

APOLOGIES Committee Services
Email: Committee.clerk@maldon.gov.uk

DIRECTOR OF STRATEGY,
PERFORMANCE AND
GOVERNANCE
Paul Dodson

21 July 2021

Dear Councillor

You are summoned to attend the meeting of the;

PERFORMANCE, GOVERNANCE AND AUDIT COMMITTEE

on **THURSDAY 29 JULY 2021 at 7.30 pm**

in the **Council Chamber. Maldon District Council Offices, Princes Road, Maldon.**

Please Note that due to social distancing and space limitations, we require any members of the public or press who wish to attend physically and observe or speak under Public Participation rules at this meeting to complete [a request form](#) (to be submitted by 12noon on the working day before the Committee meeting). This will be reviewed and managed according to capacity of the meeting and whether any other persons have already registered.

The Committee meeting will still be live streamed via the [Council's YouTube channel](#) for ease of viewing.

A copy of the agenda is attached.

Yours faithfully



Director of Strategy, Performance and Governance

COMMITTEE MEMBERSHIP:

CHAIRMAN	Councillor Mrs J C Stilts
VICE-CHAIRMAN	Councillor K W Jarvis
COUNCILLORS	R G Boyce MBE
	M R Edwards
	Mrs J L Fleming, CC
	M S Heard
	A L Hull
	J V Keyes
	S P Nunn
	E L Stephens





AGENDA
PERFORMANCE, GOVERNANCE AND AUDIT COMMITTEE
THURSDAY 29 JULY 2021

1. **Chairman's Notices**

2. **Minutes** (Pages 5 - 14)

To confirm the minutes of the meeting held on 10 June 2021, (copy enclosed).

3. **Apologies for Absence**

4. **Disclosure of Interest**

To disclose the existence and nature of any Disclosable Pecuniary Interests, other Pecuniary Interest or Non-Pecuniary Interests relating to items of business on the agenda having regard to paragraphs 6 – 8 of the Code of Conduct for Members.

(Members are reminded that they are also required to disclose any such interest as soon as they become aware should the need arise through the meeting).

5. **Public Participation**

To receive the views of members of the public, of which prior notification in writing has been received (no later than noon on the Tuesday prior to the day of the meeting).

Should you wish to submit a question please complete [the online form](#).

6. **Internal Audit Reports:- Progress Report; Affordable Housing & Housing Need Audit; Knowledge Management Audit and Follow-up of Recommendations Report** (Pages 15 - 56)

To consider the report of the Director of Resources and associated appendices, (copies enclosed):-

Appendix 1 – Progress Report

Appendix 2 – Affordable Housing & Housing Need Audit

Appendix 3 – Knowledge Management Audit

Appendix 4 – Follow-up of Recommendations Report

7. **Internal Audit - Annual Report and Statement of Assurance 2020/21** (Pages 57 - 76)

To consider the report of the Director of Resources, (copy enclosed).

8. **External Audit - Audit Planning Report to 31 March 2021** (Pages 77 - 108)

To consider the report of the Director of Resources, (copy enclosed).

9. **Any other items of business that the Chairman of the Committee decides are urgent**
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NOTICES

Recording of Meeting

Please note that the Council will be recording and publishing on the Council's website any part of this meeting held in open session. At the start of the meeting an announcement will be made about the recording.

Fire

In the event of a fire, a siren will sound. Please use the fire exits marked with the green running man. The fire assembly point is outside the main entrance to the Council Offices. Please gather there and await further instruction.

Health and Safety

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**MINUTES of
PERFORMANCE, GOVERNANCE AND AUDIT COMMITTEE
10 JUNE 2021**

PRESENT

Chairman	Councillor Mrs J C Stilts
Vice-Chairman	Councillor K W Jarvis
Councillors	M R Edwards, Mrs J L Fleming, CC, A L Hull, J V Keyes, S P Nunn, E L Stephens and B S Beale MBE
In attendance	Councillors Mrs P A Channer and C Morris
Substitutes	Councillor B S Beale, MBE

83. CHAIRMAN'S NOTICES

The Chairman welcomed all present and took the Committee through some housekeeping arrangements for the meeting.

84. APOLOGIES

Apologies for absence were received from Councillor R G Boyce and M S Heard. In accordance with notice duly given Councillor B S Beale, MBE was attending as a substitute for Councillor Heard.

85. MINUTES

RESOLVED by assent that the Minutes of the meeting of the Committee held on 25 March 2021 be approved and confirmed.

86. DISCLOSURE OF INTEREST

Councillor J L Fleming declared a non-pecuniary interest as a Member of Essex County Council in relation to any items on the agenda pertaining to that organisation.

87. PUBLIC PARTICIPATION

A public participation submission, in two parts, had been received in respect of Agenda Item 6 - Review of Corporate Risk – Quarter 4. The Chairman advised the Committee that this would be dealt with following the Officer presentation on that item.

88. REVIEW OF CORPORATE RISK - QUARTER 4

The Committee considered the report of the Director of Strategy, Performance and Governance that required the Committee to undertake a quarterly review of the Corporate Risk Register as assurance that the corporate risks were being managed effectively. The Risk Register was attached at Appendix 1.

The Chairman introduced the item and deferred to the Director of Strategy, Performance and Governance to present the detail. He took the Committee through the report and noted that section 3.1.1 highlighted the risks that had changed in direction since quarter three, with one risk recommended for closure. Two risks had decreased in score - R9 'Failure to have a coordinated approach to supporting inward investment and maximising business rate growth' and R30 'May 2021 Elections during Covid-19 pandemic – There is a major risk to successfully delivering the May 2021 Elections and Referenda during the ongoing Covid crisis. This could lead to financial strain and reputational risk for MDC'.

Three risks had increased in score - R10 'Failure to develop jobs to support the growing population' which confirmed that Covid remained a dominant force on the economic landscape. With this risk persisting 'Likelihood' had been increased. The Covid-19 Economic Recovery and Transformation Plan had been created and actions were being progressed. R7 – 'Failure to maintain a 5 yr land supply' – the Local Development Plan (LDP) was approved by Council in March 2021, triggered by the failure to maintain a 5 year land supply. Whilst further mitigation was put in place the risk had materialised hence the increase.

R29 – 'Failure to deliver services as a result of Covid-19' - this risk was increased because of the potential for fatigue of officers due to working for over a year in pandemic conditions, including two national lockdowns. There had not been a detrimental impact on service delivery but the increased risk was due to the potential for ever increasing risk the longer these conditions continued.

One risk was recommended for closure R13 – 'Failure to manage the impact of organisational change'. The Corporate Plan had been updated, resource reviews undertaken and additional funding identified in the February 2021 budget for the required additional staff. The organisation had successfully come through the transformation process and operationally it would continue to regularly review corporate risk in line with the Risk Management Strategy.

The Chairman moved the recommendations in the report and these were seconded by Councillor Jarvis. The Chairman then read the two submissions from Mr Fittock a member of the public.

In response to the first submission around R7- 'Failure to maintain a 5 year land supply' and what lessons had been learnt the Director of Strategy, Performance and Governance advised the following:-

That the LDP 2014-2029 set a 15 year development plan for the Maldon district, this was adopted in July 2017. The evidence to underpin that plan was prepared in the first 5 years of 2010. In designing the approach of the LDP review the Council will consider drawing on the latest guidance from the government, in terms of determining how to evaluate the suitability of sites as well as drawing on Council practice and the practice of other local planning authorities around the country. National Planning Policy now stipulated that 10% of all allocated housing growth must go on smaller sites of under 1 hectare which will provide greater choice in housing site size and help support smaller house builders to bring housing forward. The Council had also undertaken a call for

sites that closed on 7 June 2021 so will now start appraising the land that had come forward in efforts to meet the 5 year housing land supply.

In response to the second submission around R5- 'Failure to deliver the required infrastructure to support requirements arising from the LDP' the Director advised the following:-

In respect of infrastructure forecasting and delivery the Council was already reviewing its evidence base for this and a proposal was due to be submitted to Strategy and Resources Committee on 15 June 2021 to consult on a 'duty to co-operate' strategy which will be the starting point for the Council's approach on matters which were strategic and cross boundary with various public bodies, such as education, transport and health which were key infrastructure issues that will include Essex County Council as the Highways and Education Authority (ECC).

The LDP originally was subject to an independent examination by a Planning Inspector between 2014-2017 and was judged to be both legal and sound, including the infrastructure aspects. The Council however does intend to approach this challenge with a fresh perspective, update its evidence and understanding and engage in a constructive dialogue with necessary bodies to improve upon infrastructure delivery in the future. Through that review there will again be an examination in public and a full consultation undertaken.

In response to questions from the Committee, Officers responded as follows:

- That the closure of R13 related to having managed organisational change and knowledge retention. The process mapping exercise undertaken now provided knowledge at a corporate level on all processes as opposed to individual knowledge, thus ensuring knowledge retention. Staffing levels were good, sickness levels were at their lowest and the turnover rate was low. During the pandemic some key specialist roles had been filled in Planning which had previously proved difficult to recruit. The Corporate Leadership Team (CLT) was content that all issues had been managed appropriately.
- That there had been a large response to the request for land. That part of the failure at R7 was due to delays with approval on certain major sites, subsequent delays by developers which ultimately delayed delivery of some major future housing.
- That in accordance with Government advice it was not possible to factor in the costs of the slowing supply chain and/or the increased costs in the building industry, the Council had to work with the current figures incorporating the knock on effect of these delays.
- That R10 – the COVID-19 Economic Recovery and Transformation Plan had been framed by the work of the COVID-19 Reset and Recovery Working Group and would be circulated to Committee Members. Additional staff would be brought in to support community recovery, paid from the 'Welcome Back' fund.
- That Climate Change was high on the Council's agenda but not a corporate risk therefore not on the Corporate Risk Register. A Climate Emergency Statement had been received and approved by Council on 4 February 2021 and the Climate and Environment Action Plan will be submitted to Council for approval at the end of this year.
- That R29 incorporated all third party partnerships involved in service delivery.

- That in respect of R14 when looking to employ good people the HR strategy included developing existing staff through apprenticeship schemes etc. The hard to fill posts were generally at senior levels.
- That R30 will be removed from the next iteration of this report, on the report at the moment as this was reporting Q4.
- That the Finance Working Group set up to deal with Member Engagement was due to meet next week and the papers were open to all Members, available on Mod.Gov. The final part of the additional restrictions grants would be paid in the next two weeks. The final tranche of additional funding, approximately £565,000, may be received post the end of the month which will be distributed as soon as possible and in terms of the new burdens funding received for the grants paid to date this was £166,000. As more is being paid out there may be further burdens payments due this year, yet to be confirmed.
- That at R10 the score of 16 was reasonable given that the economic recovery forecast nationally was 7%. The unachieved savings figure referred to at R25 was £133,000. The details on the lack of diligence referred to in R3 would be circulated following the meeting together with a response to the backlog issue raised under R13. Finally, the working group referred to in R29 was confirmed as the COVID-19 Reset and Recovery Group.

There being no further questions the Chairman put the recommendations to the Committee and they were agreed by assent.

RESOLVED

- (i) That Members reviewed the Corporate Risk Register in Appendix 1 and provided comment and feedback for consideration;
- (ii) That Members were assured through this review that corporate risk is being managed effectively;
- (iii) That Members challenged risk where the Committee felt that the Council's corporate goals may not be achieved.

89. REVIEW OF CORPORATE PERFORMANCE - QUARTER 4

The Committee considered the report of the Director of Strategy, Performance and Governance that required the Committee to undertake a quarterly review of the Thematic Strategies performance, as assurance that performance was being managed effectively to achieve the corporate outcomes as set out in the Council's Corporate Plan 2019 – 2023. Appendix 1 to the report provided an overview of performance as at the end of Quarter 4 (Q4) (January - March 2021).

The Chairman introduced the report and deferred to the Director of Strategy, Performance and Governance to present the detail. He took the committee through the end of year performance report that covered the outcomes prior to the Corporate Plan refresh. He noted that this was a year like no other, delivering against a background of a pandemic and two national lockdowns. However, this was a positive report showing good progress in general over the past year.

Section 3.3 of the report was a broad outcome update for each of the thematic strategies in the Corporate Plan. Section 3.4 highlighted the specific indicators 'at risk' which meant that delivery had not achieved what was set out. These had been

highlighted in earlier reporting, in wider member communications and in the main had been impacted by the pandemic. Conversely some areas had achieved a positive outcome but not as originally anticipated, for example community engagement and support for shielding groups had contributed to reducing social isolation but that was never part of the delivery design and channel shift was outlined as supporting those who came into the offices to go online. The offices have been closed but the shift to online has happened and more people have embraced online technology during Covid.

Appendix 1 provided the detailed list of indicators and updates that informed the high level assessment. Work was nearing completion on the Corporate Plan refresh outcomes measurements as recently highlighted in the Member Seminar and Members' feedback from that session would be incorporated into the design and build of the framework for the coming year.

The Chairman moved the recommendations in the report and these were seconded by Councillor Jarvis.

In response to questions from the Committee, Officers responded as follows:-

- That management plans, particularly in respect of Promenade Park, needed to be as wide ranging as possible covering all aspects of its management, maintenance and care and that this will be coming to Council for approval later this year.
- That progress on the air quality survey on Market Hill had been impeded by COVID. Essex County Council will undertake this once traffic levels return to normal ensuring a constructive exercise. The Air Quality Action Plan update will be submitted to Council in due course.
- That the outcomes for Air Quality would now be combined into one in the performance report given that delivery on the Action Plan had been agreed.
- That the Superfast Essex Steering Group provided the statistics for the district and were currently reporting ahead of schedule on delivery.
- That delivery of an Enterprise Centre had originally been part of the Central Area Master Plan (CAMP) but was now under review in the performance report. This was due to the current economic landscape and the need to review the original evidence base to determine if it is still appropriate to progress.

There being no further questions the Chairman put the recommendations to the Committee and they were agreed by assent.

RESOLVED

- (i) That Members reviewed the information as set out in this report and Appendix 1 with priority focus given to the Strategic Outcome level performance.
- (ii) That Members confirmed they were assured through this review that corporate performance was being managed effectively.

90. HEALTH AND SAFETY UPDATE - QUARTER 4

The Committee considered the report of the Director of Service Delivery and associated appendices that provided an update on health and safety statistics and activity during quarter 4 (1 January 2021 to 31 March 2021). The Chairman introduced the report and deferred to the Director of Service Delivery to present the detail.

He took the Committee through the summary of key issues around accidents, risk assessments undertaken in relation to elections, the First Aid training that had been updated to take into account the new structure and noted that there had been no incidents of unacceptable behaviour in this quarter. He assured the Committee that the overarching work outstanding in the Action Plan at Appendix 2, which was due to Covid pressures, would commence shortly.

The Chairman moved the recommendations in the report and these were seconded by Councillor Jarvis

Councillor Nunn, referring to the risk assessments undertaken, said that the Council and its officers should be commended for the very effective risk assessments undertaken around Covid that had safeguarded Members, Public and Officers not just in the Chamber, but also at the football club.

In response to questions from the Committee, Officers responded as follows:-

- That the Council had fully trained Fire Marshalls that managed fire testing and fire drills when carried out under normal circumstances. At the moment, fire trained facilities staff covered areas in current use.
- That potential accidents involving the Council's motor fleet and residents would not be recorded on the corporate risk register, the focus here was on staffing accidents.
- That the Hand Arm Vibration training and policy were now in place and the Director of Service Delivery would advise in writing when the Health & Safety Policy was due to be considered by Council.
- That staff working in the community were safeguarded through the use of body worn cameras and that all training identified by staff through normal working practices or through risk assessments was delivered as appropriate.

There being no further questions the Chairman put the recommendations to the Committee and they were agreed by assent.

RESOLVED

- (i) That Members reviewed the information as set out in the report and associated appendices;
- (ii) That Members confirmed they were assured that through this update health and safety was being managed effectively.

91. DRAFT ANNUAL GOVERNANCE STATEMENT - 2020/21

The Committee considered the report of the Director of Strategy, Performance and Governance and appendix 1 that provided a draft Annual Governance Statement for review and adoption.

The Chairman introduced the report and deferred to the Director of Strategy, Performance and Governance to present the detail. He took the Committee through the Annual Governance Statement that explained the processes and procedures in place to enable the Council to carry out its functions appropriately. Since 2011 it no longer needed to be included in the Statement of Accounts (SOA) and last year the Council published it as a document in its own right to emphasise the importance of governance

assurance. Highlighted in the document were some of the governance achievements that took place in 2020/21 and this included frameworks and training that were put in place in response to the Covid Emergency Measures and new ways of working.

Looking forwards an action plan had been compiled for the coming year. Although there were no areas of significant governance concern highlighted by the Council or the Internal Auditors, the action plan built on best practice and progress and would be reported back to this Committee

The Chairman moved the recommendations in the report and these were seconded by Councillor Jarvis. There being no questions the Chairman then put the recommendations to the Committee and they were agreed by assent.

RESOLVED

- (i) That the Performance, Governance and Audit Committee approved the Annual Governance Statement at Appendix 1;
- (ii) That the Performance, Governance and Audit Committee monitored the progress of the action plan;
- (i) That a quarterly report of Annual Governance actions was provided for Performance, Governance and Audit committee review.

92. ANNUAL GOVERNANCE STATEMENT ACTIONS UPDATE

The Committee considered the report of the Director of Strategy, Performance and Governance that updated the Committee on the actions identified in the 2019/20 Annual Governance Statement (AGS).

The Chairman introduced the item and deferred to the Director of Strategy, Performance and Governance to present the detail. He took the Committee through the report that provided an update on actions highlighted in the 2019/20 Annual Governance Statement. Actions identified were around improving best practice rather than any particular governance concerns. There were a few that had been identified and built into the Action Plan for 2020/21 to continue tracking delivery of best practice.

The Chairman moved the recommendation in the report and it was seconded by Councillor Jarvis.

In response to questions raised Officers responded as follows:-

- That emergency powers were ongoing to deal with timescales etc. However, they were not invoked during the pandemic as the Council voted to put in place a COVID-19 Interim Measures Group to deal with decision-making whilst committees were suspended.
- That the Peer Review in relation to Scrutiny was no longer necessary as the Local Government Association (LGA) had undertaken a review and training with Scrutiny Members.
- That an online survey for resident input on the budget was due to go live and the results would be shared with Members. Those residents without online access would be followed up accordingly.

There being no further questions the Chairman put the recommendation to the Committee and it was agreed by assent.

RESOLVED that the Committee reviewed the annual governance action table and updates and challenged where necessary.

93. ANNUAL REPORT ON WHISTLEBLOWING POLICY

The Committee considered the report of the Director of Resources that provided an annual update to the Committee on the Council's whistleblowing policy.

The Chairman introduced the item and deferred to the Director of Resources to cover the detail. He took the Committee through the report and advised that by convention this was reported annually and no concerns had been raised. The key objectives of the policy included encouraging legitimate concerns to be brought forward; protection of whistle blowers from reprisal; assurance of a response and advice on what to do if a response was inadequate.

The Chairman moved the recommendation in the report and this was seconded by Councillor Jarvis.

In response to questions raised Officers responded as follows:-

- That exit interviews were part of the HR processes and any concerns raised were followed up. Officers would check if this information was submitted to any committee and advise Members in writing.
- That dissemination of the policy was through FreshService and would also be circulated via the 'all staff' email. Staff training in key risk service areas had already been undertaken on the policy and all staff training was currently under consideration. The policy was also valid for Members.

There being no further questions the Chairman put the recommendation to the Committee and it was agreed by assent.

RESOLVED that the Committee considered the report.

94. SECTION 106 UPDATE

The Committee considered the report of the Director of Strategy, Performance and Governance that updated Members on the S106 monitoring processes and sought Members endorsement for the continuing and effective management of the Council's S106 responsibilities.

The Chairman introduced the item and deferred to the Director of Strategy, Performance and Governance to present the detail. He took the Committee through the report that highlighted events from the last half year which had been one of peaks and troughs in terms of S106 income flows. The winter season and disruptions to the building industry from Covid, coupled with the desire to pace S106 payments in a manner which remained in step with receipts from house sales had resulted in receipts being more disjointed than in other years. The S106 Officer together with planning officers will be undertaking site visits during June/July 2021 to redress the Council's understanding of what is happening on the ground and consider whether further payments have been triggered but not paid.

While the income stream had been disrupted the S106 Officer had maintained pressure on both the NHS, other council departments and partners to make sure that the expenditure deadlines were not missed. A letter was recently sent to the NHS Clinical Commissioning Group and it had recognised the urgency to get the anticipated improvements to their services around the district completed, as more homes are built. It was aware of the Council's keenly felt desire to avoid developer funding being returned through a lack of expenditure within legal deadlines. Since the report was written the NHS had increased its capacity around planning to ensure delivery on that infrastructure.

Similarly, following the new LDP Review Strategic Liaison Group meeting with ECC Team Leads from Planning, Education, Highways and Flood Risk further updates had been requested concerning Education and Highways infrastructure payments. The Council had encouraged a more proactive approach on information sharing across all authorities, including more regular updates on projects that were funded from monies collected by Maldon District Council S106.

In a move for more transparency the Council had published the S106 spreadsheet online, this should reduce the number of Freedom of Information (FOI) enquiries and help broaden understanding of what was secured through developments in the district and when it was due to be paid.

The Chairman moved the recommendations in the report and they were seconded by Councillor Jarvis.

In response to questions raised by the Committee, Officers responded as follows:-

- That specific requests around access to grants be emailed to Officers who will reply in writing.
- That information on how long the sums to support various health projects have been held by the Council would be circulated to Members.
- That the issue of delays at GP Surgeries was a national problem exacerbated by Covid.
- That NHS progress on plans for the delivery of a medical centre at Southminster would be circulated to Dengie Members in the next couple of weeks.

There being no further questions the Chairman put the recommendations to the Committee and they were agreed by assent.

RESOLVED

- (i) That Members reviewed the information in this report and appendix 1;
- (ii) That Members confirm they are assured that S106 is being managed effectively.

95. APPOINTMENT OF REPRESENTATIVES ON LIAISON COMMITTEES/PANELS

The Committee considered the report of the Director of Strategy, Performance and Governance that reminded Members of the existing representatives on Liaison Committees / Panels, and for new appointments to be made for the municipal year to May 2022.

The Chairman called for two representatives to join Councillor K W Jarvis on the Maldon Citizen's Advice Bureau Liaison Committee and Councillors J L Fleming and E L Stephens came forward. This was duly seconded.

The Chairman proposed that Councillor S P Nunn and E L Stephens be appointed to the Maldon District Museum Liaison Committee, this was duly seconded.

The Chairman concluded by confirming that the Parish Clerks' Forum and River Crouch and Coastal Community Team representatives would remain the same for the ensuing municipal year.

The aforementioned appointments were put to the Committee and agreed by assent.

RESOLVED that the Committee appointed the following representatives to the Outside Bodies detailed below, the municipal year to May 2022.

Body	2021/22 Representative(s)
Maldon Citizens Advice Bureau Liaison Committee	Councillors K W Jarvis, J L Fleming and E L Stephens
Maldon District Museum Liaison Committee	Councillors S P Nunn and E L Stephens
Parish Clerks' Forum	Chairman of the PGA Committee <i>Substitute: Vice-Chairman of the Performance, Governance and Audit Committee</i>
River Crouch Coastal Community Team (Management Team) NB: This body aligns with both the PGA and Strategy & Resources Committees	Councillor J C Stilts, Chairman and Councillor K W Jarvis, Vice-Chairman of the Performance, Governance and Audit Committee.

96. ANY OTHER ITEMS OF BUSINESS THAT THE CHAIRMAN OF THE COMMITTEE DECIDES ARE URGENT

There were none.

The meeting closed at 9.08 pm.

MRS J C STILTS
CHAIRMAN



REPORT of DIRECTOR OF RESOURCES

**to
PERFORMANCE, GOVERNANCE AND AUDIT COMMITTEE
29 JULY 2021**

INTERNAL AUDIT REPORTS: – PROGRESS REPORT; AFFORDABLE HOUSING & HOUSING NEED AUDIT; KNOWLEDGE MANAGEMENT AUDIT AND FOLLOW-UP OF RECOMMENDATIONS REPORT

1. PURPOSE OF THE REPORT

1.1 To present for consideration, comment and approval by the Committee the following reports issued by BDO LLP, the Council's internal audit service provider

- Internal Audit Progress Report - July 2021 at **APPENDIX 1**;
- Affordable Housing & Housing Need Audit – July 2021- **APPENDIX 2**;
- Knowledge Management Audit – June 2021 – **APPENDIX 3**;
- Follow-up of Recommendations Report – March 2021 at **APPENDIX 4**.

2. RECOMMENDATIONS

That the Committee considers, comments and approves the:

- (i) Internal Audit Progress Report - July 2021 at **APPENDIX 1**;
- (ii) Affordable Housing & Housing Need Audit – July 2021- **APPENDIX 2**;
- (iii) Knowledge Management Audit – June 2021 – **APPENDIX 3**;
- (iv) Follow-up of Recommendations Report – March 2021 at **APPENDIX 4**.

3. SUMMARY OF KEY ISSUES

- 3.1 BDO LLP are the Council's contracted Internal Audit Service provider. The Partner, Mr. Greg Rubins, fulfils an equivalent role to that of Head of Internal Audit.
- 3.2 The Internal Audit Service is there to provide assurance to the Director of Resources, Management and Members of the adequacy of internal controls and checks in the organisation and to highlight any risks that the Council may be exposed to in its overall and day to day operations.
- 3.3 As such, Internal Audit is independent of Management and operates, performs to and is measured against The UK Public Sector Internal Audit Standards (PSIAS) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).
- 3.4 The reports attached in the four appendices will be presented to the Committee and discussed by Mr Greg Rubins or his representative on his behalf.

4. CONCLUSION

- 4.1 This report together with the reports attached as Appendices allows the Committee to fulfil its remit of overseeing governance.

5. IMPACT ON STRATEGIC THEMES

- 5.1 Internal Audit cuts across the delivery of all the Strategic Themes of the Council.

6. IMPLICATIONS

- (i) **Impact on Customers** – any impact on customers will be highlighted with the reports in the appendices.
- (ii) **Impact on Equalities** – any impact on equalities will be highlighted with the reports in the appendices if it is within the scope of the audit work carried out.
- (iii) **Impact on Risk** – Any risks identified as a result of the findings of the internal audit work are highlighted with the individual reports and summarised in the Progress Update and Follow Up of recommendations reports.
- (iv) **Impact on Resources (financial)** – Same comment applies here as for Impact on Risk above.
- (v) **Impact on Resources (human)** – Same comment applies here as for Impact on Risk above.
- (vi) **Impact on the Environment** – Same comment applies here as for Impact on Risk above.

Background papers: None.

Enquiries to: Chris Leslie, Director of Resources, Maldon District Council
Greg Rubins (BDO LLP)
Christopher André (BDO LLP)

INTERNAL AUDIT PROGRESS REPORT

MALDON DISTRICT COUNCIL

JULY 2021

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SUMMARY OF 2020/21 AND 2021/22 WORK

This report is intended to inform the Performance, Governance & Audit Committee of progress made against both the 2020/21 and 2021/22 internal audit plans. It summarises the work we have done, together with our assessment of the systems reviewed and the recommendations we have raised. Our work complies with Public Sector Internal Audit Standards. As part of our audit approach, we have agreed terms of reference for each piece of work with the risk owner, identifying the headline and sub-risks, which have been covered as part of the assignment. This approach is designed to enable us to give assurance on the risk management and internal control processes in place to mitigate the risks identified.

Internal Audit Methodology

Our methodology is based on four assurance levels in respect of our overall conclusion as to the design and operational effectiveness of controls within the system reviewed. The assurance levels are set out in Appendix 1 of this report, and are based on us giving either "substantial", "moderate", "limited" or "no". The four assurance levels are designed to ensure that the opinion given does not gravitate to a "satisfactory" or middle band grading. Under any system we are required to make a judgement when making our overall assessment.

As a result of the impact of Covid-19 there have been some delays in the delivery of the 20/21 plan. We have been working with officers to minimise these and to agree audits that can be done remotely by our team. We have agreed timings on all remaining audits and our work has recommenced accordingly. Dates for the upcoming 21/22 audit plan have been shared with CLT and progress has begun with planning these. As with the 20/21 Audit Plan, the 21/22 Audit Plan will need to be flexible to accommodate new risks resulting from Covid-19; we will agree any proposed changes with the Director of Resources and the Performance, Governance and Audit Committee (PGA).

2020/21 Internal Audit Plan

The following audits have been issued in final since the March PGA:

- Knowledge Management
- Housing Needs and Affordable Housing

The following reports are out in draft and awaiting management responses:

- Fraud Risk Assessment

2021/22 Internal Audit Plan

The following audits are underway or are due to begin soon:

- Covid Recovery Plan
- Management of Property
- Partnerships

Other Reports for this Committee

- Annual Report
- Follow Up of Internal Audit Recommendations

Recommended changes to the Plan

- Management of Property and CRM carried forward to 21/22
- Climate Change and Sustainability moved to 22/23 in order to accommodate the above and to allow for development of new sustainability strategies and plans to be completed before being reviewed

REVIEW OF 2020/21 WORK

Audit Area	Planning	Original Fieldwork	Revised date (due to CV19)	Reporting	Opinion Design	Effectiveness
CIPFA FM Code Readiness	✓	N/A	Q3	November 2020	Substantial	Substantial
Safeguarding	✓	Q1	Q2- 24 th July 2020	November 2020	Moderate	Moderate
Information Management	✓	Q1	Q3- w/c 16 th October	January 2021	Moderate	Moderate
Workforce Management	✓	Q2	Q2- w/c 22 nd September	January 2021	Substantial	Substantial
Financial Systems (Payroll)	✓	Q2	Q3	March 2021	Substantial	Substantial
Knowledge Management & Transfer	✓	Q4	Q2- w/c 10th August	July 2021	Moderate	Moderate
Housing Needs and Affordable Housing	✓	Q4	Q4	July 2021	Moderate	Moderate
Fraud Risk Assessment	✓	N/A	Q3	November 2021	Advisory Report	
Management of Property	Carried Forward to 21/22					
Customer Service- CRM Post Implementation	Carried Forward to 21/22					

REVIEW OF 2021/22 WORK

Audit Area	Planning	Fieldwork	Reporting	Opinion	
				Design	Effectiveness
Management of Property	✓	Q2	November 2021		
Partnerships	✓	Q2	November 2021		
Covid Recovery Plan Policy Review	✓	Q2	November 2021		
Communications & Stakeholder Management		Q2	November 2021		
Policy Review		Q2	November 2021		
Main Financial Systems		Q3	February 2022		
IT Strategy & Transformation		Q3	February 2022		
Strategic Performance-Community		Q3	February 2022		
Commercialisation		Q3	February 2022		
Customer Service-CRM Post Implementation		Q3	February 2022		
Workforce Management		Q4	March 2022		
Climate Change and Sustainability	Moved to 22/23				

FOR MORE INFORMATION:

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MALDON DISTRICT COUNCIL

INTERNAL AUDIT REPORT

AFFORDABLE HOUSING & HOUSING NEED
JULY 2021

LEVEL OF ASSURANCE	
Design	Operational Effectiveness
Moderate	Moderate

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DISTRIBUTION

Name	Job Title
Richard Holmes	Director of Service Delivery
Damien Ghela	Lead Specialist Community
John Swords	Senior Housing Specialist Coordinator

REPORT STATUS LIST

Auditors:	Tiyese Namwinga - Internal Audit Senior
Dates work performed:	26 April 2021 - 17 May 2021
Draft report issued:	10 June 2021
Final report issued:	2 July 2021

EXECUTIVE SUMMARY**LEVEL OF ASSURANCE: (SEE APPENDIX I FOR DEFINITIONS)**

Design	Moderate	Generally a sound system of internal control designed to achieve system objectives with some exceptions.
Effectiveness	Moderate	Evidence of non-compliance with some controls that may put some of the system objectives at risk.

SUMMARY OF RECOMMENDATIONS: (SEE APPENDIX I FOR DEFINITIONS)

High	1
Medium	2
Low	0

TOTAL NUMBER OF RECOMMENDATIONS: 3**BACKGROUND:**

Affordable housing has a significant role to play in meeting the Council's corporate goal of 'meeting housing needs' and preventing and relieving homelessness - co-ordinating work with Registered Providers and developers to provide affordable housing in the District continues to be a priority. Increasing the range of housing products available to people in housing need and providing quality alternatives to homelessness will help to deliver this goal.

Most of the existing supply of affordable homes and those planned for the future will be delivered through the policies in the Council's Local Development Plan. These are based upon evidence on the local need and supply of homes provided by the Council's Strategic Housing Market Assessment (SHMA) and its research into Objectively Assessed Need (OAN). The policies of the local plan reflect that National Planning Policy Framework and the approach taken to develop these is in accordance with National Planning Policy Guidance.

This audit reviewed the areas identified and agreed in the terms of reference as set out in appendix IV of this report. We carried out interviews with the Lead Specialist Community, Lead Specialist Local Plan, Lead Specialist Place and the Senior Housing Specialist Coordinator. Interviews and sample testing were used to determine if the controls and processes with regard to the delivery of Affordable Housing were operating effectively. We reviewed documentary evidence such as: the Local Development Plan, strategies and housing policies, planning application permissions, emails, meeting minutes, supporting guidance documents and the Council policies to assess the design and effectiveness of the processes and procedures in place.

GOOD PRACTICE:

- We confirmed that Maldon District Council (MDC) has a Housing Strategy in place which runs from 2018-2023. Our review of the Homelessness, Rough Sleeper and Housing Strategy confirmed there to be narrative linking the strategy to the Council's Local Development Plan (LDP)

- The LDP includes an up to date housing policy setting out the local requirements for affordable housing provision expected to help boost the supply of affordable homes in the District over the plan period
- Maldon's Local Housing Needs Assessment (SHMA) was completed in September 2014 and informs the LDP which in turn informs the Housing Strategy and supporting housing policies. The Council is currently in the process of undertaking a new SHMA to be used as input to the updated LDP. This will give an update on the housing requirements in the district
- The 2021-22 Housing Service Business Plan sets out the aims and objectives for the Housing Service in 2021/2022 and draws on the MDC Homelessness, Rough Sleeper and Housing Strategy 2018/23 Action Plan
- The Council revived the Housing Development Forum in mid-April 2021 where the Council provides updates to developers about the LDP review and process, to discuss any planning, housing and other matters
- There is engagement with developers on affordable housing provision through the pre-planning application and full planning application process
- There are regular updates to the Housing Team on the status and progress of delivery of affordable housing units
- The Senior Housing Specialist Coordinator liaises with the Essex County Housing Growth Team on affordable housing funding project proposals for the district and county to Homes England.

KEY FINDINGS:

- **Affordable Housing Target, Housing Strategy and Action Plan:** The Council is on course to deliver less than 50% of the affordable housing target to 2022-23. The Housing Team were seeking a two year extension to the current Housing Strategy from the Council Senior Management to enable the full implementation of the Housing Strategy Action Plan. In addition there has not been monitoring of the implementation of the Housing Strategy Action Plan since its inception in 2018-19 (Finding 1 - High)
- **Strategic Housing Board (SHB) meetings:** The SHB has not met in the last 36 months to provide advisory input on affordable housing matters to decision making committees. This has resulted in no independent (a) scrutiny of affordable housing matters prior to decision making and (b) regular monitoring of progress of on affordable housing objectives (Finding 2 - Medium)
- **Affordable Housing Commuted Sums:** The Council currently does not have guidelines on the application of affordable housing commuted sums received from developers to enable it to make the most effective use of the funds in a timely manner (Finding 3 - Medium)

CONCLUSION:

From our review we can confirm that there is a clear plan of direction and appropriate oversight over implementation of the Housing Strategy going forward. In addition there is oversight and direction of the work being undertaken to review and update the LDP and accompanying supplementary planning documents. Work is being undertaken to finalise an up to date Local Housing Needs Assessment (SHMA) to ensure the Council has a current picture of the affordable housing requirements and needs in the district. However, we identified non-compliance with controls in some areas as well as a gap in control. We have raised one high level and two medium level findings arising due to inconsistency in the implementation of the Council processes and controls, a lack of guidelines on application of commuted funds and the fact the Council is on course to deliver less than 50% of the affordable housing units target. Overall this has led to a final assessment of moderate assurance over the control design and moderate assurance over the control effectiveness.

DETAILED FINDINGS

RISK: THE COUNCIL DO NOT HAVE A STRATEGY AND ACTION PLAN IN PLACE OUTLINING THE OBJECTIVES FOR DELIVERY OF AFFORDABLE HOUSING.

Ref	Significance	Finding																																								
1	High	<p>Affordable Housing Target, Housing Strategy and Action Plan</p> <p>The combined Homelessness, Rough Sleeper and Housing Strategy runs for the period 2018-23 and includes an Action Plan which aims to provide a number actions in order to assist the Council in meeting its affordable housing targets. The Strategy is owned by the Lead Specialist Community and Housing Services Manager.</p> <p>There was an identified need for 130 affordable units each year, from 2014 for the next 15 years (total of 1,950 units). However, the Council has an acute shortage as at FY 2020-21 with 399 units delivered against a total target of 1,040 affordable housing units (38% delivery rate). The Council is on course to deliver less than half the amount of affordable housing of its target to date as of 2022-23 (see table below). A contributory factor to the lower delivery rates is that the Council had few schemes online at the time of identification of the affordable housing targets/LDP and therefore fewer completions in the early years from 2014. It was not until 2018/19 that the Council had major strategic sites coming through/completing enabling the Council to exceed its target in 2019/20 and again in 2021/22. The failure to meet the affordable housing need is included on the Council’s Corporate Risk Register with a score of 20.</p> <p>Table 1 - Affordable Housing Deliveries to FY 2023:</p> <table><tr><th>Period (FY)</th><th>Units Completed (Units Expected)</th><th>Annual Target</th><th>Variance to Target (Units)</th><th>Delivery Rate (%)</th></tr><tr><td>2014-17</td><td>95</td><td>520</td><td>425</td><td>18%</td></tr><tr><td>2017-18</td><td>25</td><td>130</td><td>105</td><td>19%</td></tr><tr><td>2018-19</td><td>35</td><td>130</td><td>95</td><td>27%</td></tr><tr><td>2019-20</td><td>156</td><td>130</td><td>26</td><td>120%</td></tr><tr><td>2020-21</td><td>88</td><td>130</td><td>42</td><td>68%</td></tr><tr><td>2021-22</td><td>178</td><td>130</td><td>38</td><td>137%</td></tr><tr><td>Total</td><td>577</td><td>1,170</td><td>593</td><td>49%</td></tr></table> <p>Approval is being sought from CLT and members for an extension of two years to the Housing Strategy 2018-23 to 2025 to enable implementation of the Housing Strategy Action Plan.</p> <p>Additionally, the Housing Strategy 2018-23 Action Plan has not been monitored in the past. It was therefore not possible to</p>	Period (FY)	Units Completed (Units Expected)	Annual Target	Variance to Target (Units)	Delivery Rate (%)	2014-17	95	520	425	18%	2017-18	25	130	105	19%	2018-19	35	130	95	27%	2019-20	156	130	26	120%	2020-21	88	130	42	68%	2021-22	178	130	38	137%	Total	577	1,170	593	49%
Period (FY)	Units Completed (Units Expected)	Annual Target	Variance to Target (Units)	Delivery Rate (%)																																						
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2020-21	88	130	42	68%																																						
2021-22	178	130	38	137%																																						
Total	577	1,170	593	49%																																						

measure performance against set objectives. Monitoring of the Action Plan was a challenge in the last few years due to changes in management, the Ignite Model rollout and the Covid-19 pandemic. A decision was therefore made by the Housing Service management to breakdown the Plan into shorter achievable goals which have been included in the Housing Service Business Plan FY2021-22 and will be included in future service plans. However, this is currently in draft.

Lack of monitoring of the Housing Strategy action plan means the Council may not know its performance against the strategy and may not achieve its short and long term affordable housing goals and objectives.

RECOMMENDATION:

- 1.1. Ongoing reporting and monitoring of delivery against action plan and the affordable housing targets should be undertaken.
- 1.2. The Housing Strategy extension should be finalised as soon as possible and an accompanying action plan included which links with the actions in the Housing Service Business Plan.
- 1.3. The Housing Service Business Plan should be finalised and disseminated to relevant staff.

MANAGEMENT RESPONSE:

1.1 A review of KPIs and ongoing monitoring will be bolstered to ensure management have better oversight of Housing targets

Responsible Officer: John Swords/Damien Ghela

Implementation Date: September 2021

1.2 This will be taken to Members for oversight within Qtr 2/3

Responsible Officer: Damien Ghela

Implementation Date: December 2021

1.3 Housing Business Plans will shortly be finalised and disseminated to staff.

Responsible Officer: Damien Ghela/Hannah Wheatley

Implementation Date: September 2021

DETAILED FINDINGS

RISK: AFFORDABLE HOUSING NEEDS WITHIN THE DISTRICT ARE NOT APPROPRIATELY UNDERSTOOD.

Ref	Significance	Finding
2	Medium	<p>Strategic Housing Board (SHB) meetings</p> <p>The SHB are due to meet on a quarterly basis and provide a basis for consultation on strategic housing matters between representatives, members and officers to inform direction and planning of services. The Board has an advisory role and the opinions and recommendations of the Board may be presented to decision making committees. However, the Board has not met in the last 36 months due to other priorities such as the roll out of the Ignite Model, the onset of the Covid-19 pandemic and departure of staff and a board member with the last meeting held on 23 May 2018.</p> <p>The May 2021 local elections has meant new board members can now be appointed to the board. A Full Council meeting was scheduled for 19 May 2021 at which working group or committee members are appointed.</p> <p>A lack of an independent scrutiny of affordable housing matters by members does not facilitate robust decisions by the decision making committees and regular monitoring of progress against Council affordable housing objectives.</p>

RECOMMENDATION:

- 2.1. The Strategic Housing Board meetings and accompanying terms of reference should be reviewed and meetings reinstituted as soon as possible.

MANAGEMENT RESPONSE:

This is in the process of being refreshed with a view to reconvening in Mid-Autumn. The focus will remain that of discussion around strategic housing sites and how to make best use of them.

Responsible Officer: John Swords

Implementation Date: September 2021

DETAILED FINDINGS

RISK: SUMS PAID BY DEVELOPERS, FOR THE PROVISION OF AFFORDABLE HOUSING, ARE NOT USED APPROPRIATELY.

Ref	Significance	Finding
3	Medium	<p>Affordable Housing Commuted Sums</p> <p>The LDP and housing policies allow for the Council to receive commuted sums in exceptional cases. Funds received are usually not sufficient to fund a whole scheme and must be used within a specified period before funds are paid back to the developer.</p> <p>However, there is currently no detailed guidelines on how affordable housing commuted sums are to be applied on a practical level. We understand a paper proposing the introduction and agreement of a 'Commuted Sums Strategy' was produced for members in March 2021 by the Lead Specialist Place. The Lead Specialist Place plans to include the strategy in his 2021/22 annual objectives.</p> <p>Lack of guidance on the use of commuted sums means that the Council may not make the best use of commuted sums i.e. in a timely manner and in a most effective way.</p>

RECOMMENDATION:

- 3.1. The Commuted Sums Strategy should be drafted and approved as soon as possible and disseminated to relevant Council staff.

MANAGEMENT RESPONSE:

An updated Commuted Sums Strategy is being currently being drafted. Once drafted, the Strategy will proceed through our approval process before being disseminated to front line staff and forming part of our approach with developers

Responsible Officer: Matt Leigh/ John Swords/ Damien Ghela

Implementation Date: December 2021

STAFF INTERVIEWED

BDO LLP APPRECIATES THE TIME PROVIDED BY ALL THE INDIVIDUALS INVOLVED IN THIS REVIEW AND WOULD LIKE TO THANK THEM FOR THEIR ASSISTANCE AND COOPERATION.

Name	Job Title
Damien Ghela	Lead Specialist Community
John Swords	Senior Housing Specialist Coordinator
Anne Shoreland	Lead Specialist Local Plan
Matt Leigh	Lead Specialist Place (Head of Planning)

APPENDIX I - DEFINITIONS				
LEVEL OF ASSURANCE	DESIGN OF INTERNAL CONTROL FRAMEWORK		OPERATIONAL EFFECTIVENESS OF CONTROLS	
	FINDINGS FROM REVIEW	DESIGN OPINION	FINDINGS FROM REVIEW	EFFECTIVENESS OPINION
Substantial	Appropriate procedures and controls in place to mitigate the key risks.	There is a sound system of internal control designed to achieve system objectives.	No, or only minor, exceptions found in testing of the procedures and controls.	The controls that are in place are being consistently applied.
Moderate	In the main there are appropriate procedures and controls in place to mitigate the key risks reviewed albeit with some that are not fully effective.	Generally a sound system of internal control designed to achieve system objectives with some exceptions.	A small number of exceptions found in testing of the procedures and controls.	Evidence of non-compliance with some controls that may put some of the system objectives at risk.
Limited	A number of significant gaps identified in the procedures and controls in key areas. Where practical, efforts should be made to address in-year.	System of internal controls is weakened with system objectives at risk of not being achieved.	A number of reoccurring exceptions found in testing of the procedures and controls. Where practical, efforts should be made to address in-year.	Non-compliance with key procedures and controls places the system objectives at risk.
No	For all risk areas there are significant gaps in the procedures and controls. Failure to address in-year affects the quality of the organisation's overall internal control framework.	Poor system of internal control.	Due to absence of effective controls and procedures, no reliance can be placed on their operation. Failure to address in-year affects the quality of the organisation's overall internal control framework.	Non-compliance and/or compliance with inadequate controls.

RECOMMENDATION SIGNIFICANCE	
High	A weakness where there is substantial risk of loss, fraud, impropriety, poor value for money, or failure to achieve organisational objectives. Such risk could lead to an adverse impact on the business. Remedial action must be taken urgently.
Medium	A weakness in control which, although not fundamental, relates to shortcomings which expose individual business systems to a less immediate level of threatening risk or poor value for money. Such a risk could impact on operational objectives and should be of concern to senior management and requires prompt specific action.
Low	Areas that individually have no significant impact, but where management would benefit from improved controls and/or have the opportunity to achieve greater effectiveness and/or efficiency.

APPENDIX II - TERMS OF REFERENCE

PURPOSE OF REVIEW:

Review of how effectively the Council is managing its strategy around provision of social housing and developing the private rented sector.

KEY RISKS:

Based upon the risk assessment undertaken during the development of the internal audit operational plan, through discussions with management, and our collective audit knowledge and understanding the key risks associated with the area under review are:

- Affordable housing needs within the District are not appropriately understood
- Relevant provision for affordable housing is not made within individual developments and future plans for the District as a whole
- Housing developers are not aware of the affordable housing requirements in place
- Housing staff are not aware of progress on developments so that affordable units nearing completion can be advertised appropriately
- Sums paid by developers, for the provision of affordable housing, are not used appropriately
- Affordable housing developments do not meet the guidelines with regards to the different types / tenures
- The Council does not work effectively with partners to ensure affordable housing is provided
- Affordable housing is not appropriately included in new developments
- The Council do not have a strategy and action plan in place outlining the objectives for delivery of affordable housing

SCOPE OF REVIEW:

The following areas will be reviewed as part of this audit:

- Review of the Housing Needs Assessment and Housing Strategy to determine if these appropriately set out the Council's plan and approach to delivering the required volume of affordable housing.
- Review of any action plans and supporting policies and procedures for implementation of the affordable housing strategy.
- Review how the Council work with developers to ensure a pipeline of new affordable housing and how this is monitored and managed within the Housing team.
- Review how the Council works with partners to ensure how affordable housing is provided and advertised to district residents.

However, Internal Audit will bring to the attention of management any points relating to other areas that come to their attention during the course of the audit. We assume for the purposes of estimating the number of days of audit work that there is one control environment, and that we will be providing assurance over controls in this environment. If this is not the case, our estimate of audit days may not be accurate.

APPROACH:

Our approach will be to select a sample of information asset owners and conduct interviews to establish the controls in operation for our areas of audit work. We will then seek documentary evidence that these controls are designed as described and to identify whether they adequately address the risks. Any opportunities identified to improve arrangements will be offered for consideration alongside recommendations to resolve any weakness in controls.

BAF/CRR REFERENCE:

R8: Failure to meet the affordable housing need.

EXCLUSIONS

The scope of the review is limited to the paper based records, documented under the scope and approach. All other areas are considered outside of the scope of this review.

FOR MORE INFORMATION:**Greg Rubins**

Greg.Rubins@bdo.co.uk

The matters raised in this report are only those which came to our attention during the course of our audit and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. The report has been prepared solely for the management of the organisation and should not be quoted in whole or in part without our prior written consent. BDO LLP neither owes nor accepts any duty to any third party whether in contract or in tort and shall not be liable, in respect of any loss, damage or expense which is caused by their reliance on this report.

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MALDON DISTRICT COUNCIL

INTERNAL AUDIT REPORT

KNOWLEDGE MANAGEMENT
JUNE 2021

LEVEL OF ASSURANCE	
Design	Operational Effectiveness
Moderate	Moderate

IDEAS | PEOPLE | TRUST



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DISTRIBUTION

Name	Job Title
Chris Leslie	Director of Resources
Annette Cardy	Resource Specialist Services Manager
Paul Dodson	Director of Strategy, Performance and Governance
Cheryl Hughes	Programmes, Performance and Governance Manager
Sue Green	Customer, Community and Casework Manager
Al Morrell	Resources Casework Manager

REPORT STATUS LIST

Auditors:	Chris Andre
Dates work performed:	21 January - 26 April 2021
Draft report issued:	7 May 2021
Final report issued:	7 June 2021

EXECUTIVE SUMMARY**LEVEL OF ASSURANCE: (SEE APPENDIX I FOR DEFINITIONS)**

Design	Moderate	Generally a sound system of internal control designed to achieve system objectives with some exceptions.
Effectiveness	Moderate	Evidence of non-compliance with some controls that may put some of the system objectives at risk.

SUMMARY OF RECOMMENDATIONS: (SEE APPENDIX I FOR DEFINITIONS)

High	0
Medium	3
Low	0

TOTAL NUMBER OF RECOMMENDATIONS: 3**CRR/BAF REFERENCE:**

R24: Loss of key skills and knowledge across the organisation, and failure to embrace new working cultures.

BACKGROUND:

The Council underwent a significant transformation in 2018/2019. The implementation of this Future Model demanded processes be re-aligned in accordance with the new structure and systems being introduced. As part of this transformation, the Council identified around 200 prioritised processes to align them with the new roles, new technology and new ways of working while making them as efficient as possible. The aim of this work was to eliminate, simplify, standardise and automate activities and processes across the high volume and high opportunity selected processes.

In order to achieve this, all processes were analysed (approximately 700), and the top 200 which had the greatest opportunity for refinement to drive efficiency, or those with the highest volume of usage were identified. A team of Business Analysts was tasked to undertake a number of mini projects where processes were to be re-designed with the support from subject matter experts and the Technology workstream. Once complete and signed off by both parties these were to be handed over to the technology workstream to build and implement. This work to enable knowledge management is still underway, despite the 'go-live' of the transformation happening in 2019.

As part of the review we spoke to Tier 2 Managers as well as the Improvement Team in order to identify the controls in place in relation to the prioritisation and improvement of processes across the Council. We reviewed a sample of five processes that had been completed to ensure there was sufficient end-user involvement and sign-off from managers confirming the processes were operating effectively. A review of the Council's draft Succession Strategy and Business Continuity Plans for completeness and relevance was also undertaken.

GOOD PRACTICE:

- 51 processes have been redesigned since January 2020 including:
 - Improvements to the garden waste database whereby efficiency savings of seven minutes per search have been identified. This has had a knock-on effect whereby less backlogs are being created resulting in less administrative time spent on data cleansing which was costing the Council £21,000 per annum. It is anticipated that there will be a significant saving against this previous expense
 - Cost analysis on admin time for services was also introduced which identified instances of undercharging. The increase of these charges could see an average increase of funds of £11,900 per annum.
- There is a clear methodology for the improvement of processes, including key documentation required
- Users are regularly involved in the redesign of their processes to ensure completeness as well as buy-in
- Updated recruitment procedures have allowed the Council to focus on the appointment of staff who fulfil certain characteristics, which aids the new structure
- Apprenticeships and training are offered to improve the skills of current staff as well as ensuring there are sufficient succession plans which is aided by the development of the Succession Strategy
- New 1-1 SMART templates are in place to identify continuity requirements on a day-to-day basis for individual roles as well as to identify areas of training to assist staff in their role
- Sub-processes identified are placed on a Future Opportunities spreadsheet to ensure a complete record of processes within the Council

KEY FINDINGS:

- The original approach to the identification of key processes across all Services of the Council was suspended due to Covid-19 and there were insufficient prioritisation methods. As a result there is a lack of robustness and audit trail in the current prioritisation process (Finding 1 - Medium)
- Of the five projects we reviewed, four did not have specific guidance for staff on the new process, two had not been fully signed off and one was missing meeting notes, as scoping was via email due to it being an urgent covid form (Finding 2 - Medium)
- Business Continuity Plans held on the Sharepoint within the Council are out of date and include reference to Officers no longer in place following the restructure (Finding 3 - Medium)

CONCLUSION:

Our review found that significant work has been undertaken on the redesign of processes following the transformation and the work completed by Ignite. Despite the reduction in staff, the introduction of IT software and the changes made to the structure has developed a more efficient workforce whilst improving the Council's ability to establish clear career paths and training for current staff. However, there are a significant number of processes still to review and redesign, with the prioritisation for 2020 work not covering all areas within the Council. Further difficulties arose due to the constraints placed on staff by Covid-19. A lack of documentation stored centrally and Business Continuity Plans being out of date has led to moderate assurance over both the design and operational effectiveness of controls in relation to knowledge management.

DETAILED FINDINGS

RISK: ALL SERVICE PROCESSES HAVE NOT BEEN IDENTIFIED TO ENSURE THESE ARE CAPTURED AS PART OF THE ONGOING PROCESS REDESIGN PHASE

Ref	Significance	Finding
1	Medium	<p>The Process Improvement Team have developed a Project Delivery Plan which details the 80 processes prioritised and currently being worked on with these then split into monthly tasks. Prior to Covid-19 the Council were undertaking workshops and Shadow Sessions in order to identify these key processes within different teams across the Council. Part of the process was to identify 'pain points' whereby the redesign could remove obstacles previously encountered. However, both of these processes were stopped following Covid-19 with any vital processes needing updating emailed through to the improvement team whereby they were prioritised via the MoSCoW approach (must have, should have, could have, will not have this time).</p> <p>Some areas, including Housing and Licensing, did not have the more detailed review of their processes completed. Further, the MoSCoW approach resulted in a significant amount of processes being classified as either a Must have or a Should have, with no comprehensive scoring or rating methods in place to clearly establish levels of priority.</p> <p>Without clear methods of prioritisation which allows for an objective review of all processes, there is an increased risk that high priority processes have not been identified.</p>

RECOMMENDATION:

A) In order to identify the next tranche of processes to be worked on, a more robust, objective and overarching prioritisation method should be established to ensure key processes across all services are identified

MANAGEMENT RESPONSE:

Throughout April 2021 the team have done a whole organisation-exercise to review and confirm the prioritisation list and the order of the future improvement work, so this work is well underway

Responsible Officer: Cheryl Hughes

Implementation Date: May 2021

RISK: THOSE PROCESSES WHICH HAVE BEEN REVIEWED HAVE NOT BEEN RE-DESIGNED WITH END-USER INPUT, DOCUMENTED APPROPRIATELY OR ACCESSIBLE TO STAFF

Ref	Significance	Finding
2	Medium	<p>The Project Delivery Plan includes a number of requirements for each of the processes being redesigned. These requirements include evidence of research, meeting notes, sign-off and process maps. These are required to ensure user needs have been taken into account during the improvement process and that the process is operating effectively before going live.</p> <p>Additionally, due to the reduction in staff within the Council, it is important not to have single person dependency in any role, therefore, guidance and documentation should be in place and stored centrally, ideally within Freshservice (the Council's internal ticketing system) in order to be accessible to all staff in the event of any absence. However, from a sample of five processes reviewed we identified:</p> <ul style="list-style-type: none"> • Four had not developed new guidance. Additionally, for the one that had developed guidance it was not held on Freshservice. • Two did not have a fully completed final sign-off confirming the process was in place and operating effectively • One did not have evidence of meeting notes as it was scoped via email due to being an urgent Covid form <p>The lack of guidance for new processes was noted by the Improvement Team and, in some instances, they developed guidance at the time of redesign. However, the need to develop guidance was not noted as a requirement, increasing the likelihood that it is not developed.</p> <p>Without sufficient guidance in place in relation to updated processes there is a risk of single person dependency for some actions in the event of any absence.</p>

RECOMMENDATION:

A) New guidance notes should be developed by the individual teams rather than the improvement team at the time of the process redesign and held centrally on Freshservice as a central repository for information, policies and guidance.

B) Evidence of research and meetings with the teams should be retained to ensure the involvement of users can be demonstrated

C) Sign off should be provided for all new processes before they can go live

MANAGEMENT RESPONSE:

This is all built into the future methodology for process improvement work, and all delivery from June 2021 will include these items in their final checklist.

Responsible Officer: Cheryl Hughes

Implementation Date: July 2021

RISK: WHERE THOSE PROCESSES HAVE NOT YET BEEN REVIEWED, THERE ARE NO CONTINUITY MECHANISMS IN PLACE TO ENSURE THAT THESE CAN BE DONE IF THE CURRENT STAFF IN THOSE ROLES WERE UNAVAILABLE

Ref	Significance	Finding
3	Medium	<p>The Council's Business Continuity Plans (BCPs) are held on Sharepoint and are required to be reviewed annually. They are the responsibility of the Tier 2 Managers to develop and keep up to date and are informed by the new process of reviewing the continuity plans of all staff on an individual basis through their new SMART objectives which requires them to detail this information.</p> <p>However, having reviewed the BCPs for all areas we identified that all were last reviewed in either 2018 or 2019 and referred to either the CEO or Strategic Director who are no longer in place since the transformation.</p> <p>Without up-to-date BCPs there is an increased risk that staff are unaware of their roles and responsibilities in the event of an incident which may impact the operational effectiveness of the Council.</p>

RECOMMENDATION:

A) Ensure all BCPs are updated and held centrally

MANAGEMENT RESPONSE:

Hannah Wheatley and Grant Hulley to complete update of all BCP's in liaison with service leads and ensure all available on a shared area.

Responsible Officer: Grant Hulley

Implementation Date: December 2021

STAFF INTERVIEWED

BDO LLP APPRECIATES THE TIME PROVIDED BY ALL THE INDIVIDUALS INVOLVED IN THIS REVIEW AND WOULD LIKE TO THANK THEM FOR THEIR ASSISTANCE AND COOPERATION.

Name	Job Title
Annette Cardy	Resources Specialist Services Manager
Cheryl Hughes	Programmes, Performance and Governance Manager
Al Morrell	Resources Casework Manager
Sue Green	Customer, Community and Casework Manager
Leigha Jones	Business Analyst
Rachel Hawkrigde	Specialist ICT - Applications
Grant Hulley	Lead ICT Specialist
Helen Tarling	Specialist - Human Resources

APPENDIX I - DEFINITIONS				
LEVEL OF ASSURANCE	DESIGN OF INTERNAL CONTROL FRAMEWORK		OPERATIONAL EFFECTIVENESS OF CONTROLS	
	FINDINGS FROM REVIEW	DESIGN OPINION	FINDINGS FROM REVIEW	EFFECTIVENESS OPINION
Substantial	Appropriate procedures and controls in place to mitigate the key risks.	There is a sound system of internal control designed to achieve system objectives.	No, or only minor, exceptions found in testing of the procedures and controls.	The controls that are in place are being consistently applied.
Moderate	In the main there are appropriate procedures and controls in place to mitigate the key risks reviewed albeit with some that are not fully effective.	Generally a sound system of internal control designed to achieve system objectives with some exceptions.	A small number of exceptions found in testing of the procedures and controls.	Evidence of non-compliance with some controls that may put some of the system objectives at risk.
Limited	A number of significant gaps identified in the procedures and controls in key areas. Where practical, efforts should be made to address in-year.	System of internal controls is weakened with system objectives at risk of not being achieved.	A number of reoccurring exceptions found in testing of the procedures and controls. Where practical, efforts should be made to address in-year.	Non-compliance with key procedures and controls places the system objectives at risk.
No	For all risk areas there are significant gaps in the procedures and controls. Failure to address in-year affects the quality of the organisation's overall internal control framework.	Poor system of internal control.	Due to absence of effective controls and procedures, no reliance can be placed on their operation. Failure to address in-year affects the quality of the organisation's overall internal control framework.	Non-compliance and/or compliance with inadequate controls.

RECOMMENDATION SIGNIFICANCE	
High	A weakness where there is substantial risk of loss, fraud, impropriety, poor value for money, or failure to achieve organisational objectives. Such risk could lead to an adverse impact on the business. Remedial action must be taken urgently.
Medium	A weakness in control which, although not fundamental, relates to shortcomings which expose individual business systems to a less immediate level of threatening risk or poor value for money. Such a risk could impact on operational objectives and should be of concern to senior management and requires prompt specific action.
Low	Areas that individually have no significant impact, but where management would benefit from improved controls and/or have the opportunity to achieve greater effectiveness and/or efficiency.

APPENDIX II - TERMS OF REFERENCE

PURPOSE OF REVIEW:

The purpose of this audit is to review the Council's approach to knowledge management and how it is stored and shared

KEY RISKS:

- All service processes have not been identified to ensure these are captured as part of the ongoing process redesign phase
- Those processes which have been reviewed have not been re-designed with end-user input, documented appropriately or accessible to staff
- Staff do not have the flexibility to take on new skills and knowledge, with narrowly defined roles that limit flexibility, development and multi-skilling, causing problems in periods of unexpected leave or vacancies
- The IT infrastructure does not support knowledge management across all services
- Where those processes have not yet been reviewed, there are no continuity mechanisms in place to ensure that these can be done if the current staff in those roles were unavailable
- There is no overarching succession strategy or individual service continuity planning arrangements in place to plan for both expected and unexpected workforce losses from key services

SCOPE OF REVIEW:

The following areas will be reviewed as part of this audit:

- Review of the Council's process improvement plan to assess whether all identified high risk processes have been appropriately captured to ensure knowledge has been transferred as intended, including knowledge gap assessments and training plans where necessary
- Confirmation that appropriate resources are in place to complete documentation of all identified high risk service processes and ongoing service improvement and re-design
- Confirmation that staff structures support knowledge management through development of multi-skilled roles and specialist roles where required
- Confirmation that staff in multifunctional areas have been appropriately trained and upskilled to carry out different processes where specialists are not required
- Review the Council's draft succession strategy to assess if this supports knowledge retention and development for key roles for example, through use of apprenticeship programme, recognising top performers and promoting from within

However, Internal Audit will bring to the attention of management any points relating to other areas that come to their attention during the course of the audit. We assume for the purposes of estimating the number of days of audit work that there is one control environment, and that we will be providing assurance over controls in this environment. If this is not the case, our estimate of audit days may not be accurate.

APPROACH:

Our approach will be to select a sample of information asset owners and conduct interviews to establish the controls in operation for our areas of audit work. We will then seek documentary evidence that these controls are designed as described and to identify whether they adequately address the risks. Any opportunities identified to improve arrangements will be offered for consideration alongside recommendations to resolve any weakness in controls.

CRR REFERENCE:

R24: Loss of key skills and knowledge across the organisation, and failure to embrace new working cultures.

FOR MORE INFORMATION:**Greg Rubins**

Greg.Rubins@bdo.co.uk

The matters raised in this report are only those which came to our attention during the course of our audit and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. The report has been prepared solely for the management of the organisation and should not be quoted in whole or in part without our prior written consent. BDO LLP neither owes nor accepts any duty to any third party whether in contract or in tort and shall not be liable, in respect of any loss, damage or expense which is caused by their reliance on this report.

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INTERNAL AUDIT FOLLOW UP OF RECOMMENDATIONS REPORT

MALDON DISTRICT COUNCIL

JULY 2021

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IBDO

Summary

2018/19

	Total Recs	H	M	L	To follow up	Complete		In progress		Overdue		No Response		Not Due		% Recommendations Implemented
						H	M	H	M	H	M	H	M	H	M	
18/19. Fraud Risk Assessment	1	1	-	-	1	1	-	-	-	-	-	-	-	-	-	100%
18/19. Budgets and Performance Management	4	-	1	3	1	-	1	-	-	-	-	-	-	-	-	100%
18/19. Main Financial Systems	2	-	1	1	1	-	1	-	-	-	-	-	-	-	-	100%
18/19. Safe and Clean Environment	6	-	5	1	5	-	4	-	-	-	1	-	-	-	-	80%
18/19. Transformation Programme	1	-	1	-	1	-	1	-	-	-	-	-	-	-	-	100%
18/19. Local Development Plan	3	-	2	1	2	-	2	-	-	-	-	-	-	-	-	100%
18/19. Building Control	5	2	3	-	5	1	3	-	-	1	-	-	-	-	-	80%
	22	3	13	6	16	2	12	-	-	1	1	-	-	-	-	

2019/20

	Total Recs	H	M	L	To follow up	Complete		In progress		Overdue		No Response		Not Due		% Recommendations Implemented
						H	M	H	M	H	M	H	M	H	M	
19/20. GDPR Compliance	3	-	3	-	3	-	3	-	-	-	-	-	-	-	-	100%
19/20. Risk Maturity Assessment	5	-	5	-	5	-	5	-	-	-	-	-	-	-	-	100%
19/20. Procurement & Contract Management	6	1	3	2	4	1	3	-	-	-	-	-	-	-	-	100%
19/20. IT Disaster Recovery	4	1	3	-	4	1	3	-	-	-	-	-	-	-	-	100%
19/20. Key Financial Systems	9	2	7	-	9	2	7	-	-	-	-	-	-	-	-	100%
19/20. Workforce Management	3	-	1	2	1	-	1	-	-	-	-	-	-	-	-	100%
19/20. Network Security	7	1	3	3	4	1	3	-	-	-	-	-	-	-	-	100%
19/20. Community Safety	2	-	2	-	2	-	2	-	-	-	-	-	-	-	-	100%
19/20. Flooding Risk Management	4	-	4	-	4	-	1	-	-	-	1	-	-	-	2	25%
19/20. Corporate Governance	5	-	3	2	3	-	3	-	-	-	-	-	-	-	-	100%
	48	5	34	9	39	5	31	-	-	-	1	-	-	-	2	

2020/21

	Total Recs	H	M	L	To follow up	Complete		In progress		Overdue		No Response		Not Due		% Recommendations Implemented
						H	M	H	M	H	M	H	M	H	M	
20/21. Safeguarding	5	1	3	1	4	-	-	-	-	-	-	-	-	-	4	0%
20/21. CIPFA FM Preparedness	1	-	-	1	-	-	-	-	-	-	-	-	-	-	-	-
20/21. Workforce Management	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
20/21. Information Management	2	-	2	-	2	-	2	-	-	-	-	-	-	-	-	100%
20/21. KFS-Payroll	2	-	-	2	-	-	-	-	-	-	-	-	-	-	-	-
20/21. Affordable Housing	3	1	2	-	3	-	-	-	-	-	-	-	-	-	3	0%
20/21. Knowledge Management	3	-	3	-	3	-	1	-	-	-	-	-	-	-	2	33%
	10	2	10	4	12	-	3	-	-	-	-	-	-	-	9	

Summary

We regularly follow up progress with the implementation of recommendations raised by Internal Audit and we report to the Performance, Governance & Audit Committee. We request commentary by responsible officers on the progress towards implementation of our recommendations and for high and medium priority recommendations we verify the progress to source evidence and conclude either that the recommendation is complete or incomplete. This information is collected via the SharePoint portal. This report represents the status of all internal audit recommendations as at 6 July 2021.

2018/19 Recommendations

3 high and 13 medium recommendations have been raised in 2018/19. The current position of these recommendations is as follows:

- 14 are considered implemented as previously reported relating to Budgets and Performance Management (1 recommendation), Main financial Systems (1 recommendation), Safe and Clean Environment (4 recommendations), Transformation Programme (1 recommendation), Local Development Plan (2 recommendations) and Building Control (4 recommendations), Fraud Risk Assessment (1 High)
- Safe & Clean Environment- 1 recommendation, previously reported as overdue, will be picked up through the 2022 audit of Climate Change
- Building Control- 1 recommendation is overdue as it passed its target implementation date of 30 October 2019. Our follow up in June 2021 confirmed that this recommendation is still in progress and now has a revised target implementation date of September 2021.

2019/20 Recommendations

5 high and 34 medium recommendations have been raised in 2019/20, 36 of which are considered implemented and previously reported to the PGA. The remaining three relate to Flooding Risk Management whereby:

- 2 recommendations are not yet due for follow up with an implementation date of September 2021
- 1 recommendation became due in March 2021, however, it has now been given a revised implementation date of December 2021.

2020/21 Recommendations

2 high and 10 medium recommendations have been raised in 2020/21. Of these, three have become due for review with a target date of May 2021. The current position of these recommendations are as follows:

- Information Management – 2 medium priority recommendations have been implemented
- Knowledge Management – 1 medium priority recommendation has been implemented

The original implementation dates for the safeguarding recommendations are not yet due, however, we understand from Officers that progress has been made against these and they will update the Committee on this.

Recommendations: Implemented

RECOMMENDATION MADE	PRIORITY LEVEL	MANAGER RESPONSIBLE	DUE DATE	CURRENT PROGRESS
2020/21 - Information Management				
<p>1.1. Management should review and update the Council's Data Protection Policy to ensure that it remains in compliance with the Data Protection Act 2018, is relevant to the Council's needs and is in line with the Council's strategic objectives.</p> <p>1.2. The revised policies should be approved and communicated to members of staff and arrangements should be put in place for reviewing the policies on a routine basis</p>	Medium	Emma Holmes	31 March 2021	We confirmed that the Council has a data protection policy in place which was last updated in March 2021 by the Senior Legal Specialist. The policy has a three year review cycle and is next due for review in March 2024. Our review of the policy found this to clearly cover the Data Protection Principles, Processing of Information, Fair Obtaining/Processing, Data Uses and Purposes, What Counts as Personal Data, Data Quality, Organisational Responsibilities and Security in addition to complaints and queries (dealt with by the Data Protection officer).
<p>2.1. Management should define the responsibilities of information asset owners, which should include, but not be limited to:</p> <ul style="list-style-type: none"> • Knowing who has access to the information assets and why • Monitoring access to information assets and maintaining a log of access requests made • Reviewing risks to the confidentiality, integrity and availability of the information assets on at least an annual basis • Approving and minimising the transfer of the assets • Ensuring that the assets are appropriately protected and that their value to the Council is fully exploited. 	Medium	Emma Holmes	1 May 2021	We confirmed that the Council has an 'Information Asset Owner - Roles and Responsibilities' document in place. Our review of the document confirmed it to clearly outline the role of the Information Asset Owner, in addition to specific responsibilities such as; user education/awareness/compliance; managing user privileges; records management; data sharing; privacy. Additionally, the role of the IT department was covered, which mainly focuses around monitoring and reporting concerns to the SIRO/DPO. We were also advised by the Senior Legal Specialist that training is to be delivered to all managers on 14 June where information asset registers will also be updated following the training.
2020/21 - Knowledge Management				
In order to identify the next tranche of processes to be worked on, a more robust, objective and overarching prioritisation method should be established to ensure key	Medium	Cheryl Hughes	1 May 2021	We confirmed that the Council has in place a documented prioritisation process in place. We were provided with evidence of a presentation delivered as part of a workshop

processes across all services are identified		which covered why the process has been put in place, scoping improvement opportunities, prioritisation criteria, prioritisation matrix as well as an importance/urgency matrix.
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Recommendations: Overdue

RECOMMENDATION MADE	PRIORITY LEVEL	MANAGER RESPONSIBLE	DUE DATE	CURRENT PROGRESS
2018/19- Building Control				
Implement adequate policies and procedures providing guidance on the Building Control service function, requirements and deadlines. This should cover the process once notification of planning applications, building notices, demolitions and dangerous structures are received. The timeframes that need to be met including the fees/charges requirement, the process for dealing with under/overpayments and refunds. Once completed and approved this should be made available to all staff.	High	Hannah Wheatley	1 March 2021 Revised to September 2021	We were advised by management that an update was provided to the Strategy, Resources and Performance Committee in May 2021 which discussed an increased workload within the team. We were further informed that work had commenced on implementing policies and procedures, but was not completed by March 2021. The Council has recruited a junior Building Control Officer to help manage the workload. The creation of a suite of policies and procedures is listed within the departments Service Plan and has a revised implementation date of September 2021. This action will be delivered by the Senior Building Control Specialist.
2019/20 - Flooding Risk Management				
The Council should, with its partners, review and update the Strategic Flood Protection Plan and create a flooding management risk register detailing the key risks, controls and action owners.	Medium	Damien Ghela	1 March 2021 Revised to December 2021	We were informed by management that Maldon District Council is part of the Essex Flood Protection Board, with MDC acting as a supporting agent with the Environmental Agency. Whilst the Council already has a Flood Protection Action Plan in place which sets out flood defence/mitigation projects which is updated yearly, the council is yet to include a risk register as part of the Strategy.

FOR MORE INFORMATION:

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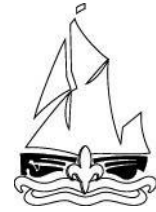
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REPORT of DIRECTOR OF RESOURCES

to
PERFORMANCE, GOVERNANCE AND AUDIT COMMITTEE
29 JULY 2021

INTERNAL AUDIT - ANNUAL REPORT AND ANNUAL STATEMENT OF ASSURANCE 2020/21

1. PURPOSE OF THE REPORT

- 1.1 To present for consideration, comment and approval by the Committee the following report issued by BDO LLP, the Council's internal audit service provider

- Internal Audit Annual Report and Annual Statement of Assurance 2020/21 at **APPENDIX 1**.

2. RECOMMENDATIONS

That the Committee considers, comments and approves the:

- (i) Internal Audit Annual Report and Annual Statement of Assurance 2020/21 at **APPENDIX 1**.

3. SUMMARY OF KEY ISSUES

- 3.1 BDO LLP are the Council's contracted Internal Audit Service provider. The Partner, Mr Greg Rubins, fulfils an equivalent role to that of Head of Internal Audit.
- 3.2 The Internal Audit Service is there to provide assurance to the Director of Resources, Management and Members of the adequacy of internal controls and checks in the organisation and to highlight any risks that the Council may be exposed to in its overall and day to day operations.
- 3.3 As such, Internal Audit is independent of Management and operates, performs to and is measured against The UK Public Sector Internal Audit Standards (PSIAS) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).
- 3.4 The report attached at **Appendix 1** will be presented to the Committee and discussed by Mr. Greg Rubins or his representative on his behalf.

4. CONCLUSION

- 4.1 This report together with the report attached as an appendix allows the Committee to fulfil its remit of overseeing governance.

5. IMPACT ON STRATEGIC THEMES

- 5.1 Internal Audit cuts across the delivery of all the Strategic Themes of the Council.

6. IMPLICATIONS

- (i) **Impact on Customers** – any impact on customers will be highlighted with the reports in the appendices.
- (ii) **Impact on Equalities** – any impact on equalities will be highlighted with the reports in the appendices if it is within the scope of the audit work carried out.
- (iii) **Impact on Risk** – Any risks identified as a result of the findings of the internal audit work are highlighted with the individual reports and summarised in the Progress Update and Follow Up of recommendations reports.
- (iv) **Impact on Resources (financial)** – Same comment applies here as for Impact on Risk above.
- (v) **Impact on Resources (human)** – Same comment applies here as for Impact on Risk above.
- (vi) **Impact on the Environment** – Same comment applies here as for Impact on Risk above.

Background papers: None.

Enquiries to: Chris Leslie, Director of Resources, Maldon District Council
Greg Rubins (BDO LLP)
Christopher André (BDO LLP)

INTERNAL AUDIT ANNUAL REPORT AND ANNUAL STATEMENT OF ASSURANCE

Maldon District Council

2020/21

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SUMMARY OF 2020/21 WORK

Internal Audit 2020/21

This report details the work undertaken by internal audit for Maldon District Council and provides an overview of the effectiveness of the controls in place for the full year. The following reports have been issued for this financial year:

- Payroll
- Information Management
- Workforce Management
- Safeguarding
- CIPFA FM Code Readiness
- Knowledge Management
- Affordable Housing & Housing Needs

We have detailed the opinions of each report and key findings on pages four to eight. Our internal audit work for the 12 month period from 1 April 2020 to 31 March 2021 was carried out in accordance with the internal audit plan approved by officers and the Performance, Governance & Audit Committee. The plan was based upon discussions held with management and was constructed in such a way as to gain a level of assurance on the main financial and management systems reviewed. There were no restrictions placed upon the scope of our audit and our work complied with Public Sector Internal Audit Standards.

Head of Internal Audit Opinion

The role of internal audit is to provide an opinion to the Council, through the Performance, Governance and Audit Committee (PGA) on the adequacy and effectiveness of the internal control system to ensure the achievement of the organisation's objectives in the areas reviewed. The annual report from internal audit provides an overall opinion on the adequacy and effectiveness of the organisation's risk management, control and governance processes, within the scope of work undertaken by our firm as outsourced providers of the internal audit service. It also summarises the activities of internal audit for the period. The basis for forming my opinion is as follows:

- An assessment of the design and operation of the underpinning Assurance Framework and supporting processes;
- An assessment of the range of individual opinions arising from risk-based audit assignments contained within internal audit risk based plans that have been reported throughout the year.
- This assessment has taken account of the relative materiality of these areas and management's progress in respect of addressing control weaknesses; and
- Any reliance that is being placed upon third party assurances.

Overall, we are able to provide moderate assurance that there is a sound system of internal control, designed to meet the Council's objectives and that controls are being applied consistently. In forming our view we have taken into account that:

- In the current year the majority of audits provided substantial assurance in the design of controls (Substantial: 3, Moderate: 5), 2019/20: (Substantial: 2, Moderate: 6, Limited: 1).
- In the current year the majority of audits provided substantial assurance in the operational effectiveness of controls (Substantial: 3 Moderate: 5), 2019/20: (Substantial: 0, Moderate: 7 and Limited: 2).
- We did not issue any limited assurance reports this year, showing an improvement upon the previous year.
- Some areas of weakness have been identified through our reviews, including opportunities for improvement in the management of third party contractors and volunteers in the safeguarding process and also the absence of defined responsibilities for the information asset owners and gaps identified in the Council's information management policies and defined procedures; however the Council is already working to address the issues identified.
- The Council have implemented the majority of audit recommendations from the prior years (50 out of 55 eligible for follow up). However, two recommendations remain outstanding from 2018/19 (Safe & Clean Environment and Building Control). The delay in the implementation of these recommendations has been impacted by operational staff capacity due to Covid. However, we would expect these to be completed by mid-2021 as the Council returns to business as usual.
- The remaining prior year recommendations (three) were not yet due for implementation as at 30 June 2021. Two of the 12 recommendations from 2020/21 have been completed, one is in progress and nine are not yet due for follow up.
- Overall, while there remain some gaps and risks, our work has concluded that the Council has generally been able to maintain reasonable controls, particularly given the significant impact of Covid on operations and political leadership changes during the year. In some areas, such as payroll and workforce the Council has developed good practice arrangements.

REVIEW OF 2020/21 WORK

Report Issued	Recommendations and significance			Overall Report Conclusions (see Appendix 1)		Summary of Key Findings / Recommendations
	H	M	L	Design	Operational Effectiveness	
Payroll	-	-	2	Substantial	Substantial	<p>The purpose of this audit was to provide assurance over the processes and controls with regard to the Council's payroll are robust and operating effectively. Overall, we have concluded substantial assurance over the design of the controls and the effectiveness of the controls. We confirmed starters were correctly processed, overtime claim forms and time-based pay claims were approved and member's allowances and expenses accurately paid.</p> <p>However, we have raised two low level recommendations for the Council to note.</p>
Information Management	-	2	-	Moderate	Moderate	<p>The management and use of information has become more important as both the expectations of information governance and the service expected by customers get more demanding. Getting the use and management of information right has a significant part to play in the delivery of the Council's expectations and strategic objectives.</p> <p>Based on our review we have raised two medium level recommendations to improve the Council's information management arrangements.</p> <p>Overall, the Council has a sound system of internal controls and maintains an appropriate document retention schedule and information asset register. However, the absence of defined responsibilities for the information asset owners and the gaps identified in the Council's information management policies and defined procedures could undermine its ability to manage information assets appropriately and in line with current legislation.</p> <p>Consequently, we concluded moderate assurance over both the design of the Council's information management controls and their operational effectiveness.</p>
Workforce Management	-	-	-	Substantial	Substantial	<p>The overall size of the Council workforce has remained relatively static over recent years, although the Senior Management Review reorganisation has resulted in a small reduction in the workforce. This reflects the changing nature of services and the need to achieve efficiencies in service delivery.</p>

						<p>The Council's traditional personnel function has transformed to a more strategic Human Resources and Organisational Development (HR & OD) model and is now part of a wider service working together to be more proactive with plans for staff and the wider community, to be better able to help to improve Maldon District Council. The primary focus of the Service is to develop, support and steer cultural and transformational change.</p> <p>The Council have developed a Workforce Strategy and plan which identifies how they will meet current and future people needs to ensure there are highly skilled people to deliver high quality services.</p> <p>The purpose of this review was to provide assurance on the extent of implementation of the workforce development strategy, and that planning and required resources are in place to enable delivery of the strategy. We also reviewed the impact of CV-19 on its aims and progress. From our review of the Council's Workforce Strategy, results of the staff survey and supporting action plans, we confirm that there is a clear direction and appropriate oversight over implementation of the strategy. Additionally, we can confirm the Council has responded to the impact of Covid-19, through amending its workforce strategy, in addition to holding a staff survey and creating a dedicated policy in relation to Covid-19. We have therefore given substantial assurance on both design and operation of the controls in place.</p>
Safeguarding	1	3	1	Moderate	Moderate	<p>Safeguarding is the right for children, young people and vulnerable adults to participate and be safe in the services provided for them regardless of age, race, disability, culture or gender. This includes a right to protection from abuse.</p> <p>Local Authorities have a duty to ensure that the well-being of children, young people and vulnerable adults is promoted, and they are kept safe. We confirmed that Maldon District Council (MDC) has a new safeguarding lead who joined the organisation in January 2020, taking over the role from the previous responsible Officer. This is following a transformation exercise carried out by the Council during October 2019 where the structure of the Council was reviewed.</p> <p>The purpose of this audit was to review of the Council's policies and arrangements to ensure the safeguarding of children and vulnerable adults. The Council has some good processes in place, including clear roles, responsibilities, policies and procedures. However, the documentation of safeguarding cases could be improved and further steps need to be taken around safeguarding controls over contractors and volunteers. We have therefore concluded a moderate opinion on both design and the operational effectiveness of safeguarding controls.</p>

						We have raised one high level recommendation, three medium level recommendations and one low level recommendation for the Council to note which would strengthen their current processes.
CIPFA FM Code Readiness	-	-	1	Substantial	Substantial	<p>The Chartered Institute of Public Finance and Accountancy (CIPFA) published The Financial Management Code (FM Code) in October 2019. The FM Code provides guidance for good and sustainable financial management in local authorities, giving assurance that authorities are managing resources effectively. The FM Code requires authorities to demonstrate that the processes they have in place satisfy the principles of good financial management, which is an essential part of ensuring that public sector finances are sustainable.</p> <p>Overall, the Council is in a good position with regards to its preparedness for the CIPFA code. The Leadership Team clearly understand their roles and responsibilities and there is a good sense of financial awareness. Moreover the long-term risks that the Council faces with regards to planning for the medium and long term are appropriately detailed, and action has been taken to mitigate these risks. In addition, there is a Medium Term Financial Strategy which guides overall planning for the Council and is linked to the Council's Corporate Plan through its themes of Place, Community and Prosperity.</p> <p>However, we noted the individual service plans have not been developed to ensure they clearly show how they relate to the themes as set out in the Corporate Plan or demonstrate how they are aligned to them. This leads us to conclude substantial assurance over both the design and the operational effectiveness of controls with a low risk finding to strengthen the link between service plans and strategies to the Council's Corporate themes.</p>
Knowledge Management	-	3	-	Moderate	Moderate	<p>Our review found that significant work has been undertaken on the redesign of processes following the transformation and the work completed by Ignite. Despite the reduction in staff, the introduction of IT software and the changes made to the structure has developed a more efficient workforce whilst improving the Council's ability to establish clear career paths and training for current staff. However, there are a significant number of processes still to review and redesign, with the prioritisation for 2020 work not covering all areas within the Council. Further difficulties arose due to the constraints placed on staff by Covid-19. A lack of documentation stored centrally and Business Continuity Plans being out of date has led to moderate assurance over both the design and operational effectiveness of controls in relation to knowledge management.</p>

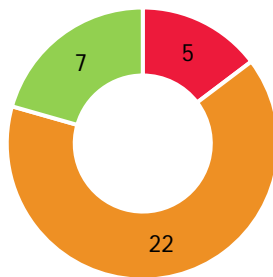
Affordable Housing & Housing Needs	1	2	-	Moderate	Moderate	<p>From our review we can confirm that there is a clear plan of direction and appropriate oversight over implementation of the Housing Strategy going forward. In addition, there is oversight and direction of the work being undertaken to review and update the LDP and accompanying supplementary planning documents. Work is being undertaken to finalise an up to date Local Housing Needs Assessment (SHMA) to ensure the Council has a current picture of the affordable housing requirements and needs in the district.</p> <p>However, we identified non-compliance with controls in some areas as well as a gap in control. We have raised one high level and two medium level findings arising due to inconsistency in the implementation of the Council processes and controls, a lack of guidelines on application of commuted funds and the fact the Council is on course to deliver less than 50% of the affordable housing units target. Overall this has led to a final assessment of moderate assurance over the control design and moderate assurance over the control effectiveness.</p>
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SUMMARY OF FINDINGS

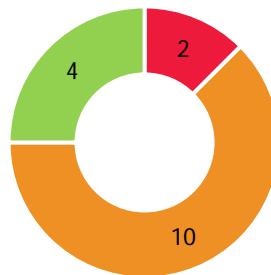
RECOMMENDATIONS AND ASSURANCE DASHBOARD

Recommendations

2019/20



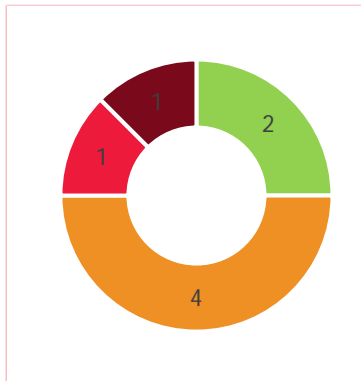
2020/21



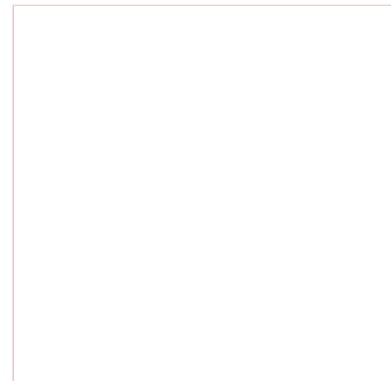
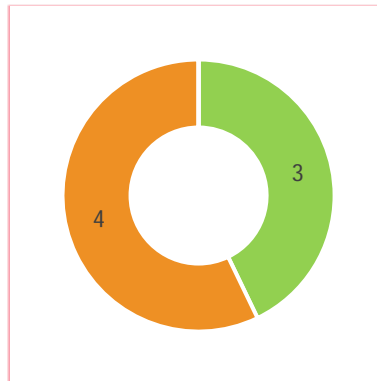
■ High ■ Medium ■ Low

Control Design

2019/20

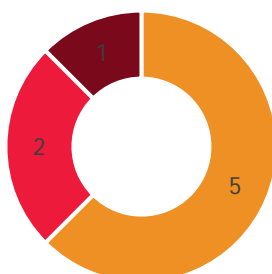


2020/21

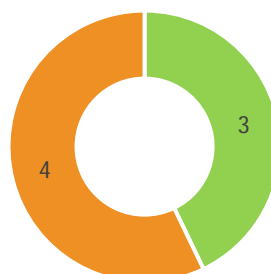


Operational Effectiveness

2019/20



2020/21



■ Substantial ■ Moderate ■ Limited ■ No

ADDED VALUE



USE OF SPECIALISTS

We used our IT specialists to complete the review of Information Management. We used our external audit specialists in supporting the Council with its IFRS 16 preparations.



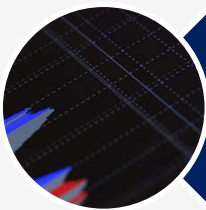
BENCHMARKING AND BEST PRACTICE

We have shared best practice examples from our clients and other local government organisations in a number of our reviews. We have also performed benchmarking exercises in a number of audits i.e. Safeguarding, Payroll and Information Governance.



INNOVATION

We utilised data analysis in the Payroll review to provide the Council some insights on trends and themes in areas covered.



RESPONSIVENESS

We have been able to be flexible with the plan to respond to emerging risks and in line with operational capacity, e.g. delayed audit start due to covid and addition of CIPFA FM Code Readiness into the audit plan.

KEY THEMES



POLICIES, PROCEDURES & DOCUMENTATION

Lack of defined policies and procedures or failure to store sufficient documentation were identified in reviews of Safeguarding, Affordable Housing & Housing Needs, Information Governance and Knowledge Management



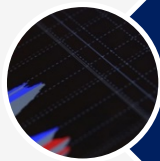
SYSTEMS & PROCESSES

Whilst in the main we found the control framework to be well-designed, inconsistent application of controls was evident in some areas, e.g. Safeguarding, Information Management and Affordable Housing & Housing Needs



OVERSIGHT & MONITORING

In the audits we undertook this year, we highlighted some gaps in oversight and monitoring, for example, lack of individual service plans being in place (CIPFA FM Readiness) and business continuity plans being out of date (Knowledge Management)



GOVERNANCE & FOLLOW UP

The Council further revised embedded its new committee structures in year. This has seen a focus on implementation of actions, both audit and other performance indicators, back to the key responsible officers to improve accountability and responsibility.

BACKGROUND TO ANNUAL OPINION

Introduction

Our role as internal auditors to Maldon District Council is to provide an opinion to the Board, through the Performance, Governance & Audit Committee (PGA), on the adequacy and effectiveness of the internal control system to ensure the achievement of the organisation's objectives in the areas reviewed. Our approach, as set out in the firm's Internal Audit Manual, is to help the organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Our internal audit work for the 12 month period from 1 April 2020 to 31 March 2021 was carried out in accordance with the internal audit plan approved by officers and the Performance, Governance & Audit Committee, adjusted during the year for any emerging risk issues. The plan was based upon discussions held with management and was constructed in such a way as to gain a level of assurance on the main financial and management systems reviewed. There were no restrictions placed upon the scope of our audit and our work complied with Public Sector Internal Audit Standards.

The annual report from internal audit provides an overall opinion on the adequacy and effectiveness of the organisation's risk management, control and governance processes, within the scope of work undertaken by our firm as outsourced providers of the internal audit service. It also summarises the activities of internal audit for the period.

Scope and Approach

Audit Approach

We have reviewed the control policies and procedures employed by Maldon District Council to manage risks in business areas identified by management set out in the 2020-21 Internal Audit Annual Plan approved by the Performance, Governance & Audit Committee. This report is made solely in relation to those business areas and risks reviewed in the year and does not relate to any of the other operations of the organisation. Our approach complies with best professional practice, in particular, Public Sector Internal Audit Standards, the Chartered Institute of Internal Auditors' Position Statement on Risk Based Internal Auditing.

We discharge our role, as detailed within the audit planning documents agreed with Maldon District Council management for each review, by:

- Considering the risks that have been identified by management as being associated with the processes under review
- Reviewing the written policies and procedures and holding discussions with management to identify process controls
- Evaluating the risk management activities and controls established by management to address the risks it is seeking to manage
- Performing walkthrough tests to determine whether the expected risk management activities and controls are in place
- Performing compliance tests (where appropriate) to determine that the risk management activities and controls have operated as expected during the period.

The opinion provided on page 3 of this report is based on historical information and the projection of any information or conclusions contained in our opinion to any future periods is subject to the risk that changes may alter its validity.

Reporting Mechanisms and Practices

Our initial draft reports are sent to the key officer responsible for the area under review in order to gather management responses. In every instance there is an opportunity to discuss the draft report in detail. Therefore, any issues or concerns can be discussed with management before finalisation of the reports.

Our method of operating with the Performance, Governance & Audit Committee is to agree reports with management and then present and discuss the matters arising at the Performance, Governance & Audit Committee meetings.

Management actions on our recommendations

Management have generally been conscientious in reviewing and commenting on our reports. For the reports that have been finalised, management have responded positively. The responses indicate that appropriate steps to implement our recommendations are expected.

Recommendations follow-up

Implementation of recommendations is a key determinant of our annual opinion. If recommendations are not implemented in a timely manner then weaknesses in control and governance frameworks will remain in place. Furthermore, an unwillingness or inability to implement recommendations reflects poorly on management's commitment to the maintenance of a robust control environment.

Five recommendations relating to 2018/19 and 2019/20 audits remain incomplete. Three of these are overdue, meaning they have missed their agreed implementation dates twice.

Of the twelve recommendations eligible for follow-up at the end of June 2021 arising from 2020/21 audit reports, three had been completed and nine were not yet due for follow-up.

Relationship with external audit

All our final reports are available to the external auditors through the Performance, Governance & Audit Committee papers and are available on request. Our files are also available to external audit should they wish to review working papers to place reliance on the work of internal audit.

Report by BDO LLP to Maldon District Council

As the internal auditors of Maldon District Council we are required to provide the Performance, Governance & Audit Committee, and the Directors with an opinion on the adequacy and effectiveness of risk management, governance and internal control processes, as well as arrangements to promote value for money.

In giving our opinion, it should be noted that assurance can never be absolute. The internal audit service provides Maldon District Council with moderate assurance that there are no major weaknesses in the internal control system for the areas reviewed in 2020-21. Therefore, the statement of assurance is not a guarantee that all aspects of the internal control system are adequate and effective. The statement of assurance should confirm that, based on the evidence of the audits conducted, there are no signs of material weaknesses in the framework of control.

In assessing the level of assurance to be given, we have taken into account:

- All internal audits undertaken by BDO LLP during 2020-21
- Any follow-up action taken in respect of audits from previous periods for these audit areas
- Whether any significant recommendations have not been accepted by management and the consequent risks
- The effects of any significant changes in the organisation's objectives or systems
- Matters arising from previous internal audit reports to Maldon District Council
- Any limitations which may have been placed on the scope of internal audit - no restrictions were placed on our work







KEY PERFORMANCE INDICATORS

Quality Assurance as per the Internal Audit Charter	KPI Results	RAG Rating
Annual Audit Plan delivered in line with timetable	One audit remains in draft.	
Actual days are in accordance with Annual Audit Plan	To date this KPI has been met	
Customer satisfaction reports - overall score at least 70% for surveys issued at the end of each audit	We received two survey responses for 2020/21 which scored 4/5 and 5/5 for overall audit experience.	
Annual survey to PGA Committee to achieve score of at least 70%	Survey to be issued in July 2021	
At least 60% input from qualified staff	To date this KPI has been met	
Issue of draft report within 3 weeks of fieldwork `closing` meeting	This KPI has been met for six out of seven audits. The Safeguarding report was issued 5 weeks after the closing meeting was held.	
Finalise internal audit report 1 week after management responses to report are received	To date this KPI has been met	
Positive result from any external review	There has been no external review completed during 2020/21.	
Audit sponsor to respond to terms of reference within one week of receipt and to draft reports within two weeks of receipt	To date this KPI has been met	
Audit sponsor to implement audit recommendations within the agreed timeframe	At 30 June 2021, 90% of recommendations falling due for implementation have been completed. The Internal Audit Follow Up Report has further details.	
Internal audit to confirm to each meeting of the PGA Committee whether appropriate co-operation has been provided by management and staff	We can confirm that for the audits undertaken to date, management and staff have supported our work, their co-operation has enabled us to complete our work in line with the terms of reference through access to records, systems and staff as necessary.	

APPENDIX 1

OPINION SIGNIFICANCE DEFINITION

ANNUAL OPINION DEFINITION	
Substantial - Fully meets expectations	Our audit work provides assurance that the arrangements should deliver the objectives and risk management aims of the organisation in the areas under review. There is only a small risk of failure or non-compliance.
Moderate - Significantly meets expectations	Our audit work provides assurance that the arrangements should deliver the objectives and risk management aims of the organisation in the areas under review. There is some risk of failure or non-compliance.
Limited - Partly meets expectations	Our audit work provides assurance that the arrangements will deliver only some of the key objectives and risk management aims of the organisation in the areas under review. There is a significant risk of failure or non-compliance.
No - Does not meet expectations	Our audit work provides little assurance. The arrangements will not deliver the key objectives and risk management aims of the organisation in the areas under review. There is an almost certain risk of failure or non-compliance.

REPORT OPINION SIGNIFICANCE DEFINITION				
Level of Assurance	Design Opinion	Findings	Effectiveness Opinion	Findings
Substantial 	Appropriate procedures and controls in place to mitigate the key risks.	There is a sound system of internal control designed to achieve system objectives.	No, or only minor, exceptions found in testing of the procedures and controls.	The controls that are in place are being consistently applied.
Moderate 	In the main, there are appropriate procedures and controls in place to mitigate the key risks reviewed, albeit with some that are not fully effective.	Generally a sound system of internal control designed to achieve system objectives with some exceptions.	A small number of exceptions found in testing of the procedures and controls.	Evidence of noncompliance with some controls that may put some of the system objectives at risk.
Limited 	A number of significant gaps identified in the procedures and controls in key areas. Where practical, efforts should be made to address in-year.	System of internal controls is weakened with system objectives at risk of not being achieved.	A number of reoccurring exceptions found in testing of the procedures and controls. Where practical, efforts should be made to address in-year.	Non-compliance with key procedures and controls places the system objectives at risk.
No 	For all risk areas there are significant gaps in the procedures and controls. Failure to address in-year affects the quality of the organisation's overall internal control framework.	Poor system of internal control.	Due to absence of effective controls and procedures, no reliance can be placed on their operation. Failure to address in-year affects the quality of the organisation's overall internal control framework.	Non-compliance and/or compliance with inadequate controls.

RECOMMENDATION SIGNIFICANCE DEFINITION	
High	A weakness where there is substantial risk of loss, fraud, impropriety, poor value for money, or failure to achieve organisational objectives. Such risk could lead to an adverse impact on the business. Remedial action must be taken urgently.
Medium	A weakness in control which, although not fundamental, relates to shortcomings which expose individual business systems to a less immediate level of threatening risk or poor value for money. Such a risk could impact on operational objectives and should be of concern to senior management and requires prompt specific action.
Low	Areas that individually have no significant impact, but where management would benefit from improved controls and/or have the opportunity to achieve greater effectiveness and/or efficiency.

FOR MORE INFORMATION:

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REPORT of DIRECTOR OF RESOURCES

**to
PERFORMANCE, GOVERNANCE AND AUDIT COMMITTEE
29 JULY 2021**

EXTERNAL AUDIT - AUDIT PLANNING REPORT TO 31 MARCH 2021

1. PURPOSE OF THE REPORT

- 1.1 To present the Committee with the External Audit planning report for the 2021 audit (**APPENDIX 1**) produced by Deloitte LLP. It is designed to help the Council meet its governance responsibilities in relation to audit.

2. RECOMMENDATION

- (i) that the External Audit Planning report as shown in **APPENDIX 1** be considered.

3. SUMMARY OF KEY ISSUES

- 3.1 The External Audit Planning Report to 31 March 2021 as attached at **APPENDIX 1** sets out the work that Deloitte LLP has undertaken on behalf the Council.
- 3.2 The report provides details on a range of issues including:-work assessment processes; pension liability; valuation of property; value for money and the timeline of reporting to those charged with governance.

4. CONCLUSION

- 4.1 This report is designed to establish Deloitte LLP's respective responsibilities in relation to the audit, including key audit judgements and the planned scope.

5. IMPACT ON STRATEGIC THEMES

- 5.1 The report links to the Maldon District Council theme of 'Delivering good quality, cost effective and valued services.

6. IMPLICATIONS

- (i) **Impact on Customers** – None.
- (ii) **Impact on Equalities** – None.
- (iii) **Impact on Risk** – None.
- (iv) **Impact on Resources (financial)** – The cost of these third-party services is within the Council's budget.

(v) **Impact on Resources (human)** –None.

(vi) **Impact on the Environment** – None.

Background papers: None.

Enquiries to: Chris Leslie, Director of Resources, (chris.leslie@maldon.gov.uk)



Maldon District Council

Audit planning report to the Audit Committee for the year ending 31 March 2021

Issued 13 July 2021 for the meeting on 29 July 2021

Deloitte Confidential: Government and Public Services

01 Preliminary planning report

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The key messages in this report

We have pleasure in presenting our planning report to the Audit Committee for the 2020/21 audit. We would like to draw your attention to the key messages of this paper:

Audit quality is our number one priority. We plan our audit to focus on audit quality and have set the following audit quality objectives for this audit:

- A robust challenge of the key judgements taken in the preparation of the statement of accounts.
- A strong understanding of your internal control environment.
- A well planned and delivered audit that raises findings early with those charged with governance.

Scope of our work

Our audit work will be carried out in accordance with the requirements of the Code of Audit Practice ('the Code') and supporting guidance published by the National Audit Office (NAO) on behalf of the Comptroller and Auditor General.

The Code sets the overall scope of the audit which includes an audit of the accounts of the Authority, and work to satisfy ourselves that the Authority has made proper arrangements to secure value for money (VFM) in its use of resources. There has been significant changes to the Code with respect of the VfM requirements, and therefore the scope of our work with regards to VfM will be changed from previous years, as discussed on page 4.

Our responsibilities as auditor, and the responsibilities of the Authority, are set out in "PSAA Statement of responsibilities of auditors and audited bodies: Principal Local Authorities and Police Bodies", published by Public Sector Audit Appointments Limited.

The audit approach reflects changes to International Standards on Auditing (UK) on management estimates (ISA (UK) 540) and going concern (ISA (UK) 570) effective for this year and the Special Guidance Note (SGN) 01 which is intended to assist auditors in their assessment of going concern on audits of financial statements.

Progress of our audit planning procedures

Our audit planning procedures are currently in progress. Further work is required to enable us to finalise our risk assessment, and our work on the assessment of whether the Authority has made proper arrangements to secure VFM in its use of resources is also in progress and discussion has been held with officers around the revised requirements of the Code of Audit Practice 2020 and related Auditor Guidance Note 03.

Areas of focus in our work on the accounts

The Code requires that the auditor's work should be risk-based and proportionate. We tailor our work to reflect local circumstances and our assessment of risk. In relation to our audit for the year ending 31 March 2021, we have identified the following significant audit risks:

- Management override of controls - auditing standards presume there is a risk that the accounts may be fraudulently misstated by management overriding controls. Key areas of focus are: bias in the preparation of accounting estimates; inappropriate journal entries; and transactions which have no economic substance
- Recognition of COVID-19 related income. This is a new significant risk in the current year.

We have also identified the following as other areas of audit focus:

- Pension Liability
- Valuation of Property, Plant and Equipment. This was escalated to a significant risk in the prior year due to the level of errors we identified. Having reviewed the councils response to our recommendations in this area, we have downgraded it to an area of focus again.

The key messages in this report:

Areas of focus in our work on the accounts

We will continue to develop our risk assessment over the coming months as we complete our planning procedures and will inform the Audit Committee of any changes to the significant risks identified.

Our description of the potential significant audit risks are set out on pages 14 to 15.

International Standards on Auditing set a rebuttable presumption of the risk of fraud in the recognition of revenue. The presumption of this presumed significant risk was rebutted in the previous year. However, during 2020/21, the Authority has received additional funding in relation to COVID-19, although all funding has not yet been confirmed. We have therefore reassessed the risk profile of the Authority and identified a new alternative risk in relation to COVID-19 related income.

International Financial Reporting Standard 16 – Leases, is mandatory for Local Authorities from periods commencing on or after 1 April 2021. The implementation of the new standard on leases, IFRS 16, has been deferred again for another year, with a revised implementation date of 2022/23 and will require adjustments to recognise on balance sheet arrangements currently treated as operating leases.

Areas of focus in our work on VFM

The Code requires that the auditor's work should be risk-based and proportionate. We tailor our work to reflect local circumstances and our assessment of risk. Our risk assessment procedures are ongoing and we will update the Audit Committee if we identify any significant risks in relation to our work in this area.

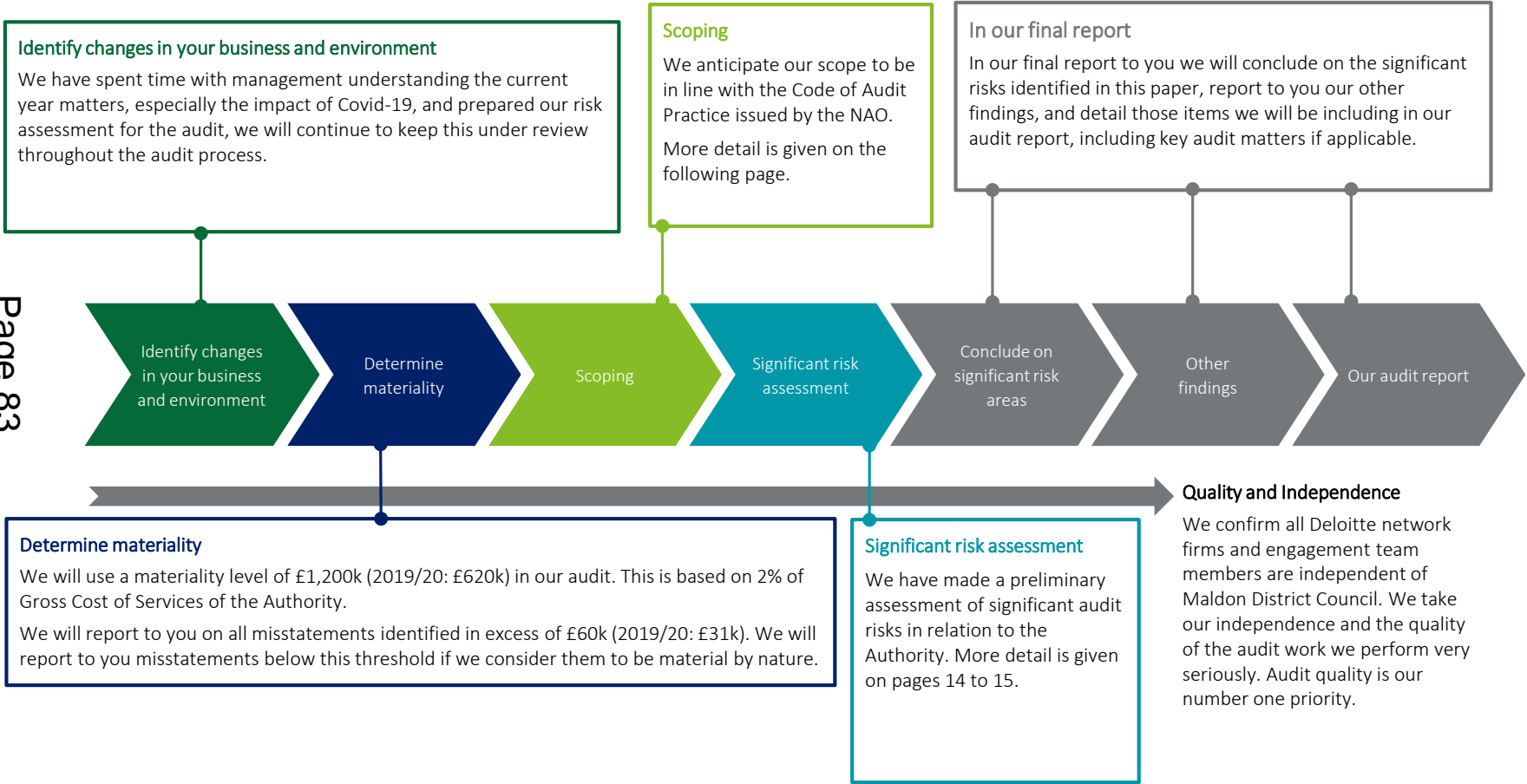
The National Audit Office has issued a revised Code of Audit Practice for 2020/21, and has consulted on a revised approach to "Value for Money" work. This will move to a regime of narrative reporting in a new public "Annual Auditor's Report" issued at the same time as the audit opinion.

Follow-up on prior year recommendations

During the course of our previous year's audit we identified a number of internal control findings which we will follow up on in the current year's audit.

Our audit explained

We tailor our audit to your Authority



Materiality

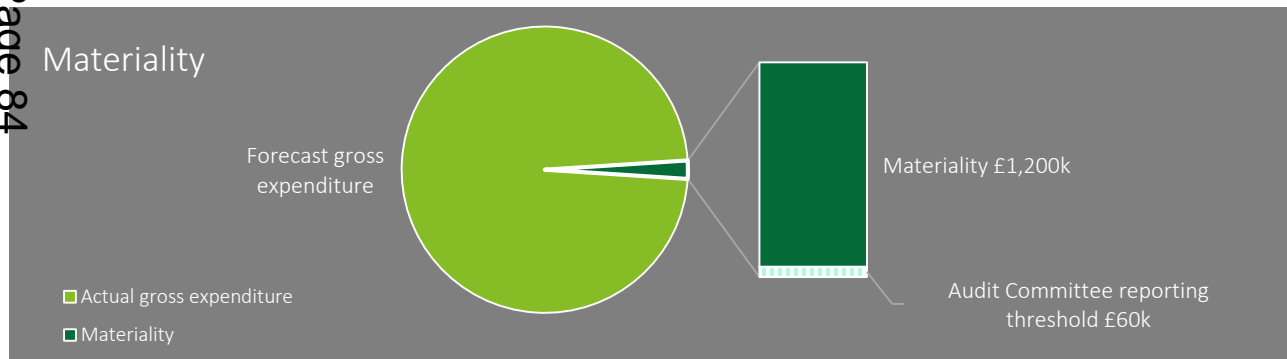
Our approach to materiality

Basis of our materiality benchmark

- The Audit Partner has determined materiality as £1,200k (2019/20: £620k) based on professional judgement, the requirements of auditing standards and the financial measures most relevant to users of the annual accounts.
- We have used 2% of actual gross expenditure as the benchmark for determining materiality. We have judged expenditure to be the most relevant measure for the users of the accounts.
- The approach is consistent with previous years.

Reporting to those charged with governance

- We will report to you all misstatements found in excess of £60k (2019/20: £31k).
- We will report to you misstatements below this threshold if we consider them to be material by nature.



Although materiality is the judgement of the Audit Partner, the Audit Committee must satisfy themselves that the level of materiality chosen is appropriate for the scope of the audit.

Scope of work and approach

We have the following areas of responsibility under the Audit Code

Statement of accounts

We will conduct our audit in accordance with International Standards on Auditing (UK) ("ISA (UK)") as adopted by the UK Auditing Practices Board ("APB"), Code of Audit Practice and supporting guidance issued by the National Audit Office ("NAO"). The Authority will prepare its accounts under the Code of Practice on Local Authority Accounting ("the Code") issued by CIPFA and LASAAC.

We report on whether the financial statements:

- Give a true and fair view of the financial position and income and expenditure
- Are prepared properly in accordance with the Code of Practice on Local Authority Accounting ("the Code").

Page 85

Whole Government Accounts

We are required to issue a separate assurance report on the Council's separate return required to facilitate the preparation of the Whole of Government Accounts.

Our work on the return is carried out in accordance with instructions issued by the NAO and typically focuses on testing the consistency of the return with the Council's financial statements, together with the validity, accuracy and completeness of additional information about the Council's transaction and balances with other bodies consolidated within the Whole of Government Accounts. We are also typically asked to report to the NAO on key findings from our audit of the accounts. The NAO has not yet issued its instructions for the current year.

Annual Governance Statement

We are required to consider whether there are any inconsistencies between the Annual Governance Statement and the financial statements and information that we are aware of from our work on the statement of accounts, VfM conclusion and other work.

We will also review any reports from relevant regulatory bodies and any related action plans developed by the Authority.

Value for Money conclusion

We are required to consider the arrangements that the Authority has made securing financial resilience and economy, efficiency and effectiveness in its use of resources, if we identify any significant weaknesses to make recommendations, and to provide a narrative commentary on arrangements.

To perform this work, we are required to:

- Obtain an understanding of the Authority's arrangements sufficient to support our risk assessment and commentary;
- Assess whether there are risks of a significant weakness in the Authority's arrangements, and perform additional procedures if a risk is identified. If a significant weakness is identified, we report this and an accompanying recommendation;
- Report in our audit opinion if we have reported any significant weaknesses.
- Issue a narrative commentary in our Annual Auditor's Report on the arrangements in place.

This represents a significant increase on scope on previous years. The NAO and the audit firms are continuing to discuss the practical implementation of these new requirements and expectations as to the extent of procedures underpinning these requirements. We will agree the fee change for this work with management once requirements are finalised.

Scope of work and approach

Our approach

Liaison with internal audit

The Auditing Standards Board's version of ISA (UK) 610 "Using the work of internal auditors" prohibits use of internal audit to provide "direct assistance" to the audit. Our approach to the use of the work of Internal Audit has been designed to be compatible with these requirements.

We will review their reports and meet with them to discuss their work. We will discuss the work plan for internal audit, and where they have identified significant control weaknesses, we will consider adjusting our testing so that the audit risk is covered by our work.

Approach to controls testing

Our risk assessment procedures will include obtaining an understanding of controls considered to be 'relevant to the audit'. This involves evaluating the design of the controls and determining whether they have been implemented ("D & I").

The results of our work in obtaining an understanding of controls will be collated and the impact on the extent of substantive audit testing required will be considered.

Promoting high quality reporting to stakeholders

We view the audit role as going beyond reactively checking compliance with requirements: we seek to provide advice on evolving good practice to promote high quality reporting.

We recommend the Authority completes the Code checklist during drafting of their statement of accounts.

Risk assessment

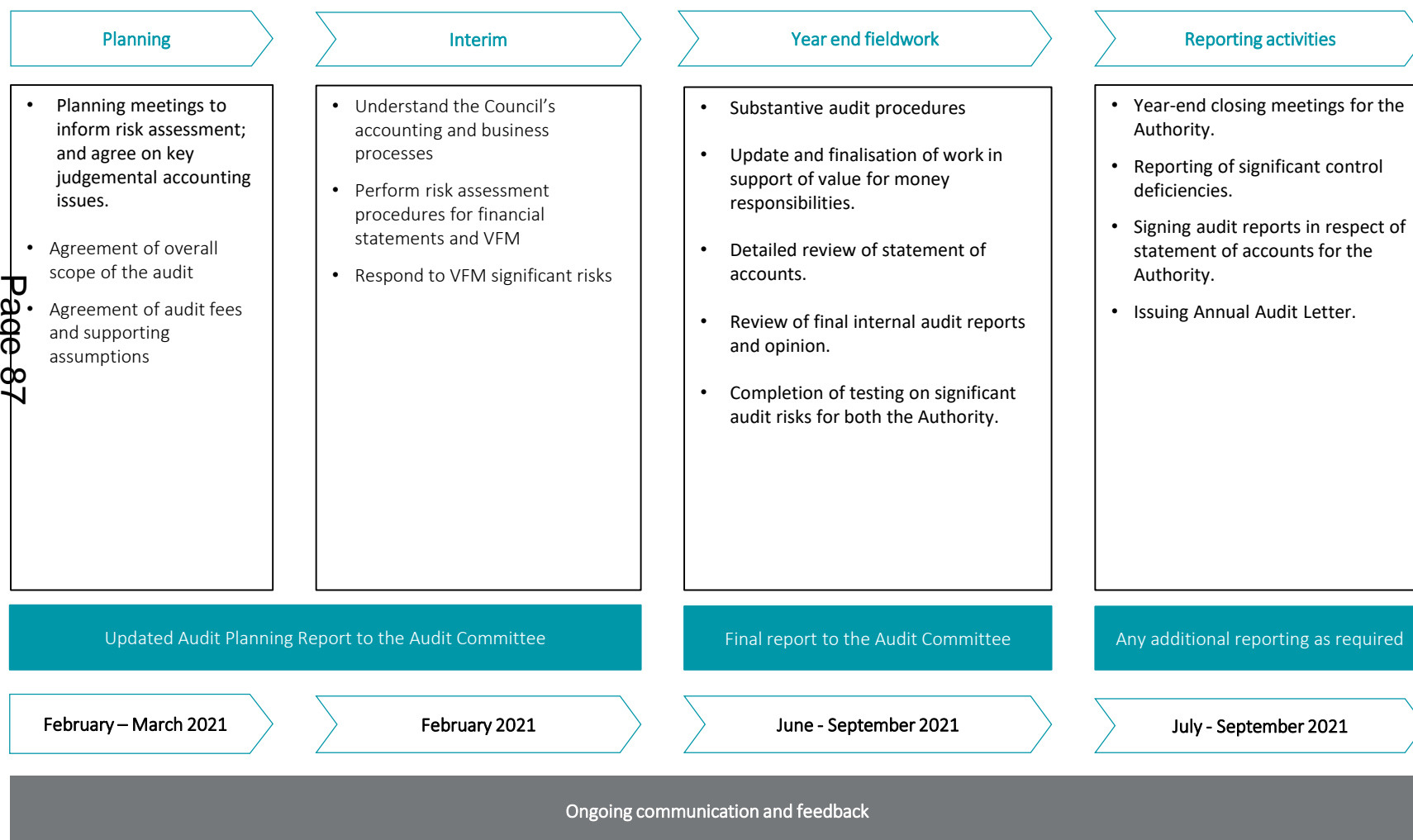
We consider a number of factors when deciding on the significant audit risks. These factors include:

- our audit planning procedures, which are in progress;
- the significant risks and uncertainties previously reported in the statement of accounts;
- the IAS 1 critical accounting estimates previously reported in the statement of accounts;
- our assessment of materiality; and
- the changes that have occurred in the Authority's operations and external environment since the last statement of accounts.

Continuous communication and reporting

Planned timing of the audit

The following sets out the expected timing of our reporting to and communication with you:



COVID-19 pandemic and its impact on our audit.

Requirements

CIPFA has issued guidance highlighting the importance of considering the impact of COVID-19 in preparation of the financial statements, including communicating risks and governance impacts in narrative reporting. This is consistent with the Financial Reporting Council’s guidance to organisations on the importance of communicating the impact of COVID-19 and related uncertainties, including their impact on resilience and going concern assessments.

Entity-specific explanations of the current and expected effects of COVID-19 and the Council’s plans to mitigate those effects should be included in the narrative reporting (including where relevant the Annual Governance Statement), including in the discussion on Principal Risks and Uncertainties impacting an organisation.

As well as the effects upon reserves, financial performance and financial position, examples of areas highlighted by CIPFA include the impact on service provision, changes to the workforce and how they are deployed, impacts upon the supply chain, cash flow management, and plans for recovery. Risks highlighted include those relating to subsidiaries and investments, capital programmes, and resilience of the community including partner organisations and charities.

Actions

We therefore expect a thorough assessment of the current and potential future effects of the COVID-19 pandemic including:

- A detailed analysis across the Council’s operations, including on its income streams, supply chains and cost base, and the consequent impacts on financial position and reserves;
- The economic scenario or scenarios assumed in making forecasts and on the sensitivities arising should other potential scenarios materialise (including different funding scenarios);
- Uncertainties relating to the council’s financial position, and the potential requirement for a section 114 notice; and
- The effect of events after the reporting date, including the nature of non-adjusting events and an estimate of their financial effect, where possible.

Impact on the Council	Impact on annual report and financial statements	Impact on our audit
<p>We will consider the key impacts on the business such as:</p> <ul style="list-style-type: none">• Interruptions to service provision.• Supply chain disruptions.• Unavailability of personnel.• Reductions in service income.	<p>We have considered the impact of the outbreak on the annual report and financial statements, discussed further on the next slide including:</p> <ul style="list-style-type: none">• Narrative reporting, including disclosures on financial sustainability• Principal risk disclosures• Impact on property, plant and equipment valuations• Impairment of non-current assets• Allowance for expected credit losses• Events after the reporting period and relevant disclosures	<p>We will continue to assess the impact on the audit including:</p> <ul style="list-style-type: none">• Resource planning• Timetable of the audit• Impact on our risk assessment• Logistics including meetings with entity personnel.

Impact on annual report and financial statements

Impact on property, plant and equipment

The Royal Institute of Chartered Surveyors issued a practice alert in March 2020, as a result of which valuers have identified a material valuation uncertainty at 31 March 2020 for most types of property valuation, resulting in disclosure in financial statements and “emphasis of matter” paragraphs in audit reports. By September 2020, RICS considered that there was no longer material uncertainty over valuations from that date, and therefore valuations at 31 March 2021 are not expected to be affected by material valuation uncertainties. However, the on-going financial impact of the pandemic has impacted valuations, both through demand for particular asset types and weakening the financial standing of tenants.

The Council needs to consider its approach to the measurement of property, plant and equipment (PPE). Where property held at current value is based on market valuations the Council should consider with their valuers the impact that COVID-19 has had on current value. The Council will also need to consider whether there are any indications of impairment of assets requiring adjustment at 31 March 2021.

Expected credit losses

Since 31 March 2020, there has been a significant downturn in economic activity, with many businesses and individuals significantly impacted. The Council will need to consider the provision for credit losses for receivables, including for expected credit losses for assets accounted for under IFRS 9.

Accounting for Covid-19 response measures

One of the main elements of the response to Covid-19 which will have specific accounting considerations are the Covid-19 grants that the Council has received. CIPFA have not yet published guidance on accounting for Covid-19 grant income, and specific consideration will need to be given as to whether the Council is acting as the principal or agent in relation to the various grants.

The Council has prepared an assessment of Covid-19 grant income and the proposed treatment which we will review in due course.

Narrative and other reporting issues

The following areas will need to be considered by the Council:

- Narrative reporting as well as the usual reporting requirements will need to cover the effects of the pandemic on services, operations, performance, strategic direction, resources and financial sustainability.
- Reporting judgements and estimation uncertainty, the Council will need to report the impact on material transactions including decisions made on the measurements of assets and liabilities.

Events after the reporting period and relevant disclosures

Events are likely to continue to move swiftly, and the Council will need to consider the events after the Reporting Period and whether these events will be adjusting or non-adjusting and make decisions on a transaction by transaction basis.

Management override of controls

Risk identified



In accordance with ISA 240 (UK) management override is a significant risk. This risk area includes the potential for management to use their judgement to influence the financial statements as well as the potential to override the Authority's controls for specific transactions.

The key judgments in the financial statements are those which we have selected as areas of audit focus; valuation of the Authority's properties and pension liability. These are inherently the areas in which management has the potential to use their judgment to influence the financial statements.

Deloitte response and challenge



In considering the risk of management override, we plan to perform the following audit procedures that directly address this risk:

Test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the annual accounts. In designing and performing audit procedures for such tests, we plan to:

- Test the design and implementation of controls over journal entry processing;
- Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments;
- Select journal entries and other adjustments made at the end of a reporting period; and
- Consider the need to test journal entries and other adjustments throughout the period.

Review accounting estimates for biases and evaluate whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud. In performing this review, we plan to:

- Evaluate whether the judgments and decisions made by officers in making the accounting estimates included in the annual accounts, even if they are individually reasonable, indicate a possible bias on the part of the entity's management that may represent a risk of material misstatement due to fraud. If so, we will re-evaluate the accounting estimates taken as a whole; and
- Perform a retrospective review of management judgements and assumptions related to significant accounting estimates reflected in the annual accounts of the prior year.

For significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual given our understanding of the entity and its environment and other information obtained during the audit, we shall evaluate whether the business rationale (or the lack thereof) of the transactions suggests that they may have been entered into to engage in fraudulent financial reporting or to conceal misappropriation of assets.

Significant risks

Recognition of COVID-19 related income

Risk identified



ISA 240 states that when identifying and assessing the risks of material misstatement due to fraud, the auditor shall, based on a presumption that there are risks of fraud in revenue recognition, evaluate which types of revenue, revenue transactions or assertions give rise to such risks.

We have assessed the income streams of the Council, the complexity of the recognition principles and the extent of any estimates used, and concluded that, with the exception of the funding received in 2020/21 in response to the COVID-19 pandemic, there is no significant risk of fraud.

During 2020/21, the Council has received additional funding in relation to COVID-19 costs. In addition, there are a number of business support schemes designed to help eligible businesses during the COVID-19 pandemic that are being administered by Councils on behalf of the Government.

We have pinpointed the significant risk to the completeness and occurrence of the funding for COVID-19 costs and the completeness and accuracy of the agency arrangement disclosures.

The key judgements for management are assessing:

- Any conditions associated with the cost funding; and
- Whether the Council is acting as a principal or agent in administering the business support schemes.

Deloitte response and challenge



We will perform the following:

- Assess the design and implementation of the controls in relation to the accounting treatment of all COVID-19 related funding;
- Test a sample of funding for COVID-19 costs and confirm these have been recognised in accordance with any conditions applicable; and
- Test the agency arrangement disclosures to confirm, where it is concluded that the Council is acting as an agent, that:
 - Transactions have been excluded from the Comprehensive Income and Expenditure Statement;
 - The Balance Sheet reflects the debtor or creditor position at 31 March 2021 in respect of cash collected or expenditure incurred on behalf of the principal; and
 - The net cash position at 31 March 2021 is included in the financing activities in the Cash Flow Statement.

Other areas of focus

Property Valuation

	Cost	NBV	Investment Property
2020/21	£38.3m	£33.5m	£2.9m
2019/20	£45.4m	£36.0m	£2.8m

Risk identified



Investment Property of £2.8m at 31 March 2020 which are required to be recorded at current or fair value at the balance sheet date.

Valuation of property assets and investment property is an area of audit focus due to the inherent degree of complexity, estimation and potential variability in the valuation methodologies that can be applied.

The Council’s material assets are reviewed annually as at 31 December, these are the Council offices and 2 leisure centres.

For the remainder of the operational assets, the financial year to 31 March 2020 represented year three of a five year rolling programme in which 20% of the portfolio was revalued. The land and buildings have been revalued on a 5 year rolling basis, at 20% (by number, not value) as at the 31 December 2020.

The remaining assets not revalued are reviewed at year end for any material changes.

Property valuation was escalated to a significant risk in the prior year due to the level of errors we identified. Having reviewed the councils response to our recommendations in this area, we have downgraded it to an area of focus again.

Deloitte response and challenge



- We will use our valuation specialists, Deloitte Real Estate, to review and challenge the appropriateness of the assumptions used in the year-end valuation of the Council’s property portfolio, including considering movements compared to those of other councils performing valuations for 2019/20
- We will check whether any adjustments to the value of previously capitalised works are required and how these have been calculated.
- We will challenge management’s assessment as to whether any impairment arises in respect of newly capitalised expenditure.
- We will consider the impact of uncertainties relating to the UK’s exit from the EU upon property valuations in evaluating the property valuations and related disclosures.

Other areas of focus (continued)

Pension liability



Risk identified and key judgements

The Council participates in the Local Government Pension Scheme, administered by Essex County Council.

As at 31 March 2020, the Council had a £24.9m pension deficit on its balance sheet. Pension assumptions are a complex and judgemental area and the calculation is reliant on accurate membership data provided to the actuary.

We have thus identified this as an other area of audit focus to report to the Audit Committee as a key area of management judgement.



Deloitte response and challenge

We carry out a separate, detailed risk assessment of each of the individual components of the calculation (for example market assumptions, membership data provided by the Council) using a developed methodology which takes into account factors such as an assessment of the actuary carried out centrally by our actuarial experts and whether there have been any significant changes expected in the membership. We scope our work, including the nature and extent of our actuarial specialists involvement, in a way which responds to this detailed risk assessment. In relation to pension assets, we will seek to obtain assurance from the auditor of the pension fund over the controls for providing accurate membership data to the actuary.

We will review the disclosure based on the IAS 19 report issued to the Council's by the actuary and we will assess the competence and objectivity of the work of the actuary.

We will review and challenge the calculation of the McCloud and Goodwin case on pension liabilities and review the disclosure within the accounts against the code.

For the LGPS (Local Government Pension Scheme), it is possible to identify Maldon District Council portion of the assets and liabilities, and the Local Authority Accounting Code of Practice requires full disclosure of the Council's share of the LGPS within its financial statements. There are a large number of judgments inherent in the calculation of the scheme liability, including future inflation rates and appropriate discount rates. Small movements in these rates can have a material impact. Additionally there are judgements implicit in allocating Maldon District Council's share of the assets of the scheme.

There is a new Code of Audit Practice for 2020/21 onwards. The Code is applicable to NHS Trusts and Foundation Trusts, CCGs, and Local Authorities. This introduces significant changes to the requirements around Value for Money (the arrangements to secure economy, efficiency, and effectiveness in the use of resources). The NAO issued Auditor Guidance Note 03 (AGN03), Value for Money, in October 2020 setting out more detailed guidance on how the new requirements should be implemented. Key features of the requirements include:

For all bodies, the auditor will need to provide a public narrative commentary against the Value for Money criteria in a new “Auditor’s Annual Report” (AAR), to be issued alongside the audit opinion for Local Authorities. This commentary will include a summary against each of the reporting criteria, setting out the work undertaken, and judgements and local context relevant to the findings. This commentary needs to be supported by more extensive work to understand the body’s arrangements to secure economy, efficiency and effectiveness, to support this commentary and to identify whether there are risks of significant weaknesses in arrangements.

If a risk of significant weaknesses is identified, additional work is required to determine whether there are significant weaknesses and to make relevant recommendations if this is the case on a timely basis, which will also be explained in the Auditor’s Annual Report. The AAR will also include follow up on previous recommendations in respect of significant weaknesses and whether they’ve been implemented satisfactorily. The audit opinion will continue to include reporting by exception, though now this will be where the auditor has identified a significant weakness in arrangements rather than an overall conclusion on arrangements. The three criteria that would be considered in Value for Money work are be:

Financial sustainability: How the body plans and manages its resources to ensure it can continue to deliver its services;

Governance: How the body ensures that it makes informed decisions and properly manages its risks; and

Improving economy, efficiency and effectiveness: How the body uses information about its costs and performance to improve the way it manages and delivers its services.

The National Audit Office and the audit firms are continuing to discuss the practical implementation of these new requirements and expectations as to the extent of procedures underpinning these requirements. Expectations in this area are likely to continue to evolve as practical issues emerge in implementation.

We will:

- Undertake VfM planning work under the revised procedures.
- As the detailed impact on scope becomes clearer, we will discuss and agree the impact of the required scope changes with management.
- Our year-end reporting will include our draft findings ahead of issue of the Auditor’s Annual Report.

Reporting hot topics

Increased focus on quality reporting

Deloitte view

The expectations of corporate reporting, reflected in the Financial Reporting Council's ('the FRC') monitoring and enforcement priorities, are increasing. While the focus is primarily on corporate entities, we highlight these areas where improved disclosures would help meet stakeholder expectations.



The potential impacts of Brexit

Depending upon events, organisations may be preparing annual reports against the backdrop of continued uncertainty around the UK's future relationship with the EU. Even with a deal agreed, the future basis of UK-EU trade will affect the longer-term viability period of 3-5 years and a longer consideration of prospects.

ACTION: Depending upon events through to the date of signing, we would expect to see annual reports reflecting at least:

- relevant risks and uncertainties, and actions taken to manage those risks; and
- consideration of whether there is any impact on critical accounting judgements and areas of estimation uncertainty.

We will discuss with the Council closer to the time areas where disclosures may be appropriate.



Climate-related risks

The report by the Intergovernmental Panel on Climate Change (IPCC) has made it clear that prompt and decisive action on climate change is required from governments, businesses and individuals alike.

The recommendations of the Taskforce on Climate-related Financial Disclosure (TCFD) are gaining momentum. The government has proposed mandatory TCFD disclosures by 2022, and the FRC is undertaking a major review of how organisations assess and report the impact of climate change. The FRC expects organisations to disclose how they have taken climate change into account in assessing the resilience of the business model, its risks, uncertainties and viability both in immediate and longer term.

Investors are challenging companies that are not factoring the effects of the Paris Climate Agreement into their critical accounting judgements and are not disclosing comprehensively these judgements, assumptions, sensitivities and uncertainties.

ACTION: Clearly articulate how your organisation is addressing climate change e.g.

- whether this is a principal risk and how it is being managed; and
- its impact on the business model, the viability statement and the key assumptions and projections in impairment reviews and valuations (including in assessing remaining asset lives).

Revisions to auditing standards coming into effect (continued)

APPENDIX 1

ISA (UK) 540 – Auditing Accounting Estimates and Related Disclosures

Since 2015, the International Auditing and Assurance Standards Council (IAASB) has sought to identify audit issues relating to accounting estimates for financial institutions and other entities. Initially, this focused on the impact of IFRS 9 Financial Instruments, because it would fundamentally change the way that banks and other entities account for loan assets and other credit exposures.

However, the IAASB concluded that most, if not all, issues identified for expected credit losses would be equally relevant when auditing other complex accounting estimates. Accordingly, a holistic revision of ISA 540 was undertaken and the new standard takes effect for periods commencing on or after 1 January 2020. For public sector bodies, this will be March 2021 year ends and later.

We summarise on the next few slides how this will impact our audit.

“There is a clear need to update ISA 540 to support better quality audits of increasingly complex accounting estimates”

FRC letter to the IAASB, July 2017

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Area of change

Impact on our audit

Impact on the Council

Assessment of oversight and governance relating to estimates

In connection with our planning work to understand the entity and its environment, including internal control, we will specifically enquire regarding management’s processes, and the oversight and governance of those processes relating to accounting estimates.

You will need to consider the adequacy of your processes and controls over estimates, and documentation thereof.

Revisions to auditing standards coming into effect (continued)

APPENDIX 1

ISA (UK) 540 – Auditing Accounting Estimates and Related Disclosures (continued)

Area of change	Impact on our audit	Impact on the Council
Identification of inherent risk factors; separate assessment of inherent risk and control risk	Recognising a spectrum of inherent risk, we will assess risks of material misstatement in estimates with reference not only to estimation uncertainty, but also complexity, subjectivity or other inherent risk factors, and the interrelationship among them.	You will need to provide clear documented rationale for (a) the selection and application of the method, assumptions and data in making the accounting estimate, including any changes in the current year, and controls relating to those aspects; and/or (b) the selection of a point estimate and related disclosures for inclusion in the annual accounts.
Objectives-based work effort requirements	We will specifically assess control risk relating to estimates, which may require us to evaluate the design and determine implementation of an increased number of internal controls. Our subsequent audit procedures will be responsive to this assessment, and designed to obtain evidence around the methods, significant assumptions, data and (where applicable) the selection of a point estimate and related disclosures about estimation uncertainty.	
Enhanced “stand back” requirement, to evaluate the audit evidence obtained	We will specifically design our procedures, to enhance our application of professional scepticism, so that they are not biased towards finding corroborative evidence; our overall evaluation of the evidence obtained will weigh both corroborative and contradictory evidence.	You should expect more challenge of the evidence provided in support of accounting estimates, use of external data sources and your consideration of contradictory evidence.

Revisions to auditing standards coming into effect (continued)

APPENDIX 1

ISA (UK) 540 – Auditing Accounting Estimates and Related Disclosures (continued)

Area of change	Impact on our audit	Impact on the Council
Enhanced requirements about whether disclosures are “reasonable”	The extant ISA 540 required us to evaluate whether disclosures were “adequate”. The change to “reasonable” will involve greater consideration of the overall meaning conveyed through disclosures. For example, where estimation uncertainty associated with an estimate is multiple times materiality, we will consider whether the disclosures appropriately convey the high degree of estimation uncertainty and the range of possible outcomes.	You should expect more challenge on disclosures relating to estimates, particularly for where you have selected a point estimate from a range and those with high estimation uncertainty.
New requirements when communicating with those charged with governance	In accordance with ISA (UK) 260 and ISA (UK) 265, our communications from the audit have included significant qualitative aspects of your accounting practices and significant deficiencies in internal control. With the revised ISA (UK) 540, these communications will specifically include matters regarding accounting estimates and take into account whether the reasons for our risk assessment relate to estimation uncertainty, or the effects of complexity, subjectivity or other inherent risk factors.	You should expect increased reporting in relation to accounting estimates which may be mirrored in our Annual Audit Report.

Areas where we consider the impact to be greatest:

Key areas impacted will include property valuations and net pension liability. Property valuations are by nature significant estimates as they are based on specialist and management assumptions which can be subject to material changes in value.

Net pension liability is subject to assumptions, mainly inflation assumptions and return on scheme assets, that can impact on the value of pension assets.

For both of the areas above we expect to receive reports from management’s specialists, setting out the basis of assumptions and methodologies. Officers should ensure that this information is available in advance of the 2020/21 audit fieldwork.

Audit Quality

Our commitment to audit quality



Our objective is to deliver a distinctive, quality audit to you. Every member of the engagement team will contribute, to achieve the highest standard of professional excellence.

In particular, for your audit, we consider that the following steps will contribute to the overall quality:

We will apply professional scepticism on the valuation of land and building and other significant judgements

We will obtain a deep understanding of your business, its environment and of your processes such as Revenue, Fixed Assets, Financial Reporting enabling us to develop a risk-focused approach tailored to the Authority.

Our engagement team is selected to ensure that we have the right subject matter expertise and industry knowledge. We will involve IT specialists and also Deloitte Real Estate to support the audit team in our work on valuation and pensions specialists in our work on the pension fund liability.

In order to deliver a quality audit to you, each member of the core audit team has received tailored learning to develop their expertise in audit skills.



Engagement Quality Control Review

We have developed a tailored Engagement Quality Control approach. This will be headed up by one of our most experienced partners who will draw on colleagues from our dedicated Professional Standards Review function and other specialists to review before any audit or other opinion is signed. This team is operationally independent of the audit team, and supports our high standards of professional scepticism and audit quality by providing a rigorous independent challenge.

Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

Our respective responsibilities are set out in "PSAA Statement of responsibilities of auditors and audited bodies: Principal Local Authorities and Police Bodies." The responsibilities of auditors are derived from statute, principally the Local Audit and Accountability Act 2014 and from the NAO Code of Audit Practice. The responsibilities of audited bodies are derived principally the Local Audit and Accountability Act 2014 and from the Accounts and Audit Regulations 2015.

Our report is designed to communicate our preliminary audit plan and to take the opportunity to ask you questions at the planning stage of our audit. Our report includes our preliminary audit plan, including key audit judgements and the planned scope.

Use of this report

This report has been prepared for the Audit Committee, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose. Except where required by law or regulation, it should not be made available to any other parties without our prior written consent.

What we don't report

As you will be aware, our audit is not designed to identify all matters that may be relevant to the Authority.

Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by officers or by other specialist advisers.

Finally, the views on internal controls and business risk assessment in our final report should not be taken as comprehensive or as an opinion on effectiveness since they will be based solely on the audit procedures performed in the audit of the statement of accounts and the other procedures performed in fulfilling our audit plan.

Other relevant communications

We will update you if there are any significant changes to the audit plan.

Deloitte LLP

Deloitte LLP

St Albans | 13 July 2021

Appendix 1 - Fraud responsibilities and representations

Responsibilities explained



Your Responsibilities:

The primary responsibility for the prevention and detection of fraud rests with officers and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.



Our responsibilities:

- We are required to obtain representations from your officers regarding internal controls, assessment of risk and any known or suspected fraud or misstatement.
- As auditors, we obtain reasonable, but not absolute, assurance that the statement of accounts as a whole are free from material misstatement, whether caused by fraud or error.
- As set out in the significant risks section of this document, we have identified the risk of valuation of land and buildings, capital expenditure and management override of controls as key audit risks for your organisation.

Fraud Characteristics:

- Misstatements in the statement of accounts can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the statement of accounts is intentional or unintentional.
- Two types of intentional misstatements are relevant to us as auditors – misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets.



We will request the following to be stated in the representation letter:

- We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error.
- We have disclosed to you the results of our assessment of the risk that the statement of accounts may be materially misstated as a result of fraud.
- We are not aware of any fraud or suspected fraud / We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the entity or group and involves:
 - (i) officers;
 - (ii) officers who have significant roles in internal control; or
 - (iii) others where the fraud could have a material effect on the statement of accounts.
- We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's statement of accounts communicated by officers, former officers, analysts, regulators or others.

Appendix 1 - Fraud responsibilities and representations

Inquiries

We will make the following inquiries regarding fraud:



Officers:

- Officers assessment of the risk that the statement of accounts may be materially misstated due to fraud, including the nature, extent and frequency of such assessments.
- Officers process for identifying and responding to the risks of fraud in the entity.
- Officers communication, if any, to those charged with governance regarding its processes for identifying and responding to the risks of fraud in the entity.
- Officers communication, if any, to employees regarding its views on business practices and ethical behaviour.
- Whether officers have knowledge of any actual, suspected or alleged fraud affecting the entity.
- We plan to involve officers from outside the finance function in our inquiries.

Internal audit

- Whether internal audit has knowledge of any actual, suspected or alleged fraud affecting the entity, and to obtain its views about the risks of fraud.

Those charged with governance

- How those charged with governance exercise oversight of officers processes for identifying and responding to the risks of fraud in the entity and the internal control that officers have established to mitigate these risks.
- Whether those charged with governance have knowledge of any actual, suspected or alleged fraud affecting the entity.
- The views of those charged with governance on the most significant fraud risk factors affecting the entity.



Appendix 2 – Prior Year Audit adjustments

Uncorrected misstatements

The following uncorrected misstatements were identified during the course of our prior year audit:

	Debit/ (credit) CIES £	Debit/ (credit) in net assets £	Debit/ (credit) prior year reserves £	If applicable, control deficiency identified
Misstatements identified in current year				
OVERSTATEMENT OF COUNCIL OFFICE VALUATION	-	(230,000)	230,000	Yes
GOODWIN JUDGEMENT IMPACT (PENSIONS)	145,600	(145,600)	-	Yes
Total	145,600	375,600	230,000	

We obtained written representations from officers confirming that after considering all these uncorrected items, both individually and in aggregate, in the context of the financial statements taken as a whole, no adjustments were required.

Prior year audit adjustments (continued)

Disclosures

Disclosure misstatements

The following uncorrected disclosure misstatements were identified during the course of our prior year audit:

We noted minor immaterial differences in the cash flow statement in relation to classification errors between different lines of the statement.

Appendix 3 - Independence and fees

Independence

As part of our obligations under International Standards on Auditing (UK), we are required to report to you on the matters listed below:

Independence confirmation

We confirm the audit engagement team, and others in the firm as appropriate, Deloitte LLP and, where applicable, all Deloitte network firms are independent of the Authority and will reconfirm our independence and objectivity to the Audit Committee for the year ending 31 March 2021 in our final report to the Audit Committee.

Audit and Non-audit fees

Our audit fees are set out on the following page. There are no non-audit fees in the current year.

Independence monitoring

In our opinion there are no inconsistencies between the FRC's Ethical Standard and the Council's policy for the supply of non-audit services or any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.

Relationships

We have no other relationships with the Authority, its members, officers and affiliates, and have not supplied any services to other known connected parties.

Appendix 2 - Fees

APPENDIX 1

The professional fees expected to be charged by Deloitte in the period from 1 April 2020 to 31 March 2021 and as set out in our fee letter issued 24 August 2020 are as follows:

	Current year £'000	Prior year £'000
Financial statement audit including Whole of Government and procedures in respect of Value for Money assessment	88.6	54.8
Total audit	88.6	54.8
Total fees	88.6	54.8
We note that the fee above represents an increase to the scale fee for the audit. The scale fee is £37.9k. The revision to the fee was communicated to management in 24 August 2020 and will still need to be agreed with PSAA.		

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