



**MALDON DISTRICT COUNCIL**

**INTERNAL AUDIT ANNUAL REPORT**

**MAY 2019**

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# CONTENTS

	Page
Executive Summary	3
Review of 2018/19 Work	4
Summary of Findings	9
Added value	10
Background to annual opinion	11
Key Performance Indicators	14
Appendix 1: Opinion and recommendation significance	15

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## Internal Audit 2018/19

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:

- Main Financial Systems
- Capital Project Management
- Budgets and Performance Management
- Transformation Programme
- IT Transformation
- Safe and Clean Environment

We have detailed the opinions of each report and key findings on pages five to eight. Our internal audit work for the 12 month period from 1 April 2018 to 31 March 2019 was carried out in accordance with the internal audit plan approved by management and the 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 Audit Committee (AC), 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:

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- All of the audits provided substantial or moderate assurance in the design and operational effectiveness of controls, with substantial assurance for the design of controls provided in four instances.
  - There are currently four remaining audits with fieldwork in progress. It is unlikely that their outcomes will change the overall audit opinion:
    - Commercialisation
    - Strengthening Communities and Localism
    - Local Development Plan
    - Building Control (issued in draft with no high priority findings)
  - Some areas of weakness have been identified through our reviews, including opportunities for improvement in the contract monitoring for street cleaning and waste contracts and formalizing budget setting arrangements and assumptions used in the budget setting process however the Council is already working to address the issues identified.

Report Issued	Recommendations and significance			Overall Report Conclusions (see Appendix 1)		Summary of Key Findings / Recommendations
	H	M	L	Design	Operational Effectiveness	
Main Financial Systems	-	-	1	Satisfactory	Moderate	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. Overall, we were able to provide substantial assurance over the design and moderate assurance on the effectiveness of the controls the Council have in place for Payroll, Debtors and Creditors. We raised one low level recommendation for the Council to note.
Budgets and Performance Management	-	1	3	Moderate	Moderate	<p>A report to the Council's Finance &amp; 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 &amp; 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 one, the Council had a profiled spend for the first quarter of £1,384,061, compared with an actual spend of £1,245,375, meaning they are currently delivering under budget with a variance of £138,686. The purpose of this audit was to review the budget performance management processes such as the strength of business planning, use of data, governance and follow up of services not meeting budgets.</p> <p>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.</p>
Capital Project Management	-	-	2	Substantial	Moderate	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.

						<p>The Director of Resources provides Members with information in relation to financial performance on a quarterly basis at the Finance and Corporate Services Committee.</p> <p>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.</p> <p>Following significant slippage in the capital programme, 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 did not raised this as a recommendation in our report.</p> <p>Overall, we were 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 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.</p>
Safe and Clean Environment	-	5	1	Moderate	Moderate	<p>The Council has in place an outsourced waste management which 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.</p> <p>Street cleaning is also outsourced to an external contractor, 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 the contractor. This contract initially had an annual value of £391,500, and has been inflated annually in line with RPIX inflation rates.</p> <p>Overall, weaknesses were identified in all areas of the control framework, in particular relating to the street cleaning 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 waste contract appeared stronger, however there</p>

						<p>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.</p> <p>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 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 therefore concluded on moderate assurance for both control design and operational effectiveness.</p>
Transformation	-	1	1	Substantial	Substantial	<p>Maldon District Council is targeting recurrent revenue savings of £1.8m by 2022/23 (compared to its 2017/18 baseline). The Council has developed a Future Operating Model to help deliver this saving, along with a range of non-financial benefits. The Council will incur a mix of recurrent and non-recurrent costs to deliver its new model. Combined costs will be £1.9m in 2018/19, £800k in 2019/20 and then £170k each year thereafter. The Council plans to break-even in 2021/22. The Council is currently delivering a transformation programme to implement its Future Operating Model. The programme has seven workstreams, each overseen by a Workstream Lead. A Programme Manager and Programme Sponsor have oversight over the programme as a whole. The Council has agreed a Future Operating Model vision and is undertaking a transformation programme to realise that vision. The programme has clear roles and responsibilities and forums and documentation in place for tracking delivery, and identifying and resolving risks and issues. The Council has also acknowledged that implementing a programme of this scale comes with resource requirements and has carefully planned appropriate resource input and is taking action to provide additional resource where required. We therefore provided substantial assurance on both control design and operational effectiveness.</p>
IT Transformation	-	-	1	Substantial	Substantial	<p>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. Our review found that there are a number of established governance practices in operation regarding the Technology work package with</p>

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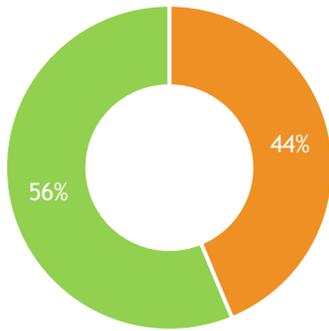
						good stakeholder input and budget monitoring. However, we identified an area of improvement in terms of the reporting of projected costs remaining. This has led to a final assessment of substantial assurance over the control design and substantial assurance over the control effectiveness.
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# SUMMARY OF FINDINGS

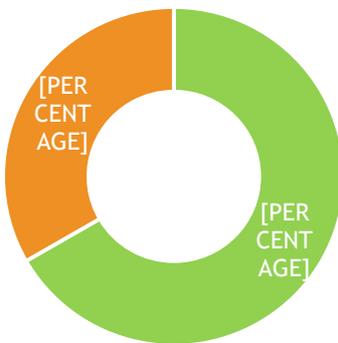
## RECOMMENDATIONS AND ASSURANCE DASHBOARD

### Recommendations 2018/19

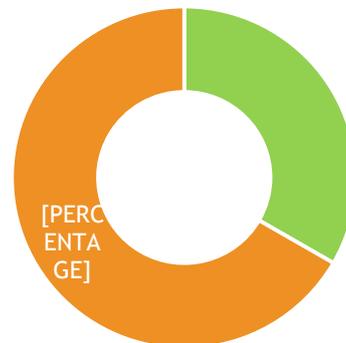


■ High ■ Medium ■ Low

### Control Design 2018/19



### Operational Effectiveness 2018/19



■ Substantial ■ Moderate ■ Limited ■ No

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## ADDED VALUE



### USE OF SPECIALISTS

IT specialists were used to complete IT Architecture, Cyber Security and Data Security and Protection Toolkit reviews



### RESPONSIVENESS

We have been proactive in the management of recommendation follow ups resulting in a much improved position.



### 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.



### INNOVATION

We have used our audit days innovatively to support the Council in achieving its aims e.g. by using data analytics where possible in the main financial systems audit.



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# BACKGROUND TO ANNUAL OPINION

## Introduction

Our role as internal auditors to Maldon District Council is to provide an opinion to the Council, through the Audit Committee (AC), 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 2018 to 31 March 2019 was carried out in accordance with the internal audit plan approved by management and the 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 2018-19 Internal Audit Annual Plan approved by the 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.

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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 Audit Committee is to agree reports with management and then present and discuss the matters arising at the Audit Committee meetings.

### **Management actions on our recommendations**

Management have generally been conscientious in reviewing and commenting on our reports. For the reports which have been finalised, management have responded positively. The responses indicate that appropriate steps to implement our recommendations are expected. Where appropriate, the key responsible officer has attended the Audit Committee to discuss management responses to audit reports which shows a collaborative approach between audit and management and improved accountability for audit recommendations.

### **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.

A substantial amount of recommendations were still outstanding at the start of the year but through working with management implementation rates have improved vastly. A number of recommendations are also in progress but require the Future Operating Model to be fully implemented before these can be closed.

### **Relationship with external audit**

All our final reports are available to the external auditors through the 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.

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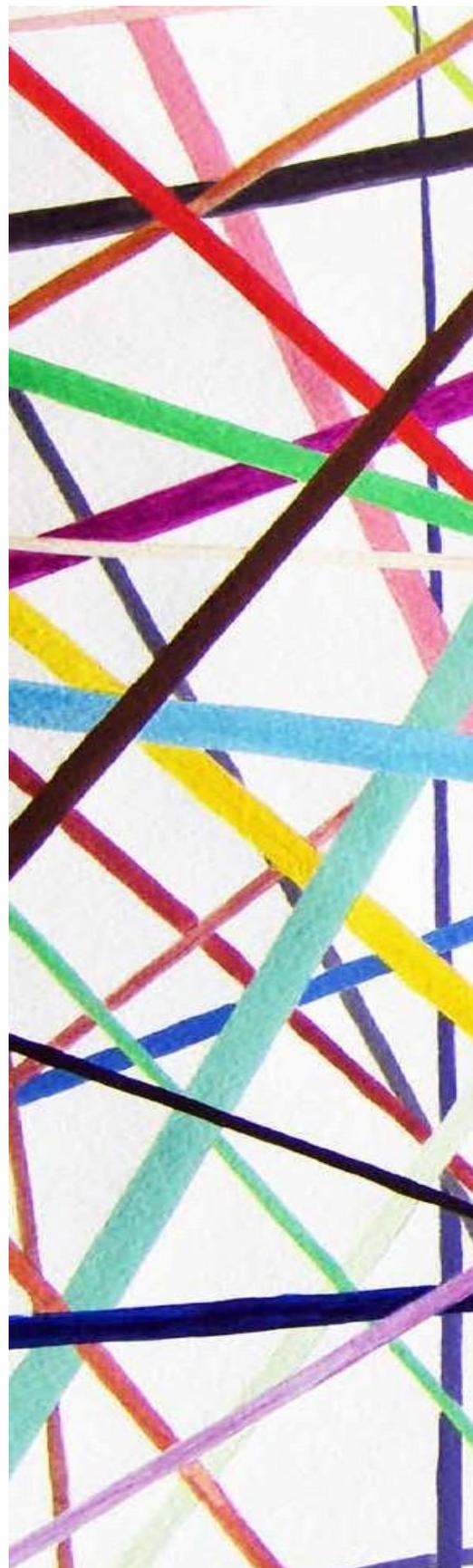
## Report by BDO LLP to Maldon District Council

As the internal auditors of Maldon District Council we are required to provide the Audit Committee, and the Director 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 2018-19. 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.

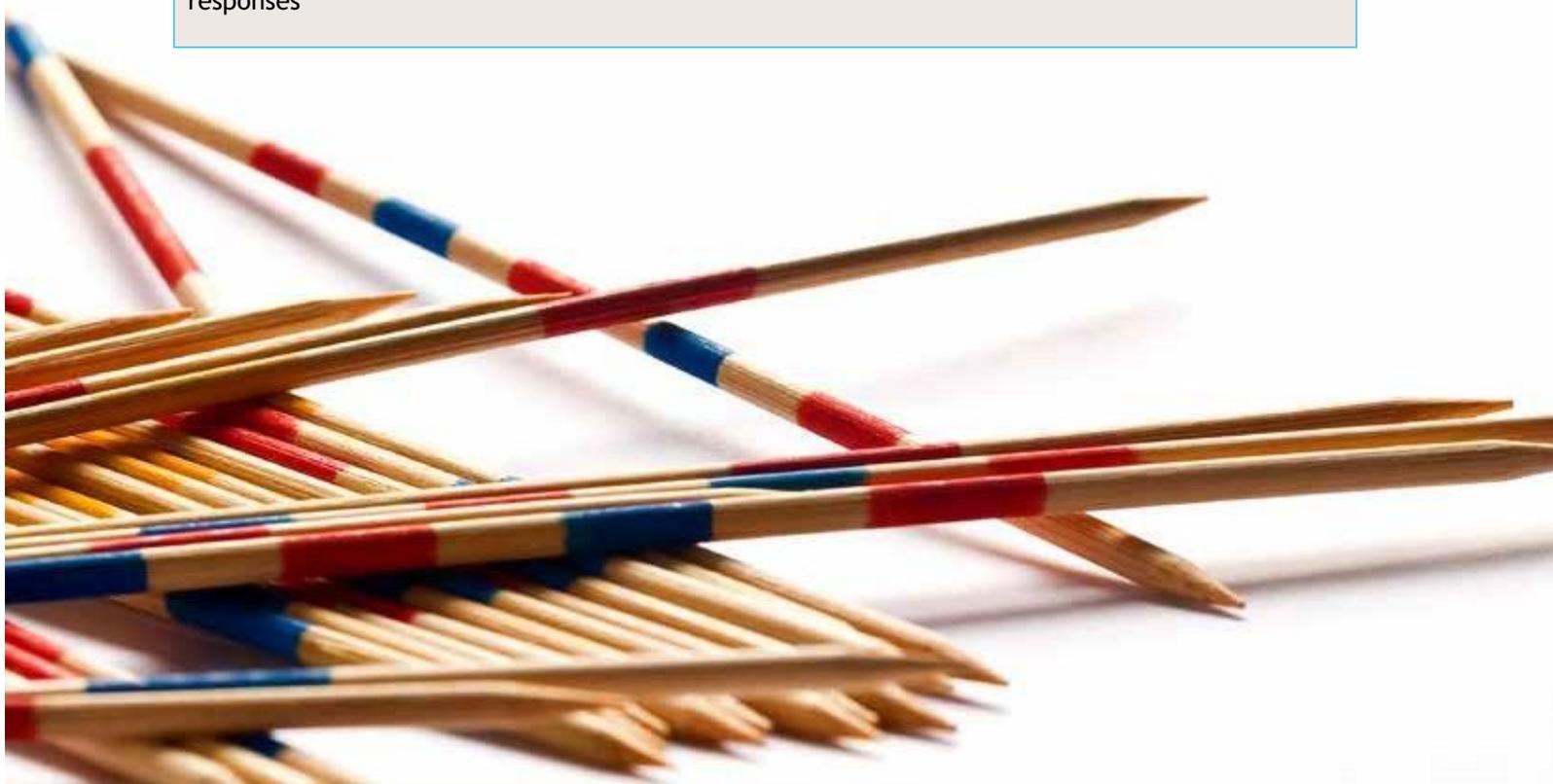
In assessing the level of assurance to be given, we have taken into account:

- All internal audits undertaken by BDO LLP during 2018-19
- 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	KPI	RAG Rating
Quality of work	We have not been informed of any particular negative feedback and will be issuing/analysing survey results from reviews and reporting these in due course.	○
Responsiveness of the service	We have responded to deadlines and targets and requests for changes to the plan, particularly around the Council's Future Operating Model.	●
Completion of audit plan	We still have some outstanding reviews due to a mixture of moving work back to accommodate the ongoing re-structure within the Council	●
Follow-up of recommendations	We continue our follow-up process and issue/escalate issues in time.	●
Draft report to be produced 3 weeks after the end of the fieldwork	All draft reports produced within 3 weeks of fieldwork completion.	●
Management to respond to internal audit reports within 3 weeks	Management responded within 3 weeks on all reports	●
Final report to be produced 1 week after management responses	Final report issued within 1 week for all audits.	●



# APPENDIX 1

## OPINION SIGNIFICANCE DEFINITION

Level of Assurance	Design Opinion	Findings from review	Effectiveness Opinion	Findings from review
<b>Substantial</b> 	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.
<b>Moderate</b> 	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.
<b>Limited</b> 	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.
<b>No</b> 	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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