



MALDON DISTRICT COUNCIL

INTERNAL AUDIT REPORT

CIPFA CODE PREPAREDNESS
NOVEMBER 2020

LEVEL OF ASSURANCE	
Design	Operational Effectiveness
Substantial	Substantial

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DISTRIBUTION

Name	Job Title
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REPORT STATUS LIST

Auditors:	Alex Russell Elena Tapis
Dates work performed:	17 August - 9 October 2020
Draft report issued:	23 October 2020
Final report issued:	11 November 2020

EXECUTIVE SUMMARY

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

TOTAL NUMBER OF RECOMMENDATIONS: 1

CRR/BAF REFERENCE:

N/A

BACKGROUND:

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.

The FM Code identifies risks to financial sustainability and introduces a framework of assurance. This framework is built on existing successful practices and sets explicit standards of financial management.

Complying with the standards set out in the FM Code is the collective responsibility of elected members, the chief finance officer and their professional colleagues in the leadership team. Complying with the FM Code will help strengthen the framework that surrounds financial decision making.

The FM Code builds on elements of other CIPFA codes, such as The Prudential Code for Capital Finance, the Treasury Management in the Public Sector Code of Practice and the Code of Practice on Local Authority Accounting in the United Kingdom.

By following the essential aspects of the FM Code, local authorities are providing evidence to show they are meeting important legislative requirements. The first full year of compliance will be 2021-22. This recognises that organisations will require time to reflect on the

contents of the FM Code and allows them to use 2020-21 financial year to demonstrate how they are working towards compliance.

We reviewed the Council's compliance with the CIPFA Code and noted progress against each requirement in appendix I. Some elements of the Code are subjective and performance against them may vary over time. Our focus was to ensure the Council is putting the right arrangements in place to achieve them but there will be a need to review these on a regular basis.

GOOD PRACTICE:

The following areas of good practice were noted during our review:

- The Council publishes an Annual Governance Statement which sets out the risks facing the Council in regards to long term planning
- The Leadership Team understands their roles and responsibilities and these are also clearly defined.
- The Council publishes its annual accounts with an up to date CIPFA template and disclosure checklist which is signed off by the Section 151 Officer (Director of Resources).
- The Council demonstrates sound understanding of the main long-term financial risks that the Council faces and has appropriately factored this into its Medium Term Financial Strategy.

KEY FINDINGS:

During our review the following areas for improvement were identified:

- Five of the individual service plans which were provided did not clearly state how they relate back to the themes as set out in the Council's Corporate Plan (Finding 1 - Low).

CONCLUSION:

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. 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.

DETAILED FINDINGS

RISK: THE COUNCIL CANNOT DEMONSTRATE COMPLIANCE WITH THE CIPFA FINANCIAL MANAGEMENT CODE

Ref	Significance	Finding
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1

Low

CIPFA Code Standard - Sustainability - I; The authority has a rolling multi-year medium-term financial plan consistent with sustainable service plans

As part of the Medium Term Financial Strategy and Corporate plan, there are seven further individual strategies which help to underpin the objectives of the Strategy. These include;

- Information Technology Strategy
- Workforce Development Strategy
- Procurement Strategy
- Risk Management Strategy
- Treasury Management Strategy
- Investment Strategy
- Capital Strategy

The Medium Term Financial Strategy states that these set out the detail of how the Council seeks to achieve its objectives and the relevant milestones that will measure progress under the thematic strategies of Place; Community; Prosperity.

We reviewed five of the seven individual strategies to check whether they stated how they aligned with the objectives set out in the Corporate Plan. We found that these did not always clearly demonstrate how they achieve the objectives which the Council wishes to pursue, or how they relate back to the themes as set out in the Corporate plan. We would expect that the procurement strategy, for example, would state that it meets the Council's objective of 'Prosperity' by giving additional marks to local suppliers to meet any objectives around supporting the local economy - or maybe having marks for diversity/sustainability which links to the corporate theme of 'Place'.

Without appropriately aligned strategies, there is a risk that the Council are not meeting the requirements of the code. Furthermore if they are not appropriately aligned to the Medium Term Financial Strategy, progress against the thematic strategies cannot be accurately reported to senior management.

RECOMMENDATION:

The Council should review these seven strategies and ensure that they can be related back to the main themes as set out in the Corporate Plan. This should also include how the strategies achieve each theme as appropriate, in addition to including milestones regarding how the Council will measure progress under the thematic strategies of Place; Community; Prosperity.

MANAGEMENT RESPONSE:

The Corporate Plan is due to be reviewed for 2021.22. Upon the completion of the new plan and as strategies come up for renewal these will be amended and include how each assists in meeting the Corporate Plan objectives.

Responsible Officer: Annette Cardy

Implementation Date:

Complete for 20.21. Following the introduction of the new Corporate Plan for 2021.22 strategies will be updated to align with this as they reach review dates.

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
Lance Porteous	Lead Finance Specialist
Annette Cardy	Resources Specialist Services Manager
Chris Leslie	Director of Resources
James Carter	Finance Consultant
Debbie White	Lead Specialist, Procurement
Sam Mott	FCIPD Senior Specialist
Eloise Howard	Specialist, Performance

APPENDIX I - BREAKDOWN OF CIPFA CODE

FM Standard Reference	Standard	Summary
LEADERSHIP		
A	The leadership team is able to demonstrate that the services provided by the authority provide value for money.	The Council demonstrates value for money through its Procurement Policy and the use of a business case template.
B	The authority complies with the CIPFA <i>Statement on the Role of the Chief Finance Officer in Local Government</i> .	The responsibility of the Section 151 Officer sits with the Director of Resources. The roles and responsibilities of the Section 151 Officer are clearly detailed within the various Council policies and the Statement of Accounts.
O	The leadership team monitors the elements of its balance sheet that pose a significant risk to its financial sustainability.	The Council monitors elements of its balance sheet which pose a significant risk and this is detailed within its annual reviews of the Medium Term Financial Strategy.
ACCOUNTABILITY		
D	The authority applies the CIPFA/SOLACE <i>Delivering Good Governance in Local Government: Framework</i> (2016).	The Council has an annual governance statement published 30/07/2020. As part of the statement, the Council includes a commitment to the CIPFA/SOLACE Delivering Good Governance in Local Government framework (2016). This highlights the 7 key framework areas by which the Council has conducted its activities.
P	The chief finance officer has personal and statutory responsibility for ensuring that the statement of accounts produced by the local authority complies with the reporting requirements of the <i>Code of Practice on Local Authority Accounting in the United Kingdom</i> .	Draft 19/20 Statement of Accounts shows the responsibilities of the CFO as follows; 'The Section 151 Officer is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the Chartered Institute of Public Finance and Accountancy's (CIPFA) / LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code)'.
Q	The presentation of the final outturn figures and variations from budget allows the leadership team to make strategic financial decisions.	The Financial Outturn 2019-20 document provides the Council with the outturn position for the year ended 31 March 2020. Variances between the budget and actual spending are included within the outturn report, including a breakdown of the differences for different areas of spending.

		Variations on the budget figures are monitored and tracked through a budget monitoring report. Any variations from the budget are noted and explained in a 'comments' column. Since the outbreak of Covid-19 this has also included a section where variances are tracked by non-Covid-19 and Covid-19 variances.
TRANSPARENCY		
L	The authority has engaged where appropriate with key stakeholders in developing its long-term financial strategy, medium-term financial plan and annual budget.	<p>The Council engages with both budget holders and residents in order to develop its financial strategy. Budget holders are consulted to look at their budgets annually and look ahead. This is then affirmed by the directors and goes to the resources committee.</p> <p>Residents are consulted via surveys in order to capture their views. The most recent survey was conducted in December 2019 and covered general views about the District, health and wellbeing and climate change to detailed questions about Council services and facilities.</p>
M	The authority uses an appropriate documented options appraisal methodology to demonstrate the value for money of its decisions.	<p>The Council has a Project Brief template which outlines the requirements for a project.</p> <p>This covers aspects such as project definition, approach, team structure, stakeholder engagement, business case, project product description, and schedule.</p> <p>Projects are also required to follow a governance framework from planning through to delivery and realisation. Smaller projects also have a simple route highlighted in the framework.</p>
STANDARDS		
H	The authority complies with the CIPFA <i>Prudential Code for Capital Finance in Local Authorities</i> .	<p>The Council has a Capital Strategy in place which gives a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of local public services along with an overview of how associated risk is managed and the implications for future financial sustainability.</p> <p>This strategy also covers the sustainability of the revenue budget implications of expenditure incurred. Projects will only be progressed where they prove to generate savings or an</p>

		income stream to the Authority, and a business case is available to assess the risks and mitigations of projects.
J	The authority complies with its statutory obligations in respect of the budget setting process	<p>The Medium Term Financial Strategy serves to guide overall planning to the setting of the budget. This covers a 4 year period and contains savings plans within for future years. Managers are asked to review their budgets and to look for potential pressures or areas of growth. This has to have received sign offs from the strategy and resource committee before it goes to the council.</p> <p>The Chief Finance Officer of the Council has the responsibility to publish a budget estimates report and a statement on robustness of budgets and adequacy of reserves to the Strategy and Resources committee.</p> <p>Tier 2 management own the individual budgets on management level and also input with the budget holders to review budgets.</p>
K	The budget report includes a statement by the chief finance officer on the robustness of the estimates and a statement on the adequacy of the proposed financial reserves.	<p>The Chief Finance Officer publishes a statement on the adequacy of reserves in respect of the forthcoming financial year.</p> <p>It is the responsibility of the Director of Resources to advise the Strategy and Resources Committee on prudent levels of reserves for the Council.</p> <p>The General fund reserve is set at £2.6 million and this is included within the Statement of Accounts. At the time of the draft statement of accounts, the Council do not see themselves dipping below this threshold in the short term, although uncertainty in the ongoing environment has been noted.</p>
ASSURANCE		
C	The leadership team demonstrates in its actions and behaviours responsibility for governance and internal control.	<p>The Council has a 3 director model which consists of the following; Director of Service Delivery Director of Resources Director of Strategy, Performance & Governance</p> <p>The roles and responsibilities of the three directors are clearly defined in the scheme of delegation and the individual role descriptions.</p>

F	The authority has carried out a credible and transparent financial resilience assessment.	<p>Independent Investment Benchmarking management reports are produced by Arlingclose. These are conducted to determine how the Council is sitting financially. The investments made by the council are compared with similar sized organisations and allow the Council to make financial decisions.</p> <p>Treasury management strategy statements are also conducted by the Council at least once during the year. The most recent edition went to Council in January 2020 with the next edition due in November 2020.</p> <p>These reports are conducted within the framework of the CIPFA code which requires the Council to approve a treasury management strategy before the start of each financial year.</p>
H	The authority complies with the CIPFA <i>Prudential Code for Capital Finance in Local Authorities</i> .	<p>The Council's Medium Term Financial Strategy runs for 5 years. The Strategy sets out the longer term context in which the decisions are made (Covid-19, Brexit and Business Rates Retention).</p> <p>There are seven individual service plans and strategies which are highlighted within the Medium Term Financial Strategy. These include;</p> <ul style="list-style-type: none"> • Information Technology Strategy • Workforce Development Strategy • Procurement Strategy • Risk Management Strategy • Treasury Management Strategy • Investment Strategy • Capital Strategy <p>It was also noted that the Commissioning and Procurement Strategy in place at the council is currently in draft form (refer to finding 2).</p>
SUSTAINABILITY		
E	The financial management style of the authority supports financial sustainability.	The Council meets the obligation of delivering accountability by ensuring that they achieve value for money. This is underpinned within the Corporate Plan's focus on its strategic themes and a primary focus on

		<p>Performance and Value with the aim of providing:</p> <ul style="list-style-type: none"> • Excellent services and value for money; and • Becoming a financially independent and sustainable Council in the future. <p>The Council meets the obligation of supporting performance by ensuring that they make the most effective use of the assets that they have. The Council’s policy on treasury investments is to maximise investment return where satisfactory results of due diligence are found and risk mitigated. Moreover the Council seeks to maximise its sources of revenue collection e.g. fees and charges and debt income.</p> <p>The Council meets the obligation of enabling transformation by ensuring that money which the Council has is spent appropriately. The Council has both a procurement toolkit and basics for a procurement exercise which any procurement must adhere to. Any procurement has to provide the Council with value for money through a set of criteria as follows;</p> <ul style="list-style-type: none"> • ‘Lowest price’ where payment is to be made by the authority; • ‘Highest price’ if payment is to be received; or • ‘Most economically advantageous’, where considerations other than price also apply. <p>Moreover, any new projects must define a set of requirements that they must follow. This includes a business case to justify the project. Business cases are submitted to the Extended Leadership Team (ELT) for approval where they can also request additional governance if needed. Projects are also required to submit monthly updates to the ELT.</p>
G	The authority understands its prospects for financial sustainability in the longer term and has reported this clearly to members.	The Council currently has a 5 year strategy in place for its Medium Term Financial Strategy which runs from Financial Years 2019/20 - 2023/24. As part of this, the Council reports on financial sustainability at least once

		<p>per year, the most recent update went to Council in July 2020. Within the Medium Term Financial Strategy, the Council includes detail on how the updated strategy was formulated in the context of the global pandemic and an uncertain economic climate.</p> <p>While this is not necessarily a long term vision i.e. beyond 5 years as set out in the Strategy, the Medium Term Financial Strategy does appropriately set out the risks facing the Council and factors in any challenges which it faces e.g. the Covid-19 pandemic, Brexit etc.</p>
<p>I</p>	<p>The authority has a rolling multi-year medium-term financial plan consistent with sustainable service plans.</p>	<p>Although the Medium Term Financial Strategy notes that individual service plans contain methods by which they can be tracked, this is not reflected within the service plans i.e. they do not show how they achieve its objectives and the relevant milestones that measure progress under the thematic strategies of Place; Community; Prosperity (refer to finding 1).</p>

APPENDIX II - 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 III - TERMS OF REFERENCE

PURPOSE OF REVIEW:

The purpose of this review is provide assurance that the Council has processes in place to be compliant with the FM Code in a timely manner.

KEY RISKS:

The Council cannot demonstrate compliance with the CIPFA Financial Management Code

SCOPE OF REVIEW:

The following areas will be covered as part of this review:

- Confirm that the Council is compliant with, and can demonstrate effectively their compliance with the code (summary of standards outlined in the table below)
- If not compliant in any areas at the time of audit, have an action plan in place to address the remaining elements of the Code in the financial year 2020/21
- Confirm, where not fully compliant, that the Council can demonstrate a rigorous approach to the assessment and mitigation of risk so that financial management expertise is deployed effectively given the circumstances faced by the Council.

FM Standard Reference	Standard
LEADERSHIP	
A	The leadership team is able to demonstrate that the services provided by the authority provide value for money.
B	The authority complies with the CIPFA <i>Statement on the Role of the Chief Finance Officer in Local Government</i> .
O	The leadership team monitors the elements of its balance sheet that pose a significant risk to its financial sustainability.
ACCOUNTABILITY	
D	The authority applies the CIPFA/SOLACE <i>Delivering Good Governance in Local Government: Framework (2016)</i> .
P	The chief finance officer has personal and statutory responsibility for ensuring that the statement of accounts produced by the local authority complies with the reporting requirements of the <i>Code of Practice on Local Authority Accounting in the United Kingdom</i> .
Q	The presentation of the final outturn figures and variations from budget allows the leadership team to make strategic financial decisions.
TRANSPARENCY	
L	The authority has engaged where appropriate with key stakeholders in developing its long-term financial strategy, medium-term financial plan and annual budget.
M	The authority uses an appropriate documented options appraisal methodology to demonstrate the value for money of its decisions.
STANDARDS	
H	The authority complies with the CIPFA <i>Prudential Code for Capital Finance in Local Authorities</i> .
J	The authority complies with its statutory obligations in respect of the budget setting process
K	The budget report includes a statement by the chief finance officer on the robustness of the estimates and a statement on the adequacy of the proposed financial reserves.
ASSURANCE	
C	The leadership team demonstrates in its actions and behaviours responsibility for governance and internal control.
F	The authority has carried out a credible and transparent financial resilience assessment.
H	The authority complies with the CIPFA <i>Prudential Code for Capital Finance in Local Authorities</i> .
SUSTAINABILITY	
E	The financial management style of the authority supports financial sustainability.
G	The authority understands its prospects for financial sustainability in the longer term and has reported this clearly to members.
I	The authority has a rolling multi-year medium-term financial plan consistent with sustainable service plans.

APPROACH:

Our approach will be to conduct interviews to establish the controls in operation for each of our areas of audit work. We will then seek documentary evidence that these controls are designed as described. We will evaluate these controls to identify whether they adequately address the risks.

We will seek to gain evidence of the satisfactory operation of the controls to verify the effectiveness of the control through use of a range of tools and techniques.

BAF/CRR REFERENCE:

N/A

EXCLUSIONS

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

Some elements of the Code are subjective and performance against them may vary over time. Our focus will be to ensure the Council is putting the right arrangements place to achieve them but there will be a need to review these on a regular basis.

FOR MORE INFORMATION:

Greg Rubins

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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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