MALDON DISTRICT COUNCIL

INTERNAL AUDIT PROGRESS REPORT

MARCH 2019

BDO

CONTENTS

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

The Fraud Risk Assessment has now been finalised and will be reported to the next audit committee.

2018/19 Internal Audit Plan

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

- Capital Project Management
- IT Transformation

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

- Transformation Programme (this audit report will be brought to the Transformation Board on 5 April 2019 for formal sign off and approval)

Reports for this Audit Committee

- Follow Up of Internal Audit Recommendations
- Internal Audit Strategic and Operational Plan 2019-20

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	✔	✔	May 2019 AC		
Audit 3. Budgets and Performance Management	15	✔	✔	February 2019 AC	Moderate	Moderate
Audit 4. Capital project management	20	✔	✔	May 2019 AC	Substantial	Moderate
Audit 5. Counter Fraud	10	✔	✔	May 2019 AC	N/A	N/A
Audit 6. Building Control	15	✔	w/c 1 April 2019	May 2019 AC		
Audit 7. Local Development Plan	15	✔	w/c 1 April 2019	May 2019 AC		
Audit 8. Safe & Clean Environment	20	✔	✔	February 2019 AC	Moderate	Moderate
Audit 9. Strengthening Communities Strategy and Localism	15	✔	w/c 8 April 2019	TBC		
Audit 10. IT Transformation	15	✔	✔	May 2019 AC	Substantial	Substantial
Audit 11. Commercialisation	15	✔	✔	May 2019 AC		

APPENDIX A- 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.

APPENDIX B- CAPITAL PROJECT MANAGEMENT

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	0
Low	2

TOTAL NUMBER OF RECOMMENDATIONS: 2

BACKGROUND:

Service managers bid annually in September to include projects in the Council's capital programme. Bids are collated by the finance team who calculate the financing cost (which can be nil if the project is fully externally financed). The Corporate Leadership Team (CLT) and the relevant service committees appraise all bids based on a comparison of service priorities against financing costs and make recommendations to Finance and Corporate Services. The final capital programme is then presented to Council in February each year. The Director of Resources provides Members with information in relation to financial performance on a quarterly basis at the Finance and Corporate Services Committee.

The programme to be carried out in 2018/19 totalled £804,000. Eight Capital projects totalling £253,000 have been carried forward from 2017/18 into the 2018/19 programme, as they were on-going or were committed to at year end but had yet to start, increasing the total programme to £1,057,000.

Total expenditure for the period to 31st December 2018 (Q3) was £471,000; this reflected completion of 47.58% of the capital programme. Two projects (£43k and £48k) are approved but delayed meaning completion will not happen until the 2019 / 20 financial year. The budget for these will therefore be required to be carried forward into the 2019/20 plan.

Following the St Cedd's demolition, the Council has accepted a recommendation from overview and scrutiny committee to add contingency to large projects and we noted that this was actioned for the IT transformation programme. We have therefore not raised this as a recommendation in our report.

- The capital programme was approved by Members at the full council meeting on 8 February 2018, ahead of the 2018/19 financial year
- The bids for 3 of the sampled projects (All weather Car Parking improvements, Riverside park information boards and signage) were obtained. These explain the outcome of the proposed projects for the council and the end service users. These are authorised by Finance and the Committee. The remaining two projects (PC and printer replacement and Replacement of Polling booths) were treated as regular purchases of essential equipment and not a project so no bid was necessary
- The Capital Tracker is used to monitor progress of each capital project in the annual programme. This tracker is updated for each project by a member of each team, on a monthly basis
- The tracker contains the total budget for each project and the expenditure incurred to date. The status of the project is included (Not started/procurement process/in progress) and details of the due completion date. A narrative update of the project is also included for each project
- A monitoring report of the expenditure is sent to the project manager each month with the total of the to date expenditure- this allows monitoring and highlights any projects which risk running over budget
- Projects which are running over time and into the next financial year are discussed at the council meeting and noted in the report
- For 5 projects selected for testing, invoices for the project were all appropriately approved with a supporting purchase order
- The capital tracker was updated to included up to date expenditure and updated dates for expected completion

KEY FINDINGS:

- Whilst the expected dates of project completion were updated in the tracker when these were expected to overrun, this was not highlighted by using a RAG rating, so these could be easily identified as behind planned schedule (Finding 1-Low)
- Risks in relation to smaller projects are not recorded in risk registers (Finding 2- Low)

CONCLUSION:

Overall, we are able to provide substantial assurance over the design and moderate assurance operating effectiveness of the controls the Council have in place for capital programme management. We have raised two low level recommendations for the Council to note regarding clearly highlighting in reports to Members when projects are behind schedule and putting into place risk registers to ensure risks are continually identified, monitored and mitigated where applicable.

MANAGEMENT ACTION PLAN

Ref	Recommendation	Management Response	Responsible Officer	Implementation date
1	The format of capital tracker should be updated to easily show where projects are running behind anticipated timeframes to ensure Members and other stakeholders are clear on how the capital programme is progressing compared with plan. A RAG rating	Agreed we will add a colour box RAG rating for each project item.	Simon Walker, Financial Specialist	30 June 2019 (Quarter one reports to F&CS Committee)

	for each project should be used where: • Green- on schedule per project plan • Amber- risk to completion on schedule per project plan Red- revised completion date			
2	Risk registers should be maintained for all projects, which captures any risks to the completion of projects in terms of budget, project deliverables or timeliness. This risk register should be included in the quarterly monitoring and reporting to Committee	We will ask for a risk register as part of the capital bid each September and ask for that to be updated as part of project updates on a monthly basis.	Frank Britt, Senior Facilities Specialist	June 2019 for existing projects September 2019 for new projects

APPENDIX C- IT TRANSFORMATION

LEVEL OF ASSURANCE: (SEE APPENDIX I FOR DEFINITIONS)		
Design	Substantial	There is a sound system of internal control designed to achieve system objectives.
Effectiveness	Substantial	The controls that are in place are being consistently applied.
SUMMARY OF RECOMMENDATIONS: (SEE APPENDIX I)		
High	0	

Medium	0	
Low	1	

BACKGROUND:

The Council has developed a Future Operating Model (FOM), which targets recurrent savings of £1.8 million by 2022/23 (compared to its 2017/18 baseline), and a range of non-financial benefits.

The Future Operating Model programme is based on delivery of seven 'work packages', one of which is 'Technology'.

Technology is one of the main enablers of the FOM because it gives the opportunity for new ways of working, channel shift and efficiency among staff. The Council commissioned a review of ICT services from Foresight Consulting, which was completed in October 2017. The review highlighted that the council had suffered from significant underinvestment in ICT for a number of years and as a result made 44 recommendations of changes to address the various problems and weaknesses that were identified.

An ICT Strategy has been developed to cover a relatively short period, aligned with the Council's transformation programme. Once the programme has been completed, the Council's ICT environment will look significantly different.

The strategy is founded upon 10 principles each of which has a set of target actions.

GOOD PRACTICE:

- Whilst there is a substantial level of budget monitoring, there is scope to improve the reporting of projected costs remaining for the project (Low – Finding 1)

Our review found that there are a number of established governance practices in operation regarding the Technology work package with good stakeholder input and budget monitoring. However, we identified an area of improvement in terms of the reporting of projected costs remaining. This has led to a final assessment of substantial assurance over the control design and substantial assurance over the control effectiveness.

MANAGEMENT ACTION PLAN

Ref	Recommendation	Management Response	Responsible Officer	Implementation date
1	The forecasted figure reported to the Transformation Board should be updated and based on a more in-depth review of likely costs remaining to ensure budgets are appropriately monitored.	Agreed this will be implemented from the next Transformation Board meeting on the 5th April 2019	Director of Resources	5 April 2019

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