

# INTERNAL AUDIT ANNUAL REPORT AND ANNUAL STATEMENT OF ASSURANCE

Maldon District Council

2020/21

IDEAS | PEOPLE | TRUST

**BDO**

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# SUMMARY OF 2020/21 WORK

## Internal Audit 2020/21

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:

- Payroll
- Information Management
- Workforce Management
- Safeguarding
- CIPFA FM Code Readiness
- Knowledge Management
- Affordable Housing & Housing Needs

We have detailed the opinions of each report and key findings on pages four to eight. Our internal audit work for the 12 month period from 1 April 2020 to 31 March 2021 was carried out in accordance with the internal audit plan approved by officers and the Performance, Governance & 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 Performance, Governance and Audit Committee (PGA) 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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- In the current year the majority of audits provided substantial assurance in the design of controls (Substantial: 3, Moderate: 5), 2019/20: (Substantial: 2, Moderate: 6, Limited: 1).
  - In the current year the majority of audits provided substantial assurance in the operational effectiveness of controls (Substantial: 3 Moderate: 5), 2019/20: (Substantial: 0, Moderate: 7 and Limited: 2).
  - We did not issue any limited assurance reports this year, showing an improvement upon the previous year.
  - Some areas of weakness have been identified through our reviews, including opportunities for improvement in the management of third party contractors and volunteers in the safeguarding process and also the absence of defined responsibilities for the information asset owners and gaps identified in the Council's information management policies and defined procedures; however the Council is already working to address the issues identified.
  - The Council have implemented the majority of audit recommendations from the prior years (50 out of 55 eligible for follow up). However, two recommendations remain outstanding from 2018/19 (Safe & Clean Environment and Building Control). The delay in the implementation of these recommendations has been impacted by operational staff capacity due to Covid. However, we would expect these to be completed by mid-2021 as the Council returns to business as usual.
  - The remaining prior year recommendations (three) were not yet due for implementation as at 30 June 2021. Two of the 12 recommendations from 2020/21 have been completed, one is in progress and nine are not yet due for follow up.
  - Overall, while there remain some gaps and risks, our work has concluded that the Council has generally been able to maintain reasonable controls, particularly given the significant impact of Covid on operations and political leadership changes during the year. In some areas, such as payroll and workforce the Council has developed good practice arrangements.
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## REVIEW OF 2020/21 WORK

Report Issued	Recommendations and significance			Overall Report Conclusions (see Appendix 1)		Summary of Key Findings / Recommendations
	H	M	L	Design	Operational Effectiveness	
Payroll	-	-	2	Substantial	Substantial	<p>The purpose of this audit was to provide assurance over the processes and controls with regard to the Council's payroll are robust and operating effectively. Overall, we have concluded substantial assurance over the design of the controls and the effectiveness of the controls. We confirmed starters were correctly processed, overtime claim forms and time-based pay claims were approved and member's allowances and expenses accurately paid.</p> <p>However, we have raised two low level recommendations for the Council to note.</p>
Information Management	-	2	-	Moderate	Moderate	<p>The management and use of information has become more important as both the expectations of information governance and the service expected by customers get more demanding. Getting the use and management of information right has a significant part to play in the delivery of the Council's expectations and strategic objectives.</p> <p>Based on our review we have raised two medium level recommendations to improve the Council's information management arrangements.</p> <p>Overall, the Council has a sound system of internal controls and maintains an appropriate document retention schedule and information asset register. However, the absence of defined responsibilities for the information asset owners and the gaps identified in the Council's information management policies and defined procedures could undermine its ability to manage information assets appropriately and in line with current legislation.</p> <p>Consequently, we concluded moderate assurance over both the design of the Council's information management controls and their operational effectiveness.</p>
Workforce Management	-	-	-	Substantial	Substantial	<p>The overall size of the Council workforce has remained relatively static over recent years, although the Senior Management Review reorganisation has resulted in a small reduction in the workforce. This reflects the changing nature of services and the need to achieve efficiencies in service delivery.</p>

		<p>The Council's traditional personnel function has transformed to a more strategic Human Resources and Organisational Development (HR &amp; OD) model and is now part of a wider service working together to be more proactive with plans for staff and the wider community, to be better able to help to improve Maldon District Council. The primary focus of the Service is to develop, support and steer cultural and transformational change.</p> <p>The Council have developed a Workforce Strategy and plan which identifies how they will meet current and future people needs to ensure there are highly skilled people to deliver high quality services.</p> <p>The purpose of this review was to provide assurance on the extent of implementation of the workforce development strategy, and that planning and required resources are in place to enable delivery of the strategy. We also reviewed the impact of CV-19 on its aims and progress. From our review of the Council's Workforce Strategy, results of the staff survey and supporting action plans, we confirm that there is a clear direction and appropriate oversight over implementation of the strategy. Additionally, we can confirm the Council has responded to the impact of Covid-19, through amending its workforce strategy, in addition to holding a staff survey and creating a dedicated policy in relation to Covid-19. We have therefore given substantial assurance on both design and operation of the controls in place.</p>
Safeguarding	1 3 1 Moderate Moderate	<p>Safeguarding is the right for children, young people and vulnerable adults to participate and be safe in the services provided for them regardless of age, race, disability, culture or gender. This includes a right to protection from abuse.</p> <p>Local Authorities have a duty to ensure that the well-being of children, young people and vulnerable adults is promoted, and they are kept safe. We confirmed that Maldon District Council (MDC) has a new safeguarding lead who joined the organisation in January 2020, taking over the role from the previous responsible Officer. This is following a transformation exercise carried out by the Council during October 2019 where the structure of the Council was reviewed.</p> <p>The purpose of this audit was to review of the Council's policies and arrangements to ensure the safeguarding of children and vulnerable adults. The Council has some good processes in place, including clear roles, responsibilities, policies and procedures. However, the documentation of safeguarding cases could be improved and further steps need to be taken around safeguarding controls over contractors and volunteers. We have therefore concluded a moderate opinion on both design and the operational effectiveness of safeguarding controls.</p>

						<p>We have raised one high level recommendation, three medium level recommendations and one low level recommendation for the Council to note which would strengthen their current processes.</p>
CIPFA FM Code Readiness	-	-	1	Substantial	Substantial	<p>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.</p> <p>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.</p> <p>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.</p>
Knowledge Management	-	3	-	Moderate	Moderate	<p>Our review found that significant work has been undertaken on the redesign of processes following the transformation and the work completed by Ignite. Despite the reduction in staff, the introduction of IT software and the changes made to the structure has developed a more efficient workforce whilst improving the Council's ability to establish clear career paths and training for current staff. However, there are a significant number of processes still to review and redesign, with the prioritisation for 2020 work not covering all areas within the Council. Further difficulties arose due to the constraints placed on staff by Covid-19. A lack of documentation stored centrally and Business Continuity Plans being out of date has led to moderate assurance over both the design and operational effectiveness of controls in relation to knowledge management.</p>

<p>Affordable Housing &amp; Housing Needs</p> <p>1      2      -</p>	<p>Moderate      Moderate</p>	<p>From our review we can confirm that there is a clear plan of direction and appropriate oversight over implementation of the Housing Strategy going forward. In addition, there is oversight and direction of the work being undertaken to review and update the LDP and accompanying supplementary planning documents. Work is being undertaken to finalise an up to date Local Housing Needs Assessment (SHMA) to ensure the Council has a current picture of the affordable housing requirements and needs in the district. However, we identified non-compliance with controls in some areas as well as a gap in control. We have raised one high level and two medium level findings arising due to inconsistency in the implementation of the Council processes and controls, a lack of guidelines on application of commuted funds and the fact the Council is on course to deliver less than 50% of the affordable housing units target. Overall this has led to a final assessment of moderate assurance over the control design and moderate assurance over the control effectiveness.</p>
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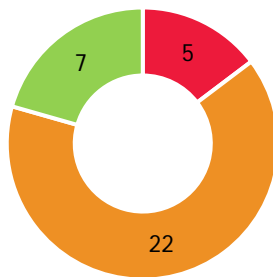


# SUMMARY OF FINDINGS

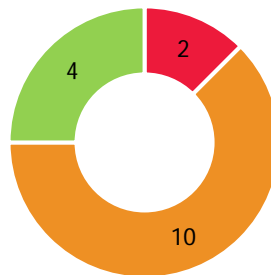
## RECOMMENDATIONS AND ASSURANCE DASHBOARD

### Recommendations

2019/20



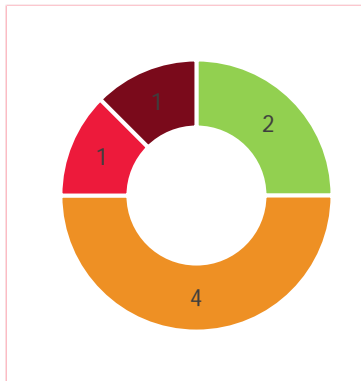
2020/21



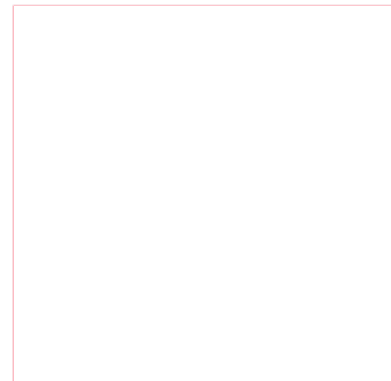
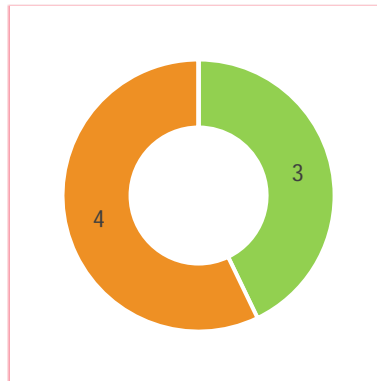
■ High ■ Medium ■ Low

### Control Design

2019/20

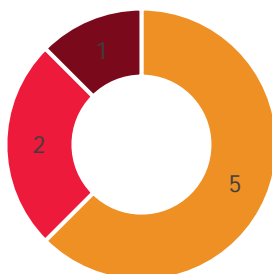


2020/21

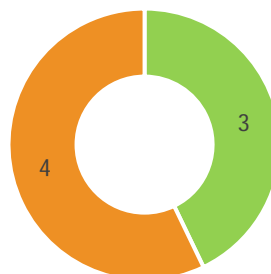


### Operational Effectiveness

2019/20



2020/21



■ Substantial ■ Moderate ■ Limited ■ No

## ADDED VALUE



### USE OF SPECIALISTS

We used our IT specialists to complete the review of Information Management. We used our external audit specialists in supporting the Council with its IFRS 16 preparations.



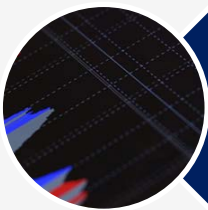
### BENCHMARKING AND BEST PRACTICE

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 i.e. Safeguarding, Payroll and Information Governance.



### INNOVATION

We utilised data analysis in the Payroll review to provide the Council some insights on trends and themes in areas covered.



### RESPONSIVENESS

We have been able to be flexible with the plan to respond to emerging risks and in line with operational capacity, e.g. delayed audit start due to covid and addition of CIPFA FM Code Readiness into the audit plan.



## KEY THEMES



### POLICIES, PROCEDURES & DOCUMENTATION

Lack of defined policies and procedures or failure to store sufficient documentation were identified in reviews of Safeguarding, Affordable Housing & Housing Needs, Information Governance and Knowledge Management



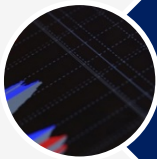
### SYSTEMS & PROCESSES

Whilst in the main we found the control framework to be well-designed, inconsistent application of controls was evident in some areas, e.g. Safeguarding, Information Management and Affordable Housing & Housing Needs



### OVERSIGHT & MONITORING

In the audits we undertook this year, we highlighted some gaps in oversight and monitoring, for example, lack of individual service plans being in place (CIPFA FM Readiness) and business continuity plans being out of date (Knowledge Management)



### GOVERNANCE & FOLLOW UP

The Council further revised embedded its new committee structures in year. This has seen a focus on implementation of actions, both audit and other performance indicators, back to the key responsible officers to improve accountability and responsibility.



# BACKGROUND TO ANNUAL OPINION

## Introduction

Our role as internal auditors to Maldon District Council is to provide an opinion to the Board, through the Performance, Governance & Audit Committee (PGA), 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 2020 to 31 March 2021 was carried out in accordance with the internal audit plan approved by officers and the Performance, Governance & 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 2020-21 Internal Audit Annual Plan approved by the Performance, Governance & 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.
-

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

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

Management have generally been conscientious in reviewing and commenting on our reports. For the reports that have been finalised, management have responded positively. The responses indicate that appropriate steps to implement our recommendations are expected.

### **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.

Five recommendations relating to 2018/19 and 2019/20 audits remain incomplete. Three of these are overdue, meaning they have missed their agreed implementation dates twice.

Of the twelve recommendations eligible for follow-up at the end of June 2021 arising from 2020/21 audit reports, three had been completed and nine were not yet due for follow-up.

### **Relationship with external audit**

All our final reports are available to the external auditors through the Performance, Governance & 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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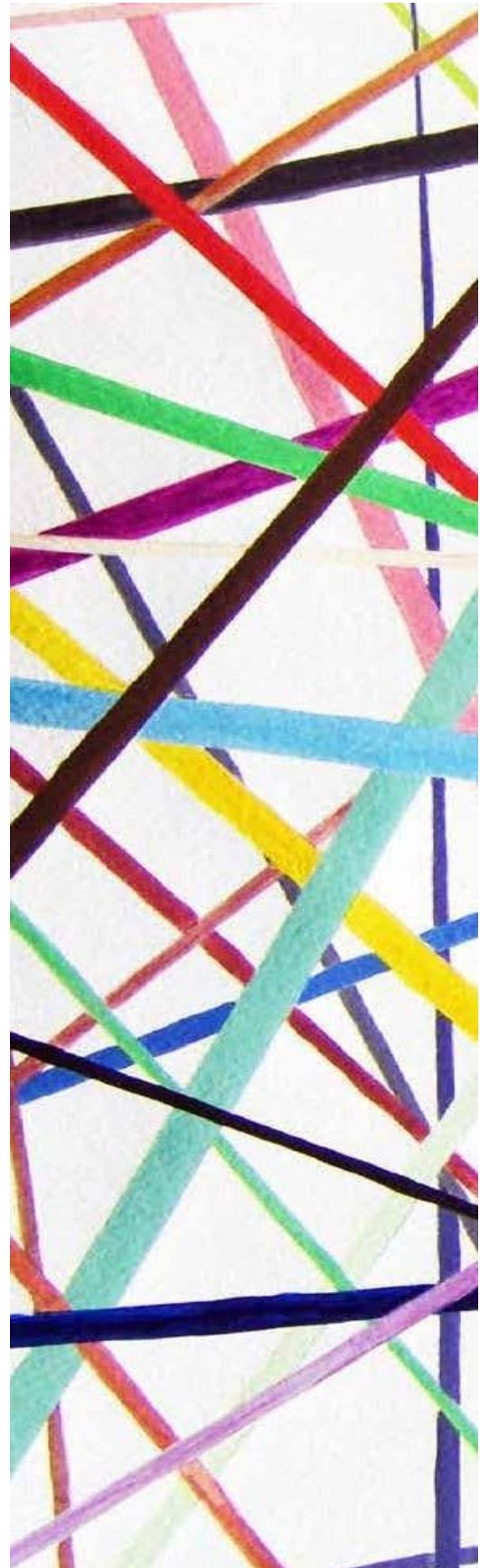
### Report by BDO LLP to Maldon District Council

As the internal auditors of Maldon District Council we are required to provide the Performance, Governance & Audit Committee, and the Directors 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 2020-21. 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 2020-21
- 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 as per the Internal Audit Charter	KPI Results	RAG Rating
Annual Audit Plan delivered in line with timetable	One audit remains in draft.	
Actual days are in accordance with Annual Audit Plan	To date this KPI has been met	
Customer satisfaction reports - overall score at least 70% for surveys issued at the end of each audit	We received two survey responses for 2020/21 which scored 4/5 and 5/5 for overall audit experience.	
Annual survey to PGA Committee to achieve score of at least 70%	Survey to be issued in July 2021	
At least 60% input from qualified staff	To date this KPI has been met	
Issue of draft report within 3 weeks of fieldwork `closing` meeting	This KPI has been met for six out of seven audits. The Safeguarding report was issued 5 weeks after the closing meeting was held.	
Finalise internal audit report 1 week after management responses to report are received	To date this KPI has been met	
Positive result from any external review	There has been no external review completed during 2020/21.	
Audit sponsor to respond to terms of reference within one week of receipt and to draft reports within two weeks of receipt	To date this KPI has been met	
Audit sponsor to implement audit recommendations within the agreed timeframe	At 30 June 2021, 90% of recommendations falling due for implementation have been completed. The Internal Audit Follow Up Report has further details.	
Internal audit to confirm to each meeting of the PGA Committee whether appropriate co-operation has been provided by management and staff	We can confirm that for the audits undertaken to date, management and staff have supported our work, their co-operation has enabled us to complete our work in line with the terms of reference through access to records, systems and staff as necessary.	

# APPENDIX 1

## OPINION SIGNIFICANCE DEFINITION

ANNUAL OPINION DEFINITION	
Substantial - Fully meets expectations	Our audit work provides assurance that the arrangements should deliver the objectives and risk management aims of the organisation in the areas under review. There is only a small risk of failure or non-compliance.
Moderate - Significantly meets expectations	Our audit work provides assurance that the arrangements should deliver the objectives and risk management aims of the organisation in the areas under review. There is some risk of failure or non-compliance.
Limited - Partly meets expectations	Our audit work provides assurance that the arrangements will deliver only some of the key objectives and risk management aims of the organisation in the areas under review. There is a significant risk of failure or non-compliance.
No - Does not meet expectations	Our audit work provides little assurance. The arrangements will not deliver the key objectives and risk management aims of the organisation in the areas under review. There is an almost certain risk of failure or non-compliance.

REPORT OPINION SIGNIFICANCE DEFINITION				
Level of Assurance	Design Opinion	Findings	Effectiveness Opinion	Findings
<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 noncompliance 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.

RECOMMENDATION SIGNIFICANCE DEFINITION	
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.

## FOR MORE INFORMATION:

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