

Carlisle City Council

Report to Audit Committee

Report details

Meeting Date:	10 December 2021
Portfolio:	Finance, Governance and Resources
Key Decision:	Not applicable
Policy and Budget Framework	YES
Public / Private	Public
Title:	Internal Audit Report – Environmental Strategy
Report of:	Corporate Director Finance & Resources
Report Number:	RD60/21

Purpose / Summary:

This report supplements the report considered on Internal Audit Progress 2021/22 and considers the review of the Environmental Strategy.

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 Environmental Strategy was undertaken by Internal Audit in line with the agreed Internal Audit plan for 2021/22. The audit (Appendix A) provides reasonable assurances and includes 7 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: 7280

Appendices attached to report:

- **Internal Audit Report – Environmental Strategy – 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 Environment Strategy

Draft Report Issued: 25 August 2021
Director Draft Issued: 9th September 2021
Final Report Issued: 14th October 2021



Audit Report Distribution

Client Lead:	Policy and Communications Manager
Chief Officer:	Director of Economic Development Chief Executive Deputy Chief Executive
Others:	
Audit Committee:	The Audit Committee, which is due to be held on 10 th December 2021 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 Environment Strategy. This was an internal audit review included in the 2021/22 risk-based audit plan agreed by the Audit Committee on 15th March 2021.
- 1.2 In March 2019 the Council passed a motion to declare a Climate Change Emergency and in April 2019, the Council adopted the Joint Public Health Strategy which includes the key aim to 'Become a carbon neutral Council and to mitigate the likely impact of existing climate change'.
- 1.3 In June 2019 The Climate Change Act 2008 was amended to require UK net carbon emissions to be net zero by 2050. In April 2021 it was announced that the UK government will set in law by the end of June 2021 a 78% target reduction in emissions compared to 1990 levels, by 2035. The Local Environment (Climate Change) Strategy (LECCS) and supporting draft action plan draws together the work undertaken by members, officers and partners since the Council's resolution in March 2019. The Strategy was agreed by Executive in February 2021 with an aim of reducing carbon emissions at Carlisle City Council and the Carlisle District which it serves to net zero by 2037. LECCS was approved by Council in March 2021 and given prominence as part of the Constitution's Article 4.

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 the Policy and Communications Manager 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:
 - Cost/ benefit of achieving net carbon target has not been fully considered using appropriate estimates and data sources or aligned to the MTFP
 - Failure to incorporate and/ or align to local and national strategies and plans leads to potential litigation and loss of Council reputation
 - Stakeholder expectations are unclear, and communications planning is underdeveloped

- Roles and responsibilities for delivery of key outcomes have not been clarified
- SMART actions and key performance indicators to measure delivery are not subject to regular review and reporting
- Net carbon target may not be met by actions detailed in the Environment strategy.

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 Environment Strategy 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)	-	3
2. Information - reliability and integrity of financial and operational information (see section 5.2)	-	1
3. Value – effectiveness and efficiency of operations and programmes (see section 5.3)	-	3
Total Number of Recommendations	-	7

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 Council and its partners face a significant challenge in reaching net zero carbon emissions by 2037. Further timely development of both LECCS and partnership arrangements will be necessary to demonstrate that it is possible to achieve the 2037 net zero carbon emissions target with the available resources.

Quantifying planned carbon reduction impact and estimated cost of LECCS actions will help determine consistency with targets set and resources available.

Prioritising both current actions and new key climate change initiatives with a significant carbon reduction impact, will increase the likelihood of a positive outcome.

Regular reporting of key carbon emissions indicators will demonstrate that the Council is on track to meet the net zero target.

Management may wish to further consider the pros and cons of Council and UK government net zero targets, alongside future positive and negative implications on the Medium -Term Financial Plan (MTFP).

Strategic and key decision pre-approval by management will help ensure alignment to achieving net zero carbon emissions.

Alignment of Council actions to the wider Zero Carbon Cumbria Partnership (ZCCP) requires further clarification.

Streamlining LECCS content will further highlight the substance of key carbon reduction messages.

Management pre-approval of LECCS actions with SMART criteria will increase the likelihood of successful outcomes.

Finalising and implementing the communication plan with stakeholder analysis will help the Council maintain a positive influence, keeping partners engaged and accurately informed in a timely manner.

Comment from the Director of Economic Development:

I welcome this report as it ensures that we have the right processes in place.

5.0 Audit Findings & Recommendations

5.1 Management – Achievement of the organisation’s strategic objectives

5.1.1 There are 5 overarching LECCS strategic objectives with the aim of reducing carbon emissions at Carlisle City Council and the wider Carlisle district to net zero by 2037. A number of the 118 planned LECCS actions to support the objectives, although positive, may not have a significant carbon reduction impact on achieving the target. For example, there is an action to arrange healthier buffets at the Council with low carbon menus. To put this into further perspective, LECCS details 5 projects underway that will ‘significantly’ reduce carbon emissions from Council activities. The carbon reduction estimate for 3 of these projects has been estimated at 194 tonnes per annum. This reduction per annum only represents 5.9% of the total annual carbon emissions baseline from Council activities (3,275 tonnes) and 0.003% of the total annual carbon emissions baseline in Cumbria (total 7,185,000 tonnes). Additional new climate change initiatives are planned from October 2021 onwards, supported by robust business cases and cost/ benefit analysis. These initiatives are likely to require major investment and have a significant carbon reduction impact. It is recommended that as the LECCS action plan is further developed, prioritisation is given to monitoring and reporting on the cost and carbon reduction impact of significant current actions and new key climate change initiatives.

Recommendation 1 – Prioritise LECCS actions with a significant planned carbon reduction impact on reaching the net zero target.

5.1.2 In April 2019, the Council adopted the Joint Public Health Strategy with the key aim, ‘To become a “carbon neutral” County and to mitigate the likely impact of existing climate change’.

In June 2019, the UK became the first major economy in the world to pass laws to end its contribution to global warming by 2050. The target will require the UK to bring all greenhouse gas emissions to net zero by 2050, compared with the previous target of at least 80% reduction from 1990 levels. In April 2021 the UK government announced that it will set the world’s most ambitious climate change target into law to reduce emissions by 78% by 2035 from a 1990 base year.

The carbon emissions target for Council activity is to become net zero by 2037 from a 2018/19 base year, which appears significantly more challenging.

LECCS details that, ‘The Council is committed to becoming carbon neutral in the future and there may be a requirement for significant investment in achieving this goal’. The report to Council on 2nd March 2021, detailed that, ‘The Council’s commitment to becoming carbon neutral and the delivery of the objectives of the Climate Change Policy will involve financial implications on the MTFP; both positive and negative’.

It is advised that the pros and cons of both the Council and UK Government net zero carbon emissions targets are further considered alongside all future positive and negative financial implications on the MTFP.

5.1.3 The LECCS Foreword details that all strategic decisions should be in line with achieving net zero carbon emissions at the earliest possible date.

Strategic decisions in scope and how they are considered 'in line' with achieving net zero carbon emissions, requires further clarity.

If strategic decisions are reserved for plans and strategies within the policy framework (Article 4 of the Constitution) only, consideration should be given to how other key decisions given prominence in LECCS (Asset Management Plan, Fleet Strategy etc), are also assessed for alignment.

It is recommended that management put an arrangement in place to pre-approve strategic and key decision alignment to net zero carbon emissions, prior to consideration and approval by key governance groups.

Recommendation 2 – Put an arrangement in place to pre-approve strategic and key decision alignment to net zero carbon emissions.

5.1.4 The Council is a member of the ZCCP which is a cross-sector partnership made up of more than 70 committed organisations, aiming to achieve a net zero target for Cumbria by 2037. The ZCCP will receive funding of £2.5m over 5 years from the National Lottery Climate Action Fund.

An updated ZCCP draft memorandum of understanding (May 2021) details that the planned arrangements for monitoring/ evaluation, identifying leadership for developing action across key topics and establishing a programme of action by key partners, are still to be finalised.

The Council has developed a number of positive actions to tackle carbon emissions in the wider Carlisle district, although It has not been possible to fully determine how the carbon reduction impact of these actions align to the wider ZCCP programme of action to achieve the 2037 net zero target.

Recommendation 3 – Further clarify with ZCCP how the Council's actions align to wider partnership programme of action.

5.1.5 A significant amount of work has been undertaken by Council officers in collating a detailed, 37-page LECCS document. In a document of this size, there is an inherent danger that the substance of key messages can become diluted. It is advised that when LECCS is further developed, consideration is given to streamlining the content with the prioritisation of key carbon reduction messages.

5.2 Information – reliability and integrity of financial and operational information

5.2.1 The likelihood of successful actions will be significantly increased when documented in a specific, measurable, assignable, realistic and time-bound (SMART) manner.

Management pre-approval of SMART criteria is recommended to help ensure all actions are:

- assigned to a responsible manager
- measurable in terms of carbon reduction impact
- time-bound to a specific month/ year.

Recommendation 4 – Management to pre-approve SMART criteria for LECCS actions.

5.3 Value – effectiveness and efficiency of operations and programmes

5.3.1 LECCS details that, ‘The City Council will lead by example with a clear strategy and a dynamic action plan that is consistent with the targets set and the resources available’.

To determine consistency, further development of LECCS actions will be necessary to quantify planned carbon reduction impact and estimated cost.

Recommendation 5 – LECCS action plan to further demonstrate consistency with the targets set and the resources available.

5.3.2 Regularly reporting the actual carbon reduction impact of successful actions is necessary to demonstrate that the Council is on track to meet the net zero target.

At the time of the audit a single carbon reduction performance indicator is planned for inclusion in the 2021/22 end of year performance report to Executive, for carbon emissions from Council activities. It is recommended that reporting is expanded to include carbon reduction of all key contributors to net carbon emissions from Council activities: Diesel, petrol, gas, electricity and offset carbon emissions. It is also recommended that current performance is reported, with narrative on omissions. Following determination of how Council actions align to wider partnership programme of actions (rec 3), performance indicators should be further developed with partners to measure the carbon reduction impact of Council performance against the Cumbria baseline.

Recommendation 6 – Further develop regular reporting on actual carbon reduction impact.

5.3.3 The LECCS foreword details that, ‘The key to the success of our strategy, reaching net zero, will depend upon a coordinated and comprehensive programme of communication

and engagement to encourage behavioural change by residents and businesses as well as the Council.' The LECCS roadmap details that the communications and engagement plan will be drafted between December 2020 and June 2021.

The management advisory group met on 23rd November 2020 to discuss the LECCS and the framework for action planning. One of the two points highlighted by the group was, 'Communication and engagement as a clear workstream, to be developed as a separate accompanying plan.' Learning identified from the response to the Covid-19 Pandemic will be transferred to the communication and engagement of LECCS.

Work began in June 2021 with students at the University of Northumbria on the development of a marketing and communication plan to support the delivery of the action plan.

There is significant stakeholder interest in Cumbria carbon reduction. It is advised that the work on communications and engagement also includes analysis and management of stakeholder power and interest. Managing stakeholders in this way will help to ensure that the Council maintains its positive influence, keeping partners engaged and accurately informed in a timely manner.

Recommendation 7 - Set a timetable for completion of communication and engagement planning.

Appendix A – Management Action Plan

Summary of Recommendations and agreed actions					
Recommendations	Priority	Risk Exposure	Agreed Action	Responsible Manager	Implementation Date
Recommendation 1 – Prioritise LECCS actions with a significant planned carbon reduction impact on reaching the net zero target.	M	LECCS action plan is not efficient and effective.	Review action plan to clearly identify actions that have a significant planned carbon reduction impact on reaching the net zero target.	Policy and Communications Manager	December 2021
Recommendation 2 – Put an arrangement in place to pre-approve strategic and key decision alignment to net zero carbon emissions.	M	Wider strategic and key decisions not aligned to LECCS.	Confirm which decisions are in scope, define how they should be aligned to LECCS and ensure they are pre-approved for alignment, prior to governance group approval.	Corporate Director, Policy and Communications Manager	December 2021
Recommendation 3 – Further clarify with ZCCP how the Council's actions align to wider partnership programme of action.	M	Lack of clarity on Council's role in wider partnership.	Clarify with ZCCP how the Council's actions align to wider partnership actions in meeting the net zero target. The ZCCP Manager will be attending the Health & Wellbeing Scrutiny Panel in October, the Council's role will be made clear in the report to the Panel.	Policy and Communications Manager	November 2021

Recommendation 4 – Management to pre-approve SMART criteria for LECCS actions.	M	Likelihood of successful actions without SMART criteria is significantly reduced.	Following review of action plan (Rec 1), significant actions will be pre-approved by management for SMART criteria.	Policy and Communications Manager	December 2021
Recommendation 5 – LECCS action plan to further demonstrate consistency with the targets set and the resources available.	M	Carbon reduction impact is not sufficient to meet net zero target and resources are not available.	Review LECCS to ensure there is: <ul style="list-style-type: none"> • a clear link between the carbon reduction impact of significant Council actions and the ability to meet the net zero target. • a broad cost estimate of all significant actions required to meet the net zero target. 	Policy and Communications Manager	December 2021
Recommendation 6 – Further develop regular reporting on actual carbon reduction impact.	M	Successful actions do not have the desired carbon reduction impact.	Quarterly performance report will be produced for Executive and Scrutiny, detailing the current total consumption of major contributors to meeting net zero target (diesel, petrol, gas, electricity and offset carbon emissions), under the format that is agreed following the review of the action plan (Rec. 1).	Policy and Communications Manager	December 2021

Summary of Recommendations and agreed actions					
Recommendations	Priority	Risk Exposure	Agreed Action	Responsible Manager	Implementation Date
Recommendation 7 - Set a timetable for completion of communication and engagement planning.	M	Loss of Council reputation and partner engagement.	Finalise communication and planning alongside a new action plan (Rec.1).	Policy and Communications Manager	January 2022

Appendix B – Advisory Comments

Ref	Advisory Comment
5.1.2	Pros and cons of both the Council and UK Government net zero carbon emissions targets should be further considered alongside all future positive and negative financial implications on the MTFP.
5.1.5	As LECCS is further developed, consideration should be given to streamlining the content with prioritisation of key carbon reduction messages.
5.3.3	Management may wish to consider analysis and management of stakeholder power and interest as part of the communications and engagement work.

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).