reports. This report fulfils that requirement

Property Services - None

Finance – Contained within report

Equality - None

Information Governance- None

Audit of Town Deal

Draft Report Issued: 20th February 2023
Director Draft Issued: 1st March 2023
Final Report Issued: 14th March 2023



Audit Report Distribution

Client Lead:	Head of Regeneration
Chief Officer:	Corporate Director of Economic Development Chief Executive
Others:	Head of Programme Management and Administration
Audit Committee:	The Audit Committee, which is due to be held on 17 th March 2023 will receive a copy of this report.

Note: Audit reports should not be circulated wider than the above distribution without the consent of the Designated Head of Internal Audit.

1.0 Background

- 1.1. This report summarises the findings from the audit of Town Deal. This was an internal audit review included in the 2022/23 risk-based audit plan agreed by the Audit Committee on 15th March 2022.
- 1.2. In October 2020, Carlisle's Town Deal Board submitted its Town Investment Plan to regenerate the city, support skills/ business development and improve digital and physical connectivity. In March 2021, Central Government confirmed that Carlisle was successful in securing £19.7M from the Towns Fund, based on seven individual projects.
- 1.3. A Local Assurance Framework (LAF) details how the Carlisle Town Deal Board will undertake its role in relation to good governance and allocation of public funds it is responsible for. It identifies the roles taken by Carlisle Town Deal Board, its sub-groups and by the Accountable Body.

2.0 Audit Approach

Audit Objectives and Methodology

- 2.1 Compliance with the mandatory Public Sector Internal Audit Standards requires that internal audit activity evaluates the exposures to risks relating to the organisation's governance, operations and information systems.
- 2.2 A risk-based audit approach has been applied which aligns to the five key audit control objectives (see section 4). Detailed findings and recommendations are reported within section 5 of this report.

Audit Scope and Limitations.

- 2.3 The Client Lead for this review was Head of Regeneration and the agreed scope was to provide independent assurance over management's arrangements for ensuring effective governance, risk management and internal controls of the following risks:
 - Town Deal Board has failed to implement robust governance and financial stewardship arrangement, in line with the Local Assurance Framework
- 2.4 There were no instances whereby the audit work undertaken was impaired by the availability of information.

3.0 Assurance Opinion

- 3.1 Each audit review is given an assurance opinion intended to assist Members and Officers in their assessment of the overall governance, risk management and internal control frameworks in place. There are 4 levels of assurance opinion which may be applied (See **Appendix C** for definitions).

- 3.2 From the areas examined and tested as part of this audit review, we consider the current controls operating within Town Deal provide **reasonable** assurance.

Note: as audit work is restricted by the areas identified in the Audit Scope and is primarily sample based, full coverage of the system and complete assurance cannot be given to an audit area.

4.0 Summary of Recommendations, Audit Findings and Report Distribution

- 4.1 There are two levels of audit recommendation; the definition for each level is explained in **Appendix D**. Audit recommendations arising from this audit review are summarised below:

Control Objective	High	Medium
1. Management - achievement of the organisation's strategic objectives achieved (see section 5.1)	-	-
2. Regulatory - compliance with laws, regulations, policies, procedures and contracts (see section 5.2)	-	2
3. Information - reliability and integrity of financial and operational information (N/A)	-	-
4. Security - safeguarding of assets (N/A)	-	-
5. Value – effectiveness and efficiency of operations and programmes (N/A)	-	-
Total Number of Recommendations	-	2

- 4.2 Management response to the recommendations, including agreed actions, responsible manager and date of implementation are summarised in Appendix A. Advisory comments to improve efficiency and/or effectiveness of existing controls and process are summarised in Appendix B for management information.

4.3 Findings Summary (good practice / areas for improvement):

A comprehensive Local Area Framework (LAF) is in place, detailing how the Carlisle Town Deal Board intends to undertake its role in good governance and allocation of public funds it is responsible for.

A robust assurance and approval process is followed by each individual Town Deal project.

Comprehensive project monitoring and evaluation is in place including robust risk management.

Bi-annual update reports are provided to The Department for Levelling Up, Housing and Communities.

Grant funding agreements or Service level agreements have been developed for each project.

Management has noted significant improvements in the administration of major Council projects since the Project Management Office has become operational.

Further enhancing transparency of Towns Fund Board governance information in the public domain may be beneficial.

Documenting and assigning responsibilities for all LAF actions will further enhance accountability and increase the likelihood of success.

Comment from the Corporate Director of Economic Development:

I welcome this report which will help to ensure that we maintain good governance practices.

5.0 Audit Findings & Recommendations

5.1 Management – Achievement of the organisation's strategic objectives

5.1.1 A comprehensive Local Area Framework (LAF) is in place, detailing how the Carlisle Town Deal Board intends to undertake its role in good governance and allocation of public funds it is responsible for. The LAF is reviewed annually by the Board. They make changes to LAF in line with those made to the Local Growth Assurance framework to ensure consistency and full compliance. First presented to the Board in October 2021, an annual review took place in September 2022. To further increase accountability for the revised content, it is advised that Board minutes document a decision by clear majority on LAF review and agreement, in line with LAF direction.

5.2 Regulatory – compliance with laws, regulations, policies, procedures and contracts

5.2.1 LAF details a robust assurance and approval process followed by each individual Town Deal project. On 3rd March 2022, The Town Deal Board endorsed the Business case and assurance process for:

- Citadels Business Exchange Centre
- Start With The Park
- Southern Gateway
- Lighting Up Carlisle
- Digital and Community Learning Hub
- Tullie House

5.2.2 Individual project business cases were submitted for independent assurance. Mott Macdonald (Consultants) approved the business case for Citadels Business Exchange Centre with a report published on 23rd December 2021. The other five project business cases were approved by Biggar Economics (Consultants) with reports published on 21st March 2022.

5.2.3 Also on 21st March 2022, the Executive approved business cases for submission to the Department for Levelling Up, Housing and Communities (DLUHC). Summary business cases were submitted to DLUHC on 24th March 2022.

5.2.4 The Town Deal progress update submitted to the Board on 18th July 2022 stated that, 'DLUHC has confirmed that the six business cases have passed through their review process and are now approved'. At the time of the audit, evidence of approval from DLUHC was not available. It is advised that evidence of DLUHC approval is retained for reference.

- 5.2.5** The Council has agreed an extension with DLUHC until 31st March 2023 to enable additional project development work to be undertaken and business case completed for Carlisle Market Hall.
- 5.2.6** LAF details that, 'Carlisle City Council, acting as Accountable Body, will develop an agreed Monitoring and Evaluation Plan, which covers the activities funded as part of the Town Deal Programme and outlines reporting.' LAF also details that, 'each project will develop and maintain an individual risk register and plan. This will be reviewed as part of ongoing project monitoring.'
- 5.2.7** The Project Management Office sends a Progress and Monitoring Report proforma to each Project Manager for completion on a quarterly basis. It is noted that proformas returned to the Programme Management Office (PMO) are not always complete, causing delays and prompting the PMO to request further information. The information provided forms the basis of regular Board highlight reports and bi-annual reporting to DLUHC. In the September 2022 minutes, the Board described the highlight report provided to them by the PMO as 'very useful'.
- 5.2.8** The Progress and Monitoring Report requests updates on:
- Summary of project progress
 - Progress against outputs detailed in grant funding agreement
 - Spend and claims
 - Other issues
 - risk updates
- 5.2.9** Comprehensive risk updates assess the likelihood and impact of key risks for individual projects and are colour coded to draw the reader's attention to areas of significance.
- 5.2.10** LAF details that, 'Carlisle City Council, acting as Accountable Body, will hold Town Deal funding and make payments based on the terms set out in the appropriate Grant Funding Agreements or Memorandums of Understanding, whichever is applicable'. Service Level agreements are in place for Lighting up Carlisle (6th January 2023) and Start with the park (18th January 2023). It is noted that for the version held in Share Point, the recipient's signature has been cut and paste and a Carlisle City Council representative's name is typed, without signature.

5.2.11 Signed copies of grant funding agreements are in place for Carlisle Southern Gateway and Project Tullie. For Project Tullie, it is noted that signatures of each party are recorded on two separate documents. Grant funding agreements have been issued for Digital and Community Learning Hub and Carlisle Business Exchange Centre. They are awaiting signed agreement and return.

5.2.12 It is advised that conformation is sought from Legal Services on the robustness of agreements where there is no formal signature, where cut and paste signatures are used and where both parties confirm agreement on separate documents.

5.2.13 LAF details that each Board member need to submit a signed version of the register of interest, terms of reference and code of conduct in order to become a member. These need to be published on the Carlisle City Council's Regeneration website. Audit testing found that the signed register of interests on the web page do not fully align to the current Board membership. A copy of the terms of reference and code of conduct are attached to the website, although not signed by individual members. The terms of reference on the website have not been updated for recent amendments (September 2022).

5.2.14 LAF details that it is responsibility of the Accountable Body to ensure transparency requirements are met through publication of information on their website. Audit testing found that although there is a significant amount of relevant information published, minutes to some Board meetings have not been attached. Some minutes attached to the website were found to be in draft format and not replaced when finalised.

Recommendation 1 – Put an arrangement in place to ensure that information in the public domain complies with LAF transparency requirements.

5.2.15 LAF details that any third party involved with the Carlisle Town Deal Board or providing a service to the Carlisle Town Deal Board will be made aware they are expected to act within the governance system. Their conduct is expected to be consistent with the standards applicable to members of the Carlisle Town Deal Board. It has not been possible to establish what being 'made aware' looks like in reality or if all third parties involved have been made aware. To further increase transparency and accountability, it is advised that an arrangement is put in place to demonstrate that all third parties have been made aware of their responsibilities, in line with LAF requirements.

5.2.16 LAF details that Carlisle City Council has appropriate data protection arrangements in line with the General Data Protection Regulations (GDPR) and the Data Protection Act 2018. Audit testing was not able to verify what the specific arrangements look like for Towns Fund. Liaison with the Data Protection Officer is advised to confirm the Towns Fund project is fully compliant.

5.2.17 LAF details the roles and responsibilities of the Town Deal Board, it's sub-groups and the accountable body. It is noted that there are some differences between the roles and responsibilities detailed in LAF and the individual governance group Terms of Reference. It is advised that the annual review of LAF should be carried out alongside key governance group terms of reference to help ensure alignment.

5.2.18 LAF details that, 'Two working groups, the Communication and Engagement Working Group, and Project Delivery Group have been formed, that report to the Board. Both groups meet on a six weekly basis and include representation from relevant officers from the project sponsor organisations, who are each Board Members. This includes:

- Carlisle City Council
- Cumbria County Council
- Tullie House
- University of Cumbria'.

5.2.19 These project groups have played an important role in leading the delivery of the projects and co-ordinating communication, promotion and engagement, although it has not been possible to fully demonstrate regularity and representation in line with LAF. It is advised that when LAF is next reviewed, it is amended to reflect current working group practice.

5.2.20 LAF directs that, 'An agenda, including reports presented to the Carlisle Town Deal Board is required to be circulated to all Board Members 5 working days prior to a Board Meeting and will be published on the Regeneration website'. Audit testing found that this requirement has been broadly met. LAF also directs that, 'draft minutes of the meeting are published within ten working days of the meeting taking place'. It was not possible to verify that this requirement has been consistently met. It is advised that arrangement is put in place to ensure minutes are distributed in a timely manner, in line with LAF requirements.

5.2.21 Management have noted significant improvements in the administration of major Council projects since the PMO has become operational. The PMO is a small team administering multimillion-pound projects for the Council. It is advised that further funding of the Project Management Office remains under review to ensure adequate resourcing and the provision of required technology.

5.2.22 Audit testing found that the core requirements of LAF, including a robust assurance and approval process for business cases, are working effectively. Documenting and assigning responsibilities for all LAF actions will further enhance accountability and increase the likelihood of success. It is noted that a similar recommendation was made in the recent audit of Further High Street Fund (June, 2022). It is advised that robust oversight arrangements should regularly assess whether all LAF requirements are being met, enabling informed decisions to be taken on corrective action.

Recommendation 2 – Document and assign responsibilities for all LAF actions.

Appendix A – Management Action Plan

Summary of Recommendations and agreed actions					
Recommendations	Priority	Risk Exposure	Agreed Action	Responsible Manager	Implementation Date
Recommendation 1 – Put an arrangement in place to ensure that information in the public domain complies with LAF transparency requirements.	M	Non-compliance with Local Area Framework transparency requirements and loss of Council reputation.	Head of Regeneration and Head of Programme Management and Administration to establish a framework for the uploading and review of information, including responsibilities for identified actions, to ensure that transparency requirements are met.	Steven Robinson / Debbie Kavanagh	End of March 2023
Recommendation 2 – Document and assign responsibilities for <u>all</u> LAF actions.	M	Non-compliance with Local Area Framework requirements and loss of Council reputation.	Head of Regeneration and Head of Programme Management and Administration to establish a framework for the uploading and review of information, including responsibilities for identified actions, to ensure that transparency requirements are met.	Steven Robinson / Debbie Kavanagh	End of March 2023

Appendix B – Advisory Comments

Ref	Advisory Comment
5.1.1	Board minutes to document a decision by clear majority on review and agreement of revised LAF
5.2.4	Evidence of DLUHC approval to be retained for reference.
5.2.12	Confirmation to be sought from Legal on the robustness of agreements where there is no formal signature, where cut and paste signatures are used and where both parties confirm agreement on separate documents.
5.2.15	Put arrangement in place to demonstrate that all third parties have been made aware of their responsibilities.
5.2.16	Liaison with the Data Protection Officer is advised to confirm Towns Fund project is fully compliant with General Data Protection Regulations (GDPR) and the Data Protection Act 2018.
5.2.17	Annual review of LAF to be carried out alongside key governance group terms of reference to help ensure alignment.
5.2.19	when LAF is next reviewed, it should be amended to reflect current working group practice.
5.2.20	Verify that minutes are distributed in a timely manner, in line with LAF requirements.
5.2.21	Further funding of the Project Management Office to remain under review, ensuring adequate resourcing and the provision of required technology.
5.2.22	It is advised that robust oversight arrangements should regularly assess whether <u>all</u> LAF requirements are being met, enabling informed decisions to be taken on corrective action.

Appendix C - Audit Assurance Opinions

There are four levels of assurance used; these are defined as follows:

	Definition:	Rating Reason
Substantial	There is a sound system of internal control designed to achieve the system objectives and this minimises risk.	<p>The control framework tested are suitable and complete are being consistently applied.</p> <p>Recommendations made relate to minor improvements or tightening of embedded control frameworks.</p>
Reasonable	There is a reasonable system of internal control in place which should ensure system objectives are generally achieved. Some issues have been raised that may result in a degree of unacceptable risk exposure.	<p>Generally good systems of internal control are found to be in place but there are some areas where controls are not effectively applied and/or not sufficiently embedded.</p> <p>Any high graded recommendations would only relate to a limited aspect of the control framework.</p>
Partial	The system of internal control designed to achieve the system objectives is not sufficient. Some areas are satisfactory but there are an unacceptable number of weaknesses that have been identified. The level of non-compliance and / or weaknesses in the system of internal control puts achievement of system objectives at risk.	<p>There is an unsatisfactory level of internal control in place. Controls are not being operated effectively and consistently; this is likely to be evidenced by a significant level of error being identified.</p> <p>High graded recommendations have been made that cover wide ranging aspects of the control environment.</p>
Limited/None	Fundamental weaknesses have been identified in the system of internal control resulting in the control environment being unacceptably weak and this exposes the system objectives to an unacceptable level of risk.	<p>Significant non-existence or non-compliance with basic controls which leaves the system open to error and/or abuse.</p> <p>Control is generally weak/does not exist.</p>

Appendix D

Grading of Audit Recommendations

Audit recommendations are graded in terms of their priority and risk exposure if the issue identified was to remain unaddressed. There are two levels of audit recommendations; high and medium, the definitions of which are explained below.

	Definition:
High	Significant risk exposure identified arising from a fundamental weakness in the system of internal control
Medium	Some risk exposure identified from a weakness in the system of internal control

The implementation of agreed actions to Audit recommendations will be followed up at a later date (usually 6 months after the issue of the report).