



MALDON DISTRICT COUNCIL

INTERNAL AUDIT PROGRESS REPORT

FEBRUARY 2019

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SUMMARY OF 2018/19 WORK

Internal Audit

This report is intended to inform the Audit Committee of progress made against the 2018/19 internal audit plan. 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.

2017/18

We have one piece of work outstanding from 2017/18 which is a fraud risk assessment. This is currently underway.

2018/19 Internal Audit Plan

The following audits have been issued in final since the last audit committee:

- Budgets and Performance Management
- Main Financial Systems
- Safe and Clean Environment

Reports for this Audit Committee

- Follow Up of Internal Audit Recommendations

REVIEW OF 2018/19 WORK

Audit Area	Audit Days	Planning	Fieldwork	Reporting	Opinion	
					Design	Effectiveness
Audit 1. Main Financial Systems	30	✓	✓	February 2019 AC	Substantial	Moderate
Audit 2. Transformation Programme	15	✓	✓	March 2019 AC		
Audit 3. Budgets and Performance Management	15	✓	✓	February 2019 AC	Moderate	Moderate
Audit 4. Capital project management	20	✓	✓	March 2019 AC		
Audit 5. Counter Fraud	10	✓	✓	March 2019 AC		
Audit 6. Building Control	15	✓	Q4	TBC		
Audit 7. Local Development Plan	15	✓	Q4	March 2019 AC		
Audit 8. Safe & Clean Environment	20	✓	✓	February 2019 AC	Moderate	Moderate
Audit 9. Strengthening Communities Strategy and Localism	15	✓	Q4	TBC		
Audit 10. IT Transformation	15	✓	✓	TBC		
Audit 11. Commercialisation	15	✓	✓	TBC		

APPENDIX A- MAIN FINANCIAL SYSTEMS

LEVEL OF ASSURANCE: (SEE APPENDIX I FOR DEFINITIONS)

Design	Substantial	There is a sound system of internal control designed to achieve system objectives.
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	1
Low	1

TOTAL NUMBER OF RECOMMENDATIONS: 1

BACKGROUND:

The main financial systems are managed by the Finance Team (within the Resources Directorate) and the Revenues and Benefits Team (within the Customers and Community Directorate). The Finance Team also provides leadership on good financial practice to services across the Council and has an oversight role to ensure that procedures are correctly followed. Local authorities are facing financial strain and reduced grant funding, therefore proper and effective financial system controls are critical to support effective financial planning and management. Detailed independent testing on the Financial Statements is also performed by External Auditors in accordance with the Code of Audit Practice. Internal Audit processes seek to minimise duplication between the different audit roles.

The Council is required to ensure that there are sufficient and effective controls over the main financial systems to prevent any accidental or intentional misappropriation of resources. The Council’s main financial systems are subject to cyclical review. As no significant control deficiencies were identified in our prior year audits, the 2018/19 audit was an overall review of key controls over the main financial system of the Council.

The purpose of this review was to provide assurance over the design and effectiveness of the controls in place around the Main Financial Systems, specifically, the payroll, general ledger, accounts payable and accounts receivable areas.

GOOD PRACTICE:

- A sample of five starters, five leavers and five amendments to contracts selected from 1 April 2018 to 30 September 2018 were processed correctly and supported by signed documents in the respective personnel files
- A sample of five overtime and five expense claims selected from 1 April 2018 to 30 September 2018 are supported with claim forms signed by the claimant and authorised for payment by an appropriate approver
- Expenditure on agency staff is raised through the purchasing system, by raising a purchase order for approval from the Director of Resources
- Tax and National Insurance Parameters in the payroll system are automatically uploaded through a system update prior to the start of the tax year
- A sample of 15 income transactions were selected and traced back to invoices and invoice requisition forms. Invoices are raised promptly for all income due and are posted to the correct customer accounts
- The Council monitor aged debtors by running an aged debt report and sending to Service Managers and the Finance Manager. We reviewed the monthly aged debtor management information reports for the three months June, July, August 2018 to ensure these have been produced and distributed for management review and consideration
- Write off's are approved, reviewed and authorised by the Director of Resources as per the Sundry Debtors policy. There were four write off's, from the 1st April 2018 to date, all of which had followed this approval process
- We selected a sample of 15 purchases made in the financial year to 30 October 2018 and verified orders were raised by an appropriate officer and approval sought where the order was in excess of the approval limit
- A sample of five credit card purchases selected from 1 April 2018 to 30 September 2018 were reviewed. Receipts for the transactions were retained and a valid credit card set-up form is in place for each of the card holders
- Reconciliations of key balance sheet accounts are prepared and reviewed on a regular basis. We reviewed five reconciliations, namely, the Bank Income General Account, Payroll, Grants, Ledger and Payment Account for the financial year up to and including September 2018
- Access to the general ledger system is managed and data may not be amended or deleted without appropriate approval from personnel with delegated authority
- The general ledger suspense account is subject to monthly review and timely clearance.

KEY FINDINGS:

- One Journal only had one signature and no backing documentation to justify the journal - Low, Finding 1

CONCLUSION:

Overall, we are able to provide substantial assurance over the design and moderate assurance on the effectiveness of the controls the Council have in place for the three areas of this review, Payroll, Debtors and Creditors. We have raised one low level recommendation for the Council to note.

MANAGEMENT ACTION PLAN

Ref	Recommendation	Management Response	Responsible Officer	Implementation date
1	Ensure all staff processing journals to include all the backing information relevant to the journal being posted. Remind staff to seek signed approval before a journal is posted.	Agreed	Carrie Cox- Finance Manager	30 November 2018

APPENDIX B- BUDGETS & PERFORMANCE MANAGEMENT

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)



TOTAL NUMBER OF RECOMMENDATIONS: 4

BACKGROUND:

A report to the Council’s Finance & Corporate Services Committee in September 2018 advised Members that a review of the Council’s Medium Term Financial Strategy had identified that an estimated £466,000 of savings would be required to close the budget gap in 2018/19, with further savings of £1,242,000 and £322,000 being required in the subsequent two years respectively. The Finance & Corporate Services Committee was asked to adopt a series of principles for 2019/20. This included, but was not limited to, no additional budget growth (including one-offs growths), the principle of zero based budgeting applying for the 2019/20 budgets onwards and centralisation of all support services.

From a review of the budgets over £10,000 as at the end of quarter two, the Council had a profiled spend for the first two quarters of £3,198,232, compared with an actual spend of £2,886,859, meaning they are currently delivering under budget with a variance of £311,373.

GOOD PRACTICE:

For four of the five budgets reviewed, the most current information available was used in budget setting

▫ With the exception of the Members’ allowances budget, budget monitoring was undertaken regularly, with both fixed and ad-hoc meetings should issues arise during the month, with detailed budget monitoring reports outlining the budget versus actual expenditure, as well as a proportion of the spend for the year to identify any variances

- ▫ Annual outturn reports are produced and reported to the Finance and Corporate Services Committee

KEY FINDINGS:

- The budget setting process was not documented
- Inflation rates were used which did not align with the Medium Term Financial Strategy and the reasons for the deviation was not recorded
- National Insurance Contributions were erroneously omitted from the Members' allowances budget
- For the sale of recyclables excluding glass, up to date information was not used for the income budget and a financial report was not generated for committees due to a lack of communication between the budget holder and accountant.

CONCLUSION:

On the whole there adequate processes in place relating to budget setting and monitoring, including the use of the most current information, however exceptions were identified relating to individual budgets. The root cause of these issues appeared to be a lack of communication between the budget holders and accountants, resulting in the accountants being unaware of more current information to be used and errors not being identified and corrected before approval. Formalising the budget setting arrangements, including clarifying the expectations of the accountant and budget holder, should assist in rectifying these issues.

Additionally, there was a lack of consistency between the inflation rates used for setting the budget and the Medium Term Financial Strategy.

MANAGEMENT ACTION PLAN

Ref	Recommendation	Management Response	Responsible Officer	Implementation date
1	<p>The CPI rates used in the budget setting process should correlate with the Medium Term Financial Strategy. If at the time of budget setting it is felt that this rate does not reflect the current market and a revised rate is needed, the assumptions and rationale should be documented and independently agreed. The Council should also consider including the RPIX rate in the Medium Term Financial Strategy, or as a minimum, document any judgemental assumptions used in calculating the RPIX rate used in budget setting, the rationale for the assumption used, evidence of an independent review and authorisation that the rate is appropriate.</p> <p>b) Budget holders and Lead Accountants should work closely to determine the information which is available to both teams to allow the Finance Team to incorporate this information into the budget setting timetable. This will confirm</p>	Agreed	Carrie Cox- Finance Manager	28 February 2019

	<p>that the most up to date information is being used when the budget is being set, and therefore increases the accuracy of the budget setting process. If information becomes known after the budget setting process, but prior to the commencement of the financial year, it should be quantified and communicated to Members at the earliest opportunity.</p> <p><i>Recommendations a and b should also feed in to the guidance, as per recommendation 3.</i></p>			
2	<p>a) The Members' allowances budget should be incorporated into the salaries budget setting process to ensure all elements of the budget, such as inflation and national insurance contributions, are captured within the budget.</p> <p>b) A budget holder should be allocated to the Members' allowances budget and a suitable threshold set which determines if there has been a significant variance against the budget. Budget monitoring meetings should be held on a sufficiently regular basis to allow for variances to be identified whilst balancing the reduced variability that would be expected, to ensure the benefits outweigh the time spent.</p> <p>c) The budget to be agreed by the budget holder should provide a line by line breakdown compared to the previous budget to ensure no lines are omitted in error. This should feed in to recommendation 1b regarding the need for increased communication between the accountants and budget holders to avoid omissions going unidentified.</p>	Agreed	Ann Nagy- Senior Accountant	28 February 2019
3	<p>Management should determine the service areas where it needs to obtain an individual's explicit consent for the personal identifiable information to be collected.</p> <p>Furthermore, the consent form and</p>	Agreed	Carrie Cox- Finance Manager	28 February 2019

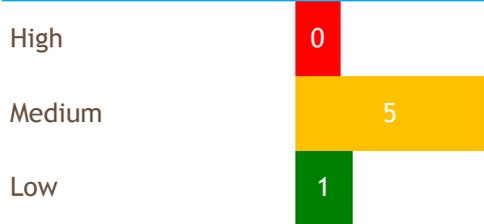
	procedure documents should be ratified by senior management.			
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APPENDIX C- SAFE & CLEAN ENVIROMENT

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)



TOTAL NUMBER OF RECOMMENDATIONS: 6

BACKGROUND:

The Council has in place an outsourced waste management contract with the contractor Suez. This was awarded in 2015 following a full procurement exercise. This contract provides the Council with refuse and recycling including food waste and bulk collections. The service is paid for based on fixed and variable elements linked with a number of factors, including the number of occupied properties and the number of residents who have bought into the food waste service. The contract price is inflated on an annual basis based upon the rate of CPI at given dates and currently stands at circa £2m.

Street cleaning is also outsourced to an external contractor, Appleton Contracts, whom have responsibility for keeping the district clean e.g. litter picking, emptying bins, street sweeping, and managing fly tipping. The arrangement with this contractor has been in place for approximately 30 years, with the current version of the contract being in place since 2012 with an initial term of eight years and the option to extend to a maximum of 22 years. The Council are the only client of Appletons Contracts. This contract initially had an annual value of £391,500, and has been inflated annually in line with RPIX inflation rates.

GOOD PRACTICE:

- Contract monitoring meetings were held for the Suez contract and there was a KPI in place to measure the number of missed bins
- Invoices were authorised in line with the procurement code
- Air pollution was monitored monthly by the Environmental Health Team through a review of the nitrogen dioxide levels
- There was evidence of review of the payments made to Suez, with supporting information for variable elements such as the number of occupied properties

KEY FINDINGS:

- An environmental strategy was not in place to detail the council's aims in relation to the environment, including pollution and waste, and how they hope to achieve this in the medium to long term (Finding 2- Medium)
- Contract monitoring meetings for the Suez contract were not held on a regular basis or consistently documented, and action plans had not been raised to address poor performance (Finding 3 - Medium)
- Contract performance monitoring was not in place for the Appletons contract and there were no KPIs in place for the Appletons contract (Finding 4- Medium)
- There were inadequate checks undertaken of the values paid to Appletons for contract variations (Finding 1- Medium)
- There was no evidence of review of the locations of air tubes or an action plan relating to improving general air quality (Finding 5- Medium)
- A record was not retained to evidence the inflated contract price to be paid to Suez and used for confirming the accuracy of the invoice prior to payment (Finding 6 - Low)

ADDED VALUE

We have undertaken a benchmarking exercise of the council's waste management performance against similar councils (See Appendices I and II)

CONCLUSION:

Overall, weaknesses were identified in all areas of the control framework, in particular relating to the Appleton contract. These weaknesses included both a lack of review over the payments made to the contractor and monitoring of the contract not being undertaken.

The controls relating to the Suez contract appeared stronger, however there still remained insufficient confirmation over the contract price being paid and there was a lack of compliance in terms of the monitoring being undertaken and how this was documented.

Air pollution monitoring was found to be in place, however this could be improved through increased documentation relating to reviews of the air tube locations and the actions being implemented. The Council also does not have an environment strategy in place which would underpin how the Council reacts to and monitors environmental issues, including waste management and air pollution. While we have identified a number of deficiencies in the control framework the potential for significant error is small and the contracts appear to be working well in practice. We have therefore concluded on moderate assurance for both control design and operational effectiveness

MANAGEMENT ACTION PLAN

Ref	Recommendation	Management Response	Responsible Officer	Implementation date
1	<p>A review of all variations charged should be undertaken to verify whether these are correct in terms of the service being received and in line with the contract prices, after adjusting for inflation.</p> <p>Once this has been confirmed, a record should be maintained of all variations, when they were</p>	<p>The error on the contract price has been identified and the council officer's are looking to resolve the issue.</p> <p>All variations have been reviewed and a record is now available. Variations are reconciled against invoice prior to payment</p>	Carol Love - Waste and Street Scene Manager	Complete

	<p>initiated from and the cost of the variation. This should be an ongoing record with evidence of the annual inflation uplifts. When the annual inflation rate to be used is determined, this should be added to the record to recalculate the new cost of the variances. This record should be reconciled against the invoice prior to being paid.</p> <p>For any additional variations, the Senior Community Protection Officer should ensure the Waste Administrator is copied in to the issuing of the contract variation notice to ensure effective oversight and a segregation of duties in the variation process.</p> <p>b) The thresholds for agreeing contract variations should be agreed and documented.</p> <p>c) The Council should retain their calculations of the invoice value adjusted for inflation to enable a comparison of this against the contract price being invoiced to evidence the correct payments are being made.</p>	<p>by Waste Manager.</p> <p>All recommendations have been implemented</p>		
2	<p>The Council should create an environmental and waste management strategy of their own. This could incorporate the Inter-Authority Agreement, however should have a wider view of environmental management as a whole.</p> <p>This strategy should outline what the Council would like to achieve in the medium to long term in regards to the environment, with specific targets and actions to assist in implementing the strategy, as well as an intermittent review to ensure the Council is working towards implementing the strategy.</p>	<p>An Environmental Strategy has been identified as a priority for the new Director of Strategy Performance & Governance to be completed in 2019, this will include the current Inter Authority Agreement on waste management.</p>	<p>Director of Strategy Performance & Governance</p>	<p>2019/2020</p>
3	<p>Performance monitoring should be evidenced as undertaken on a set periodic basis, with any performance discussion minuted. If performance targets are not being met, and rectification notices are being issued,</p>	<p>Performance monitoring meetings are now minuted and action points noted. Performance is discussed at regular contract monitoring meetings.</p>	<p>Carol Love - Waste and Street Scene Manager</p>	<p>31 January 2019</p>

	<p>the contractor should be asked to provide a response for the reason for the missed targets. An action plan should be created to record the actions that need to be taken by both the Council and the contractor, Suez, who is responsible for implementing each action and the timeframes for this. The action plan should be presented at every contract monitoring meeting so it can be updated with the actions addressed.</p> <p>b) A review of performance targets should be undertaken. If the current target for missed bins is not feasible, an additional target should be created above which performance would be deemed unsatisfactory. Other key performance indicators should be considered to identify if these would assist in the monitoring of performance, based upon management knowledge of the service and contract. Based upon our experience at other Councils, we have found the following indicators commonly used:</p> <ul style="list-style-type: none"> - Number of customer complaints - Turnaround time at delivery points - Vehicle breakdowns - Number of delayed collections - Timeliness of container deliveries 	<p>Action plans, as recommended, are being implemented in January 2019.</p> <p>Other performance indicators as outlined above have been considered and implemented as appropriate.</p> <p>A revised target for missed bins is to be discussed and agreed with Senior Managers.</p>		
4	<p>The Council should work with the contractor to determine the monitoring and performance targets to be implemented which are commensurate with the risk and value of the contract. Monitoring should then be undertaken on a set periodic basis, with monitoring reports provided by the contractor to enable an assessment of performance against predetermined targets. Any performance below target should result in an action plan being put in place by the contractor to enable them to meet the Council's expectations.</p>	<p>This contract is currently considered to be a low risk by the council, this is evidenced by the lack of complaints by the public and parish councils also the Community Protection Officers visually monitor the district on a daily basis. If the levels of cleanliness of the district should begin to drop then resources will be applied to monitoring and maintaining standards.</p> <p>Appletons have carried out the Street Cleansing service for many years and the level of performance during that time has been consistently high. All flytipping and complaints are dealt with quickly and within expected</p>	Carol Love - Waste and Street Scene Manager	Completed

		timescales. Although no programmed monitoring is currently undertaken due to resources it is recognised that this should be implemented and this is included in this year's Business Plan.		
5	<p>The Council should coordinate the work of Environment Services and the Health and Wellbeing teams to develop measures that will positively impact on air quality, including the 'soft measures' the Council has already been implementing. These measures should have a responsible officer, implementation date and detail the outcome they are hoping this action would achieve. These should be reviewed on a regular basis (we would suggest quarterly as a minimum) to identify whether progress has been made to implement these actions and whether they are effective.</p> <p>b) A formal review should be undertaken of the tube locations to determine whether these are in effective and suitable locations. This review should combine both local knowledge and the results from the air tube monitoring. This review should be undertaken on a fixed periodic basis</p>	Agreed.	Environmental Health Manager	Complete.
6	The Council should undertake their own calculation of the contract price and retain this for review against the contract price listed on the invoice.	<p>Agreed. A separate calculation will be kept in the future.</p> <p>All statements regarding payment due to the waste contractor are rigorously checked prior to the invoice being generated, checks include:</p> <ul style="list-style-type: none"> • Unit prices per household are checked against number of properties • The number of bulky waste collections undertaken checked against CORE system • Tonnage of material checked against summaries from 	Carol Love - Waste and Street Scene Manager	Complete.

		<p>sub-contractors</p> <ul style="list-style-type: none">• Monthly report on garden waste customers is generated and checked against invoice• Any discrepancies are raised with the contractor and an invoice is not generated by Suez until resolved. <p>The value of the invoice will vary on a monthly basis due to the above varying factors. Unit prices are agreed on an annual basis using the uplift of CPI. Going forward this will be documented as identified in the Recommendations.</p>		
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APPENDIX D- DEFINITIONS

OPINION AND RECOMMENDATION SIGNIFICANCE DEFINITION

Level of Assurance	Design Opinion	Findings from review	Effectiveness Opinion	Findings from review
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.



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