



# Carlisle City Council

## Report to Audit Committee

### Report details

Meeting Date:	8 December 2022
Portfolio:	Finance, Governance and Resources
Key Decision:	Not applicable
Policy and Budget Framework	YES
Public / Private	Public
Title:	Internal Audit Report – Sustainable Warmth Grant
Report of:	Corporate Director Finance & Resources
Report Number:	RD49/22

### Purpose / Summary:

This report supplements the report considered on Internal Audit Progress 2022/23 and considers the risk-based Internal Audit review of Sustainable Warmth Grant.

### 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 the Sustainable Warmth Grant was undertaken by Internal Audit in line with the agreed Internal Audit plan for 2022/23. The audit (Appendix A) provides partial assurances and includes 1 high and 3 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

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### **Appendices attached to report:**

- **Internal Audit Report – Sustainable Warmth Grant– Appendix A**

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 Sustainable Warmth Grant

Draft Report Issued: 15<sup>th</sup> September 2022

Director Draft Issued: 17<sup>th</sup> October 2022

Final Report Issued: 26<sup>th</sup> October 2022



## Audit Report Distribution

<b>Client Lead:</b>	Corporate Director of Governance and Regulatory Services
<b>Chief Officer:</b>	Chief Executive
<b>Others:</b>	Sustainable Warmth Project Manager
<b>Audit Committee:</b>	The Audit Committee, which is due to be held on 8 <sup>th</sup> December 2022 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 Sustainable Warmth Grant. This was an internal audit review included in the 2022/23 risk-based audit plan agreed by the Audit Committee on 23<sup>rd</sup> March 2022.
- 1.2. Carlisle City Council applied for and subsequently offered £19.955M of grant funding on behalf of the Cumbrian Sustainable Warmth consortium of district councils. The City Council assumes the role of Accountable Body for the grant funding and its use across Cumbria.
- 1.3. The aim of the grant is to address fuel poverty and carbon reduction by improving energy efficiency through retrofitting a planned target of 1310 mainly private sector homes with energy efficient measures.
- 1.4. A Memorandum of Understanding (MoU) was agreed with the Department for Business, Energy and Industrial Strategy (BEIS) in November 2021. The MoU requires upgrades to be delivered by March 2023, although an extension can be determined at the Secretary of State's discretion.

## 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 Regulatory Services 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:
  - Non-compliance with the BEIS memorandum of understanding
  - Key project milestones have not been met
  - Robust Accountable Body arrangements are not established
- 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 Sustainable Warmth Grant provide **partial 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. <b>Management</b> - achievement of the organisation's strategic objectives achieved (see section 5.1)	1	1
2. <b>Regulatory</b> - compliance with laws, regulations, policies, procedures and contracts (see section 5.2)	-	1
3. <b>Information</b> - reliability and integrity of financial and operational information (see section 5.3)	-	1
4. <b>Security</b> - safeguarding of assets (N/A)	-	-
5. <b>Value</b> – effectiveness and efficiency of operations and programmes (N/A)	-	-
<b>Total Number of Recommendations</b>	<b>1</b>	<b>3</b>

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):

The sustainable warmth project has faced significant delays with difficulties recruiting staff into key project positions. Senior Management have not been made aware of key concerns in a timely manner until the risk of project delay and associated Council reputation damage has escalated. BEIS have now requested the return of £707k unspent grant.

The August 2022 delivery plan to BEIS indicates that there is a significant underspend with no capital expenditure on household upgrades to date.

Despite the delays, the delivery plan indicates that nearly £19M of the original £19.955M is still planned on upgrades to nearly 2000 households. This is considered an ambitious revised target given the timescales to complete upgrades and requires close monitoring to reduce the risk of further grant money being returned. The measure mix has been adjusted to remove interventions that are unable to be completed in the remaining time available.

BEIS are currently working with Deloitte to provide an external assessment of the revised plans to develop a deeper understanding of the challenges faced.

Project risk management requires improvement. Significant escalating risks should be identified as such and reported to the Council's risk Officer in a timely manner.

MoU sub-agreements with Districts have been issued but not yet finalised.

An arrangement is required to further demonstrate robust compliance with the BEIS MoU terms.

Documenting regular review of performance against key milestones and reporting progress to Senior Management on a regular basis will further increase transparency and accountability.

#### **Comment from the Corporate Director of Governance and Regulatory Services:**

The Audit Report is helpful, it having been requested due to concerns regarding this area of the Council's work. Beyond the agreed actions in this Report, new management arrangements are now in place to assist in the resolution of the issues identified.

## 5.0 Audit Findings & Recommendations

### 5.1 Management – Achievement of the organisation's strategic objectives

- 5.1.1** Sustainable Warmth is a major Council project aimed at improving the energy efficiency and carbon emissions of local households. The Business Case was approved by Executive on 25<sup>th</sup> October 2021, a MoU agreed with BEIS in November 2021 and a substantial grant of £19.955M received.
- 5.1.2** Work on the project is required to be completed by March 2023 although an extension can be determined at the Secretary of State's discretion. The August 2022 delivery plan to BEIS indicated that there had been no capital expenditure on the project to date.
- 5.1.3** There have been significant project delays with difficulties recruiting staff in a timely manner, including the key position of Project Manager. The Home Improvement Agency (HIA) within the Council has attempted to keep the project moving forward with the help of a small number of casual staff, although resource capacity within the team has not allowed them to do so successfully.
- 5.1.4** Despite project delays, the August 2022 delivery plan indicates that nearly £19M of the original £19.955M is still planned on upgrades to nearly 2000 households. This is considered an ambitious revised target given the issues faced by the project to date and timescales to complete upgrades. Close monitoring of the revised plan is advised. The mix of improvements to households has been adjusted to remove interventions that can no longer be completed in the time available. Following the Council's mid-term review submission, BEIS are currently working with Deloitte to provide external assessment of the revised plans to develop a deeper understanding of the challenges faced.
- 5.1.5** The Business Case details that regular risk reviews should be conducted and reported to the internal Transformation Board and Regional Steering Group. Although there is some evidence that project risks have been considered by HIA, Audit have been unable to verify that project risk has been systematically reviewed, agreed and recorded by the project team on a regular basis. Evidence of regular risk review reporting to the Regional Steering Group is unavailable. It is noted that the Transformation Board has not met for a considerable time, although alternative risk reporting arrangements for the project have not been developed.
- 5.1.6** The likelihood and impact of delay to project delivery have not been communicated effectively to Senior Management or BEIS and the grant is significantly underspent. For example, minutes to the June meeting with BEIS detail that the risk from a lack of internal capacity (delaying project progress) has been mitigated by recruiting on a casual basis. A number of project roles, including the key position of Project Manager, were still not filled



at that time, suggesting that the risk of further delays remained significant and should have been highlighted as such. It is noted that project updates have not been provided as part of the Project Status Board Report. Details of escalating project risks have not been regularly communicated to the Council's Risk Officer.

- 5.1.7** It is recommended that an arrangement is put in place for the project management team to regularly review, agree and document key risks for the remainder of the project. It is advised that this exercise is proportionate with the aim of managing key risks only (max 7 to 10 risks) that could have a major impact on planned outcomes. Significant escalating risks such as project delay should be highlighted to the Council's Risk Officer at the earliest opportunity so that Senior Managers are able to make informed decisions on corrective action.

**Recommendation 1 – An arrangement should be put in place to document regular review of key project risks, with significant escalating risks highlighted to the Council's Risk Officer.**

- 5.1.8** The Business Case details that a Project Steering Group will be set up with lead officers from each of the districts. Audit was informed that the Steering Group has been meeting on a regular basis, although prior to July 2022 there has been no documentation to confirm decisions taken or actions assigned. To increase transparency and accountability of the Steering Group, It is advised that agreement on terms of reference is documented. It is further advised that all actions are assigned to individuals, timebound with conclusions recorded at subsequent meetings.

- 5.1.9** The Business Case assigns broad project responsibilities to Departments, although accountability will be significantly increased by clarifying specific requirements. It is advised that all responsibilities assigned to Departments and individual Project Team members are reviewed for clarity, with acceptance of those responsibilities clearly documented.

- 5.1.10** Carlisle City Council is the lead applicant for the grant and assumes the role of Accountable Body for grant funding across Cumbria. The project business case details that there will be a MoU sub-agreement between the Council and other district authorities based on the MoU issued by BEIS. There have been significant delays to the drafting of the District Council sub-agreements. At the time of the audit (August 2022) the sub-agreements have recently been issued to District Councils for agreement.

**Recommendation 2 – Finalise the Memorandum sub-agreements with the District Councils.**

**5.1.11** Regular monthly reporting has been provided to BEIS although updates on overall delivery confidence (a MoU requirement) have not been included. It is advised that assessment of delivery confidence is included in future updates to BEIS.

**5.1.12** Regular monthly meetings have been held with BEIS with minutes documented by BEIS.

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

**5.2.1** A MoU for the Sustainable Warmth Project was signed with BEIS in November 2021. Although compliance with specific clauses can be demonstrated, Audit have not been able to verify a systematic risk assessment of MoU content to determine robust compliance.

**Recommendation 3 – Put an arrangement in place to demonstrate robust compliance with the BEIS Memorandum of Understanding.**

## **5.3 Information – reliability and integrity of financial and operational information**

**5.3.1** Under the terms of the MoU, BEIS may request repayment of all or any proportion of the Grant, together with interest. On 12th October 2022, BEIS requested that £707k of unspent grant is returned to them by 11<sup>th</sup> November 2022.

**5.3.2** Accounting treatment of government grants with conditions depend on the likelihood of those conditions being met. To enable the Council's Finance team to correctly account for the grant and to assist Treasury Management planning, it is advised that the Head of Financial Services is kept regularly informed on the likelihood of grant conditions being met and further grant repayment, along with the provision of regular planned spending profiles.

**5.3.3** A project plan (Gantt Chart) has been documented although audit have been unable to verify regular review and update. It is noted that the project plan is incomplete and does not track milestones through to project completion in a systematic manner. It is recommended that progress towards all key project milestones through to project completion is documented, subject to regular review by the project team, then regularly reported to Senior Management.

**Recommendation 4 – Progress towards all key project milestones regularly reported to Senior Management.**

## Appendix A – Management Action Plan

Summary of Recommendations and agreed actions					
Recommendations	Priority	Risk Exposure	Agreed Action	Responsible Manager	Implementation Date
<b>Recommendation 1 – An arrangement should be put in place to document regular review of <u>key</u> project risks, with significant escalating risks highlighted to the Council’s Risk Officer.</b>	H	Project risks escalate and Senior Managers are unaware.	Regular, documented risk review, update and agreement with key project staff.  Risk Officer and Project Sponsor to be kept informed about any escalating project risks.	Sustainable Warmth Project Manager	30.11.22
<b>Recommendation 2 – Finalise the Memorandum sub-agreements with the District Councils</b>	M	Decreased accountability of District Councils.	All memorandums with district councils to be finalised.	Sustainable Warmth Project Manager	31.10.22
<b>Recommendation 3 – Put an arrangement in place to demonstrate robust compliance with the BEIS Memorandum of Understanding.</b>	M	BEIS request return of funding due to non-compliance with terms of the MoU.	Memorandum of understanding to be risk assessed with robust compliance of key clauses demonstrated.	Sustainable Warmth Project Manager	30.11.22

Summary of Recommendations and agreed actions						
Recommendations	Priority	Risk Exposure	Agreed Action	Responsible Manager	Implementation Date	
<b>Recommendation 4 – Progress towards all key project milestones regularly reported to Senior Management.</b>	M	Decreased accountability and transparency for project performance.	Gantt Chart to document key milestones through to project completion. Project Sponsor to be regularly updated on progress against key milestones with slippage clearly highlighted.	Sustainable Warmth Project Manager	31.10.12	

**Appendix B – Advisory Comments**

Ref	Advisory Comment
5.1.4	Progress against the revised target should be closely monitored.
5.1.7.	Project risk management to be proportionate with the aim of managing <u>key</u> risks only (max 7 to 10 risks) that have a major impact on planned outcomes.
5.1.8	Agreement on Steering Group terms of reference should be documented. All actions should be assigned to individuals, timebound and conclusions recorded at subsequent meetings.
5.1.9	All responsibilities assigned to Departments and individual Project Team members reviewed for clarity, with acceptance of those responsibilities clearly documented.
5.1.11	Assessment of delivery confidence to be included in future updates to BEIS.
5.3.1	Head of Financial Services is kept regularly informed on the likelihood of grant conditions being met and further grant repayment, along with the provision of regular planned spending profiles.

## Appendix C - Audit Assurance Opinions

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

	Definition:	Rating Reason
<b>Substantial</b>	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>
<b>Reasonable</b>	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>
<b>Partial</b>	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>
<b>Limited/None</b>	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:
<b>High</b>	Significant risk exposure identified arising from a fundamental weakness in the system of internal control
<b>Medium</b>	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).