

Final Internal Audit Report

Contract Management – Street Lighting PFI

August 2020

Distribution: Executive Director of Place
Director of Public Realm
Contract Manager, Croydon & Lewisham Street Lighting PFI

Assurance Level	Identified Issues	
Full Assurance	Priority 1	0
	Priority 2	0
	Priority 3	0

Confidentiality and Disclosure Clause

This report ("Report") was prepared by Mazars LLP at the request of London Borough of Croydon and terms for the preparation and scope of the Report have been agreed with them. The matters raised in this Report are only those which came to our attention during our internal audit work. Whilst every care has been taken to ensure that the information provided in this Report is as accurate as possible, Internal Audit have only been able to base findings on the information and documentation provided and consequently no complete guarantee can be given that this Report is necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.

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Please refer to the Statement of Responsibility in Appendix 3 of this report for further information about responsibilities, limitations and confidentiality.

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Executive Summary

1. Introduction

- 1.1 London Borough of Croydon and London Borough of Lewisham have a 25-year PFI (Private Finance Initiative) street lighting replacement and maintenance contract with Skanska Laing, which commenced in July 2011. A monthly unitary fee of £880,323.06 is charged to the Council by Croydon and Lewisham Lighting Services Limited.
- 1.2 A five year Core Investment Programme (CIP) across both councils was completed on 31 October 2016. The contract makes ongoing provision for Planned Maintenance, Inspection & Testing and Operational Responsiveness and Reactive Maintenance services.
- 1.3 A monthly monitoring report is produced by Skanska (the service provider), which reports on performance standards, KPIs, performance targets, and payments. A separate monthly management report is also prepared by the Contract Manager (Croydon), which is circulated to the Project Board, which covers planned maintenance, inspection and testing, operational responsiveness and reactive maintenance, contract management and customer interface, strategic assistance and reporting, working practices, monitoring and reporting to the authority, central management system, financial adjustments, and BVPI's.
- 1.4 Network Board meetings are held quarterly between the service provider and both Councils. The output of which is a high level contract update report.
- 1.5 The Contract Manager also prepares an annual report to Cabinet as a contract monitoring update, the last one which was dated October 2019. This reported that, *'Due to the completion of the Core Investment Programme the night scouts are now only required to pick up any illuminated signs out of light and/or with maintenance issues i.e. doors off, twisted sign lights or lantern realignments etc. However the Service Provider are continuing to night scout at their own discretion. All Car Parks and Subways where fittings do not have the capacity for nodes to be connected to the CMS are being scouted in the day time as these are operational 24 hours. The Client Monitoring team have carried out site checks to verify that all Car Park, Subway and Housing assets have been replaced for new. All column outages are reported via City Touch on the Central Management System.'* It also reported that, *'The Service Provider has achieved the required level of 99% lights throughout this period, and therefore no financial adjustment has occurred.'*
- 1.6 Please note that there were some delays in completing this audit due to the impact of the Coronavirus pandemic, government advice and lockdown period.
- 1.7 This audit was undertaken as part of the agreed Internal Audit Plan for 2019/20.

2. Key issues

- 2.1 No key issues were identified.

TERMS OF REFERENCE

Contract Management – Street Lighting PFI

1. INTRODUCTION

1.1 In July 2011, London Borough of Croydon and London Borough of Lewisham entered into an agreement with Skanska Laing in a 25-year PFI (Private Finance Initiative) street lighting replacement and maintenance contract. During the first five years, Skanska aimed to replace approximately 38,000 street lights and 8,000 street signs and bollards in both boroughs as part of the Core Investment Programme (CIP). Work also included the refurbishment of a further 4,000 street lights.

Source: Streets and Environment Scrutiny Sub-Committee meeting, 23 July 2014

1.2 A five year Core Investment Programme (CIP) across both councils was completed on 31 October 2016 The contract makes ongoing provision for Planned Maintenance, Inspection & Testing and Operational Responsiveness and Reactive Maintenance services.

1.3 This audit is being undertaken as part of the agreed Internal Audit Plan for 2019/20.

2. OBJECTIVES AND METHODOLOGY

2.1 The overall audit objective is to provide an objective independent opinion on the adequacy and effectiveness of controls / processes.

2.2 The audit will for each controls / process being considered:

- Walkthrough the processes to consider the key controls;
- Conduct sample testing of the identified key controls, and
- Report on these accordingly.

3. SCOPE

3.1 The audit included the following areas:

Control Areas/Risks	Identified Issues		
	Priority 1 (High)	Priority 2 (Medium)	Priority 3 (Low)
Formation of Contract, Compliance with the Organisation's Legal Requirements, Retention and Security of Contracts	0	0	0
Variations to Contract	0	0	0
Instructing/Ordering of Services and Works (including variations to instructions/works orders)	0	0	0
Quality Control (including receipting of services and works provided)	0	0	0





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Complaints, Deficiencies in Provision, Rectification and Default	0	0	0
Payments	0	0	0
Contract Performance Monitoring, Management Reporting and Performance Reporting	0	0	0
Budgetary Control	0	0	0
Total	0	0	0

DEFINITIONS FOR AUDIT OPINIONS AND IDENTIFIED ISSUES

In order to assist management in using our reports:

We categorise our **audit assurance opinion** according to our overall assessment of the risk management system, effectiveness of the controls in place and the level of compliance with these controls and the action being taken to remedy significant findings or weaknesses.

	Full Assurance	There is a sound system of control designed to achieve the system objectives and the controls are consistently applied.
	Substantial Assurance	While there is basically a sound system of control to achieve the system objectives, there are weaknesses in the design or level of non-compliance which may put this achievement at risk.
	Limited Assurance	There are significant weaknesses in key areas of system controls and/or non-compliance that puts achieving the system objectives at risk.
	No Assurance	Controls are non-existent or weak and/or there are high levels of non-compliance, leaving the system open to the high risk of error or abuse which could result in financial loss and/or reputational damage.

Priorities assigned to identified issues are based on the following criteria:

Priority 1 (High)	Fundamental control weaknesses that require the immediate attention of management to mitigate significant exposure to risk.
Priority 2 (Medium)	Control weakness that represent an exposure to risk and require timely action.
Priority 3 (Low)	Although control weaknesses are considered to be relatively minor and low risk, action to address still provides an opportunity for improvement. May also apply to areas considered to be of best practice.

STATEMENT OF RESPONSIBILITY

We take responsibility to the London Borough of Croydon for this report which is prepared on the basis of the limitations set out below.

The responsibility for designing and maintaining a sound system of internal control and the prevention and detection of fraud and other irregularities rests with management, with internal audit providing a service to management to enable them to achieve this objective. Specifically, we assess the adequacy and effectiveness of the system of internal control arrangements implemented by management and perform sample testing on those controls in the period under review with a view to providing an opinion on the extent to which risks in this area are managed.

We plan our work in order to ensure that we have a reasonable expectation of detecting significant control weaknesses. However, our procedures alone should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify any circumstances of fraud or irregularity. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud.

The matters raised in this report are only those which came to our attention during the course of our work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. The performance of our work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices.

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