

MALDON DISTRICT COUNCIL

INTERNAL AUDIT PROGRESS REPORT

MAY 2019

CONTENTS

	Page
Summary of 2018/19 Work	3
Review of 2018/19 Work	4
Appendix A- Definitions	5
Appendix B- Executive Summary - Transformation Programme	6

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 is included separately.

2018/19 Internal Audit Plan

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

- Transformation Programme

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

- Building Control

The following audits are currently underway:

- Local Development Plan
- Strengthening Communities and Localism
- Commercialisation

2019/20 Internal Audit Plan

Fieldwork is underway for:

- Risk Maturity Assessment
- Procurement and Contract Management

Further Reports for this Audit Committee

- Follow Up of Internal Audit Recommendations
- Draft Annual Report

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	Substantial	Substantial
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	✓	✓	July 2019		
Audit 7. Local Development Plan	15	✓	✓	July 2019		
Audit 8. Safe & Clean Environment	20	✓	✓	February 2019 AC	Moderate	Moderate
Audit 9. Strengthening Communities Strategy and Localism	15	✓	✓	July 2019		
Audit 10. IT Transformation	15	✓	✓	May 2019 AC	Substantial	Substantial
Audit 11. Commercialisation	15	✓	✓	July 2019		

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- TRANSFORMATION PROGRAMME

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: 2

BACKGROUND:

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.

This review considers governance structure, risk reporting, resourcing, documentation and benefits reporting arrangements which the Council has in place to deliver the programme and realise the anticipated financial and non-financial benefits of the Future Operating Model.

GOOD PRACTICE:

We have identified the following areas of good practice from this review:

- The Council has a clear governance framework in place to oversee delivery of the transformation programme. For example, it has two key forums where matters relating to the transformation programme are discussed (Transformation Board and Programme Delivery Board). Each of those forums are underpinned by stable membership, clear terms of reference and meet regularly. The programme is broken down into seven clear workstreams, each of which is led by a Workstream Lead who reports into Programme Delivery Board.
- The Council's key forums for overseeing the transformation programme (Transformation Board and Programme Delivery Group) receive regular updates (monthly and fortnightly respectively). These meetings are supported by agendas and formally minuted, with actions recorded and revisited at the next meeting. The key document at each meeting is a Programme Update from the Transformation Programme Manager. This slide deck sets out: a reminder of the aims of the programme and its expected benefits; progress at filling posts associated with the Council's post-transformation structure; an update on the programme plan (broken down by workstream); key risks, issues and decisions required by the Board; a summary of the biggest risks facing the programme; an update on expenditure against budget and an outline of upcoming activities, including engagement with Members.
- Risks are recorded in Highlight Reports which are submitted fortnightly by each Workstream Lead to the Transformation Programme Manager. These Highlight Reports are then reviewed at Programme Delivery Board and new/increased risks escalated to Transformation Board for decision. For example, a review of relevant papers shows resourcing risks associated with both the People and Culture workstreams followed this agreed channel and were appropriately resolved.
- The Council has acknowledged that implementing a major transformation programme comes with significant short-term resource requirements. The Council has identified and agreed what resources it will commit (£1.9m in 2018/19, £800k in 2019/20 and £170k in subsequent years), and is investing those resources accordingly, as reflected in expenditure against budget reported to Transformation Board. Issues with resourcing are raised through the Highlight Report process. A review of Highlight Reports shows that the majority of workstreams are 'green' - i.e. they have enough resources to deliver their agreed workload. Where workstreams reported 'amber' on resourcing there is clear evidence of action being taken by Transformation Board to remedy this - e.g. the appointment of external HR support to aid the Culture and Change Workstream.
- The planned gross and net financial benefits of the transformation programme are clearly expressed in the Programme Blueprint which has been adopted by Full Council.
- The Council has incorporated the anticipated financial benefits from the transformation programme into its 2019/20 Medium Term Financial Plan. This will ensure that delivery of anticipated financial benefits are monitored as part of the Council's usual budget monitoring process and will make it clear whether anticipated financial benefits are being delivered.

KEY FINDINGS:

We identified the following areas for improvement:

- Non-financial benefits of the programme are expressed in different ways in different documents. Whilst there is a common theme to these non-financial benefits (e.g. greater self-service, greater focus of senior officers on strategic issues) it would give the programme greater focus if the expected non-financial benefits were expressed in a standard way.
- As the transformation programme shifts from initial implementation to business as usual, the Council would benefit from defining the non-financial benefits anticipated from the transformation programme more clearly. This will make it easier to monitor whether those benefits have been realised in the long-term.

CONCLUSION:

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 have therefore provided substantial assurance on both control design and operational effectiveness.

MANAGEMENT ACTION PLAN

Ref	Recommendation	Management Response	Responsible Officer	Implementation date
1	Agree a consistent list of non-financial benefits from the programme and express these using common language in all forums where the programme is discussed	<ul style="list-style-type: none">• There will be a standard way that benefits are communicated in our forthcoming communications strategy.• The programme benefits will be in all documents in the same format.• Differences in the description of benefits relate to the focus on different parts of the benefits within the programme at different times - the focus has changed over the course of the programme as we have moved from commencement to the end of Phase 1.• The measuring of benefits will occur through data collected in Service Plans and then collected by the Programmes, Performance and Governance Manager as part of our annual reporting cycle.• Milestones for baselining and data collection will occur in the service planning cycle, and the collection and granularity of the data will reflect the auditor's recommendations.	Corporate Leadership Team	30 September 2019

2	Develop benefits profiles for each measurable benefit to support reporting of delivery of non-financial benefits from the transformation programme.	<ul style="list-style-type: none"> • There will be a standard way that benefits are communicated in our forthcoming communications strategy. • The programme benefits will be in all documents in the same format. • Differences in the description of benefits relate to the focus on different parts of the benefits within the programme at different times - the focus has changed over the course of the programme as we have moved from commencement to the end of Phase 1. • The measuring of benefits will occur through data collected in Service Plans and then collected by the Programmes, Performance and Governance Manager as part of our annual reporting cycle. • Milestones for baselining and data collection will occur in the service planning cycle, and the collection and granularity of the data will reflect the auditor's recommendations. 	Corporate Leadership Team	30 September 2019
---	---	--	---------------------------	-------------------



FOR MORE INFORMATION:

EMMA DONNELLY

Audit Manager, Public Sector
Ext.552904 (Internal)
020 78552904 (Direct Line)
07923030487 (Mobile)

emma.donnelly@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.

BDO LLP, a UK limited liability partnership registered in England and Wales under number OC305127, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms. A list of members' names is open to inspection at our registered office, 55 Baker Street, London W1U 7EU. BDO LLP is authorised and regulated by the Financial Conduct Authority to conduct investment business.

BDO is the brand name of the BDO network and for each of the BDO Member Firms.

BDO Northern Ireland, a partnership formed in and under the laws of Northern Ireland, is licensed to operate within the international BDO network of independent member firms.

Copyright ©2018 BDO LLP. All rights reserved.

